

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-37379

The ONE Group Hospitality, Inc.

(Exact name of registrant as specified in its charter)

Delaware	14-1961545
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1624 Market Street, Suite 311, Denver, Colorado	80202
(Address of principal executive offices)	Zip Code
646-624-2400	
(Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	STKS	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter, was \$26,794,876.

Number of shares of Common Stock outstanding as of February 28, 2021: 29,120,116

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for its 2021 annual meeting of stockholders are incorporated by reference in Part III of this Form 10-K.

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Cautionary Note Regarding Forward-Looking Statements:

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 27A of the Securities Act of 1933, as amended (the "Securities Act"). Forward-looking statements speak only as of the date thereof, and involve risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These risk and uncertainties include, but are not limited to, the risk factors discussed under Item 1A. "Risk Factors" of this Annual Report on Form 10-K. Factors that might cause actual events or results to differ materially from those indicated by these forward-looking statements include matters such as future economic performance, general economic conditions, consumer preferences and spending, costs, competition, new product execution, restaurant openings or closings, operating margins, the availability of acceptable real estate locations, the sufficiency of our cash balances and cash generated from operations and financing activities for our future liquidity and capital resource needs, the impact on our business of Federal and State legislation and local regulation, future litigation, the execution of our growth strategy and other matters. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "ongoing," "could," "estimates," "expects," "intends," "may," "appears," "suggests," "future," "likely," "goal," "plans," "potential," "projects," "predicts," "should," "targets," "would," "will" and similar expressions that convey the uncertainty of future events or outcomes. You should not place undue reliance on any forward-looking statement. We do not undertake any obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

PART I

As used in this report, the terms “Company,” “we,” “our,” or “us,” refer to The ONE Group Hospitality, Inc. and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates. The term “year ended” refers to the entire calendar year, unless the context otherwise indicates.

Item 1. Business

Description of the Business

We are a global hospitality company that develops, owns and operates, manages and licenses upscale and polished casual, high-energy restaurants and lounges and provides turn-key food and beverage (“F&B”) services for hospitality venues including hotels, casinos and other high-end locations. Turn-key F&B services are food and beverage services that can be scaled, customized and implemented by us for the client at a particular hospitality venue. Our vision is to be a global market leader in the hospitality industry by melding high-quality service, ambiance, high-energy and cuisine into one great experience that we refer to as “Vibe Dining”. We design all our restaurants, lounges and F&B services to create a social dining and high-energy entertainment experience within a destination location. We believe that this design and operating philosophy separates us from more traditional restaurant and foodservice competitors.

Our primary restaurant brands are STK, a multi-unit steakhouse concept that combines a high-energy, social atmosphere with the quality and service of a traditional upscale steakhouse, and Kona Grill, a polished casual bar-centric grill concept featuring American favorites, award-winning sushi, and specialty cocktails in a polished casual atmosphere. Our F&B hospitality management services are marketed as ONE Hospitality and include developing, managing and operating restaurants, bars, rooftop lounges, pools, banqueting and catering facilities, private dining rooms, room service and mini bars tailored to the specific needs of high-end hotels and casinos. Our F&B hospitality clients operate global hospitality brands such as the W Hotel, Hippodrome Casino, and ME Hotels.

We opened our first restaurant in January 2004 in New York, New York. We currently own, operate, manage or license 54 venues including 20 STKs and 24 Kona Grills in major metropolitan cities in North America, Europe and the Middle East and 10 F&B venues in five hotels and casinos in the United States and Europe. In January 2021, we opened a managed STK restaurant in Scottsdale, Arizona. For those restaurants and venues that are managed or licensed, we typically generate management fees based on top-line revenues and incentive fee revenue based on a percentage of the location’s revenues and net profits.

COVID-19

The negative effect on our business from the novel coronavirus (“COVID-19”) is significant. We experienced an initial decline in restaurant revenue that began in early March 2020 as travel began to decrease. Public anxiety with respect to COVID-19, and government recommendations and measures to avoid public gatherings especially within restaurants and bars, have materially and adversely affected our operations and financial results. A more detailed description of the potential effects of COVID-19 on our business is contained in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Acquisitions

On October 4, 2019, we acquired substantially all of the assets of Kona Grill Inc. and its affiliates (“Kona Grill”) comprising 24 domestic restaurants. We purchased the assets for a contractual price of \$25.0 million plus approximately \$1.5 million of consideration paid primarily for the apportionment of rent and utilities. We also assumed approximately \$7.7 million in current liabilities. The purchase was financed with proceeds from the credit and guaranty agreement we entered into with Goldman Sachs Bank USA in conjunction with the acquisition (“Credit Agreement”). We have integrated Kona Grill by leveraging our corporate infrastructure, our hospitality business knowledge and unique Vibe Dining program, to elevate the brand experience and drive improved performance.

Brands and Locations

The table below reflects our venues by restaurant brand and geographic location:

	Venues			Total
	STK ⁽¹⁾⁽²⁾	Kona Grill	ONE Hospitality ⁽³⁾	
Domestic				
Owned	10	24	2	36
Managed	2	—	—	2
Licensed	1	—	—	1
Total domestic	13	24	2	39
International				
Owned	—	—	—	—
Managed	3	—	8	11
Licensed	4	—	—	4
Total international	7	—	8	15
Total venues	20	24	10	54

(1) Locations with an STK and STK Rooftop are considered one venue location. This includes the STK Rooftop in San Diego, CA, which is a licensed location.

(2) Includes STK Scottsdale, a managed location for which a management agreement was in place as of December 31, 2020. STK Scottsdale opened in January 2021.

(3) Includes concepts under the Company’s F&B hospitality management agreements and other venue brands such as ANGEL, Heliot, Hideout, Marconi and Radio.

We expect to continue to expand our operations domestically and internationally primarily through a mix of owned, licensed and managed restaurants using a disciplined and targeted site selection process. We refer to this as our “capital light strategy” because it requires significantly less capital than expansion through owned restaurants. Refer to Item 2 – Properties for additional details regarding the domestic and international locations in which we operate.

STK

STK is a global steakhouse restaurant concept with locations in major metropolitan cities. STK artfully blends the modern steakhouse and a chic lounge, offering a high-energy, fine dining experience in a social atmosphere with the quality and service of a traditional upscale steakhouse. Each STK location features a large, open restaurant and bar area with a DJ playing music throughout the restaurant, offering our customers a high-energy, fun “destination” environment that encourages social interaction. We believe this Vibe Dining concept truly differentiates us from other upscale steakhouses. Our menu provides a variety of portion sizes and signature options to appeal to a broad customer demographic.

We operate ten owned, five managed and five licensed STK restaurants in major metropolitan cities in North America, Europe and the Middle East. Our STK restaurants average approximately 10,000 to 11,000 square feet, and we typically target locations that range in size from 8,000 to 10,000 square feet. In 2020, the average restaurant revenues and average domestic check for owned and managed STK restaurants that have been open 18 months at December 31, 2020 were \$6.9 million and \$114, respectively.

We are focused on expanding our global STK footprint. We believe that the locations of our STK restaurants are critical to our long-term success, and we devote significant time and resources to analyzing prospective restaurant sites. We intend to continue our focus on (i) metropolitan areas with demographic and discretionary spending profiles that favor our high-end concepts and (ii) finding partners with excellent track records and brand recognition. We also consider factors such as traffic patterns, proximity to high-end shopping areas and office buildings, hotels and convention centers, area restaurant competition, accessibility and visibility. We have identified over 75 additional major metropolitan areas across the globe where we could grow our STK brand to 200 restaurants over the foreseeable future. We expect to open as many as five to six STKs annually.

Kona Grill

Kona Grill is a bar-centric grill concept featuring American favorites, award-winning sushi, and specialty cocktails in a polished casual atmosphere. Kona Grill offers freshly prepared food and attentive service in an upscale, contemporary ambiance that creates an exceptional dining experience that we believe exceeds many traditional casual dining restaurants. Menu items are prepared from scratch at each restaurant location, creating memorable flavor profiles that appeal to a wide range of customers. The diverse menu is complemented by a full-service bar offering a broad assortment of wines, craft cocktails, and beers. We believe that the Kona Grill brand is complementary to our other brands and enables us to capture market share in the Vibe Dining segment.

We operate 24 owned Kona Grill restaurants within the United States, and our Kona Grill restaurants average approximately 7,200 square feet. In 2020, the average restaurant revenues and average domestic check for the Kona Grill restaurants were \$3.3 million and \$32, respectively.

ONE Hospitality

Our ONE Hospitality platform is composed of our F&B hospitality management agreements with hotels, casinos, and other high-end locations as well as our other brands and venue concepts, which are described below:

- *ANGEL*. ANGEL Rooftop bar and Dining, which opened in the fourth quarter of 2019, is a sophisticated Southern-Mediterranean restaurant with two indoor and outdoor bars, a floral garden patio, and a plunge pool located within the Hotel Calimala in Florence, Italy.
- *Heliot*. Heliot Steak House is an award-winning steakhouse and bar within the Hippodrome Casino in London that offers impressive views of the main casino gambling floor.
- *Hideout*. The Hideout by STK is an outdoor, poolside restaurant and bar within the W Hotel in Westwood, California, which complements our owned STK and F&B hospitality services also offered within the W Hotel in Westwood.
- *Marconi*. The Marconi Lounge is a stylish and sophisticated lounge bar that we manage within the ME London hotel that offers an extensive cocktail menu in an upbeat atmosphere.
- *Radio*. Radio Rooftop is a premier rooftop restaurant and lounge bar concept boasting striking city views with two signature locations on top of the ME London and ME Milan hotels.
- *F&B Services*. Our F&B services for hospitality venues provide attractive and comprehensive tailored food and beverage solutions to our hospitality clients. Our fee-based hospitality food and beverage solutions include developing, managing and operating restaurants, bars, rooftops, pools, banquet and catering services, private dining rooms, in-room dining services and mini bars on a contract basis. Currently, we are operating under four F&B hospitality management agreements with hotels and casinos in the United States and in Europe. Historically, our clients have provided the majority of the capital required for the development of the facilities we manage on their behalf.

Our F&B hospitality contracts generate revenues for us through management fees, which are typically calculated as a percentage of the operation's revenues, and we earn additional milestone and incentive fees based on the operation's profitability. We typically target F&B hospitality service opportunities where we believe we can generate at least \$500,000 of annual pre-tax income.

We expect our F&B hospitality services business to be an important driver of our growth and profitability, enabling us to generate management fee income with minimal capital expenditures. We believe we are well positioned to leverage the strength of our brands and the relationships we have developed with global hospitality providers to drive the continued growth of our F&B hospitality business. We continue to receive inbound inquiries regarding new opportunities globally, and we continue to work with existing hospitality clients to identify and develop additional opportunities in their venues. We expect to enter into one to two new F&B hospitality agreements annually.

Sourcing and Supply Chain

We seek to ensure that consistently high-quality food and beverages are served at all of our properties through the coordination and cooperation of our purchasing and culinary departments. Our culinary and purchasing teams establish

product specifications on a global basis, which are then disseminated to all locations through recipe books for all dishes served at our properties.

We maintain consistent pricing standards and procedures for all top-volume purchases at our restaurants. Suppliers are selected and pricing is negotiated on a national level in each country where one or more of our restaurants operate. We test new suppliers on a regional basis for an extended period before using them on a national basis. We periodically review supplier consistency and satisfaction with our location chefs and continually research and evaluate products and supplies to ensure the meat, seafood and other menu ingredients that we purchase comply with our high-quality specifications. We also utilize purchasing software at some of our locations to facilitate a bidding process on local purchases. In markets where we do not use this software, we require local chefs to seek bids from multiple suppliers to ensure competitive pricing. We believe we have strong relationships with national and regional foodservice distributors who can continue to supply us with our products on a consistent basis. Products are shipped directly to the restaurants from our suppliers.

Our corporate beverage program imposes guidelines for ordering beverage products at our properties. We provide beverage managers at each location with national guidelines for standardized products. Our concepts emphasize the bar as a driver of activity in the restaurants and in 2020, the sale of beverages accounted for approximately 25% of restaurant revenues.

On a company-wide basis, no supplier of food accounts for more than 30% of our total food and beverage purchases and no brand of alcohol accounts for more than 25% of our alcohol purchases. We believe that our food and beverage supplies are available from a significant number of alternate suppliers and that the loss of a supplier would not have a material adverse effect on our costs of supplies.

Advertising and Marketing

The primary focus of our advertising and marketing is to increase awareness of our brands and our overall reputation for quality, service and delivering a high-energy experience. Our marketing efforts are designed to strengthen our brand recognition in markets where we currently operate and to create brand awareness in new markets before opening a new location. We use digital/social media channels, targeted local media such as magazines, billboards and other out-of-home advertising, and a strong internal public relations team to increase the frequency with which our existing customers visit our restaurants and to attract new customers. We conduct frequent promotional programs tailored to the city, brand and clientele of each location. Additional marketing functions include the use of our websites, www.STKsteakhouse.com and www.KonaGrill.com, to facilitate online reservations, to-go/delivery orders and gift card sales to drive revenue.

Competition

The restaurant and hospitality industries are intensely competitive with respect to price, quality of service, location, ambiance of facilities and type and quality of food. We experience competition from a variety of sources, including upscale steakhouse chains such as Del Frisco's, Fleming's, Mastro's and The Capital Grille, local upscale steakhouses and polished casual chains, such as Brio Tuscan Grille, The Cheesecake Factory, P.F. Chang's and Yard House. There is also competition from other Vibe Dining restaurants such as Nobu, Lavo and Tao and other high-end hospitality services companies such as the Gerber Group, Lettuce Entertain You and ESquared Hospitality. To the extent that we operate lounges and similar venues in hotels and resorts, we are subject to our host venues being able to compete effectively in attracting customers who would frequent our establishments.

Seasonality

Our business is subject to fluctuations due to seasonality and adverse weather. Because of the seasonality of the business and the industry, results for any quarter are not necessarily indicative of the results that may be achieved for any other quarter or the full calendar year. Typically, our second and fourth quarters have higher sales volume than other quarters of the year.

Intellectual Property

Our rights in our registered and unregistered intellectual property, including trademarks and service marks, are significant to our business. We own the U.S. federal registration rights to the “STK,” “Kona Grill,” and several related word marks and design marks related to our brands. We depend on registered and unregistered trademarks and service marks to maintain the identity of our locations. We license the rights to use certain trademarks we own or license to our licensees in connection with their operations. We also own several other trademarks and service marks. It is our policy to defend our marks against encroachment by others.

Human Capital Resources

As of December 31, 2020, we employed approximately 52 corporate employees within our corporate offices and an aggregate of 220 full-time, salaried employees at all of our locations. We rely on hourly-wage employees for kitchen staff, servers, bussers, runners, polishers, hosts, bartenders, barbacks, reservationists, administrative support, and interns. The average headcount for employees in our domestic restaurants is 65. Combining full-time and part-time employees, we employ and manage approximately 3,000 persons worldwide. We have never experienced a work stoppage, and none of our employees are represented by a labor organization.

Our human capital objectives include attracting, developing, rewarding, and retaining our existing and new employees. We offer our employees online training courses and on-the-job training. Restaurant management trainees undergo training in order to understand all aspects of our restaurant operations. We provide our employees with cash-based performance bonuses. We also have an equity incentive compensation plan to provide certain management-level or other key employees with stock-based awards. We monitor our progress with metrics such as employee performance measures, turnover rates and restaurant customer surveys.

The health and safety of our employees is our highest priority. In protecting our employees’ safety, we have invested in creating a safe work environment for our employees and guests by taking additional measures. We have increased cleaning protocols, implemented daily temperature screenings and health and safety checklists and provided additional personal protective equipment and cleaning supplies. For all employees, we require masks to be worn in all restaurants and offices where allowed by local law and provide regular communication regarding the impact of the COVID-19 pandemic, including health and safety protocols and procedures.

Government Regulation

Our operations are subject to extensive federal, state and local governmental regulation, including health, safety, labor, sanitation, building and fire agencies in the state, county, municipality or jurisdiction in which the restaurant is located. In certain states, our restaurants are subject to “dram shop” statutes, which generally provides a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. We maintain the necessary restaurant, alcoholic beverage and retail licenses, permits and approvals. Federal and state labor laws govern our relationship with our employees and affect operating costs. The development and construction of additional restaurants are also subject to compliance with applicable zoning, land use and environmental regulations. A failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of restaurants for an indeterminate period of time, fines or third-party litigation.

Available Information

We are subject to the information requirements of the Exchange Act. We therefore file periodic reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100F Street, N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically.

Additionally, copies of our reports on Forms 10-K, 10-Q and 8-K and any amendments to such reports are available for viewing and copying through our internet site (www.togrp.com), free of charge, as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC. We typically post information about us on our website under

the Investor Relations tab, including materials used at investor conferences. We do not incorporate any information found or accessible through our website into this Annual Report on Form 10-K.

We also make available on our website and in print to any stockholder who requests it, our Audit and Compensation Committee charters, as well as the Code of Conduct that applies to all directors, officers and associates of the Company. Amendments to these documents or waivers related to the Code of Conduct will be made available on our website as soon as reasonably practicable after their execution.

Item 1A. Risk Factors

RISK FACTORS

Ownership of our common stock involves certain risks. Holders of our common stock and prospective investors should carefully consider the following risks and other information contained in this document, including our historical financial statements and related notes included herein. The following risk factors could materially adversely affect our business, consolidated financial condition and results of operations. This could cause the trading price of our common stock to decline, perhaps significantly, and you may lose part or all of your investment. The risks and uncertainties below are all those that we have identified as material but may not be the only risks and uncertainties facing us. Our business is subject to general risks and uncertainties that affect many other companies, including overall economic and industry conditions.

Health and Safety

The outbreak of COVID-19 has, and will continue to, significantly affect our restaurant traffic and our business, financial condition and results of operations.

The outbreak of COVID-19 and government actions to contain COVID-19 have materially and adversely affected our restaurant traffic and our business, and will continue to materially and adversely affect us for an extended period. In response to the COVID-19 pandemic, in March 2020 government agencies declared a state of emergency in the U.S. and in foreign jurisdictions where we operate, and some government agencies restricted movement, required restaurant and bar closures, and advised people not to visit restaurants or bars. In some jurisdictions, people were instructed to stay at home to reduce the spread of COVID-19. In response to these conditions, we temporarily closed several restaurants and shifted operations at others to provide only take-out and delivery service. Although most of our restaurants have been allowed to open for outdoor dining or in-person dining they are subject to seating capacity restrictions to allow for social distancing.

A prolonged occurrence and resurgence of COVID-19 cases may result in state or local governments implementing further guidelines, including travel restrictions, social distancing requirements and additional restrictions on the restaurant industry, including closures or partial closures. We are unable to predict how long the pandemic will last, what additional restrictions may be enacted, the extent to which our restaurants may be impacted if a significant number of our employees are diagnosed with COVID-19, or if an outbreak of COVID-19 is traced to one of our restaurants.

We have made operational changes to adhere to government requirements on safety and sanitation in our restaurants. However, we cannot guarantee that changes to our operational policies and training will be effective to keep our employees and customers safe from COVID-19. COVID-19 may impact the willingness of customers to dine outside of the home. While it is not possible at this time to estimate the full impact that COVID-19 could have on our business going forward, the continued spread of the virus and the measures taken by governments or by us in response could adversely impact our business, financial condition and results of operations.

In response to the challenging business environment, we obtained CARES Act Loans as described in Note 8 to our consolidated financial statements. At this time, we anticipate forgiveness of the entire amount of the CARES Act Loans; however, no assurance can be provided that we will obtain forgiveness of the CARES Act Loans in whole or in part.

Health concerns arising from outbreaks of flu viruses or other diseases, or regional or global health pandemic could severely affect our business.

The United States and other countries have experienced, or may experience in the future, outbreaks of viruses, such as coronavirus, norovirus, Avian Flu or “SARS,” and H1N1 or “swine flu,” or other diseases such as bovine spongiform encephalopathy, commonly known as “mad cow disease.” If a virus is transmitted by human contact, our employees or customers may become infected, or may choose, or be advised, to avoid gathering in public places, any of which may adversely affect the guest traffic at our restaurants and the ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We also may be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may adversely affect our business.

To the extent that a virus or disease is food-borne, or perceived to be food-borne, future outbreaks may adversely affect the price and availability of certain food products and cause our customers to eat less of a product. For example, health concerns relating to the consumption of beef or to specific events such as the outbreak of “mad cow disease” may adversely impact sales of our beef-related menu items. In addition, public concern over “avian flu” may cause fear about the consumption of chicken, eggs and other products derived from poultry. The inability to serve beef or poultry-based products would restrict our ability to provide a variety of menu items to our customers. If we change our menu in response to such concerns, we may lose customers who do not prefer the new menu, and we may not be able to sufficiently attract new customers to produce the revenue needed to restore the profitability of our restaurant operations. We also may generate different or additional competitors for our intended customers as a result of such a menu change and may not be able to successfully compete against such competitors.

Failure to protect food supplies and adhere to food safety standards could result in food borne illnesses and adversely affect our business.

Failure to protect our food supply or enforce food safety policies, such as proper food temperature and adherence to shelf life dates, could result in food-borne illnesses to our guests. Also, our reputation of providing high-quality food is an important factor in our guests choosing our restaurants. Whether or not traced to our restaurants or those of our competitors, instances of food borne illness or other food safety issues could reduce the demand for certain or all of our menu offerings. If any of our guest become ill from consuming our products, the affected restaurants may be forced to close and we may be subject to legal liability. An instance of food contamination from one of our restaurants or suppliers could have far-reaching effects, as the contamination, or the perception of contamination could affect any or all of our restaurants. Publicity related to either product contamination, recalls, or food-borne illness, including Bovine-Spongiform Encephalopathy, which is also known as BSE or mad cow disease, aphthous fever, which is also known as hoof and mouth disease, and hepatitis A, listeria, salmonella and e-coli may also injure our brand and may affect the selection of our restaurants by our guests or licensees based on fear of such illnesses. In addition, the occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and/or lower margins for us and our licensees.

Economic Conditions and Competition

Our business is dependent on discretionary spending patterns, business travel and general economic conditions.

We depend on consumer discretionary spending, business travel and the overall economic environment. Disruptions in the economy, including recessions, high unemployment, foreclosures, bankruptcies and other economic impacts, could affect consumers’ ability and willingness to spend discretionary dollars. Reductions in business travel and dining, which we believe accounts for a majority of our weekday revenues at our hotel-based restaurants and food and beverage services operations, would adversely affect our revenues. Reductions in discretionary income and spending also would impact our casino-based restaurants and food and beverage services operations. If uncertain economic conditions were to persist for an extended period of time or worsen, consumers might make long-lasting changes to their discretionary spending behavior, including dining out less frequently. Adverse changes in consumer discretionary spending could be affected by many different factors that are out of our control, including international, national and local economic conditions, any of which could harm our business prospects, financial condition, operating results and cash flows.

Continued uncertainty in or a worsening of the economy, generally or in a number of our markets, and our customers' reactions to these trends could adversely affect our business and cause us to, among other things, reduce the number and frequency of new location openings, close locations and delay any re-modeling of existing locations. Our success will depend in part upon our ability to anticipate, identify and respond to changing economic and other conditions.

We have a limited number of venues and we operate multiple venues in some cities and are therefore sensitive to economic and other trends and developments in these cities.

We have a relatively small number of restaurants and F&B service locations, and we operate multiple venues in some cities. We typically operate one to six venues in the cities where we operate. Accordingly, particularly in cities where we have multiple venues, our business is susceptible to adverse changes in these markets whether as a result of declining economic conditions, declining stock market performance, negative publicity, changes in customer preferences or for other reasons, and any such adverse changes may have a disproportionate effect on our overall results of operations compared to some of our competitors that may have less restaurant concentration or that do not operate in our markets. Any regional occurrences such as local labor strikes, natural disasters, prolonged inclement weather, acts of terrorism or other national emergencies, accidents, energy shortages, system failures or other unforeseen events in or around these cities could result in temporary or permanent closings of our venues, which could have a material adverse effect on our business, financial condition and results of operations as a whole.

Competition in the restaurant industry is intense.

