ONE Group Hospitality, Inc.
Form 10-K
April 17, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017
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.)
411 W. 14th Street, 2nd Floor, New York, New York	**10014**
(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	Name of Each Exchange on Which Registered
Common Stock, par value $0.0001 per share	**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 x

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 x

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

(Do not check if a smaller
reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected to not use the extended transition period for complying with 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 Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to the price at which the common stock was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter, was $35,694,779.

Number of shares of Common Stock outstanding as of April 6, 2018: 27,252,101

DOCUMENTS INCORPORATED BY REFERENCE

None

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Cautionary Note Regarding Forward-Looking Statements:

We would like to caution our readers that 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, which are intended to speak only as of the date thereof, involve risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future performance or achievements expressed or implied by the forward-looking statements. Factors that might cause actual events or results to differ materially from those indicated by these forward-looking statements may 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 as a result of Federal and State legislation, future litigation 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. 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. 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

The ONE Group Hospitality, Inc. is a Delaware corporation that develops, owns and operates, or licenses upscale, high-energy restaurants and lounges and provides turn-key food and beverage services for hospitality venues including hotels, casinos and other high-end locations globally. We define turn-key food and beverage ("F&B") services as those services that can be scaled and implemented by us at a particular hospitality venue and customized per the requirements of the client. We became The One Group Hospitality, Inc. through a reverse merger completed in October 2013. Our stock trades on the NASDAQ under the symbol "STKS".

We were established with the vision of becoming a global market leader in the hospitality industry by melding high-quality service, ambiance and cuisine into one great experience. Our primary restaurant brand is STK, a multi-unit steakhouse concept that combines a high-energy, social atmosphere with the quality and service of a traditional upscale steakhouse. 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, Cosmopolitan Hotel, Royalton, Hippodrome Casino, Hyatt and ME Hotels.

We opened our first restaurant in January 2004 in New York City and as of December 31, 2017, we owned, operated, or managed or licensed 31 venues including 14 STKs in major metropolitan cities in the United States, Europe and Middle East. In addition, we provided food and beverage services in five hotels and casinos. We generate management and incentive fee revenue from those restaurants and lounges that we do not own, but instead manage on behalf of our F&B hospitality clients. All our restaurants, lounges and F&B services are designed 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.

	Venues				
	STK	STK Rooftop	Bagatelle	F&B Hospitality	Total
Company-owned	8	2	-	-	10
Managed	4	-	-	13	17
Licensed	2	1	-	-	3
Other	-	-	1	-	1
	14	3	1	13	31

We expect to continue to expand our operations domestically and internationally through a mix of licensed restaurants and managed units using a disciplined and targeted site selection process ("capital light strategy"). We currently anticipate that our expansion plans will require capital expenditures, net of improvement allowances, of $1.0 million to $2.0 million over the next 12 months. There can be no assurance that we will be able to expand our operations at the rate we currently expect, or at all.

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 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 currently operate eight owned, four managed and two licensed STK restaurants in major metropolitan cities, such as Atlanta, Chicago, Denver, Ibiza, Las Vegas, London, Los Angeles, Miami, Milan, New York and Orlando. We expect to open an STK restaurant in the Andaz Hotel in San Diego, California in the second quarter of 2018.

Our growth in 2018 is expected to continue with the planned opening of licensed locations in Puerto Rico, Dubai, Qatar and Mexico. We had plans to open company-owned restaurants in Austin and Dallas, TX, but have determined that opening these locations is not in line with our capital light strategy. Accordingly, we wrote off assets of $0.6 million in 2017 related to these locations.

Our STK restaurants average approximately 10,000 square feet and we typically target locations that range in size from 8,000 to 10,000 square feet. In 2017, the average unit volume, check average and beverage mix for owned and managed STK restaurants that have been open 18 months at December 31, 2017 were $10.8 million, $110.39 and 37%, respectively.

We are focused on expanding our global footprint. We believe that the locations of our restaurants are critical to our long-term success, and we devote significant time and resources to analyzing each prospective site. 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 30 additional major metropolitan areas across the globe where we could grow our STK brand over the next several years. We expect to open as many as three to five STKs annually in the foreseeable future primarily through licensing agreements, provided that we have sufficient interest from prospective licensees, acceptable locations and quality restaurant managers available to support that pace of growth. From time to time, based on the quality of the opportunity and our current strategy, we may open one or more company-owned restaurants.

F&B Hospitality Services Business

We believe that through our developmental and operational knowledge and know-how, we are able to provide 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, banqueting, catering, private dining rooms, room service and mini bars on a contract basis. Currently we are operating under five F&B hospitality management agreements with hotels and casinos throughout 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, as well as 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 $500,000 to $750,000 of pre-tax income. We expect our food and beverage hospitality services business to be an important driver of our growth and profitability going forward, 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 model. We continue to receive inbound inquiries regarding new opportunities globally, as well as continue to work with existing hospitality clients to identify and develop additional opportunities in their venues. Going forward, we expect to enter into one to two new F&B hospitality agreements annually.

Sourcing and Supply Chain

We seek to ensure consistent quality of the food and beverages served at all of our properties through the coordination and cooperation of our purchasing and culinary departments. All product specifications are established on a global basis by our culinary and purchasing teams, which are then disseminated to all locations through recipe books for all dishes served at our properties.

We maintain consistent, high quality, 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 prior to utilizing 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 true bidding process on local purchases. In markets where we have not instituted 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. Beverage managers at each location are provided with national guidelines for standardized products. We utilize a third-party company to conduct beverage inventory and cost reviews. Our concepts emphasize the bar as a driver of activity in the restaurants and in 2017, the sale of alcoholic beverages accounted for approximately 34% 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 such 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

Our marketing efforts are designed to strengthen our brand recognition in markets where we currently operate and to create brand awareness in new markets prior to 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 facilities and to attract new customers. We conduct frequent promotional programs tailored to the city, brand and clientele of each location. The primary focus of our marketing is to increase awareness of our brand and our overall reputation for quality, service and delivering a high-energy experience. For example, our "Not Your Daddy's Steakhouse" branding campaign for STK is integrated into marketing communications including digital, radio, print and outdoor advertisement. Additional marketing functions include the use of our website, www.togrp.com, to facilitate online reservations 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, such as upscale steakhouse chains such as Del Frisco's, Flemings and The Capital Grille, as well as local upscale steakhouses. There is also competition from other upscale and high-energy restaurants such as Nobu and Lavo, as well as 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 are the owners of the U.S. federal registration rights to the "STK," "Cucina Asellina" and "Asellina" marks, as well as 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.

Employees

As of December 31, 2017, we employed 50 persons (inclusive of 7 in reservations and 6 in event planning) in our corporate office and an aggregate of 103 full-time salaried employees at our locations. In addition, we rely on hourly-wage employees for kitchen staff, servers, bussers, runners, polishers, hosts, bartenders, barbacks, reservationists, administrative support, and interns. Average head count for employees in our restaurants is 88. Combining full-time and part-time employees, we employ and manage approximately 2,000 persons worldwide. We have never experienced a work stoppage and our employees are not represented by labor organization.

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 period 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 Committees 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.

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

We, together with the rest of the restaurant industry, depend on consumer discretionary spending, business travel and the overall economic environment. Disruptions in the overall 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 would also 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 our 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 in the cities where we operate, and are therefore sensitive to economic and other trends and developments in these cities.

We typically operate one to three venues in the cities where we operate. In the foreseeable future, we will continue to maintain a relatively small number of restaurants and F&B service locations. Accordingly, our business is susceptible to adverse changes in these markets whether as a result of declining economic conditions, declining stock market performance, negative publicity, and changes in customer preferences or for other reasons, and any such adverse changes may have a disproportionate effect on our overall results of operations as compared to some of our competitors that may have less restaurant concentration. 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.

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 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. 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 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 four to seven 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: 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 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 as well as pre-opening expenses incurred in connection with opening such operations.

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, as well as 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, Mastro’s, Fleming’s Prime Steakhouse and Wine Bar and The Capital Grille, as well as local upscale steakhouses. There is also competition from non-steak but upscale and high-energy restaurants, as well as other high-end hospitality services companies and high-energy nightlife concepts. To the extent that our restaurants and F&B hospitality services operations are located 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 in order 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.

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, 2017, licensees operated STK restaurants in Ibiza and Dubai and operate an STK Rooftop in San Diego, CA and we are currently working with other licensees to open additional restaurants in Puerto Rico, Abu Dhabi, Dubai and Mexico. 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 venues 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. For example, in 2015, a third party contractor working on an unrelated matter caused a sprinkler head to break, resulting in water damage resulting in the opening of one of our restaurants to be delayed.

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 products, including beef, seafood, quality 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. In the event 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 typically represents approximately 33% 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. We may enter into fixed price supply contracts or consider other risk management strategies with regard to our meat and other food costs to minimize the impact of potential price fluctuations. Our ability to forecast and manage our commodities could significantly affect our gross margins. Energy prices can also affect our operating results, as increased energy prices may cause increased transportation costs for beef and other commodities and supplies, as well as 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.

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

We believe that food safety and reputation for quality is of significance to any company that, like us, operates in the restaurant industry. Food safety, including the prevention of tampering or contamination, is a focus of increased government regulatory initiatives at the local, state and federal levels.

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, as well as 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.

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 other 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, the opportunity to disseminate this information immediately is seemingly limitless and readily available. 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 vehicles 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 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 currently 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 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 term loan 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 recent declines in consumer spending. 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.

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. For example, we believe that the poor weather conditions in the New York City area at the end of 2014 and the beginning of 2015, as well as Hurricane Irma in Florida in 2017, had a negative impact on our sales and results of operations. 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% 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 (aka chargebacks).

The majority of our sales are by credit or debit cards, and other restaurants and retailers have experienced security breaches in which such information has been stolen. Additionally, in 2015, the major credit card networks shifted the liability associated with EMV (Europay/Mastercard/Visa) chip card technology to the merchants; with this shift, any restaurant or merchant that is not using an approved chip and pin point of sale device could become liable for counterfeit or fraudulent charges, or chargebacks. 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 contract research organizations and other 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. In addition, 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, including our ability to conduct research and development activities, 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 but not limited to 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 facilities 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, despite judicial and congressional challenges to certain aspects of the Affordable Care Act (the "ACA"), the ACA currently 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. We are not currently subject to requirements to post nutritional information on our menus or in our locations though there can be no assurance that we will not become subject to these requirements in the future. 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, as well as additional risks including, 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 throughout the world, including, without limitation, 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.

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 for general employees because these employees receive tips as a substantial part of their income. As of December 31, 2017, approximately 32% 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 in order 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 periodic 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.

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, Asellina and Cucina Asellina 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 other 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 term loan agreements with BankUnited, N.A. (“BankUnited”). Default under these agreements could enable BankUnited to sell (at auction or otherwise) our trademarks, which would have a material adverse effect on our ability to continue our business.

A regional or global health pandemic could severely affect our business.

A health pandemic is a disease that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. If a regional or global health pandemic were to occur, depending upon its duration and severity, our business could be severely affected. Customers might avoid public gathering places in the event of a health pandemic, and local, regional or national governments might limit or ban public gatherings to halt or delay the spread of disease. A regional or global pandemic might also adversely impact our business by disrupting or delaying production and delivery of products and materials in our supply chain and causing staff shortages in our restaurants. The impact of a health pandemic might be disproportionately greater on us than on other companies that depend less on the gathering of people in a communal atmosphere.

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.

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.

As disclosed in Item 9A and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, management identified material weaknesses in our internal control over financial reporting related to a lack of an effective financial statement close and reporting process to assess whether our consolidated financial statements are in compliance with GAAP, improper segregation of duties and other design gaps in our information technology environment, including the ability of accounting and finance employees who have custody over cash accounts to process and record transactions within our accounting system and an inadequate level of review of journal entries, including improper segregation of duties within our journal entry process. These material weaknesses were primarily due to an insufficient complement of finance and accounting resources within the organization. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective for the year ended December 31, 2016 based on criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission in Internal Control - An Integrated Framework issued in 2013. During 2017, we initiated a formal remediation plan designed to address these material weaknesses, which we are in the process of implementing. As of December 31, 2017, management believes that these material weakness have not been remediated.

During 2018, management believes that its efforts will remediate the material weaknesses identified as of December 2017, but cannot, however, be certain that any measures we undertake will successfully remediate the material weaknesses or that additional material weaknesses will not be discovered in the future. If our remedial measures are insufficient to address these material weaknesses, or if other material weaknesses are discovered or occur in the future, we may be unable to report our financial results accurately or on a timely basis, which could cause our reported financial results to be materially misstated and result in a loss of investor confidence or delisting and adversely affect the market price of our common stock.

We may need to secure additional financing to support our operations and fund growth.

We expect to rely on our cash flow from operations, tenant improvement allowances and other third-party financing to support our operations and growth. In the event our cash flow is insufficient to fund further expansion, we may need to secure additional funding, including but not limited to sales of additional shares of our capital stock and the incurrence of third party debt or equity to fund our growth. Our ability to obtain additional funding will be subject to various factors, including market conditions, our operating performance, investor appetite, lender and investor sentiment and our ability to incur additional debt in compliance with other contractual restrictions such as financial covenants under our existing credit facility or other debt documents. These factors may make the timing, amount, terms and conditions of additional financings unattractive.

To the extent that we are dependent on additional financing consisting of debt, additional cash flow will be required to service such debt and will most likely contain further restrictive covenants limiting our financial and operational flexibility. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Additionally, our ability to raise capital and incur additional debt in the future could also delay or prevent a change in control of our company, make some transactions more difficult and impose additional financial or other covenants on us. In addition, any significant levels of indebtedness in the future could place us at a competitive disadvantage compared to our competitors that may have proportionately less debt and could make us more vulnerable to economic downturns and adverse developments in our business. Our indebtedness and any inability to pay our debt obligations as they come due or inability to incur additional debt could adversely affect our business and results of operations.

If we raise additional funds through the sale of equity or convertible debt, our current stockholders' percentage ownership will be reduced. We may have to issue securities that have rights, preferences and privileges senior to our common stock.

There is no assurance that we will be successful in securing the additional capital we need to fund our business plan on terms that are acceptable to us, or at all. If future financing is not available or is not available on acceptable terms, we may not be able to fund our future needs, which would have a material adverse effect on our business plans,

prospects, results of operations and financial condition.

We may not be able to comply with certain debt covenants or generate sufficient cash flow to make payments on our debt.

Our current credit agreements contain a number of significant restrictive covenants that generally limit our ability to, among other things:

- incur additional indebtedness or make amendments to indebtedness, subject to certain exceptions;
- issue guarantees;
- make investments;
- use assets as security in other transactions or create any other liens;
- sell assets or merge with or into other companies; and
- make capital expenditures in excess of specified amounts.

Our credit agreements also require 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. If we were to default under our covenants and such default were not cured or waived, our indebtedness could become immediately due and payable, which could render us insolvent. If we breach these covenants and fail to comply with the credit agreements, and the lenders accelerate the amounts outstanding, our business and results of operations would be adversely affected.

The recently passed comprehensive federal tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "TCJA"), which significantly reforms the Internal Revenue Code of 1986, as amended (the "Code"). The TCJA, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest and net operating loss carryforwards, allows for the expensing of capital expenditures, and puts into effect the migration from a "worldwide" system of taxation to a territorial system. Our net deferred tax assets and liabilities have been revalued at the newly enacted U.S. corporate rate, and an estimate of impact has been recognized in our tax expense for 2017. We continue to examine the impact this tax reform legislation may have on our business. Due to the complexities involved in accounting for the enactment of the TCJA, SEC Staff Accounting Bulletin 118 ("SAB 118") allows companies to record provisional estimates of the impacts of the TCJA during a measurement period of up to one year from the enactment date. The Company will continue to assess the impact of the recently enacted tax law on its consolidated financial statements, the impact of which could adversely affect our business and financial condition.

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 or 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 locations operates in premises leased by its operating subsidiary or functions pursuant to a management agreement with one of our hospitality partners.

As of December 31, 2017, our locations that we lease under operating lease agreements are as follows:

Venue	**Location**	**Ownership**	**Square Feet** (1)	**Lease Expiration** (2)
STK Atlanta	Atlanta, GA	100.00%	12,000	12/31/2026
STK Chicago	Chicago, Illinois	100.00%	9,300	9/30/2025
STK Denver	Denver, Colorado	100.00%	7,000	6/30/2026
STK Downtown (3)	New York City, NY	61.22%	24,000	4/30/2025
STK Miami Beach	Miami Beach, FL	100.00%	11,400	10/31/2027
STK Midtown	New York City, NY	100.00%	13,400	8/23/2031
STK Orlando (3)	Orlando, Florida	100.00%	16,300	11/30/2030
STK San Diego (4)	San Diego, California	100.00%	8,400	4/30/2026
STK Westwood (5)	Los Angeles, California	100.00%	11,200	4/30/2025

(1) Approximate
(2) Lease expiration date is based on term of lease as specified in applicable operating lease agreement without taking into account renewal options.
(3) Includes rooftop lounge.
(4) Anticipated to open during second quarter of 2018. Lease currently in effect.
(5) In addition to our restaurant, we manage the pool bar and overall hospitality services for the attached hotel.

As of December 31, 2017, locations that we operate under management and licensing agreements, but in which we have no direct ownership interest, are:

Venue	**Hotel/Casino**	**Location**	**Square Feet** (1)	**Management/License Agreement Expiration** (2)
STK Dubai	Jumeirah Beach Residence	Dubai, UAE	10,000	12/4/2027
STK Ibiza	Ibiza Corso Hotel & Spa	Illes Balears, Spain	13,300	7/18/2026
STK Las Vegas	The Cosmopolitan	Las Vegas, NV	10,000	1/28/2020
STK London	ME London	London, England	8,000	12/31/2022

STK Milan	ME Milan	Milan, Italy	7,200	5/11/2025
STK Rooftop San Diego	Andaz Hotel	San Diego, CA	8,000	4/30/2026
STK Toronto	—	Toronto, Canada	9,800	7/30/2030
Heliot	Hippodrome Casino	London, England	4,900	7/12/2022
Lola's Underground Casino	Hippodrome Casino	London, England	3,500	7/12/2022
Marconi	ME London	London, England	1,900	12/31/2022
Radio Rooftop Bar (Lounge)	ME London	London, England	5,500	12/31/2022
Radio Rooftop Bar (Lounge)	ME Milan	Milan, Italy	5,200	5/11/2025

(1) Approximate

(2) Management/License agreement expiration date is based on original term as specified in applicable agreement without taking into account renewal options

In addition to the locations above, we lease approximately 13,800 square feet in New York City, New York for our corporate headquarters. This lease is set to expire in August 2021.

We also lease approximately 1,300 square feet of office space in London, England. The lease is set to expire in August 2018.

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, 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 material legal settlements that we made in 2017, see Note 16. "Litigation" 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			
	2017		2016	
	High	Low	High	Low
First Quarter	$2.29	$1.47	$3.24	$2.33
Second Quarter	2.41	1.83	2.96	2.24
Third Quarter	2.19	1.33	2.84	2.25
Fourth Quarter	2.64	1.31	3.43	1.98
Source: NASDAQ Capital Market				

Our public units and warrants, which expired on February 27, 2016, were traded on the OTCQB marketplace under the symbols “STKSU” and “STKSW”, respectively. The following table includes the high and low bids for these units and warrants for the period indicated:

	Units		Warrants	
	High	Low	High	Low
1/1/2016 – 2/27/2016	$2.15	$1.10	$0.02	$0.0045
Source: OTC IQ				

Holders

As of April 6, 2018, we estimate that there were 98 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, if any, 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.

