

ONE Group Hospitality, Inc.
Form 10-Q
May 15, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
x ACT OF 1934**

For the Quarterly Period Ended March 31, 2018

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

(State or other jurisdiction of incorporation or organization)

14-1961545

(I.R.S. Employer Identification No.)

411 W. 14th Street, 2nd Floor, New York, New York

(Address of principal executive offices)

10014

Zip Code

646-624-2400

(Registrant's telephone number, including area code)

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Indicate by check mark whether 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 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting 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. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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If an emerging growth company, indicate by a 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding as of May 8, 2018: 27,352,601

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****THE ONE GROUP HOSPITALITY, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except share information)**

	(unaudited) March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,143	\$ 1,548
Accounts receivable	5,252	5,514
Inventory	1,288	1,402
Other current assets	1,509	1,299
Total current assets	9,192	9,763
Property & equipment, net	37,338	37,811
Investments	2,519	2,957
Deferred tax assets, net	69	69
Other assets	422	384
Security deposits	2,083	2,031
Total assets	\$ 51,623	\$ 53,015
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,095	\$ 5,329
Accrued expenses	6,206	6,987
Deferred license revenue	215	115
Deferred gift card revenue and other	797	999
Due to related parties, net	220	256
Current portion of long-term debt	3,187	3,241
Total current liabilities	15,720	16,927
Deferred license revenue, long-term	1,477	1,222
Due to related parties, long-term	1,197	1,197
Deferred rent and tenant improvement allowances	16,985	17,001
Long-term debt, net of current portion	9,378	10,115
Total liabilities	44,757	46,462

Commitments and contingencies

Stockholders' equity:

Common stock, \$0.0001 par value, 75,000,000 shares authorized; 27,252,101 and 27,152,101 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	3	3
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; no shares issued and outstanding at March 31, 2018 and December 31, 2017	—	—
Additional paid-in capital	41,331	41,007
Accumulated deficit	(31,802)	(31,979)
Accumulated other comprehensive loss	(1,631)	(1,556)
Total stockholders' equity	7,901	7,475
Noncontrolling interests	(1,035)	(922)
Total equity	6,866	6,553
Total Liabilities and Equity	\$ 51,623	\$ 53,015

See notes to the consolidated financial statements.

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

	For the three months ended March 31,	
	2018	2017
Revenues:		
Owned restaurant net revenues	\$ 15,076	\$ 14,228
Owned food, beverage and other net revenues	2,005	3,885
Total owned revenue	17,081	18,113
Management, license and incentive fee revenue	2,436	2,314
Total revenues	19,517	20,427
Cost and expenses:		
Owned operating expenses:		
Owned restaurants:		
Owned restaurant cost of sales	4,034	3,876
Owned restaurant operating expenses	9,378	9,369
Total owned restaurant expenses	13,412	13,245
Owned food, beverage and other expenses	1,689	2,937
Total owned operating expenses	15,101	16,182
General and administrative (including stock-based compensation of \$324 and \$153, respectively)	3,055	2,921
Depreciation and amortization	778	866
Lease termination expense and asset write-offs	—	273
Pre-opening expenses	210	470
Equity in loss (income) of investee companies	23	(45)
Other (income) expense, net	(111)	12)
Total costs and expenses	19,056	20,679
Operating income (loss)	461	(252)
Interest expense, net of interest income	318	259
Income (loss) from continuing operations before provision for income taxes	143	(511)
Income tax provision (benefit)	25	(17)
Income (loss) from continuing operations	118	(494)
Loss from discontinued operations	—	(106)
Net income (loss)	118	(600)
Less: net loss attributable to noncontrolling interest	(113)	(198)

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Net income (loss) attributable to The ONE Group Hospitality, Inc.	\$231	\$(402))
Currency translation adjustment	(75)	(56)
Comprehensive income (loss)	\$156	\$(458))
Basic earnings (loss) per share:			
Continuing operations	\$0.01	\$(0.01))
Discontinued operations	\$—	\$—)
Attributable to The ONE Group Hospitality, Inc.	\$0.01	\$(0.02))
Diluted earnings (loss) per share:			
Continuing operations	\$0.01	\$(0.01))
Discontinued operations	\$—	\$—)
Attributable to The ONE Group Hospitality, Inc.	\$0.01	\$(0.02))
Weighted average number of common shares outstanding:			
Basic	27,187,657	25,050,628	
Diluted	27,388,498	25,050,628	

See notes to the consolidated financial statements.

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

	Common stock Shares	Par value	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Stockholders' equity	Noncontrolling interest	Total
Balance at December 31, 2017	27,152,101	\$ 3	\$41,007	\$(31,979)	\$(1,556)	\$ 7,475	\$(922)	\$6,553
Adoption of ASC 606 "Revenue from contract with customers"	—	—	—	(54)	—	(54)	—	(54)
Stock based compensation expense	—	—	324	—	—	324	—	324
Vesting of restricted shares	100,000	—	—	—	—	—	—	—
Loss on foreign currency translation, net	—	—	—	—	(75)	(75)	—	(75)
Net income	—	—	—	231	—	231	(113)	118
Balance at March 31, 2018	27,252,101	\$ 3	\$41,331	\$(31,802)	\$(1,631)	\$ 7,901	\$(1,035)	\$6,866

See notes to the consolidated financial statements.

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

	For the quarter ended March 31,	
	2018	2017
Operating activities:		
Net income (loss)	\$118	\$(600)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	778	866
Amortization of discount on warrants	51	47
Deferred rent	(18)	(35)
Deferred taxes	(2)	—
Loss (income) from equity method investments	23	(45)
Gain on disposition of cost method investment	(185)	—
Stock-based compensation	324	153
Changes in operating assets and liabilities:		
Accounts receivable	190	(386)
Inventory	115	(78)
Prepaid expenses and other current assets	(211)	(506)
Due from related parties, net	(99)	(293)
Security deposits	(54)	(7)
Other assets	(37)	32
Accounts payable	(203)	2,394
Accrued expenses	(718)	(1,278)
Deferred revenue	100	583
Net cash provided by operating activities	172	847
Investing activities:		
Purchase of property and equipment	(306)	(1,353)
Proceeds from disposition of cost method investment	600	—
Net cash provided by (used in) investing activities	294	(1,353)