The restaurant and hospitality industry is intensely competitive with respect to price, quality of service, location, ambiance of facilities and type and quality of food. The industry is also characterized by the continual introduction of new concepts and is subject to rapidly changing consumer preferences, tastes, trends and eating and purchasing habits. Our success depends in part on our ability to anticipate and respond quickly to changing consumer preferences, and other factors affecting the restaurant and hospitality industry, including new market entrants and demographic changes. Shifts in consumer preferences away from upscale steakhouses or beef in general, which are significant components of our concepts' menus and appeal, whether as a result of economic, competitive or other factors, could adversely affect our business and results of operations.

A substantial number of national and regional restaurant chains, as well as independently owned restaurants, compete with us for customers, restaurant locations and qualified management and other restaurant staff. The principal competitors for our concepts are other upscale steakhouse chains such as Del Frisco's, Fleming's, Mastro's and The Capital Grille, and local upscale steakhouses as well as polished casual chains such as Brio Tuscan Grille, The Cheesecake Factory, P.F. Chang's and Yard House. There is also competition from non-steak but upscale and high-energy restaurants, and other high-end hospitality services companies and high-energy nightlife concepts. To the extent that our restaurants and F&B hospitality services operations are in hotels, casinos, resorts and similar client locations, we are subject to competition in the broader lodging and hospitality markets that could draw potential customers away from our locations.

Some of our competitors have greater financial, marketing and operating resources than we do, have been in business longer, have greater name recognition and are better established in the markets where our restaurants and F&B hospitality services operations are located or where we may expand. In addition, improved product offerings in the fast casual segment of the restaurant industry, combined with the effects of negative economic conditions and other factors, may lead consumers to choose less expensive alternatives. Our inability to compete successfully with other restaurants, other F&B hospitality services operations and other segments of the industry may harm our ability to maintain acceptable levels of revenue growth, limit our development of new restaurants or concepts, or force us to close one or more of our restaurants or F&B hospitality services operations.

We may also need to evolve our concepts to compete with popular new restaurant or F&B hospitality services operation formats, concepts or trends that emerge from time to time, and we cannot provide any assurance that any changes we make to any of our concepts in response will be successful or not adversely affect our profitability.

Strategy and Operations

Unsuccessful implementation of any or all of the initiatives of our business strategy, including opening new restaurants and attracting new F&B hospitality service opportunities, could negatively impact our operations.

Our success depends in part on our ability to understand and satisfy the needs of our guests and licensees. Our key strategies are to:

- Drive same store sales;
- Improve operational efficiency at our restaurants;
- Reduce corporate general and administrative expenses; and
- Grow our portfolio primarily through licensing and management deals.

Improving comparable location sales and restaurant-level margins depends in part on whether we are able to achieve revenue growth through increases in the average check and increases in customer traffic, and to further expand our private dining business at each location and delivery service business in markets where offered. We believe there are opportunities to increase the average check at our locations through selective introduction of higher priced items and increases in menu pricing. We also believe that expanding and enhancing our private dining capacity will also increase our location sales, as our private dining business typically has a higher average check and higher overall margins than regular dining room business. We believe that expanding the markets in which we offer third-party delivery services will also result in incremental sales. We believe select price increases have not historically adversely impacted customer traffic; however, we expect that there is a price level at which point customer traffic would be adversely affected. It is also possible that these changes could cause our sales volume to decrease. If we are not able to increase our sales at existing locations for any reason, our profitability and results of operations could be adversely affected.

One key element of our growth strategy is opening new restaurants and F&B hospitality services locations. We believe there are opportunities to open approximately six to eight new locations (restaurants and/or hospitality services operations) annually, with a focus on operating under licensing or management agreements (referred to as our “capital light strategy”). However, there can be no assurance that we will be able to open new restaurants or F&B hospitality services locations at the rate that we currently expect.

Our success in growing our business through the opening of new restaurants and F&B hospitality locations is dependent upon a number of factors, including our ability to: cost-effectively operate in markets that we are not familiar with, find suitable license and food and beverage partners, find suitable locations, reach acceptable lease terms, have adequate capital, find acceptable contractors, obtain licenses and permits, manage construction and development costs, recruit and train appropriate staff and properly manage the new venue. Unanticipated costs or delays in the development or construction of future restaurants could impede our ability to open new restaurants timely and cost-effectively, which could have a negative impact on our business, financial condition and results of operations. Specifically, some of the factors that adversely affect the cost and time associated with the development and construction of our restaurants include: labor disputes, shortages of materials or skilled labor, adverse weather conditions, unforeseen engineering problems, environmental problems, construction or zoning problems, local government regulations, modifications in design, and other unanticipated increases in cost.

Additionally, our venues are expensive to build, and we and management unit partners and our licensees incur significant capital and pre-opening expense. Our business and profitability may be adversely affected if the “ramp-up” period for a new location lasts longer than we expect or if the profitability of a new location dips after our initial “ramp-up” marketing program ends. New locations may not be profitable, and their sales performance may not follow historical or projected patterns. If we are forced to close any new operations, we will incur losses for certain buildout costs and pre-opening expenses incurred in connection with opening such operations.

We face a variety of risks associated with doing business with licensees.

We rely in part on our licensees and the manner in which they operate the STK restaurants to develop and promote our business. As of December 31, 2020, we operated six licensed STK restaurants. In 2021, one of our licensees

permanently closed an STK restaurant in Dubai as a result of COVID-19 and the decision to consolidate operations into the remaining STK restaurant in Dubai.

Our licensees are required to operate our restaurants according to the specific guidelines we set forth, which are essential to maintaining brand integrity and reputation, as well as in accordance with all laws and regulations applicable to us, and all laws and regulations applicable in the countries in which we operate. We provide training to these licensees to integrate them into our operating strategy and culture. However, since we do not have day-to-day control over all of these restaurants, we cannot give assurance that there will not be differences in product and service quality, operations, labor law enforcement, marketing or profitability or that there will be adherence to all of our guidelines and applicable laws. In addition, if our licensees fail to make investments necessary to maintain or improve the restaurants, guest preference for our brand could suffer. Our licensees are subject to business risks similar to those we face such as competition; customer acceptance; fluctuations in the cost, quality and availability of raw ingredients; increased labor costs; difficulty obtaining acceptable site leases; and difficulty obtaining proper financing. Failure of licensed restaurants to operate effectively could adversely affect our cash flows from those operations or have a negative impact on our reputation and our business.

The success of our licensed operations depends on our ability to establish and maintain good relationships with our licensees. The value of our brand and the rapport that we maintain with our licensees are important factors for potential licensees considering doing business with us. If we are unable to maintain good relationships with licensees, we may be unable to renew license agreements and opportunities for developing new relationships with additional licensees may be adversely affected. This, in turn, could have an adverse effect on our results of operations. Although we have developed criteria to evaluate and screen prospective developers and licensees, we cannot be certain that the developers and licensees we select will have the business acumen necessary to open and operate successful licensed restaurants in their licensing areas, or that the licensees, once selected, will be able to negotiate acceptable lease or purchase terms for prospective sites or to obtain the necessary approvals for such sites, or that financing will be available to construct and open new venues.

To the extent that our operations are located in hotels, casinos or similar destinations, our results of operations and growth are subject to the risks facing such venues.

Our ability to grow and realize profits from our operations in hotels, casinos and other branded or destination venues are dependent on the success of such venues' business. We are subject to the actions and business decisions of our clients and third parties, in which we may have little or no influence in the overall operation of the applicable venue and such actions and decisions could have an adverse effect on our business and operations.

Labor and Supplies

Changes to wage, immigration and labor laws could increase our costs substantially.

Under the minimum wage laws in most domestic jurisdictions, we are permitted to pay certain hourly employees a wage that is less than the base minimum wage because these employees receive tips as a substantial part of their income. As of December 31, 2020, approximately 30% of our employees earn this lower minimum wage in their respective locations since tips constitute a substantial part of their income. If cities, states or the federal government change their laws to require all employees to be paid the general employee minimum base wage regardless of supplemental tip income, our labor costs would increase substantially. Certain states in which we operate restaurants also have adopted or are considering adopting minimum wage statutes that exceed the federal minimum wage. We may be unable or unwilling to increase our prices to pass these increased labor costs on to our customers, in which case, our business and results of operations could be adversely affected.

A restaurant company employer may claim a credit against the company's federal income taxes for FICA taxes paid on certain tip wages (the "FICA tip credit"). We utilize the federal FICA tip credit to reduce our federal income tax expense. Changes in the tax law could reduce or eliminate the FICA tip credit, which could negatively impact our results of operations and cash flows in future periods.

Further, the U.S. Congress and Department of Homeland Security may implement changes to federal immigration laws, regulations or enforcement programs. Some of these changes may increase our obligations for compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Even if we operate our restaurants in strict compliance with U.S. Immigration and Customs Enforcement and state requirements, some of our employees may not meet federal work eligibility or residency requirements, which could lead to a disruption in our work force. Although we require all of our new employees to provide us with the government-specified documentation evidencing their employment eligibility, some of our employees may, without our knowledge, be unauthorized workers. Unauthorized workers are subject to seizure and deportation and may subject us to fines, penalties or loss of our business license in certain jurisdictions. Additionally, a government audit could result in a disruption to our workforce or adverse publicity that could negatively impact our brand and our use of E-Verify and/or potential for receipt of letters from the Social Security Administration requesting information (commonly referred to as no-match letters) could make it more difficult to recruit and/or retain qualified employees.

Potential changes in labor laws or increased union recruiting activities could result in portions of our workforce being subjected to greater organized labor influence. Although we do not currently have any unionized employees, labor legislation could have an adverse effect on our business and financial results by imposing requirements that could potentially increase our costs, reduce our flexibility and impact our ability to service our customers. In addition, a labor dispute involving some or all of our employees could harm our reputation, disrupt our operations and reduce our revenues and resolution of disputes may increase our costs.

The loss of key personnel or difficulties recruiting and retaining qualified personnel could adversely affect our business and financial results.

Our success depends substantially on the contributions and abilities of key executives and other employees, and on our ability to recruit and retain high-quality employees to work in and manage our restaurants. We must continue to recruit, retain and motivate management and other employees sufficient to maintain our current business and support our projected growth. A loss of key employees or a significant shortage of high-quality restaurant employees to maintain our current business and support our projected growth could adversely affect our business and financial results.

We occupy most of our restaurants and some of our food and beverage hospitality services locations under long-term non-cancelable leases under which we may remain obligated to perform even if we close those operations, and we may be unable to renew leases at the end of their terms.

Most of our restaurants and some of our food and beverage hospitality operations are located in premises that we lease. Many of our current leases are non-cancelable and typically have terms ranging from 10 to 15 years with renewal options for terms ranging from 1 to 5 years. We believe that future leases that we enter into will be on substantially similar terms. Fixed payments and/or minimum percentage rent payments under our operating leases and management agreements account for a significant portion of our operating expenses. This may increase our vulnerability to general adverse economic and industry conditions, limit our ability to obtain additional financing, and limit our flexibility in planning for or reacting to changes in our business.

We primarily depend on cash flow from operations to pay our obligations and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities and sufficient funds are not otherwise available to us from borrowings under our credit facility or other sources, we may not be able to meet our operating lease and management agreement obligations, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could adversely affect our business and results of operations.

If we were to close or fail to open a restaurant or other venue at a location we lease, we would generally remain committed to perform our obligations under the applicable lease, which could include, among other things, payment of the base rent for the balance of the lease term. Our obligation to continue making rental payments and fulfilling other lease obligations in respect of leases for closed or unopened restaurants could have a material adverse effect on our business and results of operations. Alternatively, at the end of the lease term and any renewal period for a restaurant, we may be unable to renew the lease without substantial additional cost, if at all. If we cannot renew such a lease we may be forced to close or relocate a restaurant, which could subject us to construction and other costs and risks.

Additionally, negative effects on our existing and potential landlords due to the inaccessibility of credit and other unfavorable economic factors may adversely affect our business and results of operations. If our landlords are unable to obtain financing or remain in good standing under their existing financing arrangements, they may be unable to provide construction contributions or satisfy other lease covenants to us. If any landlord files for bankruptcy protection, the landlord may be able to reject our lease in the bankruptcy proceedings. While we would under some circumstances have the option to retain our rights under the lease, we could not compel the landlord to perform any of its obligations and would be left with damages (which are subject to collectability risk) as our sole recourse. Our development of new locations may also be adversely affected by the negative financial situations of potential developers, landlords and host sites. Such parties may delay or cancel development projects or renovations of existing projects due to the instability in the credit markets and economic uncertainty. This could reduce the number of high-quality locations available that we would consider for our new operations or cause the quality of the sites in which the restaurants and food and beverage hospitality services operations are located to deteriorate. Any of these developments could have an adverse effect on our existing businesses or cause us to curtail new projects.

We depend upon frequent deliveries of food, alcohol and other supplies, which subjects us to the possible risks of shortages, interruptions and price fluctuations.

Our ability to maintain consistent quality throughout our locations depends in part upon our ability to acquire fresh, quality products, including beef, seafood, produce and related items, from reliable sources in accordance with our specifications. We currently purchase our food products from various suppliers. We have elected to purchase our beef from a limited number of suppliers. If there were any shortages, interruptions or significant price fluctuations in beef or seafood or if our suppliers were unable to perform adequately or fail to distribute products or supplies to our restaurants, or terminate or refuse to renew any contract with us, this could cause a short-term increase of our costs or cause us to remove certain items from our menu, increase the price of certain offerings or temporarily close a location, which could adversely affect our business and results of operations.

In addition, we purchase beer, wine and spirits from distributors who own the exclusive rights to sell such alcoholic beverage products in the geographic areas in which our locations reside. Our continued ability to purchase certain brands of alcoholic beverages depends upon maintaining our relationships with those distributors, of which there can be no assurance. If any of our alcohol beverage distributors cease to supply us, we may be forced to offer brands of alcoholic beverage which have less consumer appeal or that do not match our brand image, which could adversely affect our business and results of operations.

Increases in commodity prices would adversely affect our results of operations.

Our profitability depends in part on our ability to anticipate and react to changes in commodity costs, which have a substantial effect on our total costs. The purchase of beef represents approximately 26% of our food and beverage costs. The market for beef is subject to extreme price fluctuations due to seasonal shifts, climate conditions, the price of feed, industry demand, energy demand and other factors. Our ability to forecast and manage our commodities could significantly affect our gross margins. Energy prices can also affect our operating results, because increased energy prices may cause increased transportation costs for beef and other commodities and supplies, and increased costs for the utilities required to run each location. Historically we have passed increased commodity and other costs on to our customers by increasing the prices of our menu items. While we believe these price increases have historically not affected customer traffic, there can be no assurance that additional price increases would not affect future customer traffic. If prices increase in the future and we are unable to anticipate or mitigate these increases, or if there are shortages for beef, our business and results of operations would be adversely affected.

Litigation and Brand Risk

We face the risk of adverse publicity in connection with our operations, including as a result of increased social media usage.

The quality of our food and our facilities are two of our competitive strengths. Therefore, adverse publicity, whether accurate or not, relating to food quality, public health concerns, illness, safety, injury or government or industry findings concerning our venues or those operated by others could negatively impact us. Any shifts in consumer preferences away

from the kinds of food we offer, particularly beef, whether because of dietary or health concerns or otherwise, would make our locations less appealing and could reduce customer traffic and/or impose practical limits on pricing.

The use of social media platforms allows individuals to access a broad audience of consumers and other interested persons. Consumers value readily available information concerning goods and services that they have or plan to purchase and may act on such information without further investigation or authentication. Many social media platforms immediately publish content from their subscribers and participants, often without filters or checks on the accuracy of the content posted. Information concerning our company may be posted on such platforms at any time. If customers perceive or experience a reduction in our food quality, service or ambiance or in any way believe we have failed to deliver a consistently positive experience, this information can be immediately and broadly disseminated. This information may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects or business.

We face the risk of litigation in connection with our operations.

We are, from time to time, the subject of complaints or litigation from our consumers alleging, among other things, illness, injury or other food quality, health or operational concerns. The inappropriate use of social media by our employees or customers could lead to litigation and result in negative publicity that could damage our reputation. In addition, third party and employee claims against us based on, among other things, alleged discrimination, harassment or wrongful termination, or labor code violations may divert financial and management resources that would otherwise be used to benefit our future performance. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations. In addition, they may generate negative publicity, which could reduce customer traffic and sales. Although we maintain what we believe to be adequate levels of insurance commensurate with the nature and extent of our operations, insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these matters. A significant increase in the number of these claims or in the number of such claims that are successful could materially adversely affect our brand, financial condition or operating results. Like most employee practices liability insurance policies, our policy does not provide protection against hour and wage claims, and therefore litigation in the area could adversely impact our financial condition.

We may not be able to protect our brands, trademarks, service marks or other proprietary rights.

We have registered, or have applications pending to register, the trademarks STK, Kona Grill and Konavore with the United States Patent and Trademark Office and in certain foreign countries in connection with restaurant services. Our brands, which include our trademarks, service marks and other intellectual property and proprietary rights, are important to our success and our competitive position. In that regard, we believe that our trade names, trademarks and service marks are valuable assets that are critical to our success. Accordingly, we devote substantial resources to the establishment and protection of our brands. However, the actions we take may be inadequate to prevent imitation of our products and concepts by others, to prevent various challenges to our registrations or applications or denials of applications for the registration of trademarks, service marks and proprietary rights in the U.S. or other countries, or to prevent others from claiming violations of their trademarks and proprietary marks. In addition, others may assert rights in our trademarks, service marks and other proprietary rights or may assert that we are infringing rights they have in their trademarks, service marks, patents or other proprietary rights. Any such disputes could force us to incur costs related to enforcing our rights. In addition, the use of trade names, trademarks or service marks similar to ours in some markets may keep us from entering those markets.

Each of our intellectual property marks is pledged as collateral securing our credit and guaranty agreement with Goldman Sachs Bank USA (“Goldman Sachs”). Default under these agreements could enable Goldman Sachs to sell (at auction or otherwise) our trademarks, which would have a material adverse effect on our ability to continue our business.

Other Risks

Our operations may be negatively impacted by seasonality, adverse weather conditions, natural disasters or acts of terror.

Our business is subject to seasonal fluctuations, adverse weather conditions and natural disasters that may at times affect the regions in which our restaurants and F&B hospitality services operations are located, regions that supply or produce food products for our restaurants, or locations of our distribution network. As a result of the seasonality of our business due to weather, holiday events and other factors, our quarterly results for any one quarter or fiscal year may not be indicative of results to be expected for any other quarter or for any year.

In addition, if adverse weather conditions or natural disasters such as fires and hurricanes affect our restaurants, we could experience closures, repair and restoration costs, food spoilage, and other significant reopening costs, any of which would adversely affect our business. We could also experience shortages or delayed shipments at our restaurants if adverse weather or natural disasters affect our distribution network, which could adversely affect our restaurants and our business as a whole. Additionally, during periods of extreme temperatures (either hot or cold) or precipitation, we may experience a reduction in customer traffic, which could adversely affect our restaurants and our business as a whole. Weather conditions are impossible to predict as is the negative impact on our business that such conditions might cause. Catastrophic weather conditions are likely to affect the supply of and costs for food products. If we do not anticipate or react to changing food costs by adjusting our purchasing practices or menu prices, our operating margins would likely deteriorate.

Terrorism, including cyber-terrorism or efforts to tamper with food supplies, could have an adverse impact on our brand and results of operations.

Security breaches, loss of data and other disruptions could compromise sensitive information related to our business, prevent us from accessing critical information or expose us to liability, which could adversely affect our business and our reputation

We utilize information technology systems and networks to process, transmit and store electronic information in connection with our business activities. As the use of digital technologies has increased, cyber incidents, including deliberate attacks and attempts to gain unauthorized access to computer systems and networks, have increased in frequency and sophistication. These threats pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data, all of which are vital to our operations and business strategy. There can be no assurance that we will be successful in preventing cyber-attacks or successfully mitigating their effects.

We estimate that approximately 75% of our sales are by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and debit card information has been stolen. We may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings relating to these types of incidents. Further, in 2015, the major credit card networks shifted the liability associated with EMV (Europay/Mastercard/Visa) chip card technology to the merchants. With this liability shift, any restaurant or merchant that is not using an approved chip-and-pin point-of-sale device would be liable for counterfeit or fraudulent charges.

Despite the implementation of security measures (such as the employment of internal resources and external consultants to conduct auditing and testing for weaknesses in our informational technology environment), our internal computer systems and those of our third-party contractors and consultants are vulnerable to damage or disruption from hacking, computer viruses, software bugs, unauthorized access or disclosure, natural disasters, terrorism, war, and telecommunication, equipment and electrical failures. There can be no assurance that we will promptly detect any such disruption or security breach, if at all. Unauthorized access, loss or dissemination could disrupt our operations, our ability to process and prepare company financial information, and manage various general and administrative aspects of our business. To the extent that any such disruption or security breach results in a loss of or damage to our data or applications, or inappropriate disclosure or theft of confidential, proprietary or personal information, we could incur liability, suffer reputational damage or poor financial performance or become the subject of regulatory actions by state, federal or non-US authorities, any of which could adversely affect our business.

We are subject to numerous and changing U.S. federal and foreign government regulations. Failure to comply with or substantial changes in government regulations could negatively affect our sales, increase our costs or result in fines or other penalties against us.

Each of our venues is subject to licensing and regulation by the health, sanitation, safety, labor, building environmental (including disposal, pollution, and the presence of hazardous substances) and fire agencies of the respective states, counties, cities, and municipalities in which it is located, as well as under federal law. These regulations govern the preparation and sale of food, the sale of alcoholic beverages, the sale and use of tobacco, zoning and building codes, land use and employee, health, sanitation and safety matters. Alcoholic beverage control regulations govern various aspects of our locations' daily operations, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing and inventory control, handling and storage. Typically, our locations' licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause. A failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of venues for an indeterminate period of time, or third-party litigation, any of which could have a material adverse effect on us and our results of operations.

Government regulation can also affect customer traffic at our locations. A number of states, counties and cities have enacted menu labeling laws requiring multi-unit restaurant operators to disclose certain nutritional information. For example, the Affordable Care Act establishes a uniform, federal requirement for restaurant chains with 20 or more locations operating under the same trade name and offering substantially the same menus to post nutritional information on their menus, including the total number of calories. The law also requires such restaurants to provide to consumers, upon request, a written summary of detailed nutritional information, including total calories and calories from fat, total fat, saturated fat, cholesterol, sodium, total carbohydrates, complex carbohydrates, sugars, dietary fiber, and total protein in each serving size or other unit of measure, for each standard menu item. The Food and Drug Administration is also permitted to require additional nutrient disclosures, such as trans-fat content. Our compliance with the Affordable Care Act or other similar laws to which we may become subject could reduce demand for our menu offerings, reduce customer traffic and/or reduce average revenue per customer, which would have an adverse effect on our revenue. Any reduction in customer traffic related to these or other government regulations could affect revenues and adversely affect our business and results of operations.

Our foreign operations are subject to all of the same risks as our domestic restaurants and food and beverage hospitality services operations, and additional risks that include, among others, international economic and political conditions and the possibility of instability and unrest, differing cultures and consumer preferences, diverse government regulations and tax systems, the ability to source fresh ingredients and other commodities in a cost-effective manner and the availability of experienced management.

We are subject to governmental regulation in the domestic and international jurisdictions where we operate, including antitrust and tax requirements, anti-boycott regulations, import/export/customs regulations and other international trade regulations, the USA PATRIOT Act and the Foreign Corrupt Practices Act. Any new regulatory or trade initiatives could impact our operations in certain countries. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

We may not be able to comply with certain debt covenants on our debt.

Our credit agreement requires us to achieve specified financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these provisions may be affected by events beyond our control, including the effects on our business of COVID-19 and related government actions and consumer behavior. If we were to default under our covenants and such default were not cured or waived, our indebtedness could become immediately due and payable. If we breach these covenants and fail to comply with the credit agreement, and the lenders accelerate the amounts outstanding, our business and results of operations would be adversely affected.

In addition, our ability to borrow under our revolving credit facility depends on several factors, including compliance with specified leverage incurrence ratios. If we are not able to borrow under our revolving credit facility to

bridge losses we incur while our operations are affected by the COVID-19 pandemic, and if alternative financing is not available to us on acceptable terms or at all, our business and results of operations would be adversely affected.