Overview

We are a hospitality company that develops, owns and operates upscale, high-energy restaurants and lounges and provides turn-key F&B services for hospitality venues including hotels, casinos and other high-end locations globally. We opened our first restaurant in January 2004 in New York City and as of December 31, 2017, we owned, operated or managed 31 venues including 14 STKs in major metropolitan cities in the United States, Europe and the Middle East. In addition, we provided food and beverage services in five hotels and casinos, one of which includes an owned restaurant and four of which are under separate management agreements. Our primary restaurant brand is STK, a steakhouse concept that features a high-energy, fun environment that encourages social interaction. Our plans for near term growth include the opening of an owned STK restaurant in San Diego in 2018. Our growth in 2018 will continue with the opening of licensed locations in Puerto Rico, Dubai, Qatar and Mexico. The average unit volume, check average and beverage mix for STK restaurants that have been open a full 18 months at December 31, 2017 were $10.8 million, $110.39 and 37%, respectively.

In addition to operating stand-alone restaurants, we operate turn-key F&B services at high-end hotels and casinos, which, in some cases, include upscale restaurants such as STK. Our diversified portfolio of differentiated, high-energy F&B hospitality solutions provides landlords and owners the option of having one or several of our concepts and/or services in their venues. These locations are typically operated under our management agreements under which we earn a management fee based on revenue and an incentive fee based on the profitability of the underlying operations. We typically target food and beverage hospitality opportunities where we believe we can generate $500,000 to $750,000 of annual pre-tax income. We also own or manage other standalone restaurants and lounges inside hotels and casinos.

Our loss from continuing operations before income taxes was $3.8 million for the year ended December 31, 2017 compared to a loss from continuing operations before income taxes of $6.0 million for the year ended December 31, 2016. The reduced loss from continuing operations before income taxes in 2017 compared to 2016 is due to overall sales growth and profitability improvements from existing restaurants, new owned restaurants and managed and licensed locations combined with reductions in pre-opening expenses partially offset by increased settlement costs and higher interest expense.

Our net loss for the year ended December 31, 2017 was $4.0 million compared to a net loss of $16.5 million for the year ended December 31, 2016. In December 2016, we recorded a valuation allowance of approximately $12.7 million against our deferred tax assets.

Stockholders' equity transactions

In November 2017, we entered into a Securities Purchase Agreement with certain investors pursuant to which we issued and sold in a registered direct offering an aggregate of 1.75 million shares of our common stock, at an offering price of $1.50 per share for gross proceeds of approximately $2.6 million before deducting expenses associated with the offering. In a concurrent private placement, we issued warrants to purchase an aggregate of 875,000 shares of common stock to the investors who participated in the registered direct offering.

Our Growth Strategies and Outlook

Our growth model is primarily comprised of the following drivers:

Expansion of STK. We have identified over 30 additional major metropolitan areas across the globe where we could grow our STK brand over the next several years. We expect to open as many as three to five STK restaurants 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.

Expansion through New F&B Hospitality Projects. We believe that 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 projects, which traditionally have provided us with revenue through management and incentive revenue while requiring minimal capital expenditures from us. We continue to receive a large number of inquiries regarding new services at new hospitality venues globally and continue to work with existing hospitality clients to identify and develop additional opportunities at their venues. Going forward, we expect to target at least one to two new F&B hospitality projects every twelve months.

Increase Our Operating Efficiency. In addition to expanding into new cities and hospitality venues, we intend to increase revenue and profits in our existing operations, and we believe that we have adequate capital and resources available to allocate towards operational initiatives. We expect same store sales to grow in 2018, at a mid-single digit pace. We also plan to improve operating margins by driving same store sales growth through continued focus on high-quality, high-margin food and beverage menu items. Furthermore, as our footprint continues to increase in scale, 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 will continue to look at opportunities to decrease our general and administrative expenses through 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:

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 months after opening. However, operating costs during this initial 18 month 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 months after opening. Some new restaurants may experience a “honeymoon” period either shorter or longer than 18 months.

Average Check. Average check is calculated by dividing total restaurant sales by total entrees sold for a given time 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.

Average Comparable Unit Volume. Average comparable unit volume 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 our overall brand development.

Comparable Unit Sales. We consider a unit to be comparable, whether owned or managed, in the first full quarter following the 18th month of operation to remove the impact of new unit openings in comparing the operations of existing units. Changes in comparable unit sales reflect changes in sales for the comparable group of units over a

specified period of time. Changes in comparable sales reflect changes in customer count trends as well as changes in average check, which reflects both menu mix shifts and menu pricing. Our comparable unit base consisted of six units for the years ended December 31, 2017 and December 31, 2016, respectively.

Key Financial Terms and Metrics

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

Segment reporting

We operate in three segments: “Owned restaurants”, “Owned food, beverage and other”, and “Managed and Licensed operations”. We believe these to be our reportable segments as they do not have similar economic or other characteristics to be aggregated into a single reportable segment. Our Owned restaurant segment consists of leased restaurant locations and competes in the full-service dining industry. Our Owned food, beverage and other segment consists of operations that are hybrid in nature, such as where we have a leased restaurant location and also have a food and beverage agreement at the same location, typically a hotel, and our offsite banquet offerings. The primary component of this segment is our operations at the W Hotel in Beverly Hills, California. Our Managed and Licensed operations segment includes all operations for which a management, incentive or license fee is received. Management agreements generate management fees on net revenue and incentive fees on operating profit as defined in the applicable management agreement. License agreements generate revenue primarily through royalties earned on net revenue at each location. Revenues associated with developmental support for licensed locations are also included within this segment.

See Note 19 to our consolidated financial statements set forth in Item 8 of the Annual Report on Form 10-K for further information on our segment reporting.

Revenues

Owned restaurant net revenues. Owned restaurant net revenues consists of food and beverage sales by owned restaurants net of any discounts associated with each sale. In 2017, beverage sales comprised 34% of food and beverage sales, before giving effect to any discounts, with food sales comprising the remaining 66%. This indicator assists management in understanding the trends in gross margins of the units.

Owned food, beverage and other net revenue. Owned food, beverage and other net revenues include the sales generated by the owned restaurant at the location and any ancillary F&B hospitality services at the same location. From time-to-time, offsite banquet opportunities arise and are reflected here.

Management, license and incentive revenue. Management, license and incentive revenue includes: (1) management fees received pursuant to management and license agreements that are calculated based on a fixed percentage of revenues at the managed or licensed location; (2) incentive fees based on the operating profitability of a particular venue, as defined in each agreement, (3) development support fees earned upon the satisfaction of performance criteria which are recognized upon the launch of a new location; and (4) recognition of license fee revenues, which are recognized over the term of the license. We evaluate the performance of our managed and licensed properties based on sales growth, a key driver for our management/royalty fees, and on improvements in operating profitability margins, which combined with sales, drives incentive fee growth.

Our primary restaurant brand is STK and we specifically look at comparable revenues from both owned and managed STKs to understand customer count trends and changes in average check as it relates to our primary restaurant brand.

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. Purchases of beef represented approximately 33% and 30% of our food and beverage costs during 2017 and 2016, respectively. 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 consists 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 consists 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 includes 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, as well as computer maintenance contracts. We expect these costs to increase as the facility gets older.

Marketing. Marketing includes the cost of promoting our brands and, at times, can include the cost of goods used specifically for complimentary purposes. Marketing costs will typically be higher during the first 18 months of a unit's operations.

General and administrative. General and administrative expenses are comprised of all corporate overhead expenses, including payroll and related benefits, professional fees, such as legal and accounting fees, insurance and travel expenses. Certain centrally managed general and administrative expenses are allocated specifically to units 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 consists principally of charges related to the depreciation of fixed assets including leasehold improvements, equipment and furniture and fixtures. As we support our growth initiatives with an increasing number of managed and licensed restaurant openings, depreciation and amortization is not expected to increase significantly in the near future.

Pre-opening expenses. Pre-opening expenses consist of costs incurred prior to opening an owned or managed STK unit at either a leased or F&B location. Pre-opening expense 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 these costs to decrease as we focus our growth towards a 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.

Equity in (income) loss of subsidiaries. This represents the income or loss that we record under the equity method of accounting for entities that are not consolidated. Included in this amount is our ownership in Bagatelle New York for which we have effective ownership of approximately 51%, consisting of a 5.23% direct ownership interest by us and a 45.9% ownership interest through two of our subsidiaries. We also have a 10% effective ownership in One 29 Park, LLC ("One 29 Park"). One 29 Park operates a restaurant and manages the rooftop of a hotel located in New York, NY. Until the fourth quarter of 2017, we accounted for our investment in One 29 Park under the equity method of accounting based on our assessment that we had significant influence over One 29 Park's operations. In the fourth quarter of 2017, the majority ownership of One 29 Park changed. As a result of this ownership change, we believe that we no longer have significant influence over the operations of One 29 Park and now account for our investment in One 29 Park under the cost method of accounting. In March 2018, we entered into an agreement to sell our 10% interest in One 29 Park to the new ownership group for $0.6 million.

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, 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, deferred rent, pre-opening expenses, lease termination expenses, non-recurring gains and losses, stock-based compensation and losses 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 more appropriate measures of our operating performance, as they provide a clearer picture of our operating results by eliminating certain non-cash expenses that are not reflective of the 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 units. 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 included in this Annual Report on Form 10-K because it is a key metric 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 (loss), 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 28 for our reconciliation of net loss to EBITDA and Adjusted EBITDA.

Results of Operations

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

	For the years ended December 31,	
	2017	2016
Revenues:		
Owned restaurant net revenues	$58,654	$54,068
Owned food, beverage and other net revenues	10,227	9,880
Total owned revenue	68,881	63,948
Management, license and incentive fee revenues	10,779	8,466
Total revenues	79,660	72,414
Cost and expenses:		
Owned operating expenses:		
Owned restaurants:		
Owned restaurant cost of sales	15,544	13,781
Owned restaurant operating expenses	37,076	34,542
Total owned restaurant expenses	52,620	48,323
Owned food, beverage and other expenses	9,400	8,805
Total owned operating expenses	62,020	57,128
General and administrative (including stock-based compensation expense of $1,052 and $838, respectively)	11,893	11,172
Settlements	1,245	—
Depreciation and amortization	3,051	2,647
Lease termination expense and asset write-offs	2,225	529
Pre-opening expenses	1,595	5,994
Transaction costs	421	1,293
Equity in income of investee companies	(168)	(674)
Other expense (income), net	36	(46)
Total costs and expenses	82,318	78,043
Operating loss	(2,658)	(5,629)
Other expenses, net:		
Derivative income	—	(100)
Interest expense, net of interest income	1,167	464
Total other expenses, net	1,167	364
Loss from continuing operations before provision for income taxes	(3,825)	(5,993)
Provision for income taxes	600	10,370
Loss from continuing operations	(4,425)	(16,363)

Income (loss) from discontinued operations	397	(92)
Net loss	(4,028)	(16,455)
Less: net income attributable to noncontrolling interests	188	233
Net loss attributable to The ONE Group Hospitality, Inc.	$(4,216)	$(16,688)

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The following table sets forth certain statements of income data as a percentage of total revenues for the periods indicated:

	For the years ended December 31,	
	2017	2016
Revenues:		
Owned restaurant net revenues	73.7 %	74.7 %
Owned food, beverage and other revenues	12.8 %	13.6 %
Total owned revenues	86.5 %	88.3 %
Management, license and incentive fee revenues	13.5 %	11.7 %
Total revenues	100.0 %	100.0 %
Cost and expenses:		
Owned operating expenses:		
Owned Restaurants:		
Owned restaurant cost of sales (1)	26.5 %	25.5 %
Owned restaurant operating expenses (1)	63.2 %	63.9 %
Total owned restaurant expenses (1)	89.7 %	89.4 %
Owned food, beverage and other expenses (2)	91.9 %	89.1 %
Total owned operating expenses (3)	90.0 %	89.3 %
General and administrative (including stock-based compensation expense of 1.3% and 1.2%, respectively)	14.9 %	15.4 %
Settlements	1.6 %	— %
Depreciation and amortization	3.8 %	3.7 %
Lease termination expense and asset write-offs	2.8 %	0.7 %
Pre-opening expenses	2.0 %	8.3 %
Transaction costs	0.5 %	1.8 %
Equity in income of investee companies	(0.2)%	(0.9)%
Other expense (income)	— %	(0.1)%
Total costs and expenses	103.3 %	107.8 %
Operating loss	(3.3)%	(7.8)%
Other expenses, net:		
Derivative income	— %	(0.1)%
Interest expense, net of interest income	1.5 %	0.6 %
Total other expenses, net	1.5 %	0.5 %
Loss from continuing operations before provision for income taxes	(4.8)%	(8.3)%
Provision for income taxes	0.8 %	14.3 %
Loss from continuing operations	(5.6)%	(22.6)%
Income (loss) from discontinued operations	0.5 %	(0.1)%

Net loss	(5.1)%	(22.7)%
Less: net income attributable to noncontrolling interests	0.2 %	0.3 %
Net loss attributable to The One Group Hospitality, Inc.	(5.3)%	(23.0)%

(1) These expenses are being shown as a percentage of owned restaurant net revenues.
(2) These expenses are being shown as a percentage of owned food, beverage and other net revenues.
(3) These expenses are being shown as a percentage of total owned revenue.

The following tables show our operating results by segment for the periods indicated (in thousands):

	For the year ended December 31, 2017			
	Owned restaurants	Owned food, beverage and other	Managed and licensed operations	Total
Revenues, net:				
Owned net revenues	$58,654	$ 10,227	$ —	$68,881
Management, license and incentive fee revenue	—	—	10,779	10,779
Total revenue	58,654	10,227	10,779	79,660
Cost and expenses:				
Owned operating expenses:				
Cost of sales	15,544	—	—	15,544
Other operating expenses	37,076	—	—	37,076
Owned F&B and other expenses	—	9,400	—	9,400
Total owned operating expenses	52,620	9,400	—	62,020
Segment income	$6,034	$ 827	$ 10,779	$17,640
General and administrative				11,893
Depreciation and amortization				3,051
Interest expense, net of interest income				1,167
Equity in income of investee companies				(168)
Other				5,522
Loss from continuing operations before provision for income taxes				$(3,825)

	For the year ended December 31, 2016			
	Owned restaurants	Owned food, beverage and other	Managed and licensed operations	Total
Revenues, net:				
Owned net revenues	$ 54,068	$ 9,880	$ —	$ 63,948
Management, license and incentive fee revenue	—	—	8,466	8,466
Total revenue	54,068	9,880	8,466	72,414
Cost and expenses:				
Owned operating expenses:				
Cost of sales	13,781	—	—	13,781
Other operating expenses	34,542	—	—	34,542
Owned F&B and other expenses	—	8,805	—	8,805
Total owned operating expenses	48,323	8,805	—	57,128
Segment income	$ 5,745	$ 1,075	$ 8,466	$ 15,286
General and administrative				11,172
Depreciation and amortization				2,647
Interest expense, net of interest income				464
Equity in income of investee companies				(674)
Other				7,670
Loss from continuing operations before provision for income taxes				$ (5,993)

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

	For the years ended December 31,	
	2017	2016
Net loss attributable to The ONE Group Hospitality, Inc.	$(4,216)	$(16,688)
Net income attributable to noncontrolling interest	188	233
Net loss	(4,028)	(16,455)
Interest expense, net of interest income	1,167	464
Provision for income taxes	600	10,370
Depreciation and amortization	3,051	2,647
EBITDA	790	(2,974)
Deferred rent [1]	(71)	(657)
Pre-opening expenses	1,595	5,994
Lease termination expense and asset write-offs [2]	2,225	529
Loss from discontinued operations	(397)	92
Transaction costs [3]	421	1,293
Derivative income	—	(100)
Stock based compensation	1,052	838
Settlements	1,245	—
Equity share of settlement costs	270	—
Other nonrecurring charges	332	—
Adjusted EBITDA	7,462	5,015
Adjusted EBITDA attributable to noncontrolling interest	456	491
Adjusted EBITDA attributable to The ONE Group Hospitality, Inc.	$7,006	$4,524

(1) Deferred rent is included in owned restaurant operating expenses and general and administrative expense on the statement of operations and comprehensive loss.

(2) Lease termination expense and asset write-offs is related to the costs associated with closed or abandoned locations.

(3) Transaction costs relate to the evaluation of strategic alternatives, liquidity improvement options and capital raising activities.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues

Owned restaurant net revenues. Owned restaurant net revenues increased $4.6 million, or 8.5%, from $54.1 million for the year ended December 31, 2016 to $58.7 million for the year ended December 31, 2017. This increase was primarily due to a full year of operations from STK in Orlando (opened in May 2016) and a near full year of sales from our Denver location (opened in January 2017), offsetting a decrease in sales from the closing of our Washington, D.C location in December 2016. Comparable unit sales increased +0.5% for the year ended December 31, 2017. The increase is primarily due to increases in revenue at our two New York City restaurants.

Owned food, beverage and other revenues. Owned food, beverage and other revenues increased $0.3 million, or 3.5%, from $9.9 million for the year ended December 31, 2016 to $10.2 million for the year ended December 31, 2017. This increase was primarily due to an increase in revenue from off-site catering events.

Management and license fee revenue. Management and license fee revenues increased $2.3 million, or 27.3%, from $8.5 million for the year ended December 31, 2016 to $10.8 million for the year ended December 31, 2017. This was the result of an increase in incentive fees generated by our UK operations and new licensing deals.

Revenue generated from the restaurants and lounges for which we operate under management or license agreements, and from F&B services at hospitality venues impacts the amount of management and incentive fees earned.

Cost and Expenses

Owned restaurant cost of sales. Food and beverage costs for owned restaurants increased $1.8 million, or 12.8%, from $13.8 million for the year ended December 31, 2016 to $15.5 million for the year ended December 31, 2017. This increase was primarily due to a full year of operations at our owned restaurants in Orlando and Denver. As a percentage of owned restaurant net revenues, cost of sales increased from 25.5% for the year ended December 31, 2016 to 26.5% for the year ended December 31, 2017. The increase in the percentage of food and beverage costs was driven by higher beef costs. Food revenues as a percentage of total food and beverage revenues were approximately 64% and 61% for the years ended December 31, 2017 and 2016, respectively. Food cost as a percentage of food revenues are typically higher than beverage cost as a percentage of beverage revenues.

Owned restaurant operating expenses. Owned restaurant operating expenses increased $2.6 million, or 7.3%, from $34.5 million for the year ended December 31, 2016 to $37.1 million for the year ended December 31, 2017. The increase in operating expenses was primarily due to a full year of operations at our owned restaurants in Orlando and Denver. As a percentage of owned restaurant net revenues, owned restaurant operating expenses decreased 0.7% from 63.9% for the year ended December 31, 2016 to 63.2% for the year ended December 31, 2017. This improvement was due to the leverage of comparable sales growth and a continued focus on labor and spending efficiency.

Owned food, beverage and other expenses. Owned food, beverage and other expenses increased $0.6 million, or 6.8%, from $8.8 million for the year ended December 31, 2016 to $9.4 million for the year ended December 31, 2017. This increase is primarily related to the expenses for off-site catering events.

General and administrative. General and administrative costs increased $0.7 million, or 6.5% from $11.2 million for the year ended December 31, 2016 to $11.9 million for the year ended December 31, 2017. The cost increase was due primarily to an increase in bonus, payroll and payroll related tax expenses of $0.4 million, non-cash stock-based compensation of $0.2 and professional fees of $0.3 million. General and administrative costs as a percentage of total revenues decreased from 15.4% for the year ended December 31, 2016 to 14.9% for the year ended December 31, 2017 due in part to the leverage derived from increased revenue.

Depreciation and amortization. Depreciation and amortization expense increased $0.4 million, or 15.3%, from $2.6 million for the year ended December 31, 2016 to $3.1 million for the year ended December 31, 2017. The increase is primarily due to a full year of depreciation on capital assets at our STKs in Orlando and Denver.

Lease termination expense and asset write-offs. Lease termination expense and asset write-offs of approximately $2.2 million for the year ended December 31, 2017 are for charges we incurred for the development of future company-owned restaurants that we decided to not pursue further as we have decided to move forward with a capital light strategy. In 2017, the Company determined that it would not open venues in Austin and Dallas, Texas. For the year ended December 31, 2017, the Company has accrued for approximately $1.5 million of future lease payments, net of expected sublease income. These charges are included in lease termination expenses and asset write-offs on the consolidated statements of operations and comprehensive loss. These charges are not specifically allocated to our reportable segments.

For the year ended December 31, 2016, we recorded charges of $0.5 million for charges related to the termination of the leases associated with STKs in Los Angeles, CA and Washington, D.C.

Pre-opening expenses. Pre-opening expenses for the year ended December 31, 2017 were $1.6 million compared to pre-opening expenses of $6.0 million in the prior year. The decrease is due primarily to the development of fewer owned restaurants and limited pre-opening expenses for managed locations in the current period.

Transaction costs. Transaction costs were $0.4 million for the year ended December 31, 2017 and $1.3 million for the year ended December 31, 2016. Transaction costs for the year ended December 31, 2017 included professional and other expenses related to the evaluation of strategic alternatives and capital raising activities. Transaction costs for the year ended December 31, 2016 included professional and other expenses related to several strategic alternatives.

Equity in income of investee companies. Equity in income of investee companies decreased by $0.5 million from $0.7 million for the year ended December 31, 2016 to $0.2 million for the year ended December 31, 2017 and is primarily related to a decrease in income from our ownership interests in restaurants based in New York City.

Interest expense, net of interest income. Interest expense, net of interest income increased by $0.7 million from $0.5 million for the year ended December 31, 2016 to $1.2 million, for the year ended December 31, 2017. The increase in interest is primarily due to additional interest accruing on $6.3 million of promissory notes that we entered into in 2016 and an equipment financing agreement entered into in February 2017.

Provision for income taxes. The provision for income taxes for the year ended December 31, 2017 was a tax expense of $0.6 million. The provision for income taxes for the year ended December 31, 2016 was a tax expense of $10.4 million. Our annual effective tax rate was -15.7% for the year ended December 31, 2107 and -173.0% for the year ended December 31, 2016. In 2016, we established a valuation allowance of $12.0 million on our deferred tax assets. Our 2017 taxes were impacted by the enactment of the TCJA in December 2017, which, amongst other things, reduced the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. Pursuant to the TCJA, we recorded the following adjustments to income tax expense during the fourth quarter of 2017:

- A one-time deemed repatriation of foreign earnings & profits amounted to $1.9 million. No tax liability was recorded due to the available net operating loss carryforwards. This resulted in a reduction of deferred tax assets and a corresponding reduction in valuation allowance of $0.8 million; and
- A reduction of net deferred tax assets and a corresponding reduction of the valuation allowance of $2.9 million, primarily for the re-measurement of our deferred tax assets at the newly enacted tax rate of 21%.

Due to the complexities involved in accounting for the enactment of the TCJA, SEC Staff Accounting Bulletin 118 allows companies to record provisional estimates of the impacts of the TCJA during a measurement period of up to one year from the enactment date. In order to estimate the impact of the one-time transition tax on accumulated foreign earnings, we used the retained earnings of our foreign subsidiaries as a proxy to calculate E&P for the 2017 tax provision. While retained earnings and E&P are two separate and distinct calculations, we believe that retained earnings can initially be used as a relatively accurate proxy for E&P. We believe that typical E&P adjustments for items such as depreciation, certain reserves and tax exempt income and other permanent nondeductible expenses for E&P are either immaterial or nonexistent. Therefore, in the absence of a formal E&P analysis, retained earnings was considered to be a reasonable estimate. As of December 31, 2017, the net retained earnings of our foreign subsidiaries was $1.9 million. We will conduct a comprehensive E&P analysis prior to the filing of our 2017 tax return. Only after the completion of the E&P study will we be able to determine with certainty the tax impact of the deemed repatriation provision of the TCJA. Any adjustment resulting from the E&P analysis will be included as a tax adjustment to continuing operations in 2018.

Income (loss) from discontinued operations, net of taxes. Prior to 2015, we decided to cease operations in six of our locations. Expenses for these operations are presented as loss from discontinued operations and represent the winding down of these operations. Income from discontinued operations was $0.4 million for the year ended December 31, 2017 and was the result of a $0.5 million sales tax settlement previously accrued for one of our discontinued operations offset by $0.1 million in miscellaneous expenses. Loss from discontinued operations was $0.1 million for each of the years ended December 31, 2017 and 2016.

Net income attributable to noncontrolling interest. Net income attributable to noncontrolling interest was approximately $0.2 million for each of the years ended December 31, 2017 and December 31, 2016.

Liquidity and Capital Resources

We believe that net cash provided by anticipated operating activities and construction allowances provided by landlords of certain locations will be sufficient to fund currently anticipated working capital, planned capital expenditures and debt service requirements for the next 12 to 18 months.

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 following the issuance of the consolidated financial statements, including costs of opening currently planned new restaurants, through cash provided by operations and construction allowances provided by landlords of certain locations.

We cannot be sure that these sources will be sufficient to finance our operations throughout this period and beyond, however, and we may seek additional financing in the future, which may or may not be available on terms and conditions satisfactory to us, or at all. As of December 31, 2017, we had cash and cash equivalents of approximately $1.5 million.

We expect that our capital expenditures during fiscal 2018 will be significantly less than prior years since we plan to open one new owned STK restaurant, in addition to our necessary restaurant-level maintenance and key initiative-related capital expenditures. We currently anticipate our total capital expenditures for fiscal 2018, inclusive of all maintenance expenditures, to be approximately $3.0 million.

We expect to fund our anticipated capital expenditures for fiscal 2018 with current cash on hand, expected cash flows from operations and proceeds from expected tenant improvement allowances. Our future cash requirements will depend on many factors, including the pace of our 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.

Our current plan is to enter into license agreements for the operation of STKs where we are not required to contribute significant capital upfront. We will depend on our expected cash flow from operations and continued financing to fund the majority of our planned capital expenditures for 2018.

Our operations have not required significant working capital and, like many restaurant companies, we may at times have negative working capital. 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.

Cash Flows

The following table summarizes the statement of cash flows for the fiscal years ended December 31, 2017 and December 31, 2016 (in thousands):

	Fiscal Year Ended December 31,	
	2017	2016
Net cash provided by (used in):		
Operating activities	$5,987	$2,102
Investing activities	(4,334)	(10,091)
Financing activities	(938)	8,336
Effect of exchange rate changes on cash	(85)	(297)
Net increase in cash and cash equivalents	$630	$50

Operating Activities

Net cash generated by operating activities was $6.0 million for the year ended December 31, 2017 compared to $2.1 million for the year ended December 31, 2016. We attribute a majority of this increase to a $2.2 million year over year decrease in our pre-tax loss from continuing operations, primarily the result of lower preopening expenses due to less development and a reduction in transaction costs that were incurred for a 2016 evaluation of strategic alternatives, liquidity improvement options and capital raising activities. The remaining increase can be attributed to timing differences within our working capital accounts.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2017 was $4.3 million, consisting of purchases of property and equipment totaling $4.6 million primarily related to the construction of new restaurants and general

capital expenditures of existing restaurants, partially offset by $0.3 million of proceeds received from our investments.

Net cash used in investing activities for the year ended December 31, 2016 was $10.1 million, consisting primarily of property and equipment purchases of $10.6 million primarily related to the construction of new restaurants and general capital expenditures at existing restaurants, partially offset by $0.5 million of proceeds received from our investments.

Financing Activities

Net cash used in financing activities for the year ended December 31, 2017 was $0.9 million. We made third-party debt payments of $4.1 million and distributed $0.4 million of earnings to our non-controlling partners. These distributions were partially offset by $2.6 million in proceeds received from the sale of common stock and warrants in November 2017 and $1.0 million from a short term loan agreement.

Net cash provided by financing activities for the year ended December 31, 2016 was $8.4 million. We received $3.9 million in proceeds from a shareholder rights offering, $1.2 million in proceeds from a related party trust agreement and $6.3 million in proceeds from third parties that we entered into promissory notes with. These proceeds were partially offset by third party debt payments of $2.7 million and distributions of $0.3 million to our non-controlling partners.

Capital Expenditures and Lease Arrangements

To the extent we open new restaurants, we anticipate capital expenditures in the future would increase from the amounts described in "Investing Activities" above. Although we are committed to our capital light strategy, in which our capital investment is limited, we are willing to consider a variety of operating models as new opportunities present themselves. We have typically targeted an average cash investment of approximately $3.8 million on average for a 10,000 square-foot STK restaurant, in each case net of landlord contributions and equipment financing and excluding pre-opening costs. In addition, some of our existing units will require some capital improvements in the future to either maintain or improve the facilities. We are also looking at opportunities to add seating or provide enclosures for outdoor space in the next 12 months for some of our units.

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 options for renewal. Our rent structure varies from lease to lease, but our leases generally provide for the payment of both minimum and contingent (percentage) rent based on sales, as well as other expenses related to the leases (for example, 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.

Loan Agreements

As of December 31, 2017, our long-term debt consisted of term loans, promissory notes and equipment financing agreements for which no additional financing was available. In 2017, we made principal payments of approximately $4.1 million towards our long-term debt. As of December 31, 2017, we had approximately $14.1 million of gross outstanding debt to third parties.

Our term loan agreements with BankUnited contain certain affirmative and negative covenants, including negative covenants that limit or restrict, among other things, liens and encumbrances, indebtedness, mergers, asset sales, investments, assumptions and guaranties of indebtedness of other persons, change in nature of operations, changes in fiscal year and other matters customarily restricted in such agreements. The financial covenants in these agreements

require us to maintain a certain adjusted tangible net worth and a debt service coverage ratio. We were in compliance with all of our financial covenants under the BankUnited term loan agreements as of December 31, 2017. Based on current projections, we believe that we will continue to comply with such covenants throughout 2018 (throughout the twelve months following the issuance of the financial statements).

See contractual obligations below and Note 7 to our consolidated financial statements set forth in Item 8 of this Annual Report on Form 10-K for further information on our long-term debt.

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, 2017 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	$14,063	$ 3,241	$4,465	$6,357	$ —
Expected interest payments [(1)]	2,688	937	1,436	315	—
Operating leases	120,062	7,535	15,467	14,398	82,662
Total	$136,813	$ 11,713	$21,368	$21,070	$ 82,662

(1) Represents estimated future cash interest payments using our weighted-average debt balance and interest rate at December 31, 2017.

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements set forth in Item 8 of this Annual Report on Form 10-K for a detailed description of recent accounting pronouncements. The adopted accounting guidance discussed in Note 2 did not have a significant impact on our consolidated financial position or results of operations. With the exception of new lease accounting guidance, for which we are still evaluating the financial statement impact of, we expect that the accounting guidance not yet adopted will not have a significant impact to our consolidated financial position or results of operations.

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 other 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. We believe that our critical accounting policies and estimates require us to make difficult, subjective or complex judgments about matters that are inherently uncertain.

Our significant accounting policies are discussed in Note 2 to our consolidated financial statements set forth in Item 8 of this Annual Report on Form 10-K.

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, 2017, we have recorded a valuation allowance of $11.6 million on our deferred tax assets. We have also recorded a liability for unrecognized tax benefits of $0.7 million. The recording of these amounts require significant management judgment regarding the interpretation of applicable statutes, the status of various income tax audits, and our particular facts and circumstances. We believe that our estimates are reasonable; however, actual results could differ from these results.

Our 2017 taxes were impacted by the enactment of the Tax Cuts and Job Act in December 2017 (the "TCJA"), which, amongst other things, reduced the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. Pursuant to the TCJA, we recorded the following adjustments to income tax expense during the fourth quarter of 2017:

- A one-time deemed repatriation of foreign earnings & profits amounted to $1.9 million. No tax liability was recorded due to the available net operating loss carryforwards. This resulted in a reduction of deferred tax assets and a corresponding reduction in valuation allowance of $0.8 million; and
- A reduction of net deferred tax assets and a corresponding reduction of the valuation allowance of $2.9 million, primarily for the re-measurement of our deferred tax assets at the newly enacted tax rate of 21%.

Due to the complexities involved in accounting for the enactment of the TCJA, SAB 118 allows companies to record provisional estimates of the impacts of the TCJA during a measurement period of up to one year from the enactment date. In order to estimate the impact of the one-time transition tax on accumulated foreign earnings, we used the retained earnings of our foreign subsidiaries as a proxy to calculate E&P for the 2017 tax provision. While retained earnings and E&P are two separate and distinct calculations, we believe that retained earnings can initially be used as a relatively accurate proxy for E&P. We believe that typical E&P adjustments for items such as depreciation, certain reserves and tax exempt income and other permanent nondeductible expenses for E&P are either immaterial or nonexistent. Therefore, in the absence of a formal E&P analysis, retained earnings was considered to be a reasonable estimate. As of December 31, 2017, the net retained earnings of our foreign subsidiaries was $1.9 million. We will conduct a comprehensive E&P analysis prior to the filing of our 2017 tax return. Only after the completion of the E&P study will we be able to determine with certainty the tax impact of the deemed repatriation provision of the TCJA. Any adjustment resulting from the E&P analysis will be included as a tax adjustment to continuing operations in 2018.

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

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be fully recoverable. For the purpose of reviewing restaurant assets for indicators of potential impairment, we use an individual restaurants assets and liabilities, 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, but are not limited to, 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's exceed its fair value. Generally, a restaurant's identifiable future cash flows are discounted to estimate its fair value.

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.

Based upon our testing, we recorded impairments of $0.6 million and $0.1 million for the years ended December 31, 2017 and 2016, respectively.

Leases

We currently lease all of our restaurant locations under leases classified as operating leases. Minimum base rent for our operating leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the lease term. As such, an equal amount of rent expense is attributed to each period during the term of the lease regardless of when actual payments occur. Lease terms begin on the date we take possession under the lease and include cancelable option periods where failure to exercise such options would result in an economic penalty. The difference between rent expense and actual cash payments is classified as deferred rent in our consolidated balance sheets.

Certain of our leases also provide for contingent rent, which is determined as a percentage of sales in excess of specified minimum sales levels. We recognize contingent rent expense prior to the achievement of the specified sales target that triggers the contingent rent, provided achievement of the sales target is considered probable.

Management makes judgments regarding the probable term for each restaurant property lease, which can impact the classification and accounting for a lease as capital or operating; the rent holidays and/or escalations in payments that are taken into consideration when calculating straight-line rent; incremental borrowing rates; and the term over which leasehold improvements for each restaurant are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense 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, as well as future volatility and the risk-free interest rate. Our stock options generally vest over a period of 5 years and generally have contractual terms to exercise of 10 years. The expected term of options is based upon evaluations of historical and expected future exercise behavior. 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 is based on a peer group average.

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 are 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 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 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, 2017, 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 identified material weaknesses in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Due to these material weaknesses, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 31, 2017. These conclusions were communicated to the Audit Committee. Notwithstanding the existence of the material weaknesses described below, management has concluded that the consolidated financial statements in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows for all periods and dates presented.

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, 2017. 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 not effective as of December 31, 2017, based on the criteria set forth by COSO in Internal Control – Integrated Framework (2013).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses we identified and the proposed remedial actions are described below. These material weaknesses were disclosed in our Form 10-K for the year ended December 31, 2016 and have not been fully remediated as of December 31, 2017.

Lack of a robust and effective financial statement close and reporting process to assess whether our consolidated financial statements are in compliance with U.S. GAAP, including the lack of review by competent and qualified personnel where such reviews are designed and operating at a level of precision that can detect errors. We also

identified ineffective controls over the accounting for income taxes arising from the lack of review and reconciliation of our income tax accounts. We initiated a process in which our monthly reporting of the financial results of all business units is presented to management after a thorough analysis and review of the business units' financial information. In addition, a comprehensive financial statement close and reporting checklist is currently under development. This checklist, which we expect to fully implement in 2018, requires qualified accounting and finance personnel to perform a timely and detailed review of account balances, disclosures, transactions and their related reconciliation schedules and other pertinent support for all business units. We will also initiate a process which involves a more robust review of our tax provision, including the reconciliation of our income tax accounts.

Improper segregation of duties and other design gaps in our information technology ("IT") environment and journal entry process. We have begun to remove certain super user rights from most accounting and finance department staff. In addition, certain user profiles within the accounting software have been modified to eliminate the ability of most staff to record and process transactions and we also limited access to checks and bank accounts. Finally, an additional level of review for journal entries, cash receipts and disbursement transactions has also been put in place.

Notwithstanding the material weaknesses described above, our management believes that our consolidated financial statements included in this report are fairly stated, in all material respects, in accordance with GAAP. However, if not remediated, these material weaknesses could result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected on a timely basis.

We are in the process of implementing our continued remediation plan, and expect the material weaknesses to be remediated during 2018. However, we are unable to estimate the cost of the remediation or when the remediation will be completed.

Management believes the foregoing efforts will effectively remediate the material weaknesses. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address the material weaknesses or determine to modify the remediation plan described above. We cannot assure you, however, when we will remediate such material weaknesses, nor can we be certain of whether additional actions will be required or the costs of any such actions.

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 the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

For the quarter and year ended December 31, 2017, we revised our reportable segments based on how our new Chief Executive Officer views our company's business. Our quarterly results for 2016 and 2017 based on the new segment presentation are as follows (in thousands):

THE ONE GROUP HOSPITALITY, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTER ENDED

	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Revenues:				
Owned restaurant net revenues	$ 11,365	$ 13,229	$ 13,827	$ 15,647
Other food, beverage and other net revenues	3,015	2,054	2,491	2,320
Total owned revenue	14,380	15,283	16,318	17,967
Management, license and incentive fee revenue	2,014	1,944	2,061	2,447
Total revenues	16,394	17,227	18,379	20,414
Cost and expenses:				
Owned operating expenses:				
Owned restaurants:				
Owned restaurant cost of sales	2,838	3,351	3,573	4,019
Owned restaurant operating expenses	7,558	8,089	9,075	9,820
Total owned restaurant expenses	10,396	11,440	12,648	13,839
Owned food, beverage and other expenses	2,381	1,848	2,378	2,198
Total owned operating expenses	12,777	13,288	15,026	16,037
General and administrative	2,684	2,813	2,682	2,993
Settlements	—	—	—	—

Depreciation and amortization	523	547	758	819
Lease termination and asset write-offs	—	—	—	529
Pre-opening expenses	900	1,546	2,035	1,513
Transaction costs	—	—	505	788
Equity in income of investee companies	(83)	(231)	(178)	(182)
Other expense (income), net	225	62	(160)	(173)
Total costs and expenses	17,026	18,025	20,668	22,324
Loss from operations	(632)	(798)	(2,289)	(1,910)
Other expenses:				
Derivative income	(100)	—	—	—
Interest expense, net of interest income	98	99	80	187
Loss from continuing operations before provision for income taxes	(630)	(897)	(2,369)	(2,097)
Provision for income taxes	(66)	546	(4,047)	13,937
(Loss) income from continuing operations	(564)	(1,443)	1,678	(16,034)
Income (loss) from discontinued operations, net of taxes	2	—	(1)	(93)
Net (loss) income	$ (562)	$ (1,443)	$ 1,677	$ (16,127)
Less: net (loss) income attributable to noncontrolling interests	(105)	117	200	21
Net (loss) income attributable to The ONE Group Hospitality, Inc.	$ (457)	$ (1,560)	$ 1,477	$ (16,148)

THE ONE GROUP HOSPITALITY, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTER ENDED

	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Revenues:				
Owned restaurant net revenues	$ 14,228	$ 14,683	$ 13,189	$ 16,554
Owned food, beverage and other net revenues	3,885	2,431	2,144	1,767
Total owned revenue	18,113	17,114	15,333	18,321
Management, license and incentive fee revenue	2,314	2,784	2,479	3,202
Total revenues	20,427	19,898	17,812	21,523
Cost and expenses:				
Owned operating expenses:				
Owned restaurants:				
Owned restaurant cost of sales	3,876	3,838	3,436	4,394
Owned restaurant operating expenses	9,369	9,408	8,911	9,388
Total owned restaurant expenses	13,245	13,246	12,347	13,782
Owned food, beverage and other expenses	2,937	2,315	2,044	2,104
Total owned operating expenses	16,182	15,561	14,391	15,886
General and administrative	2,921	3,291	2,267	3,414
Settlements	—	795	500	(50)
Depreciation and amortization	866	805	950	430
Lease termination expense and asset write-offs	273	208	402	1,342
Pre-opening expenses	470	722	94	309
Transaction costs	—	254	—	167
Equity in (income) loss of investee companies	(45)	153	(264)	(12)
Other expense (income), net	12	(130)	(19)	173
Total costs and expenses	20,679	21,659	18,321	21,659
Loss from operations	(252)	(1,761)	(509)	(136)
Other expenses:				
Derivative income	—	—	—	—
Interest expense, net of interest income	259	220	325	363
Loss from continuing operations before provision for income taxes	(511)	(1,981)	(834)	(499)
Provision for income taxes	(17)	203	179	235
Loss from continuing operations	(494)	(2,184)	(1,013)	(734)
(Loss) income from discontinued operations, net of taxes	(106)	—	—	503
Net loss	$ (600)	$ (2,184)	$ (1,013)	$ (231)
Less: net (loss) income attributable to noncontrolling interests	(198)	116	153	117

Net loss attributable to The ONE Group Hospitality, Inc.	$ (402)	$ (2,300)	$ (1,166)	$ (348)

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Board of Directors

Our certificate of incorporation and bylaws provide that our business is to be managed by or under the direction of our Board of Directors (the "Board"). Our Board is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. We currently have six directors sitting on the Board, classified into three classes as follows: (1) Eugene M. Bullis and Kin Chan constitute a class with a term ending at the 2018 annual meeting; (2) Jonathan Segal and Emanuel Hilario constitute a class with a term ending at the 2019 annual meeting; and (3) Michael Serruya and Dimitrios Angelis constitute a class with a term ending at the 2020 annual meeting. Nicholas Giannuzzi, a former director, resigned from his position as a member of the Board on November 16, 2017, prior to the expiration of his term ending at the 2018 annual meeting. Kin Chan joined as a member of the Board on November 17, 2017 and Dimitrios Angelis joined as a member of the Board on March 28, 2018.