Failure of our internal controls over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our stock.

While we have determined that our internal control over financial reporting was effective as of December 31, 2020, as indicated in our Management's Annual Report on Internal Control over Financial Reporting included in this Annual Report on Form 10-K, we must continue to monitor and assess our internal control over financial reporting. If our management identifies one or more material weaknesses in our internal control over financial reporting and such weakness remains uncorrected at fiscal year-end, we will be unable to assert such internal control is effective at fiscal year-end. If we are unable to assert that our internal control over financial reporting is effective at fiscal year-end, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on our reputation and the price of our common stock.

Insiders have substantial control over us, and they could delay or prevent a change in our corporate control even if our other stockholders wanted it to occur.

Our executive officers, directors, and principal stockholders hold a significant percentage of our outstanding common stock. Accordingly, these stockholders are able to control or have a significant impact on all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent an outside party from acquiring or merging with us even if our other stockholders affirmed such action. In addition, such concentrated control may adversely affect the price of our common stock and sales by our insiders or affiliates, along with any other market transactions, could affect the market price of our common stock.

Provisions in our amended and restated certificate of incorporation, our bylaws and Delaware law may inhibit a takeover of us, which could limit the price investors might be willing to pay in the future for our common stock and could entrench management.

Our amended and restated certificate of incorporation and our bylaws contain provisions that may discourage unsolicited takeover proposals that stockholders may consider to be in their best interests. Our Board of Directors (the "Board") is divided into three classes, each of which generally serve for a term of three years with only one class of directors being elected each year. As a result, at a given annual meeting, only a minority of the Board may be considered for election. Since our staggered Board may prevent our stockholders from replacing a majority of our Board at any given annual meeting, it may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of stockholders.

Moreover, our Board has the ability to designate the terms of and issue new series of preferred stock without stockholder approval. Under the terms of our amended and restated certificate of incorporation, our Board may authorize and issue up to 10,000,000 shares of one or more series or class of preferred stock with rights superior to those of holders of common stock in terms of liquidation and dividend preference, voting and other rights. The issuance of preferred stock would reduce the relative rights of holders of common stock vis-à-vis the holders of preferred stock without the approval of the holders of common stock. In addition, to the extent that such preferred stock is convertible into shares of common stock, its issuance would result in a dilution of the percentage ownership of holders of common stock on a fully diluted basis. In addition, the issuance of a series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control of our company.

We are also subject to the anti-takeover provisions under Delaware law, which could delay or prevent a change of control. Together, these provisions may make the removal of management more difficult and may discourage transactions that otherwise could involve a payment of a premium over prevailing market prices for our securities.

The price of our common stock could be subject to volatility related or unrelated to our operations.

The trading price of our common stock could fluctuate significantly due to a number of factors, including market perception of our ability to meet our growth projections and expectations, quarterly operating results of other companies in the same industry, trading value in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our business and the business of others in the industry. In addition, the stock market itself is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons related and unrelated to their operating performance and could have the same effect on our common stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We do not own any properties. Each of our “owned” locations operates in premises leased by its operating subsidiary. We do not have a direct ownership interest in locations which are operated pursuant to a management agreement (“managed”) or license agreement (“licensed”) with one of our hospitality partners.

Our STK locations are as follows:

Venue	Hotel/Casino	Location	Type of Interest	Square Feet ⁽¹⁾	Lease or Agreement Expiration ⁽²⁾
STK Atlanta	—	Atlanta, Georgia	Owned	12,000	12/31/2026
STK Chicago	—	Chicago, Illinois	Owned	9,300	9/30/2025
STK Denver	—	Denver, Colorado	Owned	7,000	6/30/2026
STK Doha	The Ritz-Carlton	Doha, Qatar	Licensed	7,000	1/31/2024
STK Downtown ⁽³⁾	—	New York, New York	Owned ⁽⁴⁾	24,000	4/30/2025
STK Dubai	Jumeirah Beach Residence	Dubai, United Arab Emirates	Licensed	10,000	12/4/2027
STK Ibiza	Ibiza Corso Hotel & Spa	Illes Balears, Spain	Licensed	13,330	12/31/2021
STK Las Vegas	The Cosmopolitan	Las Vegas, Nevada	Managed	10,000	1/28/2025
STK London	ME London	London, England	Managed	8,000	12/31/2022
STK Mexico City	—	Mexico City, Mexico	Licensed	5,000	8/31/2028
STK Miami Beach	—	Miami Beach, Florida	Owned	11,400	10/31/2027
STK Midtown	—	New York, New York	Owned	13,400	8/23/2031
STK Milan	ME Milan	Milan, Italy	Managed	7,200	5/11/2025
STK Nashville	—	Nashville, Tennessee	Owned	9,500	9/30/2029
STK Orlando ⁽³⁾	—	Orlando, Florida	Owned	16,300	11/30/2030
STK San Diego ⁽³⁾	Andaz Hotel	San Diego, California	Owned	8,400	4/30/2026
STK San Juan	Condado Vanderbilt Hotel	San Juan, Puerto Rico	Licensed	5,600	10/15/2029
STK Scottsdale ⁽⁵⁾	—	Scottsdale, Arizona	Managed	10,100	11/7/2029
STK Toronto	—	Toronto, Canada	Managed	9,800	7/30/2030
STK Westwood	W Hotel	Los Angeles, California	Owned	5,000	4/30/2025

(1) Approximate

(2) Lease/agreement expiration date is based on terms specified in applicable agreement for the current term without taking into account renewal options.

(3) Location includes an owned rooftop lounge, except for the STK Rooftop San Diego which is a licensed location.

(4) Ownership in location is 61.22%.

(5) STK Scottsdale, a managed location, had a management agreement in place as of December 31, 2020. STK Scottsdale opened in January 2021.

Our Kona Grill locations are as follows:

Venue	Hotel/Casino	Location	Type of Interest	Square Feet ⁽¹⁾	Lease or Agreement Expiration ⁽²⁾
Kona Grill Alpharetta	—	Alpharetta, Georgia	Owned	7,100	10/31/2024
Kona Grill Baltimore	—	Baltimore, Maryland	Owned	7,000	3/31/2025
Kona Grill Boca Park	—	Las Vegas, Nevada	Owned	7,400	9/30/2023
Kona Grill Boise	—	Meridian, Idaho	Owned	7,200	10/31/2023
Kona Grill Carmel	—	Carmel, Indiana	Owned	7,500	1/31/2022
Kona Grill Cincinnati	—	Cincinnati, Ohio	Owned	8,500	1/31/2026
Kona Grill Dallas	—	Dallas, Texas	Owned	6,900	12/31/2023
Kona Grill Denver	—	Denver, Colorado	Owned	7,200	7/31/2025
Kona Grill Eden Prairie	—	Eden Prairie, Minnesota	Owned	7,000	1/31/2028
Kona Grill El Paso	—	El Paso, Texas	Owned	7,000	6/30/2024
Kona Grill Gilbert	—	Gilbert, Arizona	Owned	6,800	4/30/2022
Kona Grill Huntsville	—	Huntsville, Alabama	Owned	7,000	10/31/2026
Kona Grill Kansas City	—	Kansas City, Missouri	Owned	7,500	12/31/2027
Kona Grill Minnetonka	—	Minnetonka, Minnesota	Owned	7,200	4/30/2026
Kona Grill North Star	—	San Antonio, Texas	Owned	7,200	12/31/2026
Kona Grill Oak Brook	—	Oak Brook, Illinois	Owned	7,000	2/16/2022
Kona Grill Omaha	—	Omaha, Nebraska	Owned	7,800	12/31/2028
Kona Grill Plano	—	Plano, Texas	Owned	7,800	8/31/2025
Kona Grill San Antonio	—	San Antonio, Texas	Owned	7,200	9/30/2025
Kona Grill Sarasota	—	Sarasota, Florida	Owned	7,000	10/31/2024
Kona Grill Scottsdale	—	Scottsdale, Arizona	Owned	6,000	4/30/2024
Kona Grill Tampa	—	Tampa, Florida	Owned	7,500	12/31/2024
Kona Grill Troy	—	Troy, Michigan	Owned	7,000	3/31/2022
Kona Grill Woodbridge	—	Iselin, New Jersey	Owned	7,000	4/30/2029

(1) Approximate.

(2) Lease/agreement expiration date is based on terms specified in applicable agreement for the current term without taking into account renewal options.

Our ONE Hospitality brands and F&B services locations are as follows:

Venue	Hotel/Casino	Location	Type of Interest	Square Feet ⁽¹⁾	Lease or Agreement Expiration ⁽²⁾
ANGEL	Hotel Calimala	Florence, Italy	Managed	4,500	12/31/2024
F&B Services - Hippodrome	Hippodrome Casino	London, England	Managed	n/a	7/12/2022
F&B Services - ME London	ME London	London, England	Managed	n/a	12/31/2022
F&B Services - ME Milan	ME Milan	Milan, Italy	Managed	n/a	5/11/2025
F&B Services - W Hotel	W Hotel	Los Angeles, California	Owned	n/a	4/30/2025
Heliot	Hippodrome Casino	London, England	Managed	4,900	7/12/2022
Hideout	W Hotel	Los Angeles, California	Owned ⁽³⁾	6,200	4/30/2025
Marconi	ME London	London, England	Managed	1,900	12/31/2022
Radio Rooftop Bar	ME London	London, England	Managed	5,500	12/31/2022
Radio Rooftop Bar	ME Milan	Milan, Italy	Managed	5,200	5/11/2025

(1) Approximate.

(2) Lease/agreement expiration date is based on terms specified in applicable agreement without taking into account renewal options.

(3) Includes the hotel lounge bar square footage.

In addition to the locations above, we leased office space for several support offices. We lease 4,700 square feet in Denver, Colorado for our corporate headquarters, which expires in June 2024. We lease additional office space in New York, New York (2,200 square feet), Scottsdale, Arizona (2,200 square feet) and London, England (1,300 square feet). These leases expire in August 2023, February 2025 and August 2024, respectively.

Item 3. Legal Proceedings

We are subject to claims common to our industry and in the ordinary course of our business. Companies in our industry, including us, have been and are subject to class action lawsuits, primarily regarding compliance with labor laws and regulations. Defending lawsuits requires significant management attention and financial resources and the outcome of any litigation is inherently uncertain. We believe that accrual for these matters are adequately provided for in our consolidated financial statements. We do not believe the ultimate resolutions of these matters will have a material adverse effect on our consolidated financial position and results of operations. However, the resolution of lawsuits is difficult to predict. A significant increase in the number of these claims, or one or more successful claims under which we incur greater liabilities than is currently anticipated, could materially and adversely affect our consolidated financial statements.

For information regarding litigation refer to Note 19, "Commitments and Contingencies" in our consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data." For more information about the impact of legal proceedings in our business, see Item 1A, "Risk Factors".

Item 4. Mine Safety Disclosures

Not applicable

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock is traded on the NASDAQ Capital Market under the symbol "STKS". The following table sets forth the high and low sale prices for our common stock for each calendar quarter indicated:

	Common Stock			
	2020		2019	
	High	Low	High	Low
First Quarter	\$ 4.68	\$ 0.73	\$ 3.36	\$ 2.85
Second Quarter	2.48	1.00	4.00	2.86
Third Quarter	2.35	1.25	3.44	2.56
Fourth Quarter	\$ 3.75	\$ 1.97	\$ 3.48	\$ 2.40

Source: NASDAQ Capital Market

Holders

As of February 28, 2021, we estimate that there were 91 holders of record of our common stock.

Dividends

Although certain of our subsidiary limited liability companies ("LLCs") make distributions to members of our subsidiary LLCs, we have not declared or paid any cash dividends on our common stock and do not intend to declare or pay any cash dividend in the foreseeable future. The payment of dividends, if any, is within the discretion of our Board and will depend on our earnings, our capital requirements, compliance with debt covenants, overall financial condition and such other factors as the Board may consider. As a Delaware corporation, we are also limited by Delaware law as to the payment of dividends. We currently intend to retain our earnings to finance our growth.

Issuer Purchases of Equity Securities

None

Recent Sales of Unregistered Securities

None

Item 6. Selected Financial Data

Not required as we are a smaller reporting company.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following management’s discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes to those statements included elsewhere in this Annual Report on Form 10-K.

Business Summary

We are a global hospitality company that develops, owns and operates, manages and licenses upscale and polished casual, high-energy restaurants and lounges and provides turn-key food and beverage (“F&B”) services for hospitality venues including hotels, casinos and other high-end locations. Turn-key F&B services are food and beverage services that can be scaled, customized and implemented by us for the client at a particular hospitality venue. Our vision is to be a global market leader in the hospitality industry by melding high-quality service, ambiance, high-energy and cuisine into one great experience that we refer to as “Vibe Dining”. We design all our restaurants, lounges and F&B services to create a social dining and high-energy entertainment experience within a destination location. We believe that this design and operating philosophy separates us from more traditional restaurant and foodservice competitors.

Our primary restaurant brands are STK, a multi-unit steakhouse concept that combines a high-energy, social atmosphere with the quality and service of a traditional upscale steakhouse, and Kona Grill, a polished casual bar-centric grill concept featuring American favorites, award-winning sushi, and specialty cocktails in a polished casual atmosphere. Our F&B hospitality management services include developing, managing and operating restaurants, bars, rooftop lounges, pools, banqueting and catering facilities, private dining rooms, room service and mini bars tailored to the specific needs of high-end hotels and casinos. Our F&B hospitality clients operate global hospitality brands such as the W Hotel, Hippodrome Casino, and ME Hotels.

We opened our first restaurant in January 2004 in New York, New York. We currently own, operate, manage or license 54 venues including 20 STKs and 24 Kona Grills in major metropolitan cities in North America, Europe and the Middle East and 10 F&B venues in five hotels and casinos in the United States and Europe. In January 2021, we opened a managed STK restaurant in Scottsdale, Arizona. For those restaurants and venues that are managed or licensed, we generate management fees based on top-line revenues and incentive fee revenue based on a percentage of the location’s revenues and net profits.

The table below reflects our venues by restaurant brand and geographic location:

	Venues			Total
	STK ⁽¹⁾⁽²⁾	Kona Grill	ONE Hospitality ⁽³⁾	
Domestic				
Owned	10	24	2	36
Managed	2	—	—	2
Licensed	1	—	—	1
Total domestic	13	24	2	39
International				
Owned	—	—	—	—
Managed	3	—	8	11
Licensed	4	—	—	4
Total international	7	—	8	15
Total venues	20	24	10	54

(1) Locations with an STK and STK Rooftop are considered one venue location. This includes the STK Rooftop in San Diego, CA, which is a licensed location.

(2) Includes STK Scottsdale, a managed location, for which a management agreement was in place as of December 31, 2020. STK Scottsdale opened in January 2021.

(3) Includes concepts under the Company’s F&B hospitality management agreements and other venue brands such as ANGEL, Heliot, Hideout, Marconi and Radio.

COVID-19

The novel coronavirus (“COVID-19”) pandemic has significantly impacted our business, and public concerns about the spread of COVID-19 continue to be widespread. We experienced a significant reduction in guest traffic at our restaurants as a result of restrictions mandated by state and local governments and temporarily closed several restaurants and shifted our operations to provide only take-out and delivery service. Starting in May 2020, state and local governments began easing restrictions on stay-at-home orders; however, certain states have reimposed restrictions as COVID-19 cases increased during the fall of 2020. Currently, all our domestic restaurants are open for outdoor dining or in-person dining with seating capacity restrictions. Certain of our managed and licensed venues internationally are temporarily closed or on to-go/delivery only due to COVID-19. We have taken significant steps to adapt our business to increase sales while providing a safe environment for guests and employees.

In response to these conditions, and out of concern for our customers and partners, we have implemented enhanced safety measures and sanitation procedures to allow for in-person dining at our restaurants. As we navigate through the pandemic, we have also implemented measures to reduce our costs including the deferral of capital projects and negotiations with suppliers and landlords regarding deferral or abatement of payments.

Given the ongoing uncertainty surrounding the effects of the COVID-19 pandemic, we cannot reasonably predict when our restaurants will be able to return to normal dining room operations. We expect that our results of operations could be materially and negatively affected by COVID-19 in 2021. Our resumption of normal dining operations is subject to events beyond our control, including the effectiveness of governmental efforts to halt the spread of COVID-19.

Executive Summary

Total revenue increased \$21.3 million, or 17.6% to \$141.9 million for the year ended December 31, 2020 compared to \$120.7 million for the year ended December 31, 2019. The increase is primarily due to a full year of Kona Grill revenue in 2020 compared to a partial period in 2019 partially offset by the impact of the COVID-19 pandemic on our restaurants. Same-store sales decreased 27.9% for the year ended December 31, 2020 compared to the prior year as restaurants were temporarily closed or operated on a limited basis due to state and local seating capacity restrictions. Approximately \$54.9 million of the increase in total revenue was attributable to the addition of the Kona Grill restaurants.

Operating income decreased \$26.5 million to a loss of \$13.7 million for the year ended December 31, 2020 from \$12.8 million for the year ended December 31, 2019. The decrease in operating income was primarily driven by temporary closures or seating capacity restrictions due to the COVID-19 pandemic and COVID-19 related costs. We incurred \$5.5 million of costs related to COVID-19 in the year ended December 31, 2020, composed primarily of costs for electrostatic cleaning of our venues, personal protective equipment, and sanitation supplies to prevent the spread of COVID-19; payments to employees for paid-time off during restaurant closures; rent and rent-related costs for closed and limited-operations restaurants from the day that the dining room closed; and inventory waste. In 2019, we recognized an \$11.0 million bargain purchase gain related to the Kona Grill acquisition and a non-cash write down of \$2.7 million related to an investment. Additionally, we incurred transaction costs of \$1.1 million and \$2.5 million in the years ended December 31, 2020 and 2019, respectively. The transaction costs included transaction and integration costs incurred with the Kona Grill acquisition and internal costs associated with capital raising activities, primarily associated with the Goldman Sachs credit agreement and a credit agreement with Bank of America, N.A.

Our Growth Strategies and Outlook

Our growth model is primarily driven by the following:

Expansion of STK We expect to continue to expand our operations domestically and internationally through a mix of owned, licensed and managed STK restaurants using a disciplined and targeted site selection process. We have identified over 75 additional major metropolitan areas across the globe where we could grow our STK brand to 200 restaurants over the foreseeable future. We expect to open as many as five to six STKs annually, primarily through

management or licensing agreements, provided that we have sufficient interest from prospective licensees, acceptable locations and quality restaurant managers available to support that pace of growth.

In 2019, we opened an owned STK restaurant in Nashville, Tennessee and two licensed STK restaurants located in Doha, Qatar and San Juan, Puerto Rico. Additionally, as of December 31, 2020, we have a management agreement in-place to open a managed STK restaurant in Scottsdale, Arizona which opened in January 2021 and are under construction for an owned STK restaurant in Bellevue, Washington.

Expansion through New F&B Hospitality Projects. We expect our F&B hospitality services business to be an important driver of our growth and profitability, enabling us to generate management fee income with minimal capital expenditures. We believe we are well positioned to leverage the strength of our brands and the relationships we have developed with global hospitality providers to drive the continued growth of our F&B hospitality business. We continue to receive inbound inquiries regarding new opportunities globally, and we continue to work with existing hospitality clients to identify and develop additional opportunities in their venues. We expect to enter into one to two new F&B hospitality agreements annually. In 2019, we opened one managed rooftop bar concept, ANGEL, in Florence, Italy.

Increase Same Store Sales and Increase Our Operating Efficiency. In addition to expanding into new cities and hospitality venues, we intend to continue to increase revenue and profits in our existing operations through continued focus on high-quality, high-margin food and beverage menu items. We believe that our operating margins will improve through growth in same store sales (“SSS”), as defined below in Key Performance Indicators, and a reduction of store-level operating expenses.

Acquisitions. On October 4, 2019, we acquired substantially all of the assets of Kona Grill, which is comprised of 24 domestic restaurants. We integrated Kona Grill by leveraging our corporate infrastructure, our bar-business knowledge and unique Vibe Dining program, to elevate the brand experience and drive improved performance.

As our footprint increases, we expect to benefit by leveraging system-wide operating efficiencies and best practices through the management of our general and administrative expenses as a percentage of overall revenue. We continue to look at opportunities to decrease our general and administrative expenses by outsourcing non-core activities and through increases in staff productivity.

Key Performance Indicators

We use the following key performance indicators in evaluating our restaurants and assessing our business:

Same Store Sales. SSS represents total food and beverage sales at domestic owned and managed restaurants opened for at least a full 18-month period, which removes the impact of new restaurant openings in comparing the operations of existing restaurants. For STK SSS, this measure includes total revenue from our owned and managed STK locations, excluding revenues from our owned STK restaurant located in the W Hotel in Los Angeles, California due to the impact of the F&B hospitality management agreement with the hotel. Revenues from locations where we do not directly control the event sales force are excluded from this measure.

Our comparable restaurant base for STK SSS consisted of nine domestic restaurants for the year ended December 31, 2020. For Kona Grill SSS all 24 domestic restaurants are included in the comparable restaurant base. STK and Kona Grill SSS decreased 34.2% and 21.4%, respectively, for the year ended December 31, 2020 compared to the prior year.

Number of Restaurant Openings. Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For each restaurant opening, we incur pre-opening costs, which are defined below. Typically, new restaurants open with an initial start-up period of higher than normalized sales volumes (also referred to in the restaurant industry as the “honeymoon” period), which decrease to a steady level approximately 18 to 24 months after opening. However, operating costs during this initial period are also higher than normal, resulting in restaurant operating margins that are generally lower during the start-up period of operation and increase to a steady level approximately 18 to 24 months after opening. Some new restaurants may experience a “honeymoon” period that is either shorter or longer than this time frame.

In 2019, we opened an owned STK restaurant in Nashville, Tennessee, two licensed STK restaurants located in Doha, Qatar and San Juan, Puerto Rico, and a managed rooftop bar concept, ANGEL, in Florence, Italy. Additionally, as of December 31, 2020, we have a management agreement in-place to open a managed STK restaurant in Scottsdale, Arizona which opened in January 2021.

Average Check: Average check is calculated by dividing total restaurant sales by total entrees sold for a specified period. Our management team uses this indicator to analyze trends in customers' preferences, customer expenditures and the overall effectiveness of menu changes and price increases. For our comparable STK restaurants, our average check was \$114 compared to \$109 for the years ended December 31, 2020 and 2019, respectively. The average check was \$32 for Kona Grill restaurants for the year ended December 31, 2020 compared to \$26 for the period from October 4, 2019 to December 31, 2019.

Average Comparable Restaurant Revenue: Average comparable restaurant revenue consists of the average sales of our comparable restaurants over a certain period of time. This measure is calculated by dividing total comparable restaurant sales in a given period by the total number of comparable restaurants in that period. This indicator assists management in measuring changes in customer traffic, pricing and development of our brand. Our average comparable STK restaurant revenues were \$6.9 million and \$11.1 million for the years ended December 31, 2020 and 2019, respectively. Our average comparable Kona Grill restaurant revenues was \$3.3 million for the year ended December 31, 2020 and \$1.0 million for the period from October 4, 2019 to December 31, 2019. In the year ended December 31, 2019, the average restaurant revenues for Kona Grill restaurants was \$4.2 million.

Key Financial Terms and Metrics

We evaluate our business using a variety of key financial measures:

Segment reporting

In the fourth quarter of 2019, in conjunction with the Kona Grill acquisition, we implemented certain organizational changes, including the reorganization of our internal reporting structure to better facilitate our strategy for growth, operational efficiency and management accountability. As a result of these organizational changes, we identified our reportable operating segments as follows:

- **STK.** The STK segment consists of the results of operations from STK restaurant locations, competing in the full-service dining industry, as well as management, license and incentive fee revenue generated from the STK brand and operations of STK restaurant locations.
- **Kona Grill.** The Kona Grill segment includes the results of operations of Kona Grill restaurant locations.
- **ONE Hospitality.** The ONE Hospitality segment is comprised of the management, license and incentive fee revenue and results of operations generated from our other brands and venue concepts, which include ANGEL, Heliot, Hideout, Marconi, and Radio. Additionally, this segment includes the results of operations generated from F&B hospitality management agreements with hotels, casinos and other high-end locations.
- **Corporate.** The Corporate segment consists of the following: general and administrative costs, stock-based compensation, acquisition related gains and losses, lease termination expenses, transaction costs, COVID-19 related expenses and other income and expenses. This segment also includes STK Meat Market, an e-commerce platform that offers signature steak cuts nationwide, our major off-site events group, which supports all brands and venue concepts, and revenue generated from gift card programs.