On November 15, 2017, we entered into an agreement (the "Board Agreement") with Argyle Street Management Limited ("ASM"), who, along with certain affiliates, was an investor in our November 2017 offering, pursuant to which we agreed that ASM shall have the right to designate one member to our Board, who initially is Mr. Kin Chan, for so long as ASM and its affiliates beneficially own at least 750,000 shares of Common Stock.

On March 23, 2018, we entered into a letter agreement (the "Letter Agreement") with David Kanen and Kanen Wealth Management LLC (collectively, the "Kanen Group") regarding the composition of our Board. Pursuant to the terms of the Letter Agreement, subject to certain conditions, we and the Kanen Group agreed that, provided that the Kanen Group beneficially owns at least 10% of our outstanding common stock, the Kanen Group shall have the right to designate one member to the Board as a Class I director with a term expiring in 2020. Effective March 28, 2018, pursuant to the Letter Agreement, the Board appointed Dimitrios Angelis as a Class I director with a term expiring at our 2020 annual meeting of stockholders.

On March 22, 2018, our Board accepted the recommendation of the Nominating and Governance Committee and voted to nominate Eugene Bullis and Kin Chan for election at the annual meeting for a term of three years to serve until the 2021 annual meeting of stockholders, and until their successors have been elected and qualified, subject, however, to such directors' respective earlier death, resignation, retirement, disqualification or removal.

Set forth below are the names of the persons nominated as directors and directors whose terms do not expire this year, their ages, their offices in the Company, if any, their principal occupations or employment for at least the past five years, the length of their tenure as directors and the names of other public companies in which such persons hold or have held directorships during the past five years. Additionally, information about the specific experience, qualifications, attributes or skills that led to our Board's conclusion at the time of filing of this report that each person listed below should serve as a director is set forth below:

Name	Age	Positions
Emanuel Hilario	50	President, Chief Executive Officer and Director
Jonathan Segal	57	Director of Business Development and Executive Chairman
Michael Serruya	53	Director
Kin Chan	51	Director
Eugene Bullis	72	Director
Dimitrios Angelis	48	Director

Our Board has reviewed the materiality of any relationship that each of our directors has with The ONE Group Hospitality, Inc., either directly or indirectly. Based upon this review, our Board has determined that the following members of the Board are "independent directors" as defined by The NASDAQ Stock Market ("NASDAQ"): Michael Serruya, Eugene M. Bullis, Kin Chan and Dimitrios Angelis.

Emanuel P.N. Hilario — President, Chief Executive Officer and Director

Emanuel P.N. Hilario, age 50, has served as a Class III member of our Board since April 10, 2017. Mr. Hilario has served as President and Chief Executive Officer of the Company since October 30, 2017. Since 2015, Mr. Hilario has served as Chief Financial Officer of Sizzling Platter, a restaurant management company operating over 400 franchised restaurants in the United States, Mexico, and China under the brand names of Red Robin, Sizzler, Little Caesars, Dunkin Donuts, and Wingstop. Before joining Sizzling Platter, Mr. Hilario served as Chief Operating Officer for Einstein Noah Restaurant Group, Inc. from 2013 to 2014 and served as its Chief Financial Officer from 2010 to 2013. He previously served as Chief Financial Officer for McCormick & Schmick's Seafood Restaurants, Inc. from April 2004 through May 2009 and also served on its Board as a Director from May 2007 to July 2009. For the preceding four years, he served as Chief Financial Officer of Angelo and Maxie's, Inc. While there, from 2002 to 2004, he managed day-to-day operations of the Angelo and Maxie's steakhouse concept. Mr. Hilario began his career at McDonald's and has held various financial roles within the company. He received a Bachelor of Science and Commerce degree from Santa Clara University in 1990.

- *Director Qualifications:* We believe Mr. Hilario's qualifications to serve on the Board include his extensive knowledge and experience in the restaurant industry and as an executive in public companies, his knowledge of licensing and franchising of restaurants, as well as his years of working at fine dining concepts and managing food and beverage hospitality operations.

Jonathan Segal — Executive Chairman of the Board of Directors and Director of Business Development

Jonathan Segal, age 57, has served as a Class III member of our Board since October 16, 2013. Mr. Segal brings over 35 years of experience in developing and operating hotels, bars and hospitality projects to the Company. Mr. Segal served as Chief Executive Officer of the Company since 2004 until October 30, 2017. He co-founded the Company in 2004 in order to open ONE, a pioneering restaurant in the Meatpacking District of New York. Mr. Segal began his career in the hospitality industry at age 16 with his family's company, currently known as The Modern Group in Jersey, Channel Islands, U.K., formerly the largest leisure company in the Channel Islands. In June 2013, Jonathan won an Ernst &Young Entrepreneur of the Year 2013 New York award and was a finalist for the national award in November 2013.

- *Director Qualifications:* We believe Mr. Segal's qualifications to serve on the Board include his role as founder and former Chief Executive Officer of the Company, his extensive knowledge and experience in the restaurant industry and his leadership, strategic guidance and operational vision.

Michael Serruya — Director

Michael Serruya, age 53, has served as Class I member of our Board since October 27, 2013 and as a Non-Executive Chairman of our Board from October 27, 2013 until October 30, 2017. Mr. Serruya has served as a director of Second Cup Inc. since 2017. Mr. Serruya was also President, Chief Executive Officer and Chairman of CoolBrands' predecessor, Yogen Früz World-Wide Inc. Mr. Serruya was Chairman and Chief Executive Officer of Kahala Brands until July 2016 and is currently Chairman and Chief Executive Officer of Serruya Private Equity.

- *Director Qualifications:* We believe Mr. Serruya's qualifications to serve on the Board include his business experience, including a diversified background as an executive and in operational roles in both public and private companies, and as a board member of several public companies, gives him a breadth of knowledge and valuable understanding of our business.

Eugene M. Bullis — Director

Eugene M. Bullis, age 72, has served as a Class II member of our Board since August 12, 2014. Mr. Bullis has served as Chairman of the Audit Committee of Ambac Financial Group, Inc. from May 2013 to May 2016, and has served as a Member of the Board of Governors of The Doctors Company since December 2010. From November 2015 to November 2016, Mr. Bullis served as the Executive Vice President and Interim Chief Financial Officer of The Hanover Insurance Group, Inc., where he held the same position from 2007 until retirement in 2010. Prior to joining The Hanover Insurance Group, Inc., Mr. Bullis served as Executive Vice President and Chief Financial Officer of Conseco, Inc. from May 2002 to May 2007. Previously, Mr. Bullis served in a number of senior financial officer roles primarily in technology-related businesses, including Chief Financial Officer of Wang Laboratories, Inc. Mr. Bullis began his career with a predecessor firm of what is now Ernst & Young LLP, where he advanced to audit partner. Mr. Bullis received an A.B. in Business Administration from Colby College in 1967.

- *Director Qualifications:* We believe Mr. Bullis' qualifications to serve on the Board include his considerable financial experience, including his background in audit and his familiarity with compliance, finance and regulatory requirements, as well as his experience as an executive in both public and private companies and as a board member of public companies.

Kin Chan – Director

Kin Chan, age 51, has served as a member of our Board since November 2017. Mr. Chan has been the Chief Investment Officer of Argyle Street Management Limited since 2002. He has been a non-executive director OUE Limited since March 2010 and has served as a member of its Audit Committee since October 2011. Mr. Chan has also been the chairman of TIH Limited, a company listed on the Singapore Exchange Limited and has been appointed as a non-executive director of CITIC Resources Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited since March 2017. He was a non-executive director of (i) United Fiber System Limited (now known as Golden Energy and Resources Limited), a company listed on the Singapore Exchange Limited from 2011 to 2015; (ii) Asia Resource Minerals Plc, a company formerly listed on the London Stock Exchange for the period from July 2015 to August 2015; and (iii) Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange from September 2016 to January 2018. Mr. Chan earned an AB degree from Princeton University and a Master's degree in Business Administration from the Wharton School of University of Pennsylvania where he was a Palmer Scholar.

- *Director Qualifications:* We believe Mr. Chan’s qualifications to serve on the Board include his extensive international business experience and strong relationships with the hospitality industry, including a background as an executive and as a board member of several public companies, gives him a breadth of knowledge and valuable understanding of our business. In addition, he is independent and has the requisite experience, background and financial sophistication to serve as a member of the Audit Committee.

Dimitrios Angelis – Director

Dimitrios Angelis, age 48, has served as a Class I member of our Board since March 28, 2018. Mr. Angelis has been the Principal at Life Sciences Legal since October 2015, serving as outside general counsel on all legal matters to several biotech, pharmaceutical, and medical device companies. Before joining Life Sciences Legal, Mr. Angelis was on the Board of Directors of OTI Inc. (NASDAQ: OTIV) from December 2012 to August 2015, including having served as Chairman of the Board for most of the time during that period. Mr. Angelis was also CEO of OTI America, Inc. from January 2014 to August 2015. Prior to his business leadership role at On Track Innovations, he served as General Counsel and Corporate Secretary at Wockhardt, Inc. from October 2012 to December 2013, Senior Counsel at Dr. Reddy’s Laboratories, Inc. from October 2008 to October 2012, and Chief Legal Officer at Osteotech, Inc. from February to October 2008. Mr. Angelis was formerly a director at Actavis Inc. from August 2004 to November 2007. He began his career at Mayer, Brown, LLP as a Corporate Associate. Mr. Angelis currently serves as a director of Digirad Corporation (NASDAQ: DRAD) and AmeriHoldings (NASDAQ: AMRH). He holds a Bachelor of Arts degree from Boston College, a Master of Arts from California State University, and a Juris Doctorate from New York University School of Law.

- *Director Qualifications:* We believe Mr. Angelis’ qualifications to serve on the Board include his 15 years of legal and corporate governance experience, including his background and experience as an executive and board member of

several public companies.

Committees of the Board of Directors and Meetings

Meeting Attendance. During the fiscal year ended December 31, 2017 the Board met a total of 16 times, and the various committees of the Board met a total of 11 times. No director attended fewer than 75% of the total number of meetings of the Board and of committees of the Board on which he or she served during fiscal 2017. The Board has adopted a policy under which each member of the Board is strongly encouraged but not required to attend each annual meeting of our stockholders.

Audit Committee. Our Audit Committee met four times during fiscal 2017. This committee currently has three members, Messrs. Bullis (Chairman), Serruya and Chan. Our Audit Committee's role and responsibilities are set forth in the Audit Committee's written charter and include the authority to retain and terminate the services of our independent registered public accounting firm. In addition, the Audit Committee reviews annual financial statements, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits. All members of the Audit Committee satisfy the current independence standards promulgated by the SEC and by NASDAQ, as such standards apply specifically to members of audit committees. The Board has determined that Mr. Bullis is an "audit committee financial expert," as the SEC has defined that term in Item 407 of Regulation S-K.

Compensation Committee. Our Compensation Committee met three times during fiscal 2017. This committee currently has two members, Messrs. Bullis and Serruya. Our Compensation. Committee's role and responsibilities are set forth in the Compensation Committee's written charter and includes reviewing, approving and making recommendations regarding our compensation policies, practices and procedures to ensure that legal and fiduciary responsibilities of the Board are carried out and that such policies, practices and procedures contribute to our success. Our Compensation Committee also administers our 2013 Employee, Director and Consultant Equity Incentive Plan. The Compensation Committee is responsible for the determination of the compensation of our Chief Executive Officer, and shall conduct its decision making process with respect to that issue without the Chief Executive Officer present. All members of the Compensation Committee qualify as independent under the definition promulgated by NASDAQ.

In establishing compensation amounts for executives, the Compensation Committee seeks to provide compensation that is competitive in light of current market conditions and industry practices. Accordingly, the Compensation Committee will annually review market data which is comprised of proxy-disclosed data from peer companies and information from nationally recognized published surveys for the restaurant industry, adjusted for size. The market data helps the committee gain perspective on the compensation levels and practices at the peer companies and to assess the relative competitiveness of the compensation paid to the Company's executives. The market data thus guides the Compensation Committee in its efforts to set executive compensation levels and program targets at competitive levels for comparable roles in the marketplace. The Compensation Committee then takes into account other factors, such as the importance of each executive officer's role to the Company, individual expertise, experience, and performance, retention concerns and relevant compensation trends in the marketplace, in making its final compensation determinations.

The Compensation Committee's independent compensation consultant during fiscal year 2017 was Frederic W. Cook & Co. ("Cook & Co."). Cook & Co. was previously engaged by, and reported directly to, the Compensation Committee, which has the sole authority to hire or fire Cook & Co. and to approve fee arrangements for work performed. Cook & Co. assisted the Compensation Committee in fulfilling its responsibilities under its charter, including advising on equity incentive compensation grants to employees, including officers. The Compensation Committee authorized Cook & Co. to interact with management on behalf of the Compensation Committee, as needed in connection with advising the Compensation Committee, and Cook & Co. was included in discussions with management.

It is the Compensation Committee's policy that the Chair of the Compensation Committee or the full Compensation Committee pre-approve any additional services provided to management by an independent compensation consultant.

The Compensation Committee reviews the performance of each named executive officer in light of the above factors and determines whether the named executive officer should receive any increase in base salary or receive a discretionary equity award based on such evaluation. During fiscal year 2017, the Compensation Committee did not adhere to a formula or other quantitative measures with respect to compensation but rather relied on qualitative and subjective evaluations to determine the appropriate levels of compensation for our named executives.

Nominating and Governance Committee. Our Nominating and Governance Committee met four times during fiscal 2017 and currently has two members, Messrs. Serruya (Chairman), and Bullis. The Nominating and Governance Committee's role and responsibilities are set forth in the Nominating and Governance Committee's written charter and include evaluating and making recommendations to the full Board as to the size and composition of the Board and its committees, evaluating and making recommendations as to potential candidates, and evaluating current Board members' performance. All members of the Nominating and Governance Committee qualify as independent under the definition promulgated by NASDAQ.

Board Leadership Structure and Role in Risk Oversight

Our Board consists of six members.

In accordance with the Amended and Restated Certificate of Incorporation, our Board is divided into three classes with staggered three-year terms. At each annual general meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. The authorized number of directors may be changed by resolution of the Board. Vacancies on the Board can be filled by resolution or a majority vote of the remaining directors then in office, even if less than a quorum, or by a sole remaining director of the Board. Our principles of corporate governance give the Board the authority to choose whether the roles of Executive Chairman of the Board and Chief Executive Officer are held by one person or two people. Our principles also give the Board the authority to change this policy if it deems it best for the Company at any time. Currently, two separate individuals serve in the positions of Chief Executive Officer and Executive Chairman of the Board of the Company.

Our management is principally responsible for defining the various risks facing the Company, formulating risk management policies and procedures, and managing our risk exposures on a day-to-day basis. The Boards' principal responsibility in this area is to ensure that sufficient resources, with appropriate technical and managerial skills, are provided throughout the Company to identify, assess and facilitate processes and practices to address material risk and to monitor our risk management processes by informing itself concerning our material risks and evaluating whether management has reasonable controls in place to address the material risks. The involvement of the Board in reviewing our business strategy is an integral aspect of the Boards' assessment of management's tolerance for risk and also its determination of what constitutes an appropriate level of risk for the Company.

While the full Board has overall responsibility for risk oversight, the Board may elect to delegate oversight responsibility related to certain risks committees, which in turn would then report on the matters discussed at the committee level to the full Board. For instance, an audit committee could focus on the material risks facing the Company, including operational, market, credit, liquidity and legal risks and a compensation committee could be charged with reviewing and discussing with management whether our compensation arrangements are consistent with effective controls and sound risk management.

Executive Officers

The following table sets forth certain information regarding our executive officers who are not also directors. We have employment agreements with Jonathan Segal and Emanuel Hilario. Celeste Fierro is an at-will employee.

Name	Age	Positions
Linda Siluk	61	Interim Chief Financial Officer
Celeste Fierro	50	Senior Vice President of Marketing, Sales and Events

Linda Siluk — Interim Chief Financial Officer

Linda Siluk, age 61, has served as the Interim Chief Financial Officer of the Company since May 16, 2017. Prior to joining the Company, Ms. Siluk served as the Senior Vice President and Chief Accounting Officer for Fairway Group Holdings, Corp. ("Fairway") from June 2015 to February 2017, as the Vice President and Finance and Chief Accounting Officer from October 2011 to June 2015, and as Senior Project Manager from August 2009 to October 2010. Prior to her experience at Fairway, Ms. Siluk served as the Chief Financial Officer at Drug Fair from October 2008 to May 2009. From September 2006 to April 2008, Ms. Siluk was the Senior Vice President, Finance at Ann Taylor. Ms. Siluk received her B.S. in Business Administration from Montclair State College. Ms. Siluk is a certified public accountant.

Celeste Fierro — Senior Vice President of Marketing, Sales and Events

Celeste Fierro, age 50, has served as Senior Vice President of Marketing, Sales and Events of the Company since February 19, 2014. Prior to that time and since 2004, Ms. Fierro served as Senior Vice President of Operations, and in such capacity oversaw all operations of the Company. Ms. Fierro was a founding partner of the Company in 2004 along with Mr. Segal. Prior to joining the Company, Ms. Fierro was an event planner in New York City and founded Cititaste Events, a company which planned events for clients and events such as the Annual All-Star Games of Major League Baseball, the National Football League, the Pro-Bowl, the Cystic Fibrosis Foundation and American Express.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers and beneficial owners of more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in the ownership of our common stock and other equity securities. Such persons are required to furnish us copies of all Section 16(a) filings.