See Note 17 to our consolidated financial statements for further information on our segment reporting.

Revenues

Owned restaurant net revenues. Owned restaurant net revenues consist of food and beverage sales by owned restaurants net of any discounts associated with each sale and of any ancillary F&B hospitality services at owned locations. Additionally, revenues from offsite banquets, our major off-site events group, and our gift card programs are included in owned restaurant net revenues. For the year ended December 31, 2020, beverage sales comprised 25% of

food and beverage sales, and food sales comprised the remaining 75%. This indicator assists management in understanding the trends in gross margins of the restaurants.

Our primary owned restaurant brands are STK and Kona Grill. We specifically look at comparable sales from both owned and managed restaurants to understand customer count trends and changes in average check as it relates to our primary restaurant brands.

Management, license and incentive fee revenue. Management, license and incentive fee revenues include fees received pursuant to management and license agreements. Management agreements typically call for a management fee based on a percentage of revenue, a monthly marketing fee based on a percentage of revenues and an incentive fee based on a managed venue's net profits. Similarly, royalties from the licensee in license agreements are generally based on a percentage of the licensed restaurant's revenue. These management, license and incentive fees are recognized as revenue in the period the restaurant's sales occur. Initial licensing fees and upfront fees related to management and license agreements are recognized as revenue on a straight-line basis over the term of the agreement.

We evaluate the performance of our managed and licensed properties based on sales growth, a key driver for management and license fees, and on improvements in operating profitability margins, which, combined with sales, drives incentive fee growth.

Cost and expenses

Owned restaurant cost of sales. Owned restaurant cost of sales includes all owned restaurant food and beverage expenditures. We measure cost of goods as a percentage of owned restaurant net revenues. Owned restaurant cost of sales are generally influenced by the cost of food and beverage items, menu mix, discounting activity and restaurant level controls. See "Item 1A. Risk Factors — Increases in commodity prices would adversely affect our results of operations."

Owned restaurant operating expenses. We measure owned restaurant operating expenses as a percentage of owned restaurant net revenues. Owned restaurant operating expenses include the following:

- Payroll and related expenses. Payroll and related expenses consist of manager salaries, hourly staff payroll and other payroll-related items, including taxes and fringe benefits. We measure our labor cost efficiency by tracking total labor costs as a percentage of owned restaurant net revenues.
- Occupancy. Occupancy comprises all occupancy costs, consisting of both fixed and variable portions of rent, deferred rent expense, which is a non-cash adjustment included in our Adjusted EBITDA calculation as defined below, common area maintenance charges, real estate property taxes, utilities and other related occupancy costs and is measured by considering both the fixed and variable components of certain occupancy expenses.
- Direct operating expenses. Direct operating expenses consist of supplies, such as paper, smallwares, china, silverware and glassware, cleaning supplies and laundry, credit card fees and linen costs. Direct operating expenses are typically measured as a variable expense based on owned restaurant net revenues.
- Outside services. Outside services include music and entertainment costs, such as the use of live DJ's, promoter costs, security services, outside cleaning services and commissions paid to event staff for banquet sales.
- Repairs and maintenance. Repairs and maintenance consists of general repair work to maintain our facilities, and computer maintenance contracts. We expect these costs to increase at each facility as they get older.
- Marketing. Marketing includes the cost of promoting our brands and, at times, can include the cost of goods used specifically for complementary purposes. Marketing costs will typically be higher during the first 18 months of a restaurant's operations.

General and administrative. General and administrative expenses are comprised of all corporate overhead expenses, including payroll and related benefits, stock-based compensation expense, professional fees, such as legal and accounting fees, insurance and travel expenses. Certain centrally managed general and administrative expenses are allocated specifically to restaurant locations and are reflected in owned restaurant operating expenses and include shared services such as reservations, events and marketing. We expect general and administrative expenses to be leveraged as we grow, become more efficient, and continue to focus on best practices and cost savings measures.

Depreciation and amortization. Depreciation and amortization expense consists principally of charges related to the depreciation of fixed assets including leasehold improvements, equipment and furniture and fixtures and the amortization of the intangible assets related to the Kona Grill tradename.

Pre-opening expenses. Pre-opening expenses consist of costs incurred prior to opening an owned or managed STK restaurant at either a leased or F&B location. Pre-opening expenses are comprised principally of manager salaries and relocation costs, employee payroll, training costs for new employees and lease costs incurred prior to opening. We expect minimal pre-opening costs as we focus our growth towards our capital light model. Pre-opening expenses have varied from location to location depending on a number of factors, including the proximity of our existing restaurants; the amount of rent expensed during the construction and in-restaurant training periods; the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; the timing of the restaurant opening; and the extent of unexpected delays, if any, in obtaining necessary licenses and permits to open the restaurant.

Other Items

EBITDA and Adjusted EBITDA. EBITDA and Adjusted EBITDA are presented in this Annual Report on Form 10-K and are supplemental measures of financial performance that are not required by, or presented in accordance with, accounting principles generally accepted in the United States of America ("GAAP"). We define EBITDA as net income before interest expense, provision for income taxes and depreciation and amortization. We define Adjusted EBITDA as net income before interest expense, provision for income taxes, depreciation and amortization, non-cash impairment loss, non-cash rent expense, pre-opening expenses, lease termination expenses, non-recurring gains and losses, stock-based compensation, COVID-19 related expenses and results from discontinued operations. Not all of the aforementioned items defining Adjusted EBITDA occur in each reporting period but have been included in our definitions of these terms based on our historical activity.

We believe that EBITDA and Adjusted EBITDA are appropriate measures of our operating performance, because they eliminate non-cash expenses that do not reflect our underlying business performance. We use these metrics to facilitate a comparison of our operating performance on a consistent basis from period to period, to analyze the factors and trends affecting our business and to evaluate the performance of our restaurants. Adjusted EBITDA has limitations as an analytical tool and our calculation of Adjusted EBITDA may not be comparable to that reported by other companies; accordingly, you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Adjusted EBITDA is a key measure used by management. Additionally, Adjusted EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use Adjusted EBITDA, alongside other GAAP measures such as net income, to measure profitability, as a key profitability target in our budgets, and to compare our performance against that of peer companies despite possible differences in calculation.

Please refer to table on page 32 for our reconciliation of net income to EBITDA and Adjusted EBITDA.

Results of Operations

The following table sets forth certain statements of operations data for the periods indicated (in thousands):

	For the year ended December 31,	
	2020	2019
Revenues:		
Owned restaurant net revenue	\$ 136,618	\$ 108,775
Management, license and incentive fee revenue	5,325	11,906
Total revenues	<u>141,943</u>	<u>120,681</u>
Cost and expenses:		
Owned operating expenses:		
Owned restaurant cost of sales	34,024	28,005
Owned restaurant operating expenses	87,042	67,883
Total owned operating expenses	<u>121,066</u>	<u>95,888</u>
General and administrative (including stock-based compensation of \$1,773 and \$1,306 for the years ended December 31, 2020 and 2019 respectively)	13,922	11,472
Depreciation and amortization	10,114	5,404
COVID-19 related expenses	5,492	—
Transaction costs	1,109	2,513
Lease termination expenses	3,315	573
Agreement restructuring expenses	452	—
Pre-opening expenses	178	565
Bargain purchase gain	—	(10,963)
Loss on impairment of investments	—	2,684
Other income, net	(11)	(246)
Total costs and expenses	<u>155,637</u>	<u>107,890</u>
Operating (loss) income	<u>(13,694)</u>	<u>12,791</u>
Other expenses, net:		
Interest expense, net of interest income	5,329	1,954
Loss on early debt extinguishment	—	858
Total other expenses, net	<u>5,329</u>	<u>2,812</u>
(Loss) income before benefit for income taxes	(19,023)	9,979
Benefit for income taxes	(5,400)	(11,154)
Net (loss) income	<u>(13,623)</u>	<u>21,133</u>
Less: net (loss) income attributable to noncontrolling interest	(798)	302
Net (loss) income attributable to The ONE Group Hospitality, Inc.	<u>\$ (12,825)</u>	<u>\$ 20,831</u>

The following table sets forth certain statements of operations data as a percentage of total revenues for the periods indicated. Certain percentage amounts may not sum to total due to rounding.

	For the year ended December 31,	
	2020	2019
Revenues:		
Owned restaurant net revenue	96.2 %	90.1 %
Management, license and incentive fee revenue	3.8 %	9.9 %
Total revenues	100.0 %	100.0 %
Cost and expenses:		
Owned operating expenses:		
Owned restaurant cost of sales ⁽¹⁾	24.9 %	25.7 %
Owned restaurant operating expenses ⁽¹⁾	63.7 %	62.5 %
Total owned operating expenses ⁽¹⁾	88.6 %	88.2 %
General and administrative (including stock-based compensation of 1.2% and 1.1% for the years ended December 31, 2020 and 2019 respectively)	9.8 %	9.5 %
Depreciation and amortization	7.1 %	4.5 %
COVID-19 related expenses	3.9 %	—%
Transaction costs	0.8 %	2.1 %
Lease termination expenses	2.3 %	0.5 %
Agreement restructuring expenses	0.3 %	—%
Pre-opening expenses	0.1 %	0.5 %
Bargain purchase gain	—%	(9.1)%
Loss on impairment of investments	—%	2.2 %
Other income, net	—%	(0.2)%
Total costs and expenses	109.6 %	89.4 %
Operating (loss) income	(9.6)%	10.6 %
Other expenses, net:		
Interest expense, net of interest income	3.8 %	1.6 %
Loss on early debt extinguishment	—%	0.7 %
Total other expenses, net	3.8 %	2.3 %
(Loss) income before benefit for income taxes	(13.4)%	8.3 %
Benefit for income taxes	(3.8)%	(9.2)%
Net (loss) income	(9.6)%	17.5 %
Less: net (loss) income attributable to noncontrolling interest	(0.6)%	0.3 %
Net (loss) income attributable to The ONE Group Hospitality, Inc.	(9.0)%	17.3 %

(1) These expenses are being shown as a percentage of owned restaurant net revenue.

The following table presents a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods indicated (in thousands):

	For the year ended December 31,	
	2020	2019
Net (loss) income attributable to The ONE Group Hospitality, Inc.	\$ (12,825)	\$ 20,831
Net (loss) income attributable to noncontrolling interest	(798)	302
Net (loss) income	(13,623)	21,133
Interest expense, net of interest income	5,329	1,954
Benefit for income taxes	(5,400)	(11,154)
Depreciation and amortization	10,114	5,404
EBITDA	(3,580)	17,337
COVID-19 related expenses	5,492	—
Transaction and integration costs ⁽¹⁾	1,109	2,513
Stock-based compensation	1,773	1,306
Lease termination expense ⁽²⁾	3,315	573
Agreement restructuring expense	452	—
Pre-opening expenses	178	565
Non-cash rent expense ⁽³⁾	300	61
Bargain purchase gain	—	(10,963)
Loss on impairment of investments	—	2,684
Loss on debt extinguishment	—	858
Adjusted EBITDA	9,039	14,934
Adjusted EBITDA attributable to noncontrolling interest	(517)	646
Adjusted EBITDA attributable to The ONE Group Hospitality, Inc.	<u>\$ 9,556</u>	<u>\$ 14,288</u>

(1) Primarily transaction costs incurred with the Kona Grill acquisition and subsequent integration activities and internal costs associated with capital raising activities, most recently the Bank of America Credit Agreement, the Goldman Sachs Credit Agreement, and costs associated with the preparation of the Form S-8.

(2) Lease termination expense are costs associated with closed, abandoned and disputed locations or leases.

(3) Non-cash rent expense is included in owned restaurant operating expenses and general and administrative expense on the consolidated statements of income and comprehensive income.

The following tables show our operating results by segment for the periods indicated (in thousands). Prior year amounts have been revised to conform to the current year segment presentation.

	STK	Kona Grill	ONE Hospitality	Corporate	Total
For the year ended December 31, 2020					
Total revenues	\$ 60,932	\$ 78,591	\$ 1,197	\$ 1,223	\$ 141,943
Operating income (loss) ⁽¹⁾	6,523	3,356	(517)	(23,056)	(13,694)
Capital asset additions	\$ 2,734	\$ 1,952	\$ 206	\$ 895	\$ 5,787
As of December 31, 2020					
Total assets	\$ 81,431	\$ 96,262	\$ 5,484	\$ 32,392	\$ 215,569
For the year ended December 31, 2019					
Total revenues	\$ 89,857	\$ 23,741	\$ 5,964	\$ 1,119	\$ 120,681
Operating income (loss) ⁽²⁾	15,242	1,511	1,726	(5,688)	12,791
Capital asset additions	\$ 3,330	\$ 195	\$ 40	\$ 792	\$ 4,357
As of December 31, 2019					
Total assets	\$ 82,691	\$ 93,829	\$ 8,252	\$ 21,813	\$ 206,585

(1) Operating loss for the Corporate segment for the year ended December 31, 2020 includes \$5.5 million in COVID-19 related expenses.

(2) Operating loss for the Corporate segment for the year ended December 31, 2019 includes \$11.0 million bargain purchase gain from the Kona Grill acquisition.

Results of Operations for the Years Ended December 31, 2020 and December 31, 2019

Revenues

Owned restaurant net revenue. Owned restaurant net revenue increased \$27.8 million, or 25.6%, to \$136.6 million for the year ended December 31, 2020 from \$108.8 million for the year ended December 31, 2019. Approximately \$78.6 million of the total revenue was attributable to the Kona Grill restaurants in the year ended December 31, 2020 compared to \$23.7 million in the fourth quarter of 2019. The increase was partially offset by temporary closures and limited in-person seating as a result of state and local mandates related to the COVID-19 pandemic. Same store sales decreased 27.9% in the year ended December 31, 2020.

Management, license and incentive fee revenue. Management and license fee revenues decreased \$6.6 million, or 55.3%, to \$5.3 million for the year ended December 31, 2020 from \$11.9 million for the year ended December 31, 2019. Management and license fee revenues decreased primarily as a result of temporary closures and limited in-person seating at our managed and licensed locations due to COVID-19 prevention measures.

Cost and Expenses

Owned restaurant cost of sales. Food and beverage costs for owned restaurants increased approximately \$6.0 million, or 21.5%, to \$34.0 million for the year ended December 31, 2020 from \$28.0 million for the year ended December 31, 2019. Approximately \$12.7 million of the increase in owned restaurant cost of sales was attributable to a full year of operations for Kona Grill restaurants in the year ended December 31, 2020 compared to a partial period in 2019. The increase in owned restaurant cost of sales is partially offset by the temporary closures and limited operations of our restaurants beginning in March 2020 as a result of COVID-19. As a percentage of revenues, cost of sales decreased 80 basis points to 24.9% for the year ended December 31, 2020 from 25.7% for the year ended December 31, 2019.

Owned restaurant operating expenses. Owned restaurant operating expenses increased \$19.2 million, or 28.2%, to \$87.0 million for the year ended December 31, 2020 from \$67.9 million for the year ended December 31, 2019. Approximately \$36.6 million of the increase in owned restaurant operating expense was attributable to a full year of operations for Kona Grill in the year ended December 31, 2020 compared to a partial period in 2019. Beginning in March 2020, we reduced operating costs due to the business impact of COVID-19. As restaurant sale volumes increase with the resumption of in-person dining, restaurant operating costs are expected to increase.

General and administrative. General and administrative costs increased \$2.5 million, or 21.4% to \$13.9 million for the year ended December 31, 2020 from \$11.5 million for the year ended December 31, 2019. As percentage of revenues, general and administrative costs were 9.8% in 2020 compared to 9.5% in 2019. We expect to leverage our general and administrative costs with the acquisition of Kona Grill along with implementing measures to reduce our costs while our operations are affected by COVID-19.

Depreciation and amortization. Depreciation and amortization expense increased approximately \$4.7 million to \$10.1 million for the year ended December 31, 2020 from \$5.4 million for the year ended December 31, 2019. The increase was primarily related to a full year of depreciation and amortization for the 24 Kona Grill restaurants acquired in the fourth quarter of 2019 and the opening of our owned STK restaurant in Nashville, Tennessee in March 2019.

Transaction and integration costs. In the year ended December 31, 2020 and 2019, we incurred transaction and integration costs of \$1.1 million and \$2.5 million, respectively, related to the Kona Grill acquisition and costs associated with capital raising activities.

Lease termination expenses. Lease termination expense was approximately \$3.3 million and \$0.6 million in the years ended December 31, 2020 and 2019, respectively. Lease termination expenses are costs associated with closed, abandoned and disputed locations or disputed leases. In 2020, we accrued approximately \$2.7 million for lease exit costs for restaurants never built and still under dispute with landlords.

Agreement restructuring. Agreement restructuring expense for the year ended December 31, 2020 was \$0.5 million, related to the restructuring of agreements with our management and license partners.

COVID-19 related expenses. COVID-19 related expenses were \$5.5 million during the year ended December 31, 2020 composed primarily of sanitation, supplies and safety precautions taken to prevent the spread of COVID-19 and payments to employees for paid time off during restaurant closures.

Pre-opening expenses. Pre-opening expenses for the year ended December 31, 2020 were \$0.2 million, related to our upcoming STK Bellevue restaurant. Pre-opening expenses for the year ended December 31, 2019 were \$0.6 million related to the development of our owned STK restaurant in Nashville, Tennessee which opened in March 2019.

Bargain purchase gain. On October 4, 2019, we acquired substantially all of the assets of Kona Grill for a contractual price of \$25.0 million plus approximately \$1.5 million of consideration paid primarily for the apportionment of rent and utilities. We acquired approximately \$37.5 million of assets, including \$7.7 million in current liabilities, which resulted in a bargain purchase gain of approximately \$11.0 million.

Loss on impairment of investments. On December 31, 2019, we determined that, because of the short term remaining on the lease (November 2020) and current market conditions, we were unable to recover the carrying amount of the investments in Bagatelle Investors and Bagatelle NY. As a result, we recorded a non-cash write down of \$2.7 million related to our investments for the year ended December 31, 2019. Upon expiration of the lease in November 2020, we exited our contract with Bagatelle. Refer to Note 9 of our consolidated financial statements for further information on our nonconsolidated investments

Interest expense, net of interest income. Interest expense, net of interest income was approximately \$5.3 million and \$2.0 million for the years ended December 31, 2020 and 2019, respectively.

Loss on early debt extinguishment. On May 15, 2019, we entered into a credit agreement with Bank of America, N.A. (“Bank of America Credit Agreement”) and incurred approximately \$0.4 million of debt issuance costs. In conjunction with entering into the Bank of America Credit Agreement, we prepaid the outstanding debt balances to early extinguish the \$2.6 million of outstanding term loans with BankUnited, the \$5.3 million of outstanding promissory notes with Anson Investments Master Fund LP, and the \$1.0 million outstanding promissory note with 2235570 Ontario Limited. As a result, we recognized a \$0.4 million loss on early debt extinguishment primarily caused by the recognition of the unamortized discounts related to warrants issued with the promissory notes and the recognition of unamortized debt issuance costs related to the debt extinguished. The Bank of America Credit Agreement was replaced with the Goldman Sachs credit agreement on October 4, 2019 in conjunction with the Kona Grill acquisition. As a result, the unamortized debt issuance costs of \$0.4 million was recognized as a loss on early debt extinguishment.

Benefit for income taxes. The benefit for income taxes for the year ended December 31, 2020 was \$5.4 million compared to a benefit for income taxes of \$11.2 million for the year ended December 31, 2019. Our effective tax rate was 28.4% and (111.8)% for the years ended December 31, 2020 and 2019, respectively. Our effective tax rate differs from the statutory U.S. tax rate of 21% primarily due to the following: (i) tax credits for FICA taxes on certain employees’ tips (ii) taxes owed in foreign jurisdictions such as the United Kingdom, Canada and Italy; and, (iii) taxes owed in state and local jurisdictions. The CARES Act includes provisions allowing for the carryback of net operating losses generated for specific periods and technical amendments regarding the expensing of qualified improvement property. The CARES Act also allows for the deferral of the employer-paid portion of social security taxes, which the Company has elected to defer.

Net (loss) income attributable to noncontrolling interest. Net loss attributable to noncontrolling interest increased by \$1.1 million to (\$0.8) million for the year ended December 31, 2020 compared to income of \$0.3 million for the year ended December 31, 2019.

Liquidity and Capital Resources

Executive Summary

Our principal liquidity requirements are to meet our lease obligations, our working capital and capital expenditure needs and to pay principal and interest on our outstanding indebtedness. Subject to our operating performance, which, if significantly adversely affected, would adversely affect the availability of funds, we expect to finance our operations for at least the next 12 months, including the costs of opening currently planned new restaurants, through cash provided by operations and construction allowances provided by landlords of certain locations. We believe the combination of the aforementioned items are adequate to support our immediate business operations and plans.

As of December 31, 2020, we had cash and cash equivalents of approximately \$24.4 million. We had \$47.5 million in long-term debt, which consisted of our Credit Agreement and an equipment financing agreement, and \$18.3 million in CARES Act Loans as of December 31, 2020. As of December 31, 2020, the availability on our revolving credit facility was \$10.7 million, subject to the restrictions described in Note 8.

In the year ended December 31, 2020, our capital expenditures were \$5.8 million which were primarily used to fund capital expenditures at our existing restaurants and construction of STK Bellevue. Our future cash requirements will depend on many factors, including the pace of expansion, conditions in the retail property development market, construction costs, the nature of the specific sites selected for new restaurants, and the nature of the specific leases and associated tenant improvement allowances available, if any, as negotiated with landlords. Additionally, under our current capital light strategy, we plan to primarily enter into management and license agreements for the operation of future STK restaurants where we are not required to contribute significant capital upfront.

Our operations have not required significant working capital, and, like many restaurant companies, we may have negative working capital during the year. Revenues are received primarily in credit card or cash receipts, and restaurant operations do not require significant receivables or inventories, other than our wine inventory. In addition, we receive trade credit for the purchase of food, beverages and supplies, thereby reducing the need for incremental working capital to support growth.

In the event the Company needs to temporarily suspend all operations due to COVID-19 restrictions, the ongoing operating costs per month are expected to be as follows:

Minimum rent	\$	1,200
Insurance		200
Interest		400
Minimum general & administrative costs		500
Total	\$	<u>2,300</u>

Credit Agreement

On October 4, 2019, in conjunction with the acquisition of Kona Grill, we entered into the Credit Agreement, which replaced the credit agreement with Bank of America and provides for a secured revolving credit facility of \$12.0 million and a \$48.0 million term loan. The term loan is payable in quarterly installments, with the final payment due in October 2024. The revolving credit facility also matures in October 2024.

On May 4, 2020, Goldman Sachs Bank USA (“GSB”), as administrative agent, collateral agent and lead arranger under the Credit Agreement, (1) consented to the CARES Act Loans described below and (2) agreed that the amount of the CARES Act Loans will not be counted toward the permitted amount of Consolidated Total Debt, as defined under the Credit Agreement, to the extent the amounts are retained as cash during the term of the CARES Act Loans in a segregated deposit account or used for purposes that are forgivable under the CARES Act, provided that the proceeds of the CARES Act Loans must be used only for “allowable uses” under the CARES Act (with at least 75% of the utilized proceeds to be used for purposes that result in the CARES Act Loans being eligible for forgiveness) or used for the repayment of the CARES Act Loans.

On May 8, 2020 and August 10, 2020, we amended the Credit Agreement with GSB to:

- Eliminate testing of the fixed charge coverage ratio for the balance of 2020 and 2021;
- For the purpose of testing, replace maximum “Leverage Ratio” with maximum “Net Leverage Ratio”. The maximum Net Leverage Ratio is (i) 2.85 to 1.00 as of the fiscal quarter ending September 30, 2020, (ii) 3.60 to 1.00 as of the fiscal quarter ending December 31, 2020, (iii) 3.10 to 1.00 as of the fiscal quarter ending March 31, 2021, (iv) 2.10 to 1.00 as of the fiscal quarters ending June 30, 2021 and September 30, 2021, and (v) 1.90 to 1.00 as of the fiscal quarter ending December 31, 2021;
- Reduce the maximum consolidated capital expenditures to \$7,000,000 for 2020 and \$7,000,000 for 2021; and
- Require minimum “Consolidated Liquidity” of not less than \$4,000,000 for the balance of 2020 and 2021 (from \$1,500,000 for 2021).

As of December 31, 2020, we were compliant with the covenants required by the Credit Agreement. Based on current projections, we believe that we would continue to comply with the covenants in the Credit Agreement, as amended, throughout the twelve months following the issuance of the financial statements. Additionally, our consolidated adjusted EBITDA as defined by the Credit Agreement for determining covenant compliance includes pro forma adjustments for the annualization of the Kona Grill restaurant performance which includes results before the acquisition date.

See contractual obligations below and Note 8 and Note 19 to our consolidated financial statements for further information on our long-term debt and commitments and contingencies.

CARES Act Loans

On May 4, 2020, two subsidiaries of the Company obtained CARES Act Loans from BBVA USA under the Paycheck Protection Program (“PPP”) created by the CARES Act. Repayment of the CARES Act Loans is guaranteed by the SBA. The ONE Group, LLC received a loan of \$9.8 million related to the operations of STK restaurants, and Kona Grill Acquisition, LLC received a loan of \$8.5 million related to the operation of Kona Grill restaurants.

The CARES Act Loans are scheduled to mature on April 28, 2022 and have a 1.00% interest rate and are subject to the terms and conditions applicable to PPP loans. Among other terms, BBVA USA may declare a default of the CARES Act Loans if the SBA disputes the validity of the guaranty of indebtedness, if a material adverse change occurs in our financial condition, or if BBVA USA believes the prospect of repayment of the CARES Act Loans or performance of obligations under the promissory notes is impaired. On an event of default, BBVA USA may declare principal and unpaid interest immediately due and payable, and it may charge default interest of 10%.

The CARES Act Loans are eligible for forgiveness if the proceeds are used for qualified purposes within a specified period and if at least 60% is spent on payroll costs. As of December 31, 2020, the Company has used all of the proceeds from the CARES Act Loans for qualified purposes in accordance with the CARES Act and SBA regulations, and these funds have supported the re-opening of in person dining and the return of approximately 3,000 furloughed employees to work. The Company applied for forgiveness of the CARES Act Loans in February 2021. The Company anticipates forgiveness of the entire amount of the CARES Act Loans; however, no assurance can be provided that the Company will obtain forgiveness of the CARES Act loans in whole or in part. Therefore, the Company has elected to classify the entire principal amount of the CARES Act Loans as debt on the consolidated balance sheet as of December 31, 2020.

Capital Expenditures and Lease Arrangements

To the extent we open new company-owned restaurants, we anticipate capital expenditures would increase related to the construction of new restaurants compared to general capital expenditures of existing restaurants. Although we are committed to our capital light strategy, in which our capital investment is expected to be limited, we are willing to consider opening owned restaurants as opportunities arise. For owned restaurants, we have typically targeted an average cash investment of approximately \$3.8 million for a 10,000 square-foot STK restaurant, net of landlord contributions and

equipment financing and excluding pre-opening costs. For locations where we may be the successor restaurant tenant, and currently our preference, total cash investment will be significantly less and in the \$1.0 million to \$1.5 million range. Typical pre-opening costs will be in the \$0.3 million to \$0.5 million range. In addition, some of our existing restaurants will require capital improvements to either maintain or improve the facilities. We may add seating or provide enclosures for outdoor space in the next twelve months for some of our locations, which we expect will increase revenues for those locations. As we continue to navigate the impact of the COVID-19 pandemic, the Company will evaluate the timing of opening new locations.

Our hospitality F&B services projects typically require limited capital investment from us. Capital expenditures for these projects will primarily be funded by cash flows from operations and equipment financing, depending upon the timing of these expenditures and cash availability.

We typically seek to lease our restaurant locations for periods of 10 to 20 years under operating lease arrangements, with a limited number of renewal options. Our rent structure varies, but our leases generally provide for the payment of both minimum and contingent rent based on sales, as well as other expenses related to the leases such as our pro-rata share of common area maintenance, property tax and insurance expenses. Many of our lease arrangements include the opportunity to secure tenant improvement allowances to partially offset the cost of developing and opening the related restaurants. Generally, landlords recover the cost of such allowances from increased minimum rents. However, there can be no assurance that such allowances will be available to us on each project that we select for development.

Cash Flows

The following table summarizes the statement of cash flows for the fiscal years ended December 31, 2020 and December 31, 2019 (in thousands):

	For the year ended December 31,	
	2020	2019
Net cash provided by (used in):		
Operating activities	\$ 431	\$ 8,360
Investing activities	(5,787)	(30,397)
Financing activities	17,424	33,121
Effect of exchange rate changes on cash	(27)	(332)
Net increase in cash and cash equivalents	<u>\$ 12,041</u>	<u>\$ 10,752</u>

Operating Activities. Net cash provided by operating activities was \$0.4 million for the year ended December 31, 2020 compared to \$8.4 million for the year ended December 31, 2019. The decrease was primarily attributable to the net loss for the year ended December, 31 2020 as a result of the temporary closure and limited seating capacity at our restaurants due to the COVID-19 pandemic; including \$5.5 million in costs directly attributable to COVID-19, and \$1.1 million in transaction and integration expenses related to the Kona Grill acquisition.

Investing Activities. Net cash used in investing activities for the year ended December 31, 2020 was \$5.8 million compared to \$30.4 million for the year ended December 31, 2019. Approximately \$26.0 million of the net cash used in investing activities in 2019 related to Kona Grill acquisition related payments, net of cash acquired. The remaining net cash used in investing activities in 2020 and in 2019 was primarily related to the construction of new restaurants and general capital expenditures of existing restaurants.

Financing Activities. Net cash provided by financing activities was \$17.4 million for the year ended December 31, 2020 as compared to \$33.1 million for the year ended December 31, 2019. In May of 2020, we received \$18.3 million in proceeds from the CARES Act Loans. In 2019, we received proceeds from the Goldman Sachs credit agreement and Bank of America Credit Agreement of \$50.0 million and \$14.8 million, respectively and we made principal payments of approximately \$28.5 million towards our long-term debt, which included \$22.5 million of early debt extinguishment payments.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2020 (in thousands):

	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations	\$ 47,508	\$ 588	\$ 960	\$ 45,960	\$ —
Expected interest payments ⁽¹⁾	15,013	4,061	7,994	2,958	—
Standby letters of credit	337	90	179	68	—
Operating leases	177,723	13,276	26,760	24,820	112,867
Total	\$ 240,581	\$ 18,015	\$ 35,893	\$ 73,806	\$ 112,867

(1) Represents estimated future cash interest payments based on borrowings outstanding as of December 31, 2020 at the expected interest rate over the period outstanding.

Recent Accounting Pronouncements

Refer to Note 2 of our consolidated financial statements for a detailed description of recent accounting pronouncements.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, net sales and operating expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and various assumptions that we believe to be reasonable under the circumstances and we evaluate these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies require us to make difficult, subjective or complex judgements that could have a material impact on our financial statements.

Our significant accounting policies are discussed in Note 2 to our consolidated financial statements.

Business Combinations

On October 4, 2019, we acquired substantially all the assets of Kona Grill, which was accounted for using the acquisition method of accounting prescribed by Accounting Standard Codification Topic 805, Business Combinations. Acquired assets and assumed liabilities were assigned fair values based on widely accepted valuation techniques, in accordance with Accounting Standard Codification Topic 820, Fair Value Measurements. The process for estimating fair values in many cases requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount rates. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.

Income Taxes

We recognized deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the respective tax bases of our assets and liabilities. Deferred tax assets and liabilities are measured using current enacted rates expected to apply to taxable income in the years in which we expect the temporary differences to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that some portion of the tax benefit will not be realized.

In addition, our income tax returns are periodically audited by federal, state and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions taken and the allocation of income amongst various tax jurisdictions. We evaluate our exposures associated with our various tax filing

positions and record a related liability. We adjust our liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax provision is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

As of December 31, 2019, we released approximately \$10.3 million of the valuation allowance based on an assessment of the realizability of our deferred tax assets. As of December 31, 2020, the remaining valuation allowance of \$0.3 million relates to foreign tax credits we do not expect to utilize as a result of generating income in a jurisdiction with a higher income tax rate than the U.S. The recording of deferred taxes requires significant management judgment regarding the interpretation of applicable statutes, the status of various income tax audits, and our particular facts and circumstances.

Our taxes are impacted by the enactment of the Tax Cuts and Job Act in December 2017 (the “TCJA”), which, amongst other things, enacted global intangible low-taxed income (“GILTI”) which does not allow us to defer the earnings of our U.K. and Italy subsidiaries.

Impairment of Long-Lived Assets and Disposal of Property and Equipment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be fully recoverable. The impairment evaluation is generally performed at the individual venue asset group level, as we believe this is the lowest level of identifiable cash flows. We believe that historical cash flows, in addition to other relevant facts and circumstances, are the primary basis for estimating future cash flows. Relevant facts and circumstances include, among others, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for the overall business, and significant negative industry or economic trends. Recoverability of restaurant assets is measured by a comparison of the carrying amount of an individual restaurant’s assets to the estimated identifiable undiscounted future cash flows expected to be generated by those restaurant assets. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. If the carrying amount of an individual restaurant’s assets exceeds its estimated, identifiable, undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds its fair value. Fair value is determined by discounting a restaurant’s identifiable future cash flows.

From time to time, we have decided to close or dispose of restaurants. Typically, such decisions are made based on operating performance or strategic considerations and must be made before the actual costs or proceeds of disposition are known, and management must make estimates of these outcomes. Such outcomes could include the sale of a leasehold, mitigating costs through a tenant or subtenant, or negotiating a buyout of a remaining lease term. In these instances, management evaluates possible outcomes, frequently using outside real estate and legal advice, and records provisions for the effect of such outcomes. The accuracy of such provisions can vary materially from original estimates, and management regularly monitors the adequacy of the provisions until final disposition occurs.

For the years ended December 31, 2020 and 2019, we did not identify any event or changes in circumstances that indicated that the carrying values of our restaurant assets were impaired.

Leases

Contracts are evaluated to determine whether they contain a lease at inception, and leases are classified as either operating or financing. For operating leases, we have recognized a lease liability equal to the present value of the remaining lease payments, and a right of use asset equal to the lease liability, subject to certain adjustments, such as prepaid rents, initial direct costs and lease incentives received from the lessor. For leases that do not have a rate implicit in the lease, we used our incremental borrowing rate to determine the present value of the lease payments. Our incremental borrowing rate is the rate of interest that we would have to borrow on a collateralized basis over a similar term on an amount equal to the lease payments in a similar economic environment.

The lease term at the lease commencement date is determined based on the non-cancellable period for which we have the right to use the underlying asset, together with any periods covered by an option to extend the lease if we are reasonably certain to exercise that option, periods covered by an option to terminate the lease if we are reasonably

certain not to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor.

Certain of our leases also provide for percentage rent, which are variable lease costs determined as a percentage of gross sales in excess of specified, minimum sales targets. These percentage rents are recognized as rent expense prior to the achievement of the specified sales target provided achievement of the sales target is considered probable.

We currently lease all of our restaurant locations under leases classified as operating leases. Management makes judgments regarding the probable term for each lease and considers a number of factors to evaluate whether renewal options in the lease contracts are reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties. The lease term can impact the lease classification and accounting for a lease as either an operating or financing lease, the incremental borrowing, the rent holidays and/or escalations in payments that are taken into consideration when calculating the rent expense and the related lease liability and right-of-use asset, and the term over which leasehold improvements for each restaurant are depreciated. These judgments may produce materially different amounts of depreciation, amortization and rent expense and materially different lease liabilities and right-of-use assets than would be reported if different assumed lease terms were used.

Stock-Based Compensation

We used the Black-Scholes model to estimate the fair value of our option awards. The Black-Scholes model requires estimates of the expected term of the option, the risk-free interest rate, future volatility and dividend yield. The Company's assumptions are as follows:

- *Expected Term.* The expected term of options is based upon evaluations of historical and expected future exercise behavior with consideration of both the vesting period and contractual terms of the instruments.
- *Risk Free Interest Rate.* The risk-free interest rate is based on U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected term at the grant date.
- *Implied Volatility.* Implied volatility is based upon an average of the volatilities of an industry peer group who are publicly traded.
- *Dividend Yield.* The Company has historically not paid dividends and does not plan to do so in the foreseeable future.

There is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may differ from the actual values realized upon the exercise, expiration, early termination or forfeiture of those share-based payments in the future. Certain share-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. Although the fair value of our share-based awards is determined in accordance with GAAP, the value calculated may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

We are subject to foreign currency exchange risk for our restaurants operating in the United Kingdom, Italy, Canada, Mexico and the Middle East. If foreign currency exchange rates depreciate in these countries or regions, or any other country or region in which we may operate in the future, we may experience declines in our international operating results but such exposure would not be material to the consolidated financial statements. We currently do not use financial instruments to hedge foreign currency exchange rate changes.

Commodity Price Risk

We are exposed to market price fluctuations in beef, seafood, produce and other food product prices. Given the historical volatility of beef, seafood, produce and other food product prices, these fluctuations can materially impact our food and beverage costs. While we have taken steps to qualify multiple suppliers who meet our standards as suppliers for our restaurants and enter into agreements with suppliers for some of the commodities used in our restaurant operations, we do not enter into long-term agreements for the purchase of such supplies. There can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control and we may be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. Because we typically set our menu prices in advance of our food product prices, our menu prices cannot immediately take into account the changing costs of food items. To the extent that we are unable to pass the increased costs on to our customers through price increases, our results of operations would be adversely affected. We do not use financial instruments to hedge our risk to market price fluctuations in beef, seafood, produce and other food product prices at this time.

Inflation

Over the past several years, inflation has not significantly affected our operations. However, the impact of inflation on labor, food and occupancy costs could, in the future, significantly affect our operations. We pay many of our employees hourly rates related to the applicable federal or state minimum wage. Food costs as a percentage of revenues have been somewhat stable due to procurement efficiencies and menu price adjustments, although no assurance can be made that our procurement will continue to be efficient or that we will be able to raise menu prices in the future. Costs for construction, taxes, repairs, maintenance and insurance all impact our occupancy costs. We believe that our current strategy, which is to seek to maintain operating margins through a combination of menu price increases, cost controls, careful evaluation of property and equipment needs, and efficient purchasing practices, has been an effective tool for dealing with inflation. There can be no assurance, however, that future inflationary or other cost pressure will be effectively offset by this strategy.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements required by this Item are set forth in Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We are required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as our controls are designed to do, and management necessarily applies its judgment in evaluating the risk and cost benefit relationship related to controls and procedures.

In connection with the preparation of this Annual Report on Form 10-K, as of December 31, 2020, an evaluation was performed under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation and as described below under “Management’s Assessment on Internal

Control Over Financial Reporting,” we have concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Management’s Assessment of Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and Board regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations (the “COSO”) of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on this assessment, our CEO and CFO concluded that our internal control over financial reporting was effective as of December 31, 2020, based on the criteria set forth by COSO in Internal Control – Integrated Framework (2013).

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is incorporated by reference from the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference from the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is incorporated by reference from the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference from the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is incorporated by reference from the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a)(1) *Financial Statements.* For the financial statements included in this annual report, see “Index to the Financial Statements” on page F-1.
- (a)(3) *Exhibits.* The list of exhibits filed as part of this Annual Report on Form 10-K is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated by reference in this Item 15(a)(3).
- (b) *Exhibits.* See Exhibit Index.
- (c) *Separate Financial Statements.* None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 19, 2021

THE ONE GROUP HOSPITALITY, INC.

By: /s/ TYLER LOY

Tyler Loy
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ EMANUEL HILARIO</u> Emanuel Hilario	Chief Executive Officer and Director (Principal Executive Officer)	March 19, 2021
<u>/s/ TYLER LOY</u> Tyler Loy	Chief Financial Officer (Principal Financial Officer)	March 19, 2021
<u>/s/ CHRISTI HING</u> Christi Hing	Chief Accounting Officer (Principal Accounting Officer)	March 19, 2021
<u>/s/ JONATHAN SEGAL</u> Jonathan Segal	Executive Chairman, Director	March 19, 2021
<u>/s/ DIMITRIOS ANGELIS</u> Dimitrios Angelis	Director	March 19, 2021
<u>/s/ EUGENE BULLIS</u> Eugene Bullis	Director	March 19, 2021
<u>/s/ MICHAEL SERRUYA</u> Michael Serruya	Director	March 19, 2021

Exhibit Index

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to Form 8-K filed on June 5, 2014).
3.2	Amended and Restated Bylaws (Incorporated by reference to Form 8-K filed on October 25, 2011).
4.1	Description of securities registered under Section 12 of the Securities Exchange Act of 1934 (Incorporated by reference to Exhibit 4.1 to Form 10-K filed on March 26, 2020).
4.2	Specimen Unit Certificate (Incorporated by reference to Amendment No. 2 to Form S-1 filed on July 22, 2011).
4.3	Specimen Common Stock Certificate (Incorporated by reference to Amendment No. 2 to Form S-1 filed on July 22, 2011).
4.4	Specimen Warrant Certificate (Incorporated by reference to Amendment No. 2 to Form S-1 filed on July 22, 2011).
4.5	Warrant Agreement, dated October 24, 2011, by and between the Registrant and Continental Stock Transfer & Trust Company (Incorporated by reference to Form 8-K filed on October 25, 2011).
4.6	Common Stock Purchase Warrant dated as of October 24, 2016 (Incorporated by reference to Form 8-K filed on October 28, 2016).
4.7	Common Stock Purchase Warrant dated as of November 15, 2017 (Incorporated by reference to Form 8-K filed on November 16, 2017).
10.1	Form of Indemnity Agreement (Incorporated by reference to Amendment No. 1 to Form S-1 filed on June 30, 2011).
10.2†	Amended and Restated Employment Agreement, dated October 30, 2017, by and between The ONE Group Hospitality, Inc. and Jonathan Segal (Incorporated by reference to Form 8-K filed on November 3, 2017).
10.3	Securities Purchase Agreement, dated November 15, 2017, among The ONE Group Hospitality, Inc. and certain investors (Incorporated by reference to Form 8-K filed on November 16, 2017).
10.4†	Form of Stock Option Grant Notice. (Incorporated by reference to Form 8-K filed on October 16, 2013).
10.5†	The One Group Hospitality, Inc. 2019 Equity Incentive Plan (Incorporated by reference to Form 8-K filed on June 4, 2019).
10.6†	Employment Agreement between Emanuel Hilario and The ONE Group Hospitality, Inc. dated September 3, 2019 (Incorporated by reference to Form 8-K filed on September 3, 2019).
10.7†	Employment Letter Agreement with Tyler Loy Effective April 1, 2019 (Incorporated by reference to Exhibit 10.7 to Form 10 -K filed on March 26, 2020).
10.8	Credit and Guaranty Agreement dated October 4, 2019 with Goldman Sachs Bank USA (Incorporated by reference to Form 8-K/A filed on October 8, 2019).
10.9	Second Amendment to Credit and Guaranty Agreement dated August 10, 2020 between The ONE Group, LLC, certain other credit parties, and Goldman Sachs Bank USA, as administrative agent for the lenders (Incorporated by reference to Form 8-K filed on August 12, 2020).
10.10	First Amendment to Credit and Guaranty Agreement dated May 8, 2020 between The ONE Group, LLC, certain other credit parties, and Goldman Sachs Bank USA, as administrative agent for the lenders (Incorporated by reference to Form 8-K filed May 8, 2020).
10.11	Promissory Note effective May 4, 2020 between Kona Grill Acquisition, LLC and BBVA USA (Incorporated by reference to Form 8-K filed May 8, 2020).
10.12	Promissory Note effective May 4, 2020 between The ONE Group, LLC and BBVA USA (Incorporated by reference to Form 8-K filed May 8, 2020).
10.13†	Form of Restricted Stock Unit Grant Notice and Agreement (Incorporated by reference to Exhibit 10.10 to Form 10 -K filed on March 26, 2020).
21.1*	List of Subsidiaries.
23.1*	Consent of Plante & Moran, PLLC
23.2*	Consent of Plante Moran, PC
31.1*	Certification of Emanuel Hilario, Chief Executive Officer, pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
31.2*	Certification of Tyler Loy, Chief Financial Officer, pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
32.1**	Certification of Emanuel Hilario, Chief Executive Officer, pursuant to Section 906 of the Sarbanes – Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2**	Certification of Tyler Loy, Chief Financial Officer, pursuant to Section 906 of the Sarbanes – Oxley Act of 2002, 18 U.S.C. Section 1350.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document

* Filed herewith.

** Furnished herewith.

† Management contract or compensatory plan or arrangement.

THE ONE GROUP HOSPITALITY, INC.

INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
The ONE Group Hospitality, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of The ONE Group Hospitality, Inc. (the “Company”) as of December 31, 2020 the related consolidated statements of operations and comprehensive (loss) income, changes in stockholders' equity, and cash flows for the year ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of Long-Lived Asset Impairment Indicators – Refer to Note 2 to the financial statements

Critical Audit Matter Description

As disclosed in the consolidated financial statements, long-lived assets including property and equipment, right-of-use assets, and the Kona tradename are tested for impairment at the asset group level, whenever events or changes in circumstances indicate that the carrying values of these assets may not be fully recoverable.

We identified the evaluation of long-lived asset impairment indicators as a critical audit matter because evaluating management's assessment of potential impairment indicators, such as a significant decrease in the market value of an asset group, a material adverse change in how an asset group is utilized, or a current period operating or cash flow loss combined with a history of operating or cash flow losses, requires a high degree of auditor judgment to evaluate and assess whether such events and circumstances indicate that the carrying amount of the asset group may not be recoverable.

How the Critical Audit Matter was Addressed in the Audit

The following are the primary procedures we performed to address this critical audit matter:

- We obtained an understanding of the Company's process to evaluate long-lived assets for impairment and related controls.
- We evaluated the Company's assessment that there were no indicators of impairment. This assessment included consideration that current year losses were not indicative of future expected results and that future results were not expected to produce continuing losses.
- We considered macroeconomic indicators such as current and projected easing of government lockdowns by key regions within the country and its effects on restaurant seating capacity and operating restrictions.

Assessment of Realizability of Deferred Tax Assets – Refer to Notes 1 and 11 of the financial statements

Critical Audit Matter Description

As discussed in the consolidated financial statements, the Company records a valuation allowance based on management's assessment of the realizability of the Company's deferred tax assets. For the year-ended December 31, 2020, the Company had deferred tax assets of \$13.2 million, with no valuation allowance.

Auditing management's assessment of recoverability of deferred tax assets in the U.S. and non-U.S. jurisdictions involved subjective estimation and complex auditor judgment in determining whether sufficient future taxable income will be generated to support the realization of the existing deferred tax assets before expiration. These judgments are significantly more difficult in light of COVID-19 and the subjectivity of government rules and regulations being applied to the restaurant industry.

How the Critical Audit Matter was Addressed in the Audit

The following are the primary procedures we performed to address this critical audit matter:

- We obtained an understanding of the Company's process and related controls to evaluate the deferred tax valuation allowance.
- We evaluated the assumptions used by the Company and its external tax advisors in evaluating historic losses and management's assumptions used to develop projections of future taxable income, and we tested the completeness and accuracy of the underlying data used in the projections.
- We evaluated the COVID-19 impact on 2020 results.
- We compared the projections of future taxable income with the actual results of prior periods (pre-COVID-19), including results from acquisitions, as well as management's consideration of current actual results and industry and economic trends, COVID-19 vaccination trends, and current and expected government restrictions on individual restaurants and duration of such impacts.

- With the assistance from our internal tax specialists, we reviewed changes in tax law to ensure they are being correctly applied to the tax provision and projections of future taxable income, including the changes embedded within COVID relief legislation.