Based solely upon a review of the copies of the forms furnished to us, our records reflect that all reports which were required to be filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, were filed on a timely basis, except that three reports covering one transaction were filed late by Eugene Bullis, Nicholas Giannuzzi and Michael Serruya.

CODE OF CONDUCT AND ETHICS

We have adopted a code of conduct and ethics that applies to all of our employees, including our chief executive officer and chief financial and accounting officer. The text of the code of conduct and ethics is posted on our website at www.togrp.com which does not form a part of this Annual Report on Form 10-K. Disclosure regarding any amendments to, or waivers from, provisions of the code of conduct and ethics that apply to our directors, principal executive and financial officers will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting or the issuance of a press release of such amendments or waivers is then permitted by the rules of NASDAQ.

Item 11. EXECUTIVE COMPENSATION

The following table shows the total compensation paid or accrued during the last two fiscal years ended December 31, 2016 and 2017 to (i) our President and Chief Executive Officer; (ii) our former President and Chief Executive Officer who is now serving as our Director of Business Development and (iii) our next two most highly compensated executive officers who earned more than $100,000 during the fiscal year ended 2017 and were serving as executive officers as of such date.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	**Stock Awards** [1]	**Option Awards** [2]	Total
Emanuel Hilario [3] President and Chief Executive Officer	2017	$70,701	$4,777	$ 426,000	$ 156,000	$657,478
Jonathan Segal [4] Director of Business Development	2017	$548,846	$32,813	$ —	$ —	$581,659
Former Chief Executive Officer	2016	$575,000	$—	$ 409,750	$ 530,000	$1,514,750
Linda Siluk [5] Interim Chief Financial Officer	2017	$215,044	$12,856	$ 74,550	$ —	$302,450
Celeste Fierro [6] Senior Vice President – Marketing,	2017	$357,375	$18,250	$ 213,000	$ 215,000	$803,625
Sales and Events	2016	$275,000	$—	$ 341,250	$ —	$616,250

(1) These amounts represent the aggregate grant date fair value for stock grants awarded in 2016 and 2017, respectively, computed in accordance with FASB ASC Topic 718. These amounts do not correspond to the actual value that will be recognized by the named executive officers. The grant date fair value of these awards, restricted stock units, assuming the maximum potential value is achieved was $426,000 for Emanuel Hilario in 2017, $409,750 for Jonathan Segal in 2016, $74,550 for Linda Siluk in 2017, and $213,000 and $341,250 for Celeste Fierro in 2017 and 2016, respectively.

(2) The amounts in this column represent the aggregate grant date fair value of stock options granted to the named executive officer in the applicable fiscal year computed in accordance with FASB ASC Topic 718. These amounts do not correspond to the actual value that will be recognized by the named executive officers. The grant date fair value of the performance-based options is determined based on the probable outcome of such performance conditions as of the grant date.

The grant date fair value of the performance-based options assuming the maximum potential value is achieved was $530,000 for Mr. Segal in 2016. For Mr. Segal, we estimated the fair value of 500,000 stock options granted on April

8, 2016 using a Black-Scholes option pricing model utilizing the following assumptions: (i) expected volatility: 37%, (ii) expected term of option: 6.5 years, (iii) risk-free interest rate: 1.41%, (iv) expected dividend yield: 0%, and (v) weighted average grant date fair value: $1.06.

The grant date fair value of the stock options assuming the maximum potential value is achieved was $156,000 for Mr. Hilario in 2017. For Mr. Hilario we estimated the fair value of 300,000 stock options granted October 30, 2017 using a Black-Scholes option pricing model utilizing the following assumptions: (i) expected volatility: 38%, (ii) expected term of option: 5.0 years, (iii) risk-free interest rate: 2.0%, (iv) expected dividend yield: 0%, and (v) weighted average grant date fair value $0.52.

The grant date fair value of the stock options assuming the maximum potential value is achieved was $215,000 for Ms. Fierro in 2017. For Ms. Fierro we estimated the fair value of 250,000 stock options granted May 15, 2017 using a Black-Scholes option pricing model utilizing the following assumptions: (i) expected volatility: 38%, (ii) expected term of option: 6.5 years, (iii) risk-free interest rate: 1.86%, (iv) expected dividend yield: 0%, and (v) weighted average grant date fair value $0.87.

(3) Mr. Hilario was appointed our President and Chief Executive Officer on October 30, 2017.

(4) Mr. Segal resigned as our President and Chief Executive Officer and was appointed our Director of Business Development on October 30, 2017.

(5) Ms. Siluk was appointed our Interim Chief Financial Officer on May 16, 2017.

(6) Ms. Fierro was appointed our Senior Vice President of Marketing, Sales and Events on February 19, 2014.

Employment Agreements with Executive Officers

President and Chief Executive Officer

Emanuel Hilario currently serves as our President and Chief Executive Officer pursuant to an employment agreement dated October 30, 2017 ("Hilario Agreement"). The Hilario Agreement provides for a term of three years, with such term automatically extending for additional one-year periods unless either party provides 90 days written notice prior to the commencement of the renewal term. Mr. Hilario will initially receive an annual base salary of $450,000, and thereafter, he shall receive such increases (but no decreases) in his base salary as the Company's Board or compensation committee thereof may approve in its sole discretion from time to time, but not less than annually. In addition, Mr. Hilario is eligible to receive a bonus for each calendar year during the term of the Hilario Agreement in an amount targeted at 50% of his then-effective annual base salary, based in part upon achievement of individual and corporate performance objectives as determined by the Board. Mr. Hilario shall be eligible to receive a bonus in excess of the targeted bonus if the Company's performance exceeds 100% of the targeted goals, and a bonus below the target amount shall be payable if actual performance equals at least a minimum threshold, each as approved by the Board in consultation with Mr. Hilario at the time the annual performance goals are established. Whether Mr. Hilario receives a bonus, and the amount of any such bonus, will be determined by the Board in its sole and absolute discretion, except that any portion of the bonus that the Board determines to be based on targeted goals will be considered non-discretionary and payable based on achievement of such goals. Pursuant to the Hilario Agreement, the Company granted to Mr. Hilario pursuant to the Company's 2013 Employee, Director and Consultant Equity Incentive Plan ("2013 Plan"): (a) 71,000 fully vested shares of the Company's common stock, (b) stock options to purchase 300,000 shares of the Company's common stock vesting ratably over three years at an exercise price equal to $1.42 (the "Closing Price"), such amount being the fair market value at the time of the grant; and (c) 300,000 restricted stock units ("RSUs") vesting ratably over three years; provided, however, that such RSUs may vest earlier as follows: (i) 100,000 RSUs shall vest on the date that the Average Closing Price (defined below) is 50% greater than the Closing Price, (ii) 100,000 RSUs shall vest on the date that the Average Closing Price is 75% greater than the Closing Price, and (iii) 100,000 RSUs shall vest on the date that the Average Closing Price is 100% greater than the Closing Price. As used herein, "Average Closing Price" is equal to the average closing price of the Common's common stock as measured over 10 consecutive trading days. The stock options and the RSUs are subject to the terms and conditions of the 2013 Plan and, respectively, a stock option agreement and a restricted stock unit award agreement. Mr. Hilario is eligible to participate in the Company's 401(k) plan, health plans and other benefits on the same terms as other salaried employees, and for so long as his primary residence is in Denver, Colorado, the Company will reimburse Mr. Hilario for his reasonable out-of-pocket expenses, accommodation in New York, and for round-trip coach tickets for travel to and from New York.

Noncompetition; Nonsolicitation

Under the Hilario Agreement, for a period of 18 months after the date on which his employment is terminated for any reason, Mr. Hilario is prohibited from (a) engaging in any Competing Business within any geographic area where the

Company or its subsidiaries conducts, or plans to conduct, business at the time of his termination, (b) persuading or attempting to persuade any Customer, Prospective Customer or Supplier to cease doing business with an Interested Party or reduce the amount of business it does with an Interested Party, (c) persuading or attempting to persuade any Service Provider to cease providing services to an Interested Party, or (d) soliciting for hire or hiring for himself or for any third party any Service Provider unless such person's employment was terminated by the Company or any of its affiliates or such person responded to a "blind advertisement". All capitalized terms in this paragraph shall have the respective meanings set forth in the Hilario Agreement.

Termination

Termination by the Company for Cause or by Executive without Good Reason

If the Hilario Agreement is terminated by the Company for cause, or by the executive without good reason, the Company must pay him any earned but unpaid salary, any unpaid portion of the bonus from the prior year, any accrued vacation time, any vested benefits he may have under any employee benefit plan, and any unpaid expense reimbursement accrued through the date of termination (the "Hilario Accrued Obligations").

Termination by the Company without Cause or by Executive for Good Reason

If the Hilario Agreements is terminated (i) by the Company without cause or (ii) by the executive for good reason, then the Company must pay such executive: (1) the Hilario Accrued Obligations earned through the date of termination; (2) an amount of his base salary equal to (i) his current base salary in the case of Mr. Hilario over an 18 month period or (ii) his current base salary in the case of Mr. Segal over a 24 month period, such payments to be made in accordance with Company's normal payroll practices, less all customary and required taxes and employment-related deductions; (3) an amount of his bonus compensation equal to (i) a monthly amount equal to one-twelfth of the target bonus in the case of Mr. Hilario for an 18 month period or (ii) a pro rata portion of the bonus for the year in which the termination occurs in the case of Mr. Segal, based on year-to-date performance as determined by the Board in good faith, payable when other senior executives receive their annual bonuses for such year, and in no event later than March 15 of the year following the year in which the termination occurs (to the extent milestones for such bonus have not yet been agreed upon as of the termination, reference will be made to the milestones established for the prior year); (4) any equity awards that vest over time and are unvested as of the termination date shall be accelerated such that the portion of the equity awards that would have vested in the following 18 month period will vest as of the termination date; and (5) an amount equal to the "COBRA" premium for as long as Mr. Hilario, and if applicable, Mr. Hilario's dependents are eligible for COBRA, subject to a maximum of 18 months.

The terms "cause" and "good reason" have the respective meanings set forth in the Hilario Agreement.

Termination due to Death or Disability

If Mr. Hilario's employment is terminated as a result of his death or disability, the Company must pay him or his estate, as applicable, any amounts payable by the Company under the above heading labeled "Termination by the Company for Cause or by Executive without Good Reason".

The term "disability" has the meanings set forth in the Employment Agreements.

Termination upon a Change of Control

Notwithstanding anything in the Hilario Agreement to the contrary, in the event that Mr. Hilario's employment is terminated within 24 months following a change of control and upon the fulfillment of certain other conditions, Mr. Hilario shall be entitled to receive his severance in a lump sum.

The terms “change in control” and “severance” have the respective meanings set forth in the Employment Agreements.

Director of Business Development

Jonathan Segal currently serves as our Director of Business Development pursuant to an amended and restated employment agreement dated October 30, 2017 (“Amended and Restated Segal Agreement”). The Amended and Restated Segal Agreement provides for a term of three years, with such term automatically extending for additional one year periods unless either party provides 90 days written notice prior to the commencement of the renewal term. Mr. Segal will initially receive an annual base salary of $350,000, and thereafter, he shall receive such increases (but no decreases) in his base salary as the Board or compensation committee thereof may approve in its sole discretion from time to time, but not less than annually. In addition, Mr. Segal is eligible to receive a bonus for each calendar year during the term of the Segal Agreement in an amount targeted at 75% of his then-effective annual base salary, based in part upon achievement of individual and corporate performance objectives as determined by the Board. Mr. Segal shall be eligible to receive a bonus in excess of the targeted bonus if the Company’s performance exceeds 100% of the targeted goals, and a bonus below the target amount shall be payable if actual performance equals at least a minimum threshold, each as approved by the Board in consultation with Mr. Segal at the time the annual performance goals are established. Whether Mr. Segal receives a bonus, and the amount of any such bonus, will be determined by the Board in its sole and absolute discretion, except that any portion of the bonus that the Board determines to be based on targeted goals will be considered non-discretionary and payable based on achievement of such goals. Mr. Segal is eligible to participate in the Company's 401(k) plan, health plans and other benefits on the same terms as other salaried employees.

Prior to entering into the Amended and Restated Segal Agreement, Mr. Segal received an annual base salary of $575,000 pursuant to his employment agreement with us. Mr. Segal received a bonus of $32,813 in 2017.

Noncompetition; Nonsolicitation

Under the Amended and Restated Segal Agreement, for a period of 24 months after the date on which his employment is terminated for any reason, Mr. Segal is prohibited from (a) engaging in any Competing Business within any geographic area where the Company or its subsidiaries conducts, or plans to conduct, business at the time of his termination, (b) persuading or attempting to persuade any Customer, Prospective Customer or Supplier to cease doing business with an Interested Party or reduce the amount of business it does with an Interested Party, (c) persuading or attempting to persuade any Service Provider to cease providing services to an Interested Party, or (d) soliciting for hire or hiring for himself or for any third party any Service Provider unless such person’s employment was terminated by the Company or any of its affiliates or such person responded to a “blind advertisement”. All capitalized terms in this paragraph shall have the respective meanings set forth in the Amended and Restated Segal Agreement.

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Termination

Termination by the Company for Cause or by Executive without Good Reason

If the Amended and Restated Segal Agreement is terminated by the Company for cause, or by Mr. Segal without good reason, the Company must pay him any earned but unpaid salary, any unpaid portion of the bonus from the prior year, any accrued vacation time, any vested benefits he may have under any employee benefit plan, and any unpaid expense reimbursement accrued through the date of termination (the "Segal Accrued Obligations").

Termination by the Company without Cause or by Executive for Good Reason

If the Amended and Restated Segal Agreement is terminated (i) by the Company without cause or (ii) by the executive for good reason, then the Company must pay such executive: (1) the Segal Accrued Obligations earned through the date of termination; (2) an amount of his base salary equal to his current base salary over a 24 month period, such payments to be made in accordance with Company's normal payroll practices, less all customary and required taxes and employment-related deductions; (3) an amount of his bonus compensation equal to a pro rata portion of the bonus for the year in which the termination occurs, based on year-to-date performance as determined by the Board in good faith, payable when other senior executives receive their annual bonuses for such year, and in no event later than March 15 of the year following the year in which the termination occurs (to the extent milestones for such bonus have not yet been agreed upon as of the termination, reference will be made to the milestones established for the prior year); (4) an amount equal to the "COBRA" premium for as long as Mr. Segal and, if applicable, Mr. Segal's dependents are eligible for COBRA, subject to a maximum of 18 months.

The terms "cause" and "good reason" have the respective meanings set forth in the Employment Agreements.

Termination due to Death or Disability

If Mr. Segal's employment is terminated as a result of his death or disability, the Company must pay him or his estate, as applicable, (1) the Segal Accrued Obligations earned through the date of termination and (2) a portion of the bonus that he would have been eligible to receive for days employed by the Company in the year in which his death or disability occurs, determined by multiplying (x) the bonus based on the actual level of achievement of the applicable performance goals for such year, by (y) a fraction, the numerator of which is the number of days up to and including the date of termination, and the denominator of which is 365, such amount to be paid in the same time and the same

form as the bonus otherwise would be paid. In the event of the death or disability, vested options held by Mr. Segal may be exercised by him or his survivors, as applicable, to the extent exercisable at the time of death for a period of one year from the time of death or disability.

The term “disability” has the meanings set forth in the Employment Agreements.

Termination upon a Change of Control

Notwithstanding anything in the Amended and Restated Segal Agreement to the contrary, in the event that Mr. Segal’s employment is terminated within 12 months following a change in control and upon the fulfillment of certain other conditions, then (1) notwithstanding the vesting and exercisability schedule in any stock option agreement between the Company and Mr. Segal, all unvested stock options granted by the Company to Mr. Segal shall immediately vest and become exercisable and shall remain exercisable for not less than 360 days thereafter, and (2) Mr. Segal shall be entitled to receive his severance; provided, however, that if such lump sum severance payment, either alone or together with other payments or benefits, either cash or non-cash, that the executive has the right to receive from the Company, including, but not limited to, accelerated vesting or payment of any deferred compensation, options, stock appreciation rights or any benefits payable to the executive under any plan for the benefit of employees, would constitute an “excess parachute payment” (as defined in Section 280G of the Intert-weight:bold;">Flow

Hedges
(Note 17)

Pension
and
Postretirement
Benefits Gain (Loss)
(Note 11)

Accumulated
Other
Comprehensive
Income
(Loss), Net

(In $ millions)
As of December 31, 2018
(236
)

(8
)

(3
)

(247
)
Other comprehensive income (loss) before reclassifications
13

(1
)

—

12

Amounts reclassified from accumulated other comprehensive income (loss)
—

(2
)

—

(2
)
Income tax (provision) benefit
(6
)

—

—

(6
)
As of March 31, 2019
(229
)

(11
)

(3
)

(243
)

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14. Other (Charges) Gains, Net

	Three Months Ended March 31,	
	2019	2018
	(In $ millions)	
Restructuring	1	—
Plant/office closures	(1)	—
Commercial disputes	4	—
Total	4	—

During the three months ended March 31, 2019, the Company recorded a $15 million gain within commercial disputes related to a settlement from a previous acquisition that was included within the Engineered Materials segment. The Company also recorded an $11 million loss within commercial disputes related to a settlement by the Company's captive insurer with a former third-party customer, which was included within the Other Activities segment.

15. Income Taxes

	Three Months Ended March 31,	
	2019	2018
	(In percentages)	
Effective income tax rate	12	15

The lower effective income tax rate for the three months ended March 31, 2019 compared to the same period in 2018 was primarily due to partial release of a valuation allowance on the net deferred tax asset for foreign tax credit carryforwards in the US due to revised forecasts of taxable income expected to be generated during the carryforward period.

The Company evaluates its deferred tax assets on a quarterly basis to determine whether a valuation allowance is necessary. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income in the applicable carryback or carryforward periods. Changes in the Company's estimates of future taxable income and prudent and feasible tax planning strategies will affect the estimate of the realization of the tax benefits of these foreign tax credit carryforwards. Due to the Tax Cuts and Jobs Act ("TCJA") and uncertainty as to future sources of general limitation foreign source income to allow for the utilization of these credits, the Company recorded a valuation allowance on a substantial portion of its foreign tax credits upon the enactment of the TCJA in December 2017. The Company is currently evaluating tax planning strategies that utilize the Company's recorded foreign tax credit carryforwards. Implementation of these strategies in future periods could reduce the level of valuation allowance that is needed, thereby decreasing the Company's effective tax rate.

On March 6, 2019, the US Department of Treasury issued proposed regulations clarifying the deduction for Foreign-Derived Intangible Income ("FDII") and Global Intangible Low-Taxed Income ("GILTI"), which was enacted as part of the TCJA. The Company currently does not expect these regulations to have a material impact on tax expense upon final adoption and will evaluate the impact of final guidance once it is released.

In connection with the Company's US federal income tax audit for 2009 and 2010, the Company entered into a closing agreement during the three months ended March 31, 2019, which did not impact any previously recorded amounts based on settlement discussions prior to the formal closing agreement.

In January 2018, the Company received proposed pre-tax adjustments for its 2011 and 2012 audit cycle in the amount of $198 million. In the event the Company is wholly unsuccessful in its defense and absent expected offsetting adjustments from foreign tax authorities, the proposed adjustments would result in the consumption of approximately $69 million of prior foreign tax credit carryforwards, which are substantially offset with a valuation allowance due to uncertain recoverability. The Company believes these proposed adjustments to be without merit and is vigorously

defending its position.