Commitments and Contingencies – Refer to Notes 7 and 19 to the financial statements

Critical Audit Matter Description

The Company has contingent liabilities related to litigation and claims that arise in the normal course of business. The Company accrues for contingent liabilities when management determines it is probable that a liability has been incurred and the amount can be reasonably estimated.

We identified the evaluation of loss contingencies and the related disclosure as a critical audit matter because evaluating the likelihood of potential outcomes and the expected loss involves significant judgement by management. This required a high degree of auditor judgment to evaluate management’s probability assessment and estimated loss resulting from this litigation.

How the Critical Audit Matter was Addressed in the Audit

The following are the primary procedures we performed to address this critical audit matter:

- We obtained an understanding of the Company’s process to evaluate loss contingencies.
- We obtained and evaluated audit inquiry response letters from external legal counsel and discussed the progress and status of certain cases with the external general counsel.
- We obtained management’s analysis of legal proceedings and other contingencies, reviewed supporting documentation including court filings, and held discussions with management.
- Based on the audit evidence we obtained, we evaluated the reasonableness of management’s assessment regarding whether an unfavorable outcome was reasonably possible or probable and reasonably estimable, and we evaluated the reasonableness of all loss contingencies recorded.
- We evaluated the sufficiency of the Company’s disclosures related to legal proceedings and other contingencies.

/s/ Plante & Moran PLLC

We have served as the Company’s auditor since 2018.

Boulder, Colorado

March 19, 2021

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
The ONE Group Hospitality, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of The ONE Group Hospitality, Inc. (the “Company”) as of December 31, 2019, the related consolidated statements of operations and comprehensive (loss) income, changes in stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes, collectively referred to as the “financial statements”. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Plante & Moran PC

We have served as the Company's auditor since 2018.

Boulder, Colorado
March 26, 2020

THE ONE GROUP HOSPITALITY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share information)

	December 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,385	\$ 12,344
Accounts receivable	5,777	10,351
Inventory	2,490	3,058
Other current assets	1,348	1,047
Due from related parties, net	376	341
Total current assets	34,376	27,141
Property and equipment, net	67,344	70,483
Operating lease right-of-use assets	80,960	81,097
Deferred tax assets, net	13,226	7,751
Intangibles, net	16,313	17,183
Other assets	2,446	1,622
Security deposits	904	1,308
Total assets	<u>\$ 215,569</u>	<u>\$ 206,585</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,404	\$ 8,274
Accrued expenses	15,684	11,198
Deferred license revenue	207	332
Deferred gift card revenue and other	1,990	3,183
Current portion of operating lease liabilities	4,817	4,397
Current portion of CARES Act Loans	10,057	—
Current portion of long-term debt	588	749
Total current liabilities	40,747	28,133
Deferred license revenue, long-term	953	1,036
Operating lease liabilities, net of current portion	98,569	98,278
CARES Act Loans, net of current portion	8,257	—
Long-term debt, net of current portion	45,064	45,226
Total liabilities	193,590	172,673
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value, 75,000,000 shares authorized; 29,083,183 and 28,603,829 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	3	3
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	—	—
Additional paid-in capital	46,538	44,853
Accumulated deficit	(20,716)	(7,891)
Accumulated other comprehensive loss	(2,646)	(2,651)
Total stockholders' equity	23,179	34,314
Noncontrolling interests	(1,200)	(402)
Total equity	21,979	33,912
Total liabilities and equity	<u>\$ 215,569</u>	<u>\$ 206,585</u>

See notes to the consolidated financial statements.

THE ONE GROUP HOSPITALITY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(in thousands, except earnings per share and related share information)

	For the year ended December 31,	
	2020	2019
Revenues:		
Owned restaurant net revenue	\$ 136,618	\$ 108,775
Management, license and incentive fee revenue	5,325	11,906
Total revenues	<u>141,943</u>	<u>120,681</u>
Cost and expenses:		
Owned operating expenses:		
Owned restaurant cost of sales	34,024	28,005
Owned restaurant operating expenses	87,042	67,883
Total owned operating expenses	<u>121,066</u>	<u>95,888</u>
General and administrative (including stock-based compensation of \$1,773 and \$1,306 for the years ended December 31, 2020 and 2019, respectively)	13,922	11,472
Depreciation and amortization	10,114	5,404
COVID-19 related expenses	5,492	—
Transaction costs	1,109	2,513
Lease termination expenses	3,315	573
Agreement restructuring expenses	452	—
Pre-opening expenses	178	565
Bargain purchase gain	—	(10,963)
Loss on impairment of investments	—	2,684
Other income, net	(11)	(246)
Total costs and expenses	<u>155,637</u>	<u>107,890</u>
Operating (loss) income	<u>(13,694)</u>	<u>12,791</u>
Other expenses, net:		
Interest expense, net of interest income	5,329	1,954
Loss on early debt extinguishment	—	858
Total other expenses, net	<u>5,329</u>	<u>2,812</u>
(Loss) income before benefit for income taxes	(19,023)	9,979
Benefit for income taxes	(5,400)	(11,154)
Net (loss) income	<u>(13,623)</u>	<u>21,133</u>
Less: net (loss) income attributable to noncontrolling interest	(798)	302
Net (loss) income attributable to The ONE Group Hospitality, Inc.	<u>\$ (12,825)</u>	<u>\$ 20,831</u>
Currency translation gain (loss)	5	(341)
Comprehensive (loss) income attributable to The One Group Hospitality, Inc.	<u>\$ (12,820)</u>	<u>\$ 20,490</u>
Net income attributable to The ONE Group Hospitality, Inc. per share:		
Basic net (loss) income per share	\$ (0.44)	\$ 0.73
Diluted net (loss) income per share	\$ (0.44)	\$ 0.70
Shares used in computing basic earnings per share	<u>28,909,963</u>	<u>28,454,385</u>
Shares used in computing diluted earnings per share	<u>28,909,963</u>	<u>29,636,219</u>

See notes to the consolidated financial statements.

THE ONE GROUP HOSPITALITY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share information)

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Stockholders' equity	Noncontrolling interests	Total
	Shares	Par value						
Balance at December 31, 2018	28,313,017	\$ 3	\$ 43,543	\$ (28,722)	\$ (2,310)	\$ 12,514	\$ (452)	\$ 12,062
Stock-based compensation	47,469	—	1,218	—	—	1,218	—	1,218
Exercise of stock options	42,000	—	92	—	—	92	—	92
Issuance of vested restricted shares, net of tax withholding	201,343	—	—	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(252)	(252)
Loss on foreign currency translation, net	—	—	—	—	(341)	(341)	—	(341)
Net income	—	—	—	20,831	—	20,831	302	21,133
Balance at December 31, 2019	28,603,829	\$ 3	\$ 44,853	\$ (7,891)	\$ (2,651)	\$ 34,314	\$ (402)	\$ 33,912
Stock-based compensation	226,983	—	1,773	—	—	1,773	—	1,773
Exercise of stock options	18,000	—	38	—	—	38	—	38
Issuance of vested restricted shares, net of tax withholding	234,371	—	(126)	—	—	(126)	—	(126)
Gain on foreign currency translation, net	—	—	—	—	5	5	—	5
Net loss	—	—	—	(12,825)	—	(12,825)	(798)	(13,623)
Balance at December 31, 2020	<u>29,083,183</u>	<u>\$ 3</u>	<u>\$ 46,538</u>	<u>\$ (20,716)</u>	<u>\$ (2,646)</u>	<u>\$ 23,179</u>	<u>\$ (1,200)</u>	<u>\$ 21,979</u>

See notes to the consolidated financial statements.

THE ONE GROUP HOSPITALITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the year ended December 31,	
	2020	2019
Operating activities:		
Net (loss) income	\$ (13,623)	\$ 21,133
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	10,114	5,404
Stock-based compensation	1,773	1,306
Bargain purchase gain	—	(10,963)
Loss on early debt extinguishment	—	858
Amortization of discount on warrants and debt issuance costs	479	233
Deferred taxes	(5,475)	(11,757)
Loss on impairment of investments	—	2,684
Changes in operating assets and liabilities:		
Accounts receivable	4,378	(2,385)
Inventory	568	(541)
Other current assets	(301)	1,042
Due from related parties, net	(35)	(296)
Security deposits	405	767
Other assets	(826)	(440)
Accounts payable	(939)	926
Accrued expenses	4,468	(438)
Operating lease liabilities and right-of-use assets	848	589
Deferred revenue	(1,403)	238
Net cash provided by operating activities	431	8,360
Investing activities:		
Acquisition related payments, net of cash acquired	—	(26,040)
Purchase of property and equipment	(5,787)	(4,357)
Net cash used in investing activities	(5,787)	(30,397)
Financing activities:		
Proceeds from CARES Act Loans	18,314	—
Borrowings of long-term debt	—	64,750
Repayments of long-term debt	(752)	(28,517)
Debt issuance costs	(50)	(2,864)
Exercise of stock options	38	92
Tax-withholding obligation on stock based compensation	(126)	(88)
Distributions to non-controlling interests	—	(252)
Net cash provided by financing activities	17,424	33,121
Effect of exchange rate changes on cash	(27)	(332)
Net increase in cash and cash equivalents	12,041	10,752
Cash and cash equivalents, beginning of year	12,344	1,592
Cash and cash equivalents, end of year	\$ 24,385	\$ 12,344
Supplemental disclosure of cash flow data:		
Interest paid	\$ 3,925	\$ 1,743
Income taxes paid	286	467
Non-cash property and equipment additions	\$ 303	\$ 165

See notes to the consolidated financial statements

THE ONE GROUP HOSPITALITY, INC.
Notes to Consolidated Financial Statements

Note 1 – Description of Business

The ONE Group Hospitality, Inc. and its subsidiaries (collectively, the “Company”) is a global hospitality company that develops, owns and operates, manages and licenses upscale and polished casual, high-energy restaurants and lounges and provides turn-key food and beverage (“F&B”) services for hospitality venues including hotels, casinos and other high-end locations. Turn-key F&B services are food and beverage services that can be scaled, customized and implemented by the Company at a particular hospitality venue and customized for the client. The Company’s primary restaurant brands are STK, a multi-unit steakhouse concept that combines a high-energy, social atmosphere with the quality and service of a traditional upscale steakhouse, and Kona Grill, a polished casual bar-centric grill concept featuring American favorites, award-winning sushi, and specialty cocktails in a polished casual atmosphere.

As of December 31, 2020, the Company owned, operated, managed or licensed 54 venues including 20 STKs and 24 Kona Grills in major metropolitan cities in North America, Europe and the Middle East and 10 F&B venues in five hotels and casinos in the United States and Europe. In January 2021, we opened a managed STK restaurant in Scottsdale, Arizona. For those restaurants and venues that are managed or licensed, we generate management fees based on top-line revenues and incentive fee revenue based on a percentage of the location’s revenues and net profits.

On October 4, 2019, the Company acquired substantially all of the assets of Kona Grill Inc. and its affiliates (“Kona Grill”), which was composed of 24 domestic restaurants. The Company purchased the assets for a contractual price of \$25.0 million plus approximately \$1.5 million of consideration paid primarily for the apportionment of rent and utilities. The Company also assumed approximately \$7.7 million in current liabilities. The Company has integrated Kona Grill by leveraging its corporate infrastructure, hospitality business knowledge and unique Vibe Dining program, elevating the brand experience and driving improved performance. The results of operations of these restaurants are included in the Company’s consolidated financial statements from the date of acquisition.

COVID-19

The novel coronavirus (“COVID-19”) pandemic has significantly impacted the Company’s business, and public concerns about the spread of COVID-19 continue to be widespread. The Company experienced a significant reduction in guest traffic at its restaurants as a result of restrictions mandated by state and local governments and temporary closure of several restaurants and the shift in operations to provide only take-out and delivery service. Starting in May 2020, state and local governments began easing restrictions on stay-at-home orders; however, certain states have reimposed restrictions as COVID-19 cases increased during the fall of 2020. Currently, all domestic Company-owned restaurants are open for outdoor dining or in-person dining with seating capacity restrictions. Certain of the Company’s managed and licensed venues internationally are temporarily closed or on to-go/delivery only due to COVID-19. The Company has taken significant steps to adapt its business to increase sales while providing a safe environment for guests and employees.

In response to these conditions, and out of concern for its customers and partners, the Company has implemented enhanced safety measures and sanitation procedures to allow for in-person dining at its restaurants. As the Company navigates through the pandemic, it has also implemented measures to reduce its costs including the deferral of capital projects and negotiations with suppliers and landlords regarding deferral or abatement of payments.

Given the ongoing uncertainty surrounding the effects of the COVID-19 pandemic, the Company cannot reasonably predict when its restaurants will be able to return to normal dining room operations. The Company expects that its results of operations could be materially and negatively affected by COVID-19 in 2021. The Company’s resumption of normal dining operations is subject to events beyond its control, including the effectiveness of governmental efforts to halt the spread of COVID-19.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). All intercompany accounts and transactions have been eliminated in consolidation. The financial results of Kona Grill have been included in the Company’s consolidated financial statements from the date of acquisition on October 4, 2019.

The Company consolidates entities in which it has a controlling financial interest, the usual condition of which is ownership of a majority voting interest. The Company also considers for consolidation an entity in which it has certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity (“VIE”), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it.

The Company evaluates its investments for impairment whenever an event or change in circumstances occurs that may have a significant adverse impact on the fair value of the investment. If a loss in value has occurred and is deemed to be other than temporary, an impairment loss is recorded. Several factors are reviewed to determine whether a loss has occurred that is other than temporary, including the absence of an ability to recover the carrying amount of the investment, the length and extent of the fair value decline, and the financial condition and future prospects of the investee. For the year ended December 31, 2019, the Company recorded a non-cash write down of \$2.7 million related to its investments. Refer to Note 9 – Nonconsolidated Variable Interest Entities for additional information regarding the Company’s investments and related impairment.

Prior Period Reclassifications

Certain reclassifications of the 2019 amounts in the accrued expenses and segment reporting footnotes have been made to conform to the current year presentation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions for the reporting period and as of the reporting date. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingencies. Actual results could differ from those estimates.

Business Combination

On October 4, 2019, the Company acquired substantially all the assets of Kona Grill, which was accounted for using the acquisition method of accounting prescribed by Accounting Standard Codification Topic 805, Business Combinations. Acquired assets and assumed liabilities were assigned fair values based on widely accepted valuation techniques, in accordance with Accounting Standard Codification Topic 820, Fair Value Measurements. The process for estimating fair values in many cases requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount rates. Unanticipated events or circumstances may occur which could affect the accuracy of the Company’s fair value estimates, including assumptions regarding industry economic factors and business strategies.

Fair Value Measurements

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Assets and liabilities are valued based upon observable and non-observable inputs. Valuations using Level 1 inputs are based on unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date. Level 2 inputs utilize significant other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly. Valuations using Level 3

inputs are based on significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. There were no significant transfers between levels during any period presented.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and highly liquid instruments with original maturities of three months or less when purchased. The Company's cash and cash equivalents consist of cash in banks and at the restaurants as of December 31, 2020 and 2019.

Accounts Receivable

The majority of the Company's receivables arise primarily from credit cards, management agreements, trade customers and other reimbursable amounts due from hotel operators where the Company operates a food and beverage service. The Company determines an allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss and payment history, the customer's current ability to pay its obligation to the Company and the condition of the general economy and industry as a whole. The Company has not reserved any trade receivables as of December 31, 2020 and 2019.

Inventory

Inventories, which consist of food, liquor and other beverages, are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out method. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs to sell. The Company has not reserved any inventory as of December 31, 2020 and 2019.

Property and Equipment

Additions to property and equipment, including leasehold improvements, are recorded at cost. Costs incurred to repair and maintain the Company's operations and equipment are expensed as incurred. Restaurant smallwares are capitalized during the initial year of operation of a particular restaurant. All restaurant supplies purchased subsequent to the first year are expensed as incurred. When assets are retired or otherwise disposed of, the cost of the assets and the related accumulated depreciation are removed from the accounts, and any gain or loss on retirements is reflected in operating income in the year of disposition.

After the asset has been placed into service, depreciation is based on the estimated useful life of the asset using the straight-line method for financial statement purposes. Computers and equipment as well as furniture and fixtures are depreciated over their useful lives from three to ten years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or the remaining term of the associated lease. Lease terms begin on the date the Company takes possession under the lease and include option periods where failure to exercise such options would result in an economic penalty.

Other Assets

Other assets include liquor license acquisition costs and costs to fulfill obligations under the Company's management and license agreements. The gross carrying amount of the contract costs related to management and license agreements was \$0.5 million and \$0 as of December 31, 2020 and 2019, respectively. These costs are amortized on a straight-line basis over the term of the agreement.

Intangible Assets

Intangible assets consist of the "Kona Grill" trade name. The "Kona Grill" tradename is amortized using the straight-line method over its estimated useful life of 20 years. As of December 31, 2020 and 2019, the gross carrying amount of the tradename intangible was \$17.4 million. The accumulated amortization of the tradename was \$1.1 million and \$0.2 million as of December 31, 2020 and 2019, respectively, and the amortization expense was \$0.9 million and \$0.2 million for the years ending December 31, 2020 and 2019, respectively. The Company's estimated aggregate amortization expense for each of the five succeeding fiscal years is approximately \$0.9 million annually.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values of these assets may not be fully recoverable. The impairment evaluation is generally performed at the individual venue asset group level. Recoverability of restaurant assets is measured by a comparison of the carrying amount of an individual restaurant's assets to the estimated identifiable undiscounted future cash flows expected to be generated by those restaurant assets. If the carrying amount of an individual restaurant's assets exceeds its estimated, identifiable, undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds its fair value. Fair value is determined by discounting a restaurant's identifiable future cash flows.

For the years ended December 31, 2020 and 2019, the Company did not identify any event or changes in circumstances that indicated that the carrying values of its restaurant assets were impaired.

Debt Issuance Costs

Debt issuance costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense based on the term of the related debt agreement using the straight-line method, which approximates the effective interest method. The Company has recorded debt issuance costs as an offset to long-term debt, net of current portion on the consolidated balance sheets.

Income Taxes

The Company computes income taxes using the asset and liability method. Under this method, deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes, using the enacted statutory rate in effect for the year these differences are expected to be taxable or refunded. Deferred income tax expenses or credits are based on the changes in the asset or liability, respectively, from period to period. A deferred tax asset or liability is recognized whenever there are future tax effects from existing temporary differences and operating loss and tax credit carry-forwards. If the Company determines that a deferred tax asset or liability could be realized in a greater or lesser amount than recorded, the deferred tax asset or liability is adjusted and a corresponding adjustment is made to the provision for income taxes in the consolidated statements of operations and comprehensive income in the period during which the determination is made.

The Company reduces its deferred tax assets by a valuation allowance if it determines that it is more likely than not that some portion or all of these tax assets will not be realized. In making this determination, the Company considers various qualitative and quantitative factors, such as:

- the level of historical taxable income;
- the projection of future taxable income over periods in which the deferred tax assets would be deductible;
- events within the restaurant industry;
- the health of the economy; and,
- historical trending.

As of December 31, 2019, the Company released approximately \$10.3 million of its valuation allowance based on an assessment of the realizability of its deferred tax assets. As of December 31, 2020, the remaining valuation allowance of \$0.3 million relates to foreign tax credits the Company does not expect to utilize as a result of generating income in a jurisdiction with a higher income tax rate than the U.S. The recording of deferred taxes requires significant management judgment regarding the interpretation of applicable statutes, the status of various income tax audits, and particular facts and circumstances.

The Company recognizes the tax benefit from an uncertain tax position when it determines that it is more-likely-than-not that the position would be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If the Company derecognizes an uncertain tax position, the Company's policy is to record any applicable interest and penalties within the (benefit) provision for income taxes in the consolidated statements of operations and comprehensive income.

Revenue Recognition

Revenue is derived from restaurant sales, management services and license related operations.

The Company recognizes restaurant revenues, net of discounts, when goods and services are provided. Sales tax amounts collected from customers that are remitted to governmental authorities are excluded from net revenue.

Management agreements typically call for a management fee based on a percentage of revenue, a monthly marketing fee based on a percentage of revenues and an incentive fee based on a managed venue's net profits. Similarly, royalties from the licensee in license agreements are generally based on a percentage of the licensed restaurant's revenue. These management, license and incentive fees are recognized as revenue in the period the restaurant's sales occur.

The Company recognizes initial licensing fees and upfront fees related to management and license agreements on a straight-line basis over the term of the agreement as a component of management, license and incentive fee revenue on the consolidated statements of operations and comprehensive income.

The Company has a loyalty program for Kona Grill to encourage customers to frequent its restaurants. The loyalty rewards program awards a customer one point for every dollar spent. When a customer is part of the rewards program, the obligation to provide future discounts related to points earned is considered a separate performance obligation, to which a portion of the transaction price is allocated. The performance obligation related to loyalty points is deemed to have been satisfied, and the amount deferred in the balance sheet is recognized as revenue, when the points are converted to a reward and redeemed, or the likelihood of redemption is remote. A portion of the transaction price is allocated to loyalty points, if necessary, on a pro-rata basis, based on the stand-alone selling price, as determined by menu pricing and loyalty points terms. As of December 31, 2020 and 2019 the deferred revenue allocated to loyalty points that have not been redeemed is \$0.1 million and less than \$0.1 million, respectively, which is recorded as a component of accrued expenses in the accompanying consolidated balance sheets. The Company expects the loyalty points to be redeemed and recognized over a one-year period.

Gift Cards

Proceeds from the sale of gift cards are recorded as deferred revenue and recognized as revenue when redeemed by the holder. There are no expiration dates on the Company's gift cards and the Company does not charge any service fees that would result in a decrease to a customer's available balance.

Although the Company will continue to honor all gift cards presented for payment, it may determine the likelihood of redemption to be remote for certain gift cards due to, among other things, long periods of inactivity. In these circumstances, to the extent the Company determines there is no requirement for remitting balances to government agencies under unclaimed property laws, outstanding gift card balances may then be recognized as breakage in the consolidated statements of operations and comprehensive income as a component of owned restaurant net revenue. For the years ended December 31, 2020 and 2019, the Company recognized \$1.0 million and \$0.2 million, respectively, in revenue from gift card breakage.

Pre-opening Costs

Pre-opening costs for Company owned restaurants are expensed as incurred prior to a restaurant opening for business. Pre-opening costs for the years ended December 31, 2020 and 2019 were \$0.2 million and \$0.6 million, respectively.

Advertising Costs

The Company expenses the cost of advertising and promotions as incurred. Advertising expense amounted to \$2.5 million and \$3.1 million for the years ended December 31, 2020 and 2019, respectively.

Leases

Contracts are evaluated to determine whether they contain a lease at inception. The Company's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Company has the right to substantially

all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term. Leases are classified as either operating or financing. If it is determined that the contract contains an operating lease, a right-of-use asset and operating lease liability are recorded on the consolidated balance sheets. A right-of-use asset represents the Company's right to use the underlying asset and the lease liability represents the Company's contractually obligated payments. Both the right-of-use asset and the lease liability are recognized as of the commencement date of the lease and are based upon the present value of lease payments due over the course of the lease. The right-of-use asset is reduced by any lease incentives received and is adjusted for any prepayments. For leases that do not have a rate implicit in the lease, the Company's incremental borrowing rate at the date of commencement is used to determine the present value of the lease payments. The Company's incremental borrowing rate is the rate of interest that it would have to borrow on a collateralized basis over a similar term on an amount equal to the lease payments in a similar economic environment.

The Company monitors for triggering events or conditions that require a reassessment of its leases. When the reassessment requires a re-measurement of the operating lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset. Additionally, the Company assesses its right-of-use assets for impairment in accordance with Accounting Standard Codification Topic 360, Property, Plant, and Equipment.

The Company has made an accounting policy election not to recognize right-of-use assets and lease liabilities for leases with a lease term of 12 months or less, including renewal options that are reasonably certain to be exercised, that also do not include an option to purchase the underlying asset that is reasonably certain of exercise. Instead, lease payments for these leases are recognized as lease cost on a straight-line basis over the lease term. Additionally, the Company has elected not to separate the accounting for lease components and non-lease components, for all leased assets. Given the importance of each of its restaurant locations to its operations, the Company has historically concluded that it was reasonably assured of exercising two renewal periods included in its leases as failure to exercise such options would result in an economic penalty.

The Company enters into contracts to lease office space, restaurant space and equipment with terms that expire at various dates through 2041, which includes exercise of options to extend the lease. Under ASC Topic 842, the lease term at the lease commencement date is determined based on the non-cancellable period for which the Company has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Company considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties.

Certain of the Company's leases also provide for percentage rent, which are variable lease costs determined as a percentage of gross sales in excess of specified, minimum sales targets, as well as other lease costs to reimburse the lessor for real estate tax and insurance expenses, and certain non-lease components that transfer a distinct service to the Company, such as common area maintenance services. These percentage rents and other variable lease costs are not included in the calculation of lease payments when classifying a lease and in the measurement of the lease liability as they do not meet the definition of in-substance, fixed-lease payments under ASC Topic 842.

Stock-Based Compensation

The Company maintains an equity incentive compensation plan under which it may grant options, warrants, restricted stock or other stock-based awards to directors, officers, key employees and other key individuals performing services to the Company. Restricted stock and restricted stock units ("RSUs") are valued using the closing stock price on the date of grant. The fair value of an option award or warrant is determined using the Black-Scholes option pricing model. The Black-Scholes model requires estimates of the expected term of the option, the risk-free interest rate, future volatility and dividend yield. The Company's assumptions are as follows:

- **Expected Term** – The expected term of options is based upon evaluations of historical and expected future exercise behavior with consideration of both the vesting period and contractual terms of the instruments.
- **Risk Free Interest Rate** – The risk-free interest rate is based on U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected term at the grant date.

- Implied Volatility – Implied volatility is based upon an average of the volatilities of an industry peer group who are publicly traded.
- Dividend Yield – The Company has historically not paid dividends and does not plan to do so in the foreseeable future.

Under the plan, vesting of awards can either be based on the passage of time or on the achievement of performance goals. For awards that vest on the passage of time, compensation cost is recognized over the vesting period. For performance-based awards, the Company recognizes compensation costs over the requisite service period when conditions for achievement become probable. The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ or are expected to differ. These estimates, which are currently at 10%, are based on historical forfeiture behavior exhibited by employees of the Company.

Earnings per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period and income available to common stockholders. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period plus the dilutive effect of all potential shares of common stock including common stock issuable pursuant to stock options, warrants, and RSUs. As a result, the sum of per share amount may not equal the total. Refer to Note 14 for the calculations of basic and diluted earnings per share.

Segment Reporting

In the fourth quarter of 2019, in conjunction with the Kona Grill acquisition, the Company implemented certain organizational changes, including the reorganization of our internal reporting structure to better facilitate its strategy for growth, operational efficiency and management accountability. As a result of these organizational changes, the Company has identified the following four reportable operating segments: STK, Kona Grill, ONE Hospitality and Corporate. Refer to Note 17 for additional details and certain financial information regarding the Company's operating segments relating to the years ended December 31, 2020 and 2019. Prior year amounts have been revised to conform to the current year segment presentation.

Foreign Currency Translation

Assets and liabilities of foreign operations are translated into U.S. dollars at the balance sheet date. Revenues and expenses are translated at average monthly exchange rates. Gains or losses resulting from the translation of foreign subsidiaries represent other comprehensive income (loss) and are accumulated as a separate component of stockholders' equity. Currency translation gains or (losses) are recorded in accumulated other comprehensive loss within stockholders' equity and amounted to approximately \$5,000 and (\$0.3) million during the years ended December 31, 2020 and 2019, respectively.

Comprehensive Income

Comprehensive income consists of two components: net income and other comprehensive income (loss). The Company's other comprehensive income (loss) is comprised of foreign currency translation adjustments. All of the Company's foreign currency translation adjustments relate to wholly-owned subsidiaries of the Company.

Recent Accounting Pronouncements

In June 2020, the American Institute of Certified Public Accountants in conjunction with the Financial Accounting Standards Board ("FASB") developed Technical Question and Answer ("TQA") 3200.18, "Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program", which is intended to provide clarification on how to account for loans received from the Paycheck Protection Program ("PPP"). TQA 3200.18 states that an entity may account for PPP loans under ASC 470, "Debt" or, if the entity is expected to meet PPP eligibility criteria and the PPP loan is expected to be forgiven, the entity may account for the loans under IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance". Although the Company anticipates forgiveness of the entire amount of the CARES Act Loans, no assurances can be provided that the Company will obtain forgiveness of the CARES Act Loans in whole or in part. Therefore, the Company has elected to account for PPP loan proceeds under ASC 470 as allowed by TQA 3200.18.

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Updated (“ASU”) No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,” (“ASU 2019-12”) which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Accounting Standard Codification Topic 740, Income Taxes, and it clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for annual and interim periods beginning after December 15, 2020. The Company is evaluating the impact of the adoption of ASU 2019-12 on its financial statements but does not expect the adoption of ASU 2019-12 to be material.

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract” (“ASU 2018-15”). ASU 2018-15 aligns the requirements for capitalizing implementation costs in cloud computing arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. Entities can choose to adopt the new guidance prospectively or retrospectively. The adoption of ASU 2018-15 did not have a material impact on the Company’s financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326)” (“ASU 2016-13”). ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2022, and we do not expect the adoption of ASU 2016-13 to be material.

Note 3 – Business Combination

On October 4, 2019, the Company acquired substantially all of the assets of Kona Grill Inc. and its affiliates comprising 24 domestic restaurants. The Company purchased the assets for a contractual price of \$25.0 million plus \$1.5 million of consideration paid primarily for the apportionment of rent and utilities. The Company also assumed approximately \$7.7 million in current liabilities. The Company believes that Kona Grill is complementary and enables the Company to capture market share in the Vibe Dining segment.

Kona Grill Inc. and its affiliates were purchased pursuant to a Chapter 11 bankruptcy. As a result, the Company recognized a bargain purchase gain of approximately \$11.0 million in the consolidated statements of operations and comprehensive (loss) income for the year ended December 31, 2019, which represents the excess of the aggregate fair value of net assets acquired and liabilities assumed over the purchase price.

The purchase accounting represents estimates and assumptions that were subject to change during the measurement period (up to one year from the acquisition date). The following table summarizes the fair value of identified assets acquired and liabilities assumed as of the acquisition date (amounts in thousands):

Net assets acquired:	
Cash	\$ 450
Current assets, excluding cash	2,830
Property and equipment	31,781
Operating lease right-of-use assets	42,398
Intangible assets	17,400
Other assets	692
Current liabilities	(7,690)
Deferred tax liability	(4,044)
Operating lease liabilities	(46,364)
Total net assets acquired	<u>\$ 37,453</u>
Purchase consideration:	
Contractual purchase price	25,000
Apportionment of rent and utilities	775
Assumption of real estate lease consultant contract	465
Escrow deposit	250
Consideration paid	<u>\$ 26,490</u>
Bargain purchase gain attributable to Kona Grill acquisition	<u>\$ 10,963</u>

Pro Forma Results of Operations (unaudited)

The following pro forma results of operations for the year ended December 31, 2019 have been prepared as though the acquisition occurred as of January 1, 2019. The pro forma financial information is not indicative of the results of operations that the Company would have attained had the acquisition occurred at the beginning of the periods presented, nor is the pro forma financial information indicative of the results of operations that may occur in the future. Amounts are in thousands, except earnings per share related data.

	For the year ended	
	December 31, 2019	
Total revenues	\$	196,906
Net income attributable to The ONE Group Hospitality, Inc.	\$	10,789
Net income attributable to The ONE Group Hospitality, Inc. per share:		
Basic net income per share	\$	<u>0.38</u>
Diluted net income per share	\$	<u>0.36</u>

Note 4 – Inventory

Inventory consists of the following (in thousands):

	December 31,	December 31,
	2020	2019
Beverages	\$ 1,439	\$ 1,832
Food	1,051	1,226
Total	<u>\$ 2,490</u>	<u>\$ 3,058</u>

Note 5 – Other Current Assets

Other current assets consist of the following (in thousands):

	December 31, 2020	December 31, 2019
Prepaid expenses	\$ 1,174	\$ 624
Prepaid taxes	174	353
Other	—	70
Total	<u>\$ 1,348</u>	<u>\$ 1,047</u>

Note 6 – Property and Equipment, net

Property and equipment, net consist of the following (in thousands):

	December 31, 2020	December 31, 2019
Furniture, fixtures and equipment	\$ 22,328	\$ 20,512
Leasehold improvements	71,654	69,925
Less: accumulated depreciation and amortization	<u>(30,948)</u>	<u>(21,997)</u>
Subtotal	63,034	68,440
Construction in progress	2,294	97
Restaurant smallwares	2,016	1,946
Total	<u>\$ 67,344</u>	<u>\$ 70,483</u>

Depreciation and amortization related to property and equipment amounted to \$9.2 million and \$5.4 million for the years ended December 31, 2020 and 2019, respectively. The Company does not depreciate construction in progress, assets not yet put into service or restaurant smallwares.

For the years ended December 31, 2020 and 2019, the Company did not identify any event or changes in circumstances that indicated that the carrying values of its restaurant assets were impaired.

Note 7 – Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31, 2020	December 31, 2019
Payroll and related ⁽¹⁾	\$ 4,860	\$ 4,519
Accrued lease exit costs ⁽²⁾	4,144	1,411
Variable rent	1,883	545
VAT and sales taxes	1,119	1,488
Legal, professional and other services	462	1,103
Interest	474	2
Income taxes and related	—	547
Insurance	330	100
Other	2,412	1,483
Total	<u>\$ 15,684</u>	<u>\$ 11,198</u>

(1) Payroll and related includes \$2.6 million in employer payroll taxes for which payment has been deferred under the CARES Act.

(2) Amount relates to lease exit costs for restaurants never built and still under dispute with landlords.

Note 8 – Long Term Debt

Long-term debt consists of the following (in thousands):

	December 31, 2020	December 31, 2019
Term loan agreements	\$ 47,400	\$ 47,880
Revolving credit facility	—	—
Equipment financing agreements	108	380
Total long-term debt	47,508	48,260
Less: current portion of long-term debt	(588)	(749)
Less: debt issuance costs	(1,856)	(2,285)
Total long-term debt, net of current portion	<u>\$ 45,064</u>	<u>\$ 45,226</u>
Future minimum loan payments:		
2021		\$ 588
2022		480
2023		480
2024		45,960
Total		<u>\$ 47,508</u>

Interest expense for all the Company’s debt arrangements, excluding the amortization of debt issuance costs and other discounts and fees, was approximately \$4.4 million and \$1.7 million for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company had \$1.3 million and \$1.2 million, respectively, in standby letters of credit outstanding for certain restaurants. As of December 31, 2019 the Company had \$0.4 million of cash collateralized letters of credit, which are recorded as a component of security deposits on the consolidated balance sheet.

Goldman Sachs Bank USA Credit and Guaranty Agreement

On October 4, 2019, in conjunction with the acquisition of Kona Grill, the Company entered into a credit and guaranty agreement with Goldman Sachs Bank USA (“Credit Agreement”). The Credit Agreement provides for a secured revolving credit facility of \$12.0 million and a \$48.0 million term loan. The term loan is payable in quarterly installments, with the final payment due in October 2024. The revolving credit facility also matures in October 2024. Additionally, the Company’s consolidated adjusted EBITDA as defined by the Credit Agreement for determining covenant compliance includes pro forma adjustments for the annualization of the Kona Grill restaurant performance which includes results before the acquisition date.

On May 4, 2020, Goldman Sachs Bank USA (“GSB”), as administrative agent, collateral agent and lead arranger under the Credit Agreement, (1) consented to the CARES Act Loans described below and (2) agreed that the amount of the CARES Act Loans will not be counted toward the permitted amount of Consolidated Total Debt, as defined under the Credit Agreement, to the extent the amounts are retained as cash during the term of the CARES Act Loans in a segregated deposit account or used for purposes that are forgivable under the CARES Act, provided that the proceeds of the CARES Act Loans must be used only for “allowable uses” under the CARES Act (with at least 75% of the utilized proceeds to be used for purposes that result in the CARES Act Loans being eligible for forgiveness) or used for the repayment of the CARES Act Loans.

On May 8, 2020 and August 10, 2020, GSB and the Company and certain of its subsidiaries amended the Credit Agreement to:

- Eliminate testing of the fixed charge coverage ratio for the balance of 2020 and 2021;
- For the purpose of testing, replace maximum “Leverage Ratio” with maximum “Net Leverage Ratio”. The maximum Net Leverage Ratio is (i) 2.85 to 1.00 as of the fiscal quarter ending September 30, 2020, (ii) 3.60 to 1.00 as of the fiscal quarter ending December 31, 2020, (iii) 3.10 to 1.00 as of the fiscal quarter

- ending March 31, 2021, (iv) 2.10 to 1.00 as of the fiscal quarters ending June 30, 2021 and September 30, 2021, and (v) 1.90 to 1.00 as of the fiscal quarter ending December 31, 2021;
- Reduce the maximum consolidated capital expenditures to \$7,000,000 for 2020 and \$7,000,000 for 2021; and
- Require minimum “Consolidated Liquidity” of not less than \$4,000,000 for the balance of 2020 and 2021 (from \$1,500,000 for 2021).

A summary of the financial covenants under the Credit Agreement, as amended, is as follows:

- The minimum consolidated fixed charge coverage ratio is (i) eliminated for the balance of 2020 and 2021; and (ii) 1.50 to 1.00 as of any fiscal quarter thereafter;
- A maximum consolidated Net Leverage Ratio of (i) 2.85 to 1.00 as of the fiscal quarter ending September 30, 2020, (ii) 3.60 to 1.00 as of the fiscal quarter ending December 31, 2020, (iii) 3.10 to 1.00 as of the fiscal quarter ending March 31, 2021, (iv) 2.10 to 1.00 as of the fiscal quarters ending June 30, 2021 and September 30, 2021, (v) 1.90 to 1.00 as of the fiscal quarter ending December 31, 2021, and (vi) maximum consolidated Leverage Ratio of 1.50 to 1.00 as of the end of any fiscal quarter thereafter. For purposes of calculating this ratio for the first four quarters, the agreement provides for a pro forma adjustment to reflect one full year of Kona Grill operations. In addition, the consolidated net leverage ratio reduces the Company’s debt by its cash and cash equivalents. The consolidated leverage ratio has no such reductions;
- Maximum consolidated capital expenditures not to exceed (i) \$7,000,000 in each of 2020 and 2021, and (ii) \$8,000,000 in every fiscal year thereafter; and,
- Minimum consolidated liquidity of not less than (i) \$4,000,000 for the remainder of 2020 and 2021, and (ii) \$1,500,000 at any time thereafter.

The Company’s ability to borrow under its revolving credit facility is dependent on several factors. The Company’s total borrowings cannot exceed a gross leverage incurrence multiple of (i) 2.25 to 1.00 as of the fiscal quarters ending September 30, 2020 and December 31, 2020, (ii) 2.00 to 1.00 as of the fiscal quarter ending March 31, 2021, (iii) 1.75 to 1.00 as of the fiscal quarter ending June 30, 2021, (iv) 1.70 to 1.00 as of the fiscal quarter ending September 30, 2021, (v) 1.65 to 1.00 as of the fiscal quarter ending December 31, 2021, and (vi) 1.50 to 1.00 as of the end of any fiscal quarter thereafter. In addition, after giving effect to any new borrowings under the revolving credit facility, the Company’s cash and cash equivalents cannot exceed \$4,000,000.

The Credit Agreement has several borrowing and interest rate options, including the following: (a) a LIBOR rate (or a comparable successor rate) subject to a 1.75% floor; or (b) a base rate equal to the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50%, (iii) the LIBOR rate for a one-month period plus 1.00%, or (iv) 4.75%. Loans under the Credit Agreement bear interest at a rate per annum using the applicable indices plus a varying interest rate margin of between 5.75% and 6.75% (for LIBOR rate loans) and 4.75% and 5.75% (for base rate loans). The Company’s weighted average interest rate on the borrowings under the Credit Agreement as of December 31, 2020 and December 31, 2019 was 8.50% and 8.55%, respectively.

The Credit Agreement contains customary representations, warranties and conditions to borrowing including customary affirmative and negative covenants, which include covenants that limit or restrict the Company’s ability to incur indebtedness and other obligations, grant liens to secure obligations, make investments, merge or consolidate, alter the organizational structure of the Company and its subsidiaries, and dispose of assets outside the ordinary course of business, in each case subject to customary exceptions for credit facilities of this size and type.

The Company and certain operating subsidiaries of the Company guarantee the obligations under the Credit Agreement, which also are secured by liens on substantially all of the assets of the Company and its subsidiaries.

The Company has incurred approximately \$2.5 million of debt issuance costs related to the Credit Agreement, which were capitalized and are recorded as a direct deduction to the long-term debt, net of current portion, on the consolidated balance sheets. As of December 31, 2020, the Company was in compliance with the covenants required by the Credit Agreement.

Equipment Financing Agreements

On June 5, 2015 and August 16, 2016, the Company entered into financing agreements with Sterling National Bank for \$1.0 million and \$0.7 million, respectively, to purchase equipment for the STKs in Orlando, Chicago, San Diego, and Denver. Each of these financing agreements have five- year terms and bear interest at a rate of 5% per annum, payable in equal monthly installments.

CARES Act Loans

On May 4, 2020, two subsidiaries of the Company entered into promissory notes (“CARES Act Loans”) with BBVA USA under the Paycheck Protection Program (“PPP”) created by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Repayment of the CARES Act Loans is guaranteed by the U.S. Small Business Administration (“SBA”). The ONE Group, LLC received a loan of \$9.8 million related to the operations of STK restaurants, and Kona Grill Acquisition, LLC received a loan of \$8.5 million related to the operation of Kona Grill restaurants.

The CARES Act Loans are scheduled to mature on April 28, 2022 and have a 1.00% interest rate and are subject to the terms and conditions applicable to PPP loans. Among other terms, BBVA USA may declare a default of the CARES Act Loans if the SBA disputes the validity of the guaranty of indebtedness, if a material adverse change occurs in the Company’s financial condition, or if BBVA USA believes the prospect of repayment of the CARES Act Loans or performance of obligations under the promissory notes is impaired. On an event of default, BBVA USA may declare principal and unpaid interest immediately due and payable, and it may charge default interest of 10%.

The CARES Act Loans are eligible for forgiveness if the proceeds are used for qualified purposes within a specified period and if at least 60% is spent on payroll costs. As of December 31, 2020, the Company has used all of the proceeds from the CARES Act Loans for qualified purposes in accordance with the CARES Act and SBA regulations, and these funds have supported the re-opening of in person dining and the return of approximately 3,000 furloughed employees to work. The Company applied for forgiveness of the CARES Act Loans in February 2021. The Company anticipates forgiveness of the entire amount of the CARES Act Loans; however, no assurance can be provided that the Company will obtain forgiveness of the CARES Act Loans in whole or in part. Therefore, the Company has elected to classify the entire principal amount of the CARES Act Loans as debt on the consolidated balance sheet as of December 31, 2020. Principal and interest payments are expected to be repaid beginning in August 2021, ten months after the end of the covered period which was from April 2020 to October 2020.

Debt Extinguishment

On May 15, 2019, the Company entered into the Bank of America Credit Agreement, which was replaced with the Credit Agreement described above on October 4, 2019. The Bank of America Credit Agreement provided for a secured revolving credit facility of \$10.0 million and a \$10.0 million term loan. The term loan was payable in quarterly installments, with the final payment due in May 2024. The revolving credit facility also matured in May 2024. In conjunction with entering into the Bank of America Credit Agreement, the Company incurred \$0.4 million of debt issuance costs. On October 4, 2019, the unamortized debt issuance costs of \$0.4 million was recognized as a loss on early debt extinguishment on the consolidated statements of operations and comprehensive (loss) income.

In conjunction with entering into the Bank of America Credit Agreement on May 15, 2019, the Company prepaid the outstanding debt balances to early extinguish the \$2.6 million of outstanding term loans with BankUnited, the \$5.3 million of outstanding promissory notes with Anson Investments Master Fund LP, and the \$1.0 million outstanding promissory note with 2235570 Ontario Limited. The Company recognized a \$0.4 million loss on early debt extinguishment on the consolidated statements of operations and comprehensive (loss) income, primarily caused by the recognition of the unamortized discounts related to warrants issued with the promissory notes and the recognition of unamortized debt issuance costs related to the debt extinguished. Additionally, the Company prepaid the \$1.2 million of outstanding cash advances due to the TOG Liquidation Trust, a related party. Please refer to Note 10 for additional details on transactions with related parties.

Note 9 – Nonconsolidated Variable Interest Entities

As of December 31, 2020 and 2019, the Company owned interests in the following companies, which directly or indirectly operate restaurants:

- 31.24% interest in Bagatelle NY LA Investors, LLC (“Bagatelle Investors”)
- 51.13% interest in Bagatelle Little West 12th, LLC (“Bagatelle NY”)

Bagatelle Investors is a holding company that has an interest in Bagatelle NY. Both entities were formed in 2011. In the second quarter of 2019, Bagatelle NY notified the Company that it had no intent to renew its sublease with the Company for the restaurant space. As a result, the Company determined that it no longer had the ability to exercise significant influence over its investees, Bagatelle Investors and Bagatelle NY. On June 30, 2019, the Company recorded its retained interests in Bagatelle Investors and Bagatelle NY as investments, with the initial basis being the previous carrying amounts of the investments. Prior to June 30, 2019, the Company had accounted for its investments in these entities under the equity method of accounting based on management’s assessment that it was not the primary beneficiary of these entities because it did not have the power to direct their day to day activities.

On December 31, 2019, the Company determined that, because of the short term remaining on the lease (November 2020) and current market conditions, it was unable to recover the carrying amount of the investments in Bagatelle Investors and Bagatelle NY. As a result, the Company recorded a non-cash write down of \$2.7 million related to its investments for the year ended December 31, 2019. As of December 31, 2020 and 2019, the Company did not have a carrying value of the investment in Bagatelle Investors or Bagatelle NY. Upon expiration of the lease in November 2020, the Company exited its contract with Bagatelle.

There was no equity in income of investee companies for the year ended December 31, 2020 and 2019.

Additionally, the Company had a management agreement with Bagatelle NY. Under this agreement, the Company recorded management fee revenue of less than \$0.1 million and \$0.4 million for the years ended December 31, 2020 and 2019, respectively. The Company also received rental income from Bagatelle NY for restaurant space that it subleased to Bagatelle NY. Rental income of \$0.5 million and \$0.5 million was recorded from this entity for the year ended December 31, 2020 and 2019, respectively.

Net receivables from the Bagatelle Entities included in due from related parties, net were approximately \$0.4 million and \$0.3 million as of December 31, 2020 and 2019. These receivables represent the Company’s maximum exposure to loss. The Company has provided no additional types of support to these entities other than what is contractually required.

Note 10 – Related Party Transactions

Net amounts due from related parties were \$0.4 million and \$0.3 million as of December 31, 2020 and 2019, respectively. The Company has not reserved any related party receivables as of December 31, 2020 and 2019.

During the fourth quarter of 2016, the Company received approximately \$1.2 million in cash advances from the TOG Liquidation Trust. The TOG Liquidation Trust is a trust that was set up in connection with a 2013 merger transaction to hold previously issued and outstanding warrants held by members of the predecessor company. Amounts due to the trust were non-interest bearing and were repayable in 2021 when the trust expires. In conjunction with entering into the Bank of America Credit Agreement on May 15, 2019, the Company prepaid the \$1.2 million balance due to the TOG Liquidation Trust. As a result of the prepayment, there was no amount outstanding to the TOG Liquidation Trust as of December 31, 2020 and 2019.

Refer to Note 9 for details on other transactions with other related parties and refer to Note 8 for details related to the Bank of America Credit Agreement.