16. Leases

The Company leases certain real estate, fleet assets, warehouses and equipment. Leases with an initial term of 12 months or less ("short-term leases") are not recorded on the unaudited consolidated balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company determines if an arrangement is a lease at inception.

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Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Because most of the Company's leases do not provide an implicit rate of return, the Company uses its imputed collateralized rate based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets are comprised of the lease liability plus prepaid rents and are reduced by lease incentives or deferred rents. The Company has lease agreements with non-lease components which are not bifurcated.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 30 years. The exercise of a lease renewal option typically occurs at the discretion of both parties. Certain leases also include options to purchase the leased property. For purposes of calculating operating lease liabilities, lease terms are deemed not to include options to extend the lease termination until it is reasonably certain that the Company will exercise that option. Certain of the Company's lease agreements include payments adjusted periodically for inflation based on the consumer price index. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of lease expense are as follows:

	Three Months Ended March 31, 2019 (In $ millions)	Statement of Operations Classification
Lease Cost		
Operating lease cost	10	Cost of sales / Selling, general and administrative expenses
Short-term lease cost	5	Cost of sales / Selling, general and administrative expenses
Variable lease cost	2	Cost of sales / Selling, general and administrative expenses
Finance lease cost		
Amortization of leased assets	5	Cost of sales
Interest on lease liabilities	5	Interest expense
Sublease income	—	Other income (expense), net
Total net lease cost	27	

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Supplemental unaudited consolidated balance sheet information related to leases is as follows:

	As of March 31, 2019 (In $ millions)	Balance Sheet Classification
Leases		
Assets		
Operating lease assets	210	Operating lease ROU assets
Finance lease assets	101	Property, plant and equipment, net
Total leased assets	311	
Liabilities		
Current		
Operating	32	Current Other liabilities
Finance	24	Short-term borrowings and current installments of long-term debt
Noncurrent		
Operating	193	Operating lease liabilities
Finance	139	Long-term debt
Total lease liabilities	388	

	As of March 31, 2019
Weighted-Average Remaining Lease Term (years)	
Operating leases	15.1
Finance leases	7.2
Weighted-Average Discount Rate	
Operating leases	2.7 %
Finance leases	11.7 %

Supplemental unaudited interim consolidated cash flow information related to leases is as follows:

	Three Months Ended March 31, 2019 (In $ millions)
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	10
Operating cash flows from finance leases	5
Financing cash flows from finance leases	6
ROU assets obtained in exchange for new finance lease liabilities	—
ROU assets obtained in exchange for new operating lease liabilities	—

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Maturities of lease liabilities are as follows:

	As of March 31, 2019	
	Operating Leases	Finance Leases
	(In $ millions)	
2019	29	31
2020	34	43
2021	25	41
2022	21	32
2023	19	23
Later years	147	88
Sublease income	—	—
Total lease payments	275	258
Less amounts representing interest	(50)	(95)
Total lease obligations	225	163

As of March 31, 2019, there were no additional operating or financing lease commitments that have not yet commenced.

Disclosures related to periods prior to adoption of ASU 2016-02

Operating lease rent expense was approximately $96 million for the year ended December 31, 2018. Future minimum lease payments under non-cancelable rental and lease agreements which had initial or remaining terms in excess of one year are as follows:

	As of December 31, 2018	
	Operating Leases	Capital Leases
	(In $ millions)	
2019	43	42
2020	34	42
2021	25	40
2022	23	32
2023	21	23
Later years	130	88
Sublease income	—	—
Minimum lease commitments	276	267
Less amounts representing interest		(100)
Present value of net minimum lease obligations		167

17. Derivative Financial Instruments

Derivatives Designated As Hedges

Net Investment Hedges

The Company uses derivative instruments, such as foreign currency forwards, and non-derivative financial instruments, such as foreign currency denominated debt, that may give rise to foreign currency transaction gains or losses to hedge the foreign currency exposure of net investments in foreign operations. Accordingly, the effective portion of gains and losses from remeasurement of derivative and non-derivative financial instruments is included in foreign currency translation within Accumulated other comprehensive income (loss), net in the unaudited consolidated balance sheets. Gains and losses are reclassified to earnings in the period the hedged investment is sold or liquidated.

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The total notional amount of foreign currency denominated debt designated as a net investment hedge of net investments in foreign operations are as follows:

	As of March 31, 2019	As of December 31, 2018
	(In € millions)	
Total	1,130	1,550

Cash Flow Hedges

The total notional amount of the forward-starting interest rate swap designated as a cash flow hedge is as follows:

	As of March 31, 2019	As of December 31, 2018
	(In $ millions)	
Total	400	400

Derivatives Not Designated As Hedges

Foreign Currency Forwards and Swaps

Gross notional values of the foreign currency forwards and swaps not designated as hedges are as follows:

	As of March 31, 2019	As of December 31, 2018
	(In $ millions)	
Total	737	1,071

Information regarding changes in the fair value of the Company's derivative and non-derivative instruments is as follows:

	Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Gain (Loss) Recognized in Earnings (Loss)		Statement of Operations Classification
	Three Months Ended March 31,				
	2019	2018	2019	2018	
	(In $ millions)				
Designated as Cash Flow Hedges					
Commodity swaps	10	(2)	2	—	Cost of sales
Interest rate swaps	(11)	—	—	—	Interest expense
Total	(1)	(2)	2	—	
Designated as Net Investment Hedges					
Foreign currency denominated debt (Note 10)	39	(35)	—	—	N/A

Total	39	(35)	—	—	
Not Designated as Hedges					
Foreign currency forwards and swaps	—	—	(3)	(4)	Foreign exchange gain (loss), net; Other income (expense), net
Total	—	—	(3)	(4)	

See Note 18 for additional information regarding the fair value of the Company's derivative instruments.

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Certain of the Company's commodity swaps, interest rate swaps and foreign currency forwards and swaps permit the Company to net settle all contracts with the counterparty through a single payment in an agreed upon currency in the event of default or early termination of the contract, similar to a master netting arrangement.
Information regarding the gross amounts of the Company's derivative instruments and the amounts offset in the unaudited consolidated balance sheets is as follows:

	As of March 31, 2019	As of December 31, 2018
	(In $ millions)	
Derivative Assets		
Gross amount recognized	19	11
Gross amount offset in the consolidated balance sheets	6	2
Net amount presented in the consolidated balance sheets	13	9
Gross amount not offset in the consolidated balance sheets	1	3
Net amount	12	6

	As of March 31, 2019	As of December 31, 2018
	(In $ millions)	
Derivative Liabilities		
Gross amount recognized	31	20
Gross amount offset in the consolidated balance sheets	6	2
Net amount presented in the consolidated balance sheets	25	18
Gross amount not offset in the consolidated balance sheets	1	3
Net amount	24	15

18. Fair Value Measurements

The Company's financial assets and liabilities are measured at fair value on a recurring basis as follows:
Derivatives. Derivative financial instruments include interest rate swaps, commodity swaps and foreign currency forwards and swaps and are valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 fair value measurement inputs such as interest rates and foreign currency exchange rates. These market inputs are utilized in the discounted cash flow calculation considering the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation for interest rate swaps, commodity swaps and foreign currency forwards and swaps are observable in the active markets and are classified as Level 2 in the fair value measurement hierarchy.

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	Fair Value Measurement Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total	Balance Sheet Classification
	(In $ millions)			
As of March 31, 2019				
Derivatives Designated as Cash Flow Hedges				
Commodity swaps	—	7	7	Current Other assets
Commodity swaps	—	2	2	Noncurrent Other assets
Derivatives Not Designated as Hedges				
Foreign currency forwards and swaps	—	4	4	Current Other assets
Total assets	—	13	13	
Derivatives Designated as Cash Flow Hedges				
Interest rate swap	—	(21)	(21)	Noncurrent Other liabilities
Derivatives Not Designated as Hedges				
Foreign currency forwards and swaps	—	(4)	(4)	Current Other liabilities
Total liabilities	—	(25)	(25)	
As of December 31, 2018				
Derivatives Designated as Cash Flow Hedges				
Commodity swaps	—	1	1	Current Other assets
Derivatives Not Designated as Hedges				
Foreign currency forwards and swaps	—	8	8	Current Other assets
Total assets	—	9	9	
Derivatives Designated as Cash Flow Hedges				
Commodity swaps	—	(1)	(1)	Noncurrent Other liabilities
Interest rate swaps	—	(10)	(10)	Noncurrent Other liabilities
Derivatives Not Designated as Hedges				
Foreign currency forwards and swaps	—	(7)	(7)	Current Other liabilities
Total liabilities	—	(18)	(18)	

Carrying values and fair values of financial instruments that are not carried at fair value are as follows:

	Carrying Amount	Fair Value Measurement Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In $ millions)			
As of March 31, 2019				
Equity investments without readily determinable fair values	170	—	—	—
Insurance contracts in nonqualified trusts	35	35	—	35

Long-term debt, including current installments of long-term debt	3,313	3,227	163	3,390
As of December 31, 2018				
Equity investments without readily determinable fair values	164	—	—	—
Insurance contracts in nonqualified trusts	37	37	—	37
Long-term debt, including current installments of long-term debt	3,355	3,204	167	3,371

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In general, the equity investments included in the table above are not publicly traded and their fair values are not readily determinable. The Company believes the carrying values approximate fair value. Insurance contracts in nonqualified trusts consist of long-term fixed income securities, which are valued using independent vendor pricing models with observable inputs in the active market and therefore represent a Level 2 fair value measurement. The fair value of long-term debt is based on valuations from third-party banks and market quotations and is classified as Level 2 in the fair value measurement hierarchy. The fair value of obligations under finance leases, which are included in long-term debt, is based on lease payments and discount rates, which are not observable in the market and therefore represents a Level 3 fair value measurement.

As of March 31, 2019, and December 31, 2018, the fair values of cash and cash equivalents, receivables, trade payables, short-term borrowings and the current installments of long-term debt approximate carrying values due to the short-term nature of these instruments. These items have been excluded from the table with the exception of the current installments of long-term debt.

19. Commitments and Contingencies

Commitments

Guarantees

The Company has agreed to guarantee or indemnify third parties for environmental and other liabilities pursuant to a variety of agreements, including asset and business divestiture agreements, leases, settlement agreements and various agreements with affiliated companies. Although many of these obligations contain monetary and/or time limitations, others do not provide such limitations. The Company has accrued for all probable and reasonably estimable losses associated with all known matters or claims. These known obligations include the following:

- Demerger Obligations

In connection with the Hoechst demerger, the Company agreed to indemnify Hoechst, and its legal successors, for various liabilities under the demerger agreement, including for environmental liabilities associated with contamination arising either from environmental damage in general ("Category A") or under 19 divestiture agreements entered into by Hoechst prior to the demerger ("Category B") (Note 12).

The Company's obligation to indemnify Hoechst, and its legal successors, is capped under Category B at €250 million. If and to the extent the environmental damage should exceed €750 million in aggregate, the Company's obligation to indemnify Hoechst and its legal successors applies, but is then limited to 33.33% of the remediation cost without further limitations. Cumulative payments under the divestiture agreements as of March 31, 2019, are $90 million. Though the Company is significantly under its obligation cap under Category B, most of the divestiture agreements have become time barred and/or any notified environmental damage claims have been partially settled.

The Company has also undertaken in the demerger agreement to indemnify Hoechst and its legal successors for (i) 33.33% of any and all Category A liabilities that result from Hoechst being held as the responsible party pursuant to public law or current or future environmental law or by third parties pursuant to private or public law related to contamination and (ii) liabilities that Hoechst is required to discharge, including tax liabilities, which are associated with businesses that were included in the demerger but were not demerged due to legal restrictions on the transfers of such items. These indemnities do not provide for any monetary or time limitations. The Company has not been requested by Hoechst to make any payments in connection with this indemnification. Accordingly, the Company has not made any payments to Hoechst and its legal successors.

Based on the Company's evaluation of currently available information, including the lack of requests for indemnification, the Company cannot estimate the remaining demerger obligations, if any, in excess of amounts accrued.

- Divestiture Obligations

The Company and its predecessor companies agreed to indemnify third-party purchasers of former businesses and assets for various pre-closing conditions, as well as for breaches of representations, warranties and covenants. Such liabilities also include environmental liability, product liability, antitrust and other liabilities. These indemnifications and guarantees represent standard contractual terms associated with typical divestiture agreements and, other than environmental liabilities, the Company does not believe that they expose the Company to significant risk (Note 12).

The Company has divested numerous businesses, investments and facilities through agreements containing indemnifications or guarantees to the purchasers. Many of the obligations contain monetary and/or time limitations, which extend through 2037.

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The aggregate amount of outstanding indemnifications and guarantees provided for under these agreements is $116 million as of March 31, 2019. Other agreements do not provide for any monetary or time limitations.
Based on the Company's evaluation of currently available information, including the number of requests for indemnification or other payment received by the Company, the Company cannot estimate the remaining divestiture obligations, if any, in excess of amounts accrued.

Purchase Obligations

In the normal course of business, the Company enters into various purchase commitments for goods and services. The Company maintains a number of "take-or-pay" contracts for purchases of raw materials, utilities and other services. Certain of the contracts contain a contract termination buy-out provision that allows for the Company to exit the contracts for amounts less than the remaining take-or-pay obligations. Additionally, the Company has other outstanding commitments representing maintenance and service agreements, energy and utility agreements, consulting contracts and software agreements. As of March 31, 2019, the Company had unconditional purchase obligations of $1.3 billion, which extend through 2036.

Contingencies

The Company is involved in legal and regulatory proceedings, lawsuits, claims and investigations incidental to the normal conduct of business, relating to such matters as product liability, land disputes, insurance coverage disputes, contracts, employment, antitrust or competition compliance, intellectual property, personal injury and other actions in tort, workers' compensation, chemical exposure, asbestos exposure, taxes, trade compliance, acquisitions and divestitures, claims of legacy stockholders, past waste disposal practices and release of chemicals into the environment. The Company is actively defending those matters where the Company is named as a defendant and, based on the current facts, does not believe the outcomes from these matters would be material to the Company's results of operations, cash flows or financial position.

European Commission Investigation

In May 2017, the Company learned that the European Commission opened a competition law investigation involving certain subsidiaries of the Company with respect to certain ethylene purchases. The Company is cooperating with the European Commission. Because the investigation is on-going, and the many uncertainties and variables involved, the Company is unable at this time to determine the outcome of this investigation and whether, and in what amount, any potential fines would be assessed.

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20. Segment Information

	Engineered Materials	Acetate Tow	Acetyl Chain	Other Activities	Eliminations	Consolidated
	(In $ millions)					
	Three Months Ended March 31, 2019					
Net sales	663	166	889	—	(31) [1]	1,687
Other (charges) gains, net (Note 14)	15	—	—	(11)	—	4
Operating profit (loss)	144	40	202	(66)	—	320
Equity in net earnings (loss) of affiliates	46	—	1	3	—	50
Depreciation and amortization	32	10	38	3	—	83
Capital expenditures	16	8	26	4	—	54 [2]
	As of March 31, 2019					
Goodwill and intangible assets, net	1,018	153	236	—	—	1,407
Total assets	3,578	1,046	3,520	1,430	—	9,574
	Three Months Ended March 31, 2018					
Net sales	665	168	1,051	—	(33) [1]	1,851
Other (charges) gains, net (Note 14)	—	—	—	—	—	—
Operating profit (loss)	127	46	253	(83)	—	343
Equity in net earnings (loss) of affiliates	54	—	1	3	—	58
Depreciation and amortization	32	10	35	2	—	79
Capital expenditures	21	—	34	2	—	57 [2]
	As of December 31, 2018					
Goodwill and intangible assets, net	974	153	240	—	—	1,367
Total assets	4,012	1,032	3,471	798	—	9,313

(1) Includes intersegment sales primarily related to the Acetyl Chain.

(2) Includes a decrease in accrued capital expenditures of $25 million and $29 million for the three months ended March 31, 2019 and 2018, respectively.

21. Revenue Recognition

The Company has certain contracts that represent take-or-pay revenue arrangements in which the Company's performance obligations extend over multiple years. As of March 31, 2019, the Company had $750 million of remaining performance obligations related to take-or-pay contracts. The Company expects to recognize approximately $194 million of its remaining performance obligations as Net sales in 2019, $203 million in 2020, $152 million in 2021 and the balance thereafter.

Contract Balances

Contract liabilities primarily relate to advances or deposits received from the Company's customers before revenue is recognized. These amounts are recorded as deferred revenue and are included in Noncurrent Other liabilities in the unaudited consolidated balance sheets (Note 9).

The Company does not have any material contract assets as of March 31, 2019.

Disaggregated Revenue

In general, the Company's business segmentation is aligned according to the nature and economic characteristics of its products and customer relationships and provides meaningful disaggregation of each business segment's results of operations.

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The Company manages its Engineered Materials business segment through its project management pipeline, which is comprised of a broad range of projects which are solutions-based and are tailored to each customers' unique needs. Projects are identified and selected based on success rate and may involve a number of different polymers per project for use in multiple end-use applications. Therefore, the Company is agnostic toward products and end-use markets for the Engineered Materials business segment.

Within the Acetate Tow business segment, the Company's primary product is acetate tow, which is managed through contracts with a few major tobacco companies and accounts for a significant amount of filters used in cigarette production worldwide.

The Company manages its Acetyl Chain business segment by leveraging its ability to sell chemicals externally to end-use markets or downstream to its emulsion polymers business. Decisions to sell externally and geographically or downstream and along the Acetyl Chain are based on market demand, trade flows and maximizing the value of its chemicals. Therefore, the Company's strategic focus is on executing within this integrated chain model and less on driving product-specific revenue.

Further disaggregation of Net sales by business segment and geographic destination is as follows:

	Three Months Ended March 31,	
	2019	2018
	(In $ millions)	
Engineered Materials		
North America	196	179
Europe and Africa	302	337
Asia-Pacific	148	132
South America	17	17
Total	663	665
Acetate Tow		
North America	34	35
Europe and Africa	63	70
Asia-Pacific	60	51
South America	9	12
Total	166	168
Acetyl Chain		
North America	286	290
Europe and Africa	294	317
Asia-Pacific	256	378
South America	22	33
Total[1]	858	1,018

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(1) Excludes intersegment sales of $31 million and $33 million for the three months ended March 31, 2019 and 2018, respectively.

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22. Earnings (Loss) Per Share

	Three Months Ended March 31,	
	2019	2018
	(In $ millions, except share data)	
Amounts attributable to Celanese Corporation		
Earnings (loss) from continuing operations	338	365
Earnings (loss) from discontinued operations	(1)	(2)
Net earnings (loss)	337	363
Weighted average shares - basic	127,542,328	135,916,446
Incremental shares attributable to equity awards	673,372	467,289
Weighted average shares - diluted	128,215,700	136,383,735

During the three months ended March 31, 2019 and 2018, there were no anti-dilutive equity awards excluded from the computation of diluted net earnings per share.

23. Consolidating Guarantor Financial Information

The Senior Notes were issued by Celanese US ("Issuer") and are guaranteed by Celanese Corporation ("Parent Guarantor") and the Subsidiary Guarantors (Note 10). The Issuer and Subsidiary Guarantors are 100% owned subsidiaries of the Parent Guarantor. The Parent Guarantor and Subsidiary Guarantors have guaranteed the Notes fully and unconditionally and jointly and severally.

For cash management purposes, the Company transfers cash between the Parent Guarantor, Issuer, Subsidiary Guarantors and non-guarantors through intercompany financing arrangements, contributions or declaration of dividends between the respective parent and its subsidiaries. The transfer of cash under these activities facilitates the ability of the recipient to make specified third-party payments for principal and interest on the Company's outstanding debt, Common Stock dividends and Common Stock repurchases. The unaudited interim consolidating statements of cash flows for the three months ended March 31, 2019 and 2018 present such intercompany financing activities, contributions and dividends consistent with how such activity would be presented in a stand-alone statement of cash flows.

The Company has not presented separate financial information and other disclosures for each of its Subsidiary Guarantors because it believes such financial information and other disclosures would not provide investors with any additional information that would be material in evaluating the sufficiency of the guarantees.

The unaudited interim consolidating financial statements for the Parent Guarantor, the Issuer, the Subsidiary Guarantors and the non-guarantors are as follows:

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATING STATEMENT OF OPERATIONS

	Three Months Ended March 31, 2019					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
Net sales	—	—	624	1,373	(310)	1,687
Cost of sales	—	—	(458)	(1,077)	301	(1,234)
Gross profit	—	—	166	296	(9)	453
Selling, general and administrative expenses	—	—	(40)	(80)	—	(120)
Amortization of intangible assets	—	—	(2)	(4)	—	(6)
Research and development expenses	—	—	(6)	(10)	—	(16)
Other (charges) gains, net	—	—	—	4	—	4
Foreign exchange gain (loss), net	—	—	—	5	—	5
Gain (loss) on disposition of businesses and assets, net	—	—	(2)	2	—	—
Operating profit (loss)	—	—	116	213	(9)	320
Equity in net earnings (loss) of affiliates	337	337	217	43	(884)	50
Non-operating pension and other postretirement employee benefit (expense) income	—	—	15	2	—	17
Interest expense	—	(10)	(31)	(7)	17	(31)
Interest income	—	13	2	3	(17)	1
Dividend income - equity investments	—	—	—	32	—	32
Other income (expense), net	—	1	—	(5)	—	(4)
Earnings (loss) from continuing operations before tax	337	341	319	281	(893)	385
Income tax (provision) benefit	—	(4)	(7)	(36)	1	(46)
Earnings (loss) from continuing operations	337	337	312	245	(892)	339
Earnings (loss) from operation of discontinued operations	—	—	(1)	—	—	(1)
Income tax (provision) benefit from discontinued operations	—	—	—	—	—	—
Earnings (loss) from discontinued operations	—	—	(1)	—	—	(1)
Net earnings (loss)	337	337	311	245	(892)	338
Net (earnings) loss attributable to noncontrolling interests	—	—	—	(1)	—	(1)
Net earnings (loss) attributable to Celanese Corporation	337	337	311	244	(892)	337

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATING STATEMENT OF OPERATIONS

	Three Months Ended March 31, 2018					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
Net sales	—	—	600	1,554	(303)	1,851
Cost of sales	—	—	(464)	(1,178)	306	(1,336)
Gross profit	—	—	136	376	3	515
Selling, general and administrative expenses	—	—	(60)	(87)	—	(147)
Amortization of intangible assets	—	—	(2)	(4)	—	(6)
Research and development expenses	—	—	(8)	(10)	—	(18)
Other (charges) gains, net	—	—	—	—	—	—
Foreign exchange gain (loss), net	—	—	—	(1)	—	(1)
Gain (loss) on disposition of businesses and assets, net	—	—	(2)	2	—	—
Operating profit (loss)	—	—	64	276	3	343
Equity in net earnings (loss) of affiliates	363	360	267	53	(985)	58
Non-operating pension and other postretirement employee benefit (expense) income	—	—	23	3	—	26
Interest expense	—	(5)	(29)	(9)	10	(33)
Interest income	—	8	2	2	(10)	2
Dividend income - equity investments	—	—	—	32	—	32
Other income (expense), net	—	1	1	2	—	4
Earnings (loss) from continuing operations before tax	363	364	328	359	(982)	432
Income tax (provision) benefit	—	(1)	(37)	(27)	—	(65)
Earnings (loss) from continuing operations	363	363	291	332	(982)	367
Earnings (loss) from operation of discontinued operations	—	—	—	(2)	—	(2)
Income tax (provision) benefit from discontinued operations	—	—	—	—	—	—
Earnings (loss) from discontinued operations	—	—	—	(2)	—	(2)
Net earnings (loss)	363	363	291	330	(982)	365
Net (earnings) loss attributable to noncontrolling interests	—	—	—	(2)	—	(2)
Net earnings (loss) attributable to Celanese Corporation	363	363	291	328	(982)	363

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31, 2019					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
Net earnings (loss)	337	337	311	245	(892)	338
Other comprehensive income (loss), net of tax						
Foreign currency translation gain (loss)	7	7	(18)	(24)	35	7
Gain (loss) on cash flow hedges	(3)	(3)	6	8	(11)	(3)
Total other comprehensive income (loss), net of tax	4	4	(12)	(16)	24	4
Total comprehensive income (loss), net of tax	341	341	299	229	(868)	342
Comprehensive (income) loss attributable to noncontrolling interests	—	—	—	(1)	—	(1)
Comprehensive income (loss) attributable to Celanese Corporation	341	341	299	228	(868)	341

	Three Months Ended March 31, 2018					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
Net earnings (loss)	363	363	291	330	(982)	365
Other comprehensive income (loss), net of tax						
Foreign currency translation gain (loss)	49	49	63	74	(186)	49
Gain (loss) on cash flow hedges	(1)	(1)	(1)	(1)	3	(1)
Pension and postretirement benefits gain (loss)	1	1	1	1	(3)	1
Total other comprehensive income (loss), net of tax	49	49	63	74	(186)	49
Total comprehensive income (loss), net of tax	412	412	354	404	(1,168)	414
Comprehensive (income) loss attributable to noncontrolling interests	—	—	—	(2)	—	(2)
Comprehensive income (loss) attributable to Celanese Corporation	412	412	354	402	(1,168)	412

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATING BALANCE SHEET

	As of March 31, 2019					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
ASSETS						
Current Assets						
Cash and cash equivalents	—	—	69	372	—	441
Trade receivables - third party and affiliates	—	—	119	1,033	(137)	1,015
Non-trade receivables, net	311	958	1,713	606	(3,245)	343
Inventories, net	—	—	316	750	(57)	1,009
Marketable securities, at fair value	—	—	29	—	—	29
Other assets	1	14	10	46	(24)	47
Total current assets	312	972	2,256	2,807	(3,463)	2,884
Investments in affiliates	3,563	4,718	4,022	828	(12,181)	950
Property, plant and equipment, net	—	—	1,328	2,393	—	3,721
Operating lease right-of-use assets	—	—	59	151	—	210
Deferred income taxes	—	—	—	114	(21)	93
Other assets	—	1,659	158	455	(1,963)	309
Goodwill	—	—	399	676	—	1,075
Intangible assets, net	—	—	131	201	—	332
Total assets	3,875	7,349	8,353	7,625	(17,628)	9,574
LIABILITIES AND EQUITY						
Current Liabilities						
Short-term borrowings and current installments of long-term debt - third party and affiliates	826	635	994	904	(2,616)	743
Trade payables - third party and affiliates	—	1	254	581	(137)	699
Other liabilities	1	36	139	283	(148)	311
Income taxes payable	—	—	461	114	(506)	69
Total current liabilities	827	672	1,848	1,882	(3,407)	1,822
Noncurrent Liabilities						
Long-term debt	—	3,067	1,679	121	(1,934)	2,933
Deferred income taxes	—	24	104	166	(21)	273
Uncertain tax positions	—	2	6	154	—	162
Benefit obligations	—	—	246	304	—	550
Operating lease liabilities	—	—	48	145	—	193
Other liabilities	1	21	93	126	(39)	202
Total noncurrent liabilities	1	3,114	2,176	1,016	(1,994)	4,313
Total Celanese Corporation stockholders' equity	3,047	3,563	4,329	4,335	(12,227)	3,047
Noncontrolling interests	—	—	—	392	—	392
Total equity	3,047	3,563	4,329	4,727	(12,227)	3,439
Total liabilities and equity	3,875	7,349	8,353	7,625	(17,628)	9,574

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATING BALANCE SHEET

	As of December 31, 2018					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
ASSETS						
Current Assets						
Cash and cash equivalents	—	—	30	409	—	439
Trade receivables - third party and affiliates	—	—	96	1,040	(119)	1,017
Non-trade receivables, net	40	551	797	697	(1,784)	301
Inventories, net	—	—	329	765	(48)	1,046
Marketable securities, at fair value	—	—	31	—	—	31
Other assets	—	24	10	37	(31)	40
Total current assets	40	575	1,293	2,948	(1,982)	2,874
Investments in affiliates	3,503	4,820	4,678	855	(12,877)	979
Property, plant and equipment, net	—	—	1,289	2,430	—	3,719
Deferred income taxes	—	—	—	86	(2)	84
Other assets	—	1,658	142	461	(1,971)	290
Goodwill	—	—	399	658	—	1,057
Intangible assets, net	—	—	132	178	—	310
Total assets	3,543	7,053	7,933	7,616	(16,832)	9,313
LIABILITIES AND EQUITY						
Current Liabilities						
Short-term borrowings and current installments of long-term debt - third party and affiliates	544	333	465	258	(1,039)	561
Trade payables - third party and affiliates	13	1	342	583	(120)	819
Other liabilities	1	87	267	258	(270)	343
Income taxes payable	—	—	475	88	(507)	56
Total current liabilities	558	421	1,549	1,187	(1,936)	1,779
Noncurrent Liabilities						
Long-term debt	—	3,104	1,679	127	(1,940)	2,970
Deferred income taxes	—	15	85	157	(2)	255
Uncertain tax positions	—	—	6	152	—	158
Benefit obligations	—	—	250	314	—	564
Other liabilities	1	10	99	138	(40)	208
Total noncurrent liabilities	1	3,129	2,119	888	(1,982)	4,155
Total Celanese Corporation stockholders' equity	2,984	3,503	4,265	5,146	(12,914)	2,984
Noncontrolling interests	—	—	—	395	—	395
Total equity	2,984	3,503	4,265	5,541	(12,914)	3,379
Total liabilities and equity	3,543	7,053	7,933	7,616	(16,832)	9,313

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATING STATEMENT OF CASH FLOWS

	Three Months Ended March 31, 2019					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
Net cash provided by (used in) operating activities	282	26	1,032	528	(1,561)	307
Investing Activities						
Capital expenditures on property, plant and equipment	—	—	(42)	(37)	—	(79)
Acquisitions, net of cash acquired	—	—	(31)	(60)	—	(91)
Return of capital from subsidiary	—	—	4	—	(4)	—
Intercompany loan receipts (disbursements)	—	—	(646)	—	646	—
Other, net	—	—	2	(9)	—	(7)
Net cash provided by (used in) investing activities	—	—	(713)	(106)	642	(177)
Financing Activities						
Net change in short-term borrowings with maturities of 3 months or less	—	246	(9)	(4)	(36)	197
Proceeds from short-term borrowings	—	—	—	610	(610)	—
Repayments of short-term borrowings	—	—	—	(12)	—	(12)
Repayments of long-term debt	—	—	—	(7)	—	(7)
Purchases of treasury stock, including related fees	(212)	—	—	—	—	(212)
Dividends to parent	—	(272)	(251)	(1,038)	1,561	—
Common stock dividends	(70)	—	—	—	—	(70)
Return of capital to parent	—	—	—	(4)	4	—
(Distributions to) contributions from noncontrolling interests	—	—	—	(4)	—	(4)
Other, net	—	—	(20)	(2)	—	(22)
Net cash provided by (used in) financing activities	(282)	(26)	(280)	(461)	919	(130)
Exchange rate effects on cash and cash equivalents	—	—	—	2	—	2
Net increase (decrease) in cash and cash equivalents	—	—	39	(37)	—	2
Cash and cash equivalents as of beginning of period	—	—	30	409	—	439
Cash and cash equivalents as of end of period	—	—	69	372	—	441

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATING STATEMENT OF CASH FLOWS

	Three Months Ended March 31, 2018					
	Parent Guarantor	Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In $ millions)					
Net cash provided by (used in) operating activities	63	277	(33)	170	(334)	143
Investing Activities						
Capital expenditures on property, plant and equipment	—	—	(54)	(32)	—	(86)
Acquisitions, net of cash acquired	—	—	(144)	—	—	(144)
Proceeds from sale of businesses and assets, net	—	—	—	9	—	9
Return of capital from subsidiary	—	—	211	—	(211)	—
Contributions to subsidiary	—	—	(16)	—	16	—
Intercompany loan receipts (disbursements)	—	(222)	(15)	—	237	—
Other, net	—	—	(3)	(11)	—	(14)
Net cash provided by (used in) investing activities	—	(222)	(21)	(34)	42	(235)
Financing Activities						
Net change in short-term borrowings with maturities of 3 months or less	—	15	2	99	(15)	101
Proceeds from short-term borrowings	—	—	—	36	—	36
Repayments of short-term borrowings	—	—	—	(38)	—	(38)
Proceeds from long-term debt	—	—	222	—	(222)	—
Repayments of long-term debt	—	(6)	(12)	(13)	—	(31)
Dividends to parent	—	(62)	(272)	—	334	—
Contributions from parent	—	—	—	16	(16)	—
Common stock dividends	(63)	—	—	—	—	(63)
Return of capital to parent	—	—	—	(211)	211	—
(Distributions to) contributions from noncontrolling interests	—	—	—	(2)	—	(2)
Other, net	—	—	(5)	—	—	(5)
Net cash provided by (used in) financing activities	(63)	(53)	(65)	(113)	292	(2)
Exchange rate effects on cash and cash equivalents	—	—	—	8	—	8
Net increase (decrease) in cash and cash equivalents	—	2	(119)	31	—	(86)
Cash and cash equivalents as of beginning of period	—	—	230	346	—	576
Cash and cash equivalents as of end of period	—	2	111	377	—	490

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this Quarterly Report on Form 10-Q ("Quarterly Report"), the term "Celanese" refers to Celanese Corporation, a Delaware corporation, and not its subsidiaries. The terms the "Company," "we," "our" and "us," refer to Celanese and its subsidiaries on a consolidated basis. The term "Celanese US" refers to the Company's subsidiary, Celanese US Holdings LLC, a Delaware limited liability company, and not its subsidiaries.

The following discussion should be read in conjunction with the Celanese Corporation and Subsidiaries consolidated financial statements as of and for the year ended December 31, 2018 filed on February 7, 2019 with the Securities and Exchange Commission ("SEC") as part of the Company's Annual Reporting on Form 10-K ("2018 Form 10-K") and the unaudited interim consolidated financial statements and notes to the unaudited interim consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Investors are cautioned that the forward-looking statements contained in this section and other parts of this Quarterly Report involve both risk and uncertainty. Several important factors could cause actual results to differ materially from those anticipated by these statements. Many of these statements are macroeconomic in nature and are, therefore, beyond the control of management. See "Forward-Looking Statements" below and at the beginning of our 2018 Form 10-K.

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and other parts of this Quarterly Report contain certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by, and information currently available to, us. Generally, words such as "believe," "expect," "intend," "estimate," "anticipate," "project," "plan," "may," "can," "could," "might," and "will," and similar expressions, as they relate to us are intended to identify forward-looking statements. These statements reflect our current views and beliefs with respect to future events at the time that the statements are made, are not historical facts or guarantees of future performance and involve risks and uncertainties that are difficult to predict and many of which are outside of our control. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. All forward-looking statements made in this Quarterly Report are made as of the date hereof, and the risk that actual results will differ materially from expectations expressed in this Quarterly Report will increase with the passage of time. We undertake no obligation, and disclaim any duty, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in our expectations or otherwise.

Risk Factors

See Part I - Item 1A. Risk Factors of our 2018 Form 10-K and subsequent periodic filings we make with the SEC for a description of certain risk factors that you should consider which could significantly affect our financial results. In addition, the following factors could cause our actual results to differ materially from those results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include, among other things:

- changes in general economic, business, political and regulatory conditions in the countries or regions in which we operate;
- the length and depth of product and industry business cycles particularly in the automotive, electrical, textiles, electronics and construction industries;
- changes in the price and availability of raw materials, particularly changes in the demand for, supply of, and market prices of ethylene, methanol, natural gas, wood pulp and fuel oil and the prices for electricity and other energy sources;
- the ability to pass increases in raw material prices on to customers or otherwise improve margins through price increases;
- the ability to maintain plant utilization rates and to implement planned capacity additions, expansions and maintenance;
- the ability to reduce or maintain current levels of production costs and to improve productivity by implementing technological improvements to existing plants;

- increased price competition and the introduction of competing products by other companies;
- the ability to identify desirable potential acquisition targets and to consummate acquisition or investment transactions, including obtaining regulatory approvals, consistent with our strategy;

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- market acceptance of our technology;
- the ability to obtain governmental approvals and to construct facilities on terms and schedules acceptable to us;
- changes in tariffs, tax rates or legislation throughout the world including, but not limited to, adjustments, changes in estimates or interpretations that may impact recorded or future tax impacts associated with the Tax Cuts and Jobs Act (the "TCJA") enacted in December 2017;
- changes in the degree of intellectual property and other legal protection afforded to our products or technologies, or the theft of such intellectual property;
- compliance and other costs and potential disruption or interruption of production or operations due to accidents, interruptions in sources of raw materials, cyber security incidents, terrorism or political unrest, or other unforeseen events or delays in construction or operation of facilities, including as a result of geopolitical conditions, the occurrence of acts of war or terrorist incidents or as a result of weather or natural disasters;
- potential liability for remedial actions and increased costs under existing or future environmental regulations, including those relating to climate change;
- potential liability resulting from pending or future claims or litigation, including investigations or enforcement actions, or from changes in the laws, regulations or policies of governments or other governmental activities, in the countries in which we operate;
- changes in currency exchange rates and interest rates;
- our level of indebtedness, which could diminish our ability to raise additional capital to fund operations or limit our ability to react to changes in the economy or the chemicals industry; and
- various other factors, both referenced and not referenced in this Quarterly Report.

Many of these factors are macroeconomic in nature and are, therefore, beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from those described in this Quarterly Report as anticipated, believed, estimated, expected, intended, planned or projected. We neither intend nor assume any obligation to update these forward-looking statements, which speak only as of their dates.

Overview

We are a global chemical and specialty materials company. We are a leading global producer of high performance engineered polymers that are used in a variety of high-value applications, as well as one of the world's largest producers of acetyl products, which are intermediate chemicals, for nearly all major industries. As a recognized innovator in the chemicals industry, we engineer and manufacture a wide variety of products essential to everyday living. Our broad product portfolio serves a diverse set of end-use applications including automotive, chemical additives, construction, consumer and industrial adhesives, consumer and medical, energy storage, filtration, food and beverage, paints and coatings, paper and packaging, performance industrial and textiles. Our products enjoy leading global positions due to our differentiated business models, large global production capacity, operating efficiencies, proprietary technology and competitive cost structures.

Our large and diverse global customer base primarily consists of major companies in a broad array of industries. We hold geographically balanced global positions and participate in diversified end-use applications. We combine a demonstrated track record of execution, strong performance built on differentiated business models and a clear focus on growth and value creation. Known for operational excellence, reliability and execution of our business strategies, we partner with our customers around the globe to deliver best-in-class technologies and solutions.

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Results of Operations
Financial Highlights

	Three Months Ended March 31,		
	2019	2018	Change
	(unaudited) (In $ millions, except percentages)		
Statement of Operations Data			
Net sales	1,687	1,851	(164)
Gross profit	453	515	(62)
Selling, general and administrative ("SG&A") expenses	(120)	(147)	27
Other (charges) gains, net	4	—	4
Operating profit (loss)	320	343	(23)
Equity in net earnings (loss) of affiliates	50	58	(8)
Non-operating pension and other postretirement employee benefit (expense) income	17	26	(9)
Interest expense	(31)	(33)	2
Dividend income - equity investments	32	32	—
Earnings (loss) from continuing operations before tax	385	432	(47)
Earnings (loss) from continuing operations	339	367	(28)
Earnings (loss) from discontinued operations	(1)	(2)	1
Net earnings (loss)	338	365	(27)
Net earnings (loss) attributable to Celanese Corporation	337	363	(26)
Other Data			
Depreciation and amortization	83	79	4
SG&A expenses as a percentage of Net sales	7.1 %	7.9 %	
Operating margin[1]	19.0 %	18.5 %	
Other (charges) gains, net			
Restructuring	1	—	1
Plant/office closures	(1)	—	(1)
Commercial disputes	4	—	4
Total Other (charges) gains, net	4	—	4

[1] Defined as Operating profit (loss) divided by Net sales.