Note 11 – Income Taxes

The components of income before benefit for income taxes were as follows (in thousands):

	For the years ended December 31,	
	2020	2019
Domestic	\$ (19,129)	\$ 7,780
Foreign	106	2,199
Total	\$ (19,023)	\$ 9,979

The components of the Company’s (benefit) provision for income taxes were as follows (in thousands):

	For the years ended December 31,	
	2020	2019
Current:		
Federal	\$ —	\$ —
State and local	39	109
Foreign	36	546
Total current	75	655
Deferred:		
Federal	(4,593)	(9,242)
State and local	(887)	(2,600)
Foreign	5	33
Total deferred	(5,475)	(11,809)
Total benefit for income taxes	\$ (5,400)	\$ (11,154)

The Company’s effective tax rate differs from the statutory rates as follows:

	For the years ended December 31,	
	2020	2019
Income tax benefit at federal statutory rate	21.0 %	21.0 %
State and local taxes	4.4 %	0.6 %
FICA tip credit	5.3 %	(10.5)%
Foreign rate differential	—	(0.8)%
Change in valuation allowance	0.9%	(103.0)%
Global intangible low-taxed income (“GILTI”)	—	3.9 %
Bargain purchase gain	—	(23.1)%
Other items, net	(3.2)%	0.1 %
Effective income tax rate	28.4 %	(111.8)%

The income tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are as follows (in thousands):

	For the years ended December 31,	
	2020	2019
Deferred tax assets:		
Deferred rent liabilities	\$ 2,647	\$ 2,502
Lease incentives	2,227	2,088
Stock compensation	439	401
FICA tip credit carryforward	6,860	5,575
Net operating loss	6,167	3,496
Goodwill	1,283	1,427
Inventory	23	6
Charitable contributions carryforward	2	—
Foreign tax credit carryforward	336	510
Deferred revenue	321	373
State and local tax credit carryforward	299	420
Expenses not deductible until paid	985	306
Basis in LLC interest	175	173
IRC 163(j) disallowed interest carryforward	835	—
Kona related acquisition costs	201	—
Deferred payroll taxes	703	—
Total deferred tax assets	<u>23,503</u>	<u>17,277</u>
Deferred tax liabilities:		
Depreciation and amortization	(9,812)	(8,835)
ASC 740-10 liability	(129)	(181)
Total deferred tax liabilities	<u>(9,941)</u>	<u>(9,016)</u>
Valuation allowance	(336)	(510)
Net deferred tax assets	<u>\$ 13,226</u>	<u>\$ 7,751</u>

As of December 31, 2020, the Company has federal net operating loss (“NOL”) carryforwards of \$23.7 million. The Company has various state NOL carryforwards. The determination of the state NOL carryforwards is dependent upon apportionment percentages and state laws that can change from year to year and impact the amount of such carryforwards. Federal NOLs of \$16.0 million expire at various dates from 2035 to 2037, while the remaining \$7.7 million have no expiration date. The state NOLs expire at various dates from 2035 to 2039. In assessing the realizability of deferred tax assets, the Company evaluates whether it is more likely than not that the deferred tax assets will be realized. In the assessment of the valuation allowance, appropriate consideration was given to all positive and negative evidence including current operating results, tax planning strategies and forecasts of future earnings.

As of December 31, 2019, the Company released approximately \$10.3 million of the valuation allowance based on an assessment of the realizability of its deferred tax assets, resulting in a benefit for income taxes for the year ended December 31, 2019. The remaining valuation allowance of \$0.3 million and \$0.5 million as of December 31, 2020 and 2019, respectively, relates to foreign tax credits the Company does not expect to utilize as a result of generating income in a jurisdiction with a higher income tax rate than the U.S.

Uncertain tax positions

The following table summarizes the activity related to the Company’s uncertain tax positions (in thousands):

	For the years ended December 31,	
	2020	2019
Balance, beginning of year	\$ 814	\$ 807
Increase related to current year positions	209	209
Decrease related to prior period positions	(209)	(202)
Balance, end of year	<u>\$ 814</u>	<u>\$ 814</u>

The Company is subject to income taxes in the U.S. federal jurisdiction, and the various states and local jurisdictions in which it operates. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company's federal tax filings remain subject to examination for federal tax years 2017 through 2019. The IRS conducted an examination into tax year 2015 and did not propose any changes. The Company's state and local tax filings remain subject to examination for tax years 2017 through 2019. NOL carryforwards are subject to examination regardless of whether the tax year in which they are generated has been closed by statute. The amount subject to disallowance is limited to the NOL utilized. Accordingly, the Company may be subject to examination for prior NOL's generated as such NOL's are utilized.

The Company's foreign income tax returns prior to fiscal year 2017 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Note 12 – Revenue recognition

The following table provides information about contract receivables and liabilities from contracts with customers, which include deferred license revenue, deferred gift card revenue and the Konavore rewards program (in thousands):

	December 31, 2020	December 31, 2019
Receivables (1)	\$ 125	\$ 250
Deferred license revenue (2)	1,160	1,368
Deferred gift card and gift certificate revenue (3)	1,945	3,210
Konavore rewards program (4)	\$ 102	\$ 84

- (1) Receivables are included in accounts receivable on the consolidated balance sheets.
- (2) Includes the current and long-term portion of deferred license revenue.
- (3) Deferred gift card revenue is included in deferred gift card revenue and other on the consolidated balance sheets.
- (4) Konavore rewards program is included in accrued expenses on the consolidated balance sheets.

Significant changes in deferred license revenue and deferred gift card revenue for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	December 31, 2020	December 31, 2019
Revenue recognized from deferred license revenue	\$ 206	\$ 483
Revenue recognized from deferred gift card revenue	1,904	2,145
Deferred gift card revenue acquired in Kona Grill acquisition	\$ —	\$ 2,277

As of December 31, 2020, the estimated deferred license revenue to be recognized in the future related to performance obligations that are unsatisfied as of December 31, 2020 were as follows for each year ending (in thousands):

2021	\$ 207
2022	180
2023	169
2024	134
2025	133
Thereafter	337
Total future estimated deferred license revenue	<u>\$ 1,160</u>

Note 13 – Leases

The Company subleases portions of its office and restaurant space where it does not use the entire space for its operations. For the year ended December 31, 2020 and 2019, sublease income was \$0.5 million and \$0.7 million, respectively, of which \$0.5 million was from related party, Bagatelle NY. Refer to Note 9 and Note 10 for details on transactions with this related party.

The components of lease expense for the period were as follows (in thousands):

	December 31, 2020	December 31, 2019
Lease cost		
Operating lease cost	\$ 11,613	\$ 8,494
Variable lease cost	2,001	3,185
Short-term lease cost	479	446
Sublease income	(493)	(696)
Total lease cost	\$ 13,600	\$ 11,429
Weighted average remaining lease term – operating leases	12 years	13 years
Weighted average discount rate – operating leases	8.09 %	8.48 %

Due to the negative effects of COVID-19, the Company implemented measures to reduce its costs, including negotiations with landlords regarding rent concessions. The Company is in ongoing discussions with landlords regarding rent obligations, including deferrals, abatements, and/or restructuring of rent. As the rent concessions received and currently being contemplated do not result in a significant increase in cash payments, the Company has elected to account for these concessions as a variable lease payment in accordance with ASC Topic 842. The Company’s right-of-use assets and operating lease liabilities have not been remeasured for lease concessions received. Variable lease cost is comprised of percentage rent and common area maintenance, offset by rent concessions received as a result of COVID-19.

Supplemental cash flow information related to leases for the period was as follows (in thousands):

	December 31, 2020	December 31, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 8,491	\$ 8,368
Right-of-use assets obtained in exchange for operating lease obligations	\$ 4,968	\$ 43,474

As of December 31, 2020, maturities of the Company’s operating lease liabilities are as follows (in thousands):

2021	\$ 13,276
2022	13,229
2023	13,531
2024	12,927
2025	11,893
Thereafter	112,867
Total lease payments	177,723
Less: imputed interest	(74,337)
Present value of operating lease liabilities	\$ 103,386

Note 14 – Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period and income available to common stockholders. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period plus the dilutive effect of all potential shares of common stock including common stock issuable pursuant to stock options, warrants, and restricted stock units.

For the years ended December 31, 2020 and 2019, the earnings per share was calculated as follows (in thousands, except earnings per share and related share data):

	Year ended December 31,	
	2020	2019
Net (loss) income attributable to The ONE Group Hospitality, Inc.	\$ (12,825)	\$ 20,831
Basic weighted average shares outstanding	28,909,963	28,454,385
Dilutive effect of stock options, warrants and restricted share units	—	1,181,834
Diluted weighted average shares outstanding	28,909,963	29,636,219
Net (loss) income available to common stockholders per share - Basic	<u>\$ (0.44)</u>	<u>\$ 0.73</u>
Net (loss) income available to common stockholders per share - Diluted	<u>\$ (0.44)</u>	<u>\$ 0.70</u>

For the years ended December 31, 2020 and 2019, stock options, warrants and restricted share units totaling 1.4 million and 1.0 million, respectively, were determined to be anti-dilutive and were therefore excluded from the calculation of diluted earnings per share.

Note 15 – Stockholders’ Equity

Common Stock

The Company is authorized by its amended and restated certificate of incorporation to issue up to 75.0 million shares of common stock, par value \$0.0001 per share. As of December 31, 2020 and 2019, there are 29.1 million and 28.6 million shares of common stock outstanding, respectively.

The Company has the following warrants to purchase shares of common stock outstanding as of December 31, 2020 and 2019:

Issuance date	Holder of warrants	Expiration date	Warrants Issued	Exercise Price	Shares available for purchase as of	
					December 31, 2020	December 31, 2019
June 27, 2016	2235570 Ontario Limited	June 27, 2026	100,000	\$ 2.61	100,000	100,000
August 11, 2016	Anson Investments Master Fund LP	August 11, 2026	300,000	2.61	300,000	300,000
October 24, 2016	Anson Investments Master Fund LP	October 24, 2026	340,000	2.39	340,000	340,000
November 15, 2017	2017 Securities Purchase Agreement investors	May 15, 2023	875,000	\$ 1.63	125,000	125,000

The issuance of a dividend is dependent on a variety of factors, including but not limited to, available cash and the overall financial condition of the Company. The issuance of a dividend is also subject to legal restrictions and the terms of the Company’s credit agreement. The Company did not issue dividends related to its common stock in the years ended December 31, 2020 or 2019.

Preferred Stock

The Company is authorized by its amended and restated certificate of incorporation to issue 10.0 million shares of preferred stock, par value \$0.0001 per share. The Company’s Board may designate the rights, powers and preferences of the preferred stock, which may have superior rights to common shareholders in terms of liquidation and dividend

preference, voting and other rights. As of December 31, 2020 and 2019, the Board had not designated the rights of the preferred stock and there were no outstanding shares of preferred stock.

Note 16 – Employee Benefit Plans

Defined Contribution Retirement Plan

The Company sponsors a qualified defined contribution retirement plan (the “401(k) Plan”) covering all eligible employees, as defined in the 401(k) Plan. The 401(k) Plan allows participating employees to defer the receipt of a portion of their compensation, on a pre-tax or post-tax basis, and contribute such amount to one or more investment options. Employer contributions to the plan are at the discretion of the Company. The Company did not accrue or make any employer contributions in 2020 and 2019.

Equity Incentive Plan

In October 2013, the Board approved the 2013 Employee, Director and Consultant Equity Incentive Plan (the “2013 Equity Plan”). The 2013 Equity Plan provides for the granting of stock options, warrants, restricted stock or other stock-based awards to directors, officers, key employees and other key individuals performing services for the Company. All awards are required to be approved by the Board or a designated committee of the Board. Options are generally granted with an exercise price equal to fair market value on the date of grant and expire after ten years. Vesting of options and restricted stock can either be based on the passage of time or on the achievement of performance goals.

The 2013 Equity Plan will terminate automatically in October 2023, unless terminated by the Board at an earlier date. The Board has the authority to amend, modify or terminate the 2013 Equity Plan, subject to any required approval by the Company’s stockholders under applicable law or upon advice of counsel. No such action would affect any options previously granted under the 2013 Equity Plan without the consent of the holders.

Effective June 4, 2019, the Company’s stockholders approved amendments to the 2013 Equity Plan (the “2019 Equity Plan”). Among other things, the amendments increased the number of shares of common stock authorized for issuance under the 2019 Equity Plan by 2,300,000 shares to a new maximum aggregate limit of 7,073,922 shares. As of December 31, 2020, the Company had 1,216,192 remaining shares available for issuance under the 2019 Equity Plan.

Stock-based compensation cost for the years ended December 31, 2020 and 2019 was \$1.8 million and \$1.3 million, respectively, and is included in general and administrative expenses in the consolidated statements of income and comprehensive income. Included in stock-based compensation cost was \$0.3 million and \$0.2 million of unrestricted stock granted to directors for years ended December 31, 2020 and 2019, respectively. Such grants were awarded consistent with the Board’s compensation practices.

Stock Option Activity

Changes in outstanding stock options during the years ended December 31, 2020 and 2019 were as follows:

	Shares	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value (thousands)
Outstanding at December 31, 2018	2,001,008	\$ 3.29		
Granted	68,000	2.99		
Exercised	(42,000)	2.13		
Cancelled, expired or forfeited	(220,500)	2.70		
Outstanding at December 31, 2019	1,806,508	\$ 3.37	5.87 years	\$ 1,428
Exercisable at December 31, 2019	1,270,508	\$ 3.93	5.10 years	\$ 667
Granted	—	—		
Exercised	(18,000)	2.13		
Cancelled, expired or forfeited	(81,500)	3.75		
Outstanding at December 31, 2020	1,707,008	\$ 3.37	4.98 years	\$ 1,454
Exercisable at December 31, 2020	1,443,675	\$ 3.57	4.68 years	\$ 1,112

The fair value of options granted in the year ended December 31, 2019 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions by grant year:

Expected life, in years	8.5 years
Risk-free interest rate	2.62 %
Volatility	42.0 %
Dividend yield	— %

The weighted average fair value of stock options issued was \$1.55 for the year ended December 31, 2019. There were no stock options granted in the year ended December 31, 2020.

A summary of the status of the Company's non-vested stock options as of December 31, 2020 and 2019 and changes during the years then ended, is presented below:

	Shares	Weighted average grant date fair value
Non-vested stock options at December 31, 2018	926,500	\$ 0.91
Granted	68,000	2.99
Vested	(281,500)	1.12
Cancelled, expired or forfeited	(177,000)	0.95
Non-vested stock options at December 31, 2019	536,000	\$ 0.87
Granted	—	—
Vested	(272,667)	0.75
Cancelled, expired or forfeited	—	—
Non-vested stock options at December 31, 2020	263,333	\$ 0.99

The fair value of options that vested in the years ended December 31, 2020 and 2019 were \$0.2 million and \$0.3 million, respectively. As of December 31, 2020, there are 579,402 milestone-based options outstanding, and there is approximately \$0.7 million of unrecognized compensation cost related to these milestone-based options. These options vest based on the achievement of Company and individual objectives as set by the Board.

As of December 31, 2020, there is approximately \$0.2 million of total unrecognized compensation cost related to non-vested awards, which will be recognized over a weighted-average period of 1.8 years.

Restricted Stock Unit Activity

The Company issues restricted stock units (“RSUs”) under the 2019 Equity Plan. The fair value of these RSUs is determined based upon the closing fair market value of the Company’s common stock on the grant date.

A summary of the status of RSUs and changes during the years ended December 31, 2020 and 2019 is presented below:

	<u>Shares</u>	<u>Weighted average grant date fair value</u>
Non-vested RSUs at December 31, 2018	764,201	\$ 2.54
Granted	584,593	3.04
Vested	(227,889)	2.64
Cancelled, expired or forfeited	(165,894)	2.73
Non-vested RSUs at December 31, 2019	955,011	\$ 2.69
Granted	1,316,174	1.21
Vested	(305,027)	2.77
Cancelled, expired or forfeited	(94,566)	2.12
Non-vested RSUs at December 31, 2020	<u>1,871,592</u>	<u>\$ 1.68</u>

As of December 31, 2020, 150,000 restricted shares subject to performance-based vesting were still outstanding, and there is approximately \$0.4 million of unrecognized compensation cost related to these milestone-based options. As of December 31, 2020, the Company had approximately \$1.7 million of total unrecognized compensation costs related to restricted stock awards, which will be recognized over a weighted average period of 1.8 years.

Note 17 – Segment Reporting

In the fourth quarter of 2019, in conjunction with the Kona Grill acquisition, the Company implemented certain organizational changes, including the reorganization of our internal reporting structure to better facilitate our strategy for growth and operational efficiency. As a result of these organizational changes, the Company has identified its reportable operating segments as follows:

- ***STK***. The STK segment consists of the results of operations from STK restaurant locations, competing in the full-service dining industry, as well as management, license and incentive fee revenue generated from the STK brand and operations of STK restaurant locations.
- ***Kona Grill***. The Kona Grill segment includes the results of operations of Kona Grill restaurant locations.
- ***ONE Hospitality***. The ONE Hospitality segment is comprised of the management, license and incentive fee revenue and results of operations generated from the Company’s other brands and venue concepts, which include ANGEL, Heliot, Hideout, Marconi, and Radio. Additionally, this segment includes the results of operations generated from F&B hospitality management agreements with hotels, casinos and other high-end locations.
- ***Corporate***. The Corporate segment consists of the following: general and administrative costs, stock-based compensation, acquisition related gains and losses, lease termination expenses, transaction costs, COVID-19 related expenses and other income and expenses. This segment also includes STK Meat Market, an e-commerce platform that offers signature steak cuts nationwide, the Company’s major off-site events group, which supports all brands and venue concepts, and revenue generated from gift card programs.

The Company’s Chief Executive Officer, who is the Company’s Chief Operating Decision Maker, manages the business and allocates resources via a combination of restaurant sales reports and operating segment profit information, defined as revenues less operating expenses, related to the Company’s four operating segments.

Certain financial information relating to the years ended December 31, 2020 and 2019 for each segment is provided below (in thousands). Prior year amounts have been revised to conform to the current year segment presentation.

	STK	Kona Grill	ONE Hospitality	Corporate	Total
For the year ended December 31, 2020					
Total revenues	\$ 60,932	\$ 78,591	\$ 1,197	\$ 1,223	\$ 141,943
Operating income (loss) ⁽¹⁾	6,523	3,356	(517)	(23,056)	(13,694)
Capital asset additions	\$ 2,734	\$ 1,952	\$ 206	\$ 895	\$ 5,787
As of December 31, 2020					
Total assets	\$ 81,431	\$ 96,262	\$ 5,484	\$ 32,392	\$ 215,569
	STK	Kona Grill	ONE Hospitality	Corporate	Total
For the year ended December 31, 2019					
Total revenues	\$ 89,857	\$ 23,741	\$ 5,964	\$ 1,119	\$ 120,681
Operating income (loss) ⁽²⁾	15,242	1,511	1,726	(5,688)	12,791
Capital asset additions	\$ 3,330	\$ 195	\$ 40	\$ 792	\$ 4,357
As of December 31, 2019					
Total assets	\$ 82,691	\$ 93,829	\$ 8,252	\$ 21,813	\$ 206,585

(1) Operating loss for the Corporate segment for the year ended December 31, 2020 includes \$5.5 million in COVID-19 related expenses.

(2) Operating loss for the Corporate segment for the year ended December 31, 2019 includes \$11.0 million bargain purchase gain from the Kona Grill acquisition.

Note 18 – Geographic Information

Certain financial information by geographic location relating to the years ended December 31, 2020 and 2019 is provided below (in thousands).

	For the year ended December 31,	
	2020	2019
Domestic revenues	\$ 140,537	\$ 115,449
International revenues	1,406	5,232
Total revenues	\$ 141,943	\$ 120,681
	December 31,	December 31,
	2020	2019
Domestic long-lived assets	\$ 180,935	\$ 179,143
International long-lived assets	258	301
Total long-lived assets	\$ 181,193	\$ 179,444

Note 19 – Commitments and Contingencies

The Company is party to claims in lawsuits incidental to its business, including lease disputes and employee-related matters. In the opinion of management, the ultimate outcome of such matters and judgments, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

LIST OF SUBSIDIARIES

The ONE Group, LLC	Delaware
Little West 12th, LLC	Delaware
Basement Manager, LLC	New York
JEC II, LLC	New York
MPD Space Events, LLC	New York
ONE 29 Park Management, LLC	New York
STK Midtown Holdings, LLC	New York
STK Midtown, LLC	New York
ONE Marks, LLC	Delaware
Asellina Marks, LLC	Delaware
WSATOG, LLC	Delaware
STK Miami, LLC	Florida
STK Miami Service, LLC	Florida
STK-LA, LLC	New York
STK-Las Vegas, LLC	Nevada
STK Atlanta, LLC	Georgia
STK Orlando, LLC	Florida
STK Chicago, LLC	Illinois
STK Westwood, LLC	California
STK Denver, LLC	Colorado
T.O.G. (UK) Limited	United Kingdom
Hip Hospitality Limited	United Kingdom
T.O.G. (Aldwych) Limited	United Kingdom
CA Aldwych Limited	United Kingdom
T.O.G. (Milan) S.r.l.	Italy
STK Rebel (Edinburgh) Limited	United Kingdom
STK Dallas, LLC	Texas
STK Rebel Austin, LLC	Texas
STK Texas Holdings, LLC	Delaware
STK Texas Holdings II, LLC	Delaware
STK Rebel San Diego, LLC	California
STK Rooftop San Diego, LLC	California
STK Ibiza, LLC	Delaware
The ONE Group-STKPR, LLC	Delaware
The ONE Group-MENA, LLC	Delaware
The ONE Group-Qatar Ventures, LLC	Delaware
9401415 Canada Ltd	Canada
The ONE Group-Mexico, LLC	Delaware
TOG Marketing, LLC	Florida
STK Nashville, LLC	Tennessee
STK Bellevue, LLC	Washington
STK Aspen, LLC	Colorado
STK Scottsdale, LLC	Delaware
Kona Grill Acquisition, LLC	Delaware
TOG Kona Sushi, LLC	Arizona
TOG Kona Macadamia, LLC	Delaware
TOG Kona Texas, LLC	Texas
KGA Texas, LLC	Delaware
TOG Kona Texas Concession, LLC	Delaware
TOG Kona Baltimore, LLC	Delaware

OTHER SUBSIDIARIES (not consolidated for GAAP purposes):

Bagatelle Little West 12th, LLC	New York
Bagatelle La Cienega, LLC	California
Bagatelle NY LA Investors, LLC	New York
Seaport Rebel Restaurant LLC	Massachusetts

Consent of Independent Registered Public Accounting Firm

We have issued our report dated March 19, 2021 with respect to the consolidated financial statements included in the Annual Report of The ONE Group Hospitality, Inc. on Form 10-K as of and for the year ended December 31, 2020. We consent to the incorporation by reference of said report in the Registration Statements of The ONE Group Hospitality, Inc. on Form S-1 (File No. 333-222389), Form S-3 (File No. 333-225073), [Form S-8 (File No. 333-193207)] and Form S-8 (File No. 333-232231).

/s/ Plante & Moran PLLC

March 19, 2021

Consent of Independent Registered Public Accounting Firm

We have issued our report dated March 26, 2020 with respect to the consolidated financial statements included in the Annual Report of The ONE Group Hospitality, Inc. on Form 10-K as of and for the year ended December 31, 2019, which appears in The ONE Group Hospitality, Inc. Annual Report on Form 10-K for the year ended December 31, 2020. We consent to the incorporation by reference of said report in the Registration Statements of The ONE Group Hospitality, Inc. on Form S-1 (File No. 333-222389), Form S-3 (File No. 333-225073), [Form S-8 (File No. 333-193207)] and Form S-8 (File No. 333-232231).

/s/ Plante Moran, PC

March 19, 2021

CERTIFICATIONS UNDER SECTION 302

I, Emanuel Hilario, certify that:

1. I have reviewed this Annual Report on Form 10-K of The ONE Group Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2021

/s/ Emanuel Hilario
Emanuel Hilario
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 302

I, Tyler Loy, certify that:

1. I have reviewed this Annual Report on Form 10-K of The ONE Group Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2021

/s/ Tyler Loy

Tyler Loy

Chief Financial Officer

(Principal Financial Officer)

CERTIFICATIONS UNDER SECTION 906

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of The ONE Group Hospitality, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report for the period ended December 31, 2020 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 19, 2021

/s/ Emanuel Hilario
Emanuel Hilario
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 906

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of The ONE Group Hospitality, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report for the period ended December 31, 2020 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 19, 2021

/s/ Tyler Loy
Tyler Loy
Chief Financial Officer
(Principal Financial Officer)