	As of March 31, 2019	As of December 31, 2018
	(unaudited) (In $ millions)	
Balance Sheet Data		
Cash and cash equivalents	441	439
Short-term borrowings and current installments of long-term debt - third party and affiliates	743	561
Long-term debt, net of unamortized deferred financing costs	2,933	2,970
Total debt	3,676	3,531

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Factors Affecting Business Segment Net Sales

The percentage increase (decrease) in Net sales attributable to each of the factors indicated for each of our business segments is as follows:

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

	Volume	Price	Currency	Other	Total
	(unaudited)				
	(In percentages)				
Engineered Materials	(3)	7	(4)	—	—
Acetate Tow	(1)	—	—	—	(1)
Acetyl Chain	(4)	(8)	(3)	—	(15)
Total Company	(3)	(2)	(4)	—	(9)

Consolidated Results

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Net sales decreased $164 million, or 9%, for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower pricing in our Acetyl Chain segment primarily due to reduced customer demand in Asia and an overall deflationary environment for raw materials;
- an unfavorable currency impact within our Acetyl Chain and Engineered Materials segments resulting from a weaker Euro relative to the US dollar; and
- lower volume across all of our segments primarily due to slower global economic conditions;

partially offset by:

- higher pricing in our Engineered Materials segment primarily due to pricing efforts to align with rising raw material and distribution costs, as well as product mix.

Operating profit decreased $23 million, or 7%, for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower Net sales across all of our segments; and
- higher raw material costs, primarily for polymers, within our Engineered Materials segment;

partially offset by:

- lower raw material costs, primarily methanol and ethylene, within our Acetyl Chain segment; and
- lower project spending and incentive compensation costs of $16 million.

Our effective income tax rate for the three months ended March 31, 2019 was 12% compared to 15% for the same period in 2018. The lower effective income tax rate for the three months ended March 31, 2019 compared to the same period in 2018 was primarily due to partial release of a valuation allowance on the net deferred tax asset for foreign tax credit carryforwards in the US due to revised forecasts of taxable income expected to be generated during the carryforward period.

See Note 15 - Income Taxes in the accompanying unaudited interim consolidated financial statements for further information.

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Business Segments
Engineered Materials

	Three Months Ended March 31,		Change	% Change
	2019	2018		
	(unaudited)			
	(In $ millions, except percentages)			
Net sales	663	665	(2)	(0.3)%
Net Sales Variance				
Volume	(3)%			
Price	7 %			
Currency	(4)%			
Other	— %			
Other (charges) gains, net	15	—	15	100.0 %
Operating profit (loss)	144	127	17	13.4 %
Operating margin	21.7 %	19.1 %		
Equity in net earnings (loss) of affiliates	46	54	(8)	(14.8)%
Depreciation and amortization	32	32	—	— %

Our Engineered Materials segment includes our engineered materials business, our food ingredients business and certain strategic affiliates. Our engineered materials business develops, produces and supplies a broad portfolio of high performance specialty polymers for automotive and medical applications, as well as industrial products and consumer electronics. Together with our strategic affiliates, our engineered materials business is a leading participant in the global specialty polymers industry. Our food ingredients business is a leading global supplier of acesulfame potassium for the food and beverage industry and is a leading producer of food protection ingredients, such as potassium sorbate and sorbic acid.

The pricing of products within the Engineered Materials segment is primarily based on the value of the material we produce and is generally independent of changes in the cost of raw materials. Therefore, in general, margins may expand or contract in response to changes in raw material costs.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Net sales decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- an unfavorable currency impact resulting from a weaker Euro relative to the US dollar; and
- lower volume within our base business driven by slower global economic conditions;

partially offset by:

- higher pricing for most of our products, primarily due to pricing efforts to align with rising raw material and distribution costs, as well as product mix.

Operating profit increased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- a favorable pricing impact within Net sales; and
- a favorable impact to Other (charges) gains, net. During the three months ended March 31, 2019, we recorded a $15 million gain related to a settlement of a commercial dispute from a previous acquisition. See Note 14 - Other (Charges) Gains, Net in the accompanying unaudited interim consolidated financial statements for further information;

partially offset by:

- an unfavorable volume and currency impact within Net sales; and

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- higher raw material costs, primarily for polymers.

Equity in net earnings (loss) of affiliates decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- a decrease in equity investment in earnings of $9 million from our Polyplastics Co., Ltd. strategic affiliates as a result of lower demand in China.

Acetate Tow

	Three Months Ended March 31,		Change	% Change
	2019	2018		
	(unaudited)			
	(In $ millions, except percentages)			
Net sales	166	168	(2)	(1.2)%
Net Sales Variance				
Volume	(1)%			
Price	— %			
Currency	— %			
Other	— %			
Other (charges) gains, net	—	—	—	— %
Operating profit (loss)	40	46	(6)	(13.0)%
Operating margin	24.1 %	27.4%		
Dividend income - equity investments	32	32	—	— %
Depreciation and amortization	10	10	—	— %

Our Acetate Tow segment serves consumer-driven applications. We are a leading global producer and supplier of acetate tow and acetate flake, primarily used in filter products applications.

The pricing of products within the Acetate Tow segment is sensitive to demand and is primarily based on the value of the material we produce. Many sales in this business are conducted under contracts with pricing for one or more years. As a result, margins may expand or contract in response to changes in raw material costs over these similar periods, and we may be unable to adjust pricing also due to other factors, such as the intense level of competition in the industry.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Net sales decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower acetate tow volume due to lower global industry utilization.

Operating profit decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower Net sales; and
- higher raw material costs, primarily related to acetic acid.

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Acetyl Chain

	Three Months Ended March 31,		Change	% Change
	2019	2018		
	(unaudited)			
	(In $ millions, except percentages)			
Net sales	889	1,051	(162)	(15.4)%
Net Sales Variance				
Volume	(4)%			
Price	(8)%			
Currency	(3)%			
Other	— %			
Other (charges) gains, net	—	—	—	— %
Operating profit (loss)	202	253	(51)	(20.2)%
Operating margin	22.7 %	24.1 %		
Depreciation and amortization	38	35	3	8.6 %

Our Acetyl Chain segment includes the integrated chain of intermediate chemistry, emulsion polymers and ethylene vinyl acetate ("EVA") polymers businesses. Our intermediate chemistry business produces and supplies acetyl products, including acetic acid, vinyl acetate monomer ("VAM"), acetic anhydride and acetate esters. These products are generally used as starting materials for colorants, paints, adhesives, coatings and pharmaceuticals. It also produces organic solvents and intermediates for pharmaceutical, agricultural and chemical products. Our emulsion polymers business is a leading global producer of vinyl acetate-based emulsions and develops products and application technologies to improve performance, create value and drive innovation in applications such as paints and coatings, adhesives, construction, glass fiber, textiles and paper. Our EVA polymers business is a leading North American manufacturer of a full range of specialty EVA resins and compounds, as well as select grades of low-density polyethylene. Our EVA polymers products are used in many applications, including flexible packaging films, lamination film products, hot melt adhesives, automotive parts and carpeting.

The pricing of products within the Acetyl Chain is influenced by industry utilization rates and changes in the cost of raw materials. Therefore, in general, there is a directional correlation between these factors and our Net sales for most Acetyl Chain products. This impact to pricing typically lags changes in raw material costs over months or quarters.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Net sales decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower pricing for most of our products, primarily due to reduced customer demand in Asia and an overall deflationary environment for raw materials;
- lower volume for acetic acid and VAM, which represents all of the decrease in volume, due to slower global economic conditions as well as geographic and product mix as we pursued higher margin commercial opportunities; and
- an unfavorable currency impact resulting from a weaker Euro relative to the US dollar.

Operating profit decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower Net sales;

partially offset by:

- lower raw material costs, primarily methanol and ethylene, which combined represents approximately three-fourths of the decrease.

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Other Activities

	Three Months Ended March 31,		Change	% Change
	2019	2018		
	(unaudited)			
	(In $ millions, except percentages)			
Other (charges) gains, net	(11)	—	(11)	(100.0)%
Operating profit (loss)	(66)	(83)	17	20.5 %
Equity in net earnings (loss) of affiliates	3	3	—	— %
Non-operating pension and other postretirement employee benefit (expense) income	17	26	(9)	(34.6)%
Depreciation and amortization	3	2	1	50.0 %

Other Activities primarily consists of corporate center costs, including administrative activities such as finance, information technology and human resource functions, interest income and expense associated with financing activities and results of our captive insurance companies. Other Activities also includes the components of net periodic benefit cost (interest cost, expected return on assets and net actuarial gains and losses) for our defined benefit pension plans and other postretirement plans not allocated to our business segments.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Operating loss decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower project spending and incentive compensation costs of $16 million; and
- a favorable currency impact of $6 million resulting from a weaker Euro relative to the US dollar;

largely offset by:

- an unfavorable impact to Other (charges) gains, net. During the three months ended March 31, 2019 we recorded an $11 million loss related to a settlement by our captive insurer with a former third-party customer. See Note 14 - Other (Charges) Gains, Net in the accompanying unaudited interim consolidated financial statements for further information.

Non-operating pension and other postretirement employee benefit income decreased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to:

- lower expected return on plan assets.

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Liquidity and Capital Resources

Our primary source of liquidity is cash generated from operations, available cash and cash equivalents and dividends from our portfolio of strategic investments. In addition, as of March 31, 2019, we have $1.0 billion available for borrowing under our senior unsecured revolving credit facility and $3 million available under our accounts receivable securitization facility to assist, if required, in meeting our working capital needs and other contractual obligations. While our contractual obligations, commitments and debt service requirements over the next several years are significant, we continue to believe we will have available resources to meet our liquidity requirements, including debt service, for the next twelve months. If our cash flow from operations is insufficient to fund our debt service and other obligations, we may be required to use other means available to us such as increasing our borrowings, reducing or delaying capital expenditures, seeking additional capital or seeking to restructure or refinance our indebtedness. There can be no assurance, however, that we will continue to generate cash flows at or above current levels.

Total cash outflows for capital expenditures are expected to be in the range of $350 million to $400 million in 2019 primarily due to additional investments in growth opportunities in our Engineered Materials and the Acetyl Chain segments.

On a stand-alone basis, Celanese and its immediate 100% owned subsidiary, Celanese US, have no material assets other than the stock of their subsidiaries and no independent external operations of their own. Accordingly, they generally depend on the cash flow of their subsidiaries and their ability to pay dividends and make other distributions to Celanese and Celanese US in order to meet their obligations, including their obligations under senior credit facilities and senior notes and to pay dividends on our Common stock, par value $0.0001 per share ("Common Stock").

We are subject to capital controls and exchange restrictions imposed by the local governments in certain jurisdictions where we operate, such as China, India and Indonesia. Capital controls impose limitations on our ability to exchange currencies, repatriate earnings or capital, lend via intercompany loans or create cross-border cash pooling arrangements. Our largest exposure to a country with capital controls is in China. Pursuant to applicable regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, the Chinese government imposes certain currency exchange controls on cash transfers out of China, puts certain limitations on duration, purpose and amount of intercompany loans, and restricts cross-border cash pooling.

Cash Flows

Cash and cash equivalents increased $2 million to $441 million as of March 31, 2019 compared to December 31, 2018. As of March 31, 2019, $333 million of the $441 million of cash and cash equivalents was held by our foreign subsidiaries. These funds are largely accessible, if needed in the US to fund operations. Under the TCJA, we have incurred a charge associated with the deemed repatriation of previously unremitted foreign earnings, including foreign held cash. See Note 15 - Income Taxes in the accompanying unaudited interim consolidated financial statements for further information.

- Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities increased $164 million to $307 million for the three months ended March 31, 2019 compared to $143 million for the same period in 2018. Net cash provided by operating activities for the three months ended March 31, 2019 increased primarily due to:

- favorable trade working capital of $182 million primarily due to timing of trade receivable collections.

- Net Cash Provided by (Used in) Investing Activities

Net cash used in investing activities decreased $58 million to $177 million for the three months ended March 31, 2019 compared to $235 million for the same period in 2018, primarily due to:

- a net cash outflow of $144 million related to the acquisition of Omni Plastics, L.L.C. and its subsidiaries in February 2018, which did not recur this year;

partially offset by:

- a net cash outflow of $91 million primarily related to the acquisition of Next Polymers Ltd. in January 2019.

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• Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities increased $128 million to $130 million for the three months ended March 31, 2019 compared to $2 million for the same period in 2018, primarily due to:

- an increase of $212 million in share repurchases of our Common Stock during the three months ended March 31, 2019;

partially offset by:

- an increase in net borrowings on short-term debt of $86 million, primarily as a result of higher borrowings under our revolving credit facility during the three months ended March 31, 2019 related to the timing of share repurchases of our Common Stock.

Debt and Other Obligations

On January 7, 2019, Celanese, Celanese US and certain subsidiary borrowers entered into a new senior credit agreement (the "Credit Agreement") consisting of a $1.25 billion senior unsecured revolving credit facility (with a letter of credit sublimit), maturing in 2024. The Credit Agreement is guaranteed by Celanese, Celanese US and substantially all of its domestic subsidiaries.

There have been no material changes to our debt or other obligations described in our 2018 Form 10-K other than those disclosed above and in Note 10 - Debt in the accompanying unaudited interim consolidated financial statements.

Other Financing Arrangements

In June 2018, we entered into a factoring agreement with a global financial institution to sell certain accounts receivable on a non-recourse basis. These transactions are treated as a sale and are accounted for as a reduction in accounts receivable because the agreement transfers effective control over and risk related to the receivables to the buyer. We have no continuing involvement in the transferred receivables, other than collection and administrative responsibilities and, once sold, the accounts receivable are no longer available to satisfy creditors in the event of bankruptcy. We de-recognized $72 million of accounts receivable during the three months ended March 31, 2019.

Share Capital

On April 18, 2019, our Board of Directors approved a $1.5 billion increase in our Common Stock repurchase authorization. As of March 31, 2019, we had $513 million remaining under the previous authorization. We also declared a quarterly cash dividend of $0.62 per share on our Common Stock on April 18, 2019, amounting to $78 million. The cash dividend will be paid on May 9, 2019 to holders of record as of April 29, 2019.

There have been no material changes to our share capital described in our 2018 Form 10-K other than those disclosed above and in Note 13 - Stockholders' Equity in the accompanying unaudited interim consolidated financial statements.

Contractual Obligations

Except as otherwise described in this report, there have been no material revisions outside the ordinary course of business to our contractual obligations as described in our 2018 Form 10-K.

Off-Balance Sheet Arrangements

We have not entered into any material off-balance sheet arrangements.

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Critical Accounting Policies and Estimates

Our unaudited interim consolidated financial statements are based on the selection and application of significant accounting policies. The preparation of unaudited interim consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amounts of net sales, expenses and allocated charges during the reporting period. Actual results could differ from those estimates. However, we are not currently aware of any reasonably likely events or circumstances that would result in materially different results.

We describe our significant accounting policies in Note 2 - Summary of Accounting Policies, of the Notes to the Consolidated Financial Statements included in our 2018 Form 10-K. We discuss our critical accounting policies and estimates in MD&A in our 2018 Form 10-K.

Recent Accounting Pronouncements

See Note 2 - Recent Accounting Pronouncements in the accompanying unaudited interim consolidated financial statements included in this Quarterly Report for information regarding recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk for the Company has not changed materially from the foreign exchange, interest rate and commodity risks disclosed in Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our 2018 Form 10-K. See also Note 17 - Derivative Financial Instruments in the accompanying unaudited interim consolidated financial statements for further discussion of our market risk management and the related impact on the Company's financial position and results of operations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, as of March 31, 2019, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in legal and regulatory proceedings, lawsuits, claims and investigations incidental to the normal conduct of its business, relating to such matters as product liability, land disputes, insurance coverage disputes, contracts, employment, antitrust and competition, intellectual property, personal injury and other actions in tort, workers' compensation, chemical exposure, asbestos exposure, taxes, trade compliance, acquisitions and divestitures, claims of legacy stockholders, past waste disposal practices and release of chemicals into the environment. The Company is actively defending those matters where it is named as a defendant. Due to the inherent subjectivity of assessments and unpredictability of outcomes of legal proceedings, the Company's litigation accruals and estimates of possible loss or range of possible loss may not represent the ultimate loss to the Company from legal proceedings. See Note 12 - Environmental and Note 19 - Commitments and Contingencies in the accompanying unaudited interim consolidated financial statements for a discussion of material environmental matters and material commitments and contingencies related to legal and regulatory proceedings. There have been no significant developments in the "Legal Proceedings" described in our 2018 Form 10-K other than those disclosed in Note 12 - Environmental and Note 19 - Commitments and Contingencies in the accompanying unaudited interim consolidated financial statements. See Part I - Item 1A. Risk Factors of our 2018 Form 10-K for certain risk factors relating to these legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the risk factors under Part I, Item 1A of our 2018 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of our Common Stock during the three months ended March 31, 2019 are as follows:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares Remaining that may be Purchased Under the Program[2]
	(unaudited)			
January 1-31, 2019	—	$—	—	$713,000,000
February 1-28, 2019	1,523,340	$101.37	1,523,340	$559,000,000
March 1-31, 2019	448,951	$101.53	448,951	$513,000,000
Total	1,972,291		1,972,291	

(1) May include shares withheld from employees to cover their withholding requirements for personal income taxes related to the vesting of restricted stock.

(2) As of March 31, 2019, our Board of Directors has authorized the repurchase of $3.9 billion of our Common Stock since February 2008. On April 18, 2019, our Board of Directors approved a $1.5 billion increase in our Common Stock repurchase authorization.

See Note 13 - Stockholders' Equity in the accompanying unaudited interim consolidated financial statements for further information.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits[(1)]

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q filed with the SEC on October 18, 2016).
3.1(a)	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of Celanese Corporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on April 22, 2016).
3.1(b)	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of Celanese Corporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on September 17, 2018).
3.2	Fifth Amended and Restated By-laws, amended effective July 16, 2018 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on July 18, 2018).
10.1*‡	Form of 2019 Performance-Based Restricted Stock Unit Award Agreement.
10.2*‡	Form of 2019 Restricted Stock Unit Award Agreement for Chief Executive Officer.
10.3*‡	Form of 2019 Time-Based Restricted Stock Unit Award Agreement.
10.4*‡	Agreement and General Release, dated November 5, 2018, between Celanese Corporation and Peter G. Edwards.
10.5*‡	Agreement and General Release, dated January 7, 2019, between Celanese Corporation and Scott M. Sutton.
10.6*‡	Offer Letter, dated December 12, 2018, between Celanese Corporation and A. Lynne Puckett.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
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.

* Filed herewith.

‡ Indicates a management contract or compensatory plan or arrangement.

(1) The Company and its subsidiaries have in the past issued, and may in the future issue from time to time, long-term debt. The Company may not file with the applicable report copies of the instruments defining the rights of holders of long-term debt to the extent that the aggregate principal amount of the debt instruments of any one series of such debt instruments for which the instruments have not been filed has not exceeded or will not exceed 10% of the assets of the Company at any pertinent time. The Company hereby agrees to furnish a copy of any such instrument(s) to the SEC upon request.

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SIGNATURES

Pursuant to the requirements 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.

CELANESE CORPORATION

By: /s/ MARK C. ROHR
Mark C. Rohr
Chairman of the Board of Directors and Chief Executive Officer

Date: April 23, 2019

By: /s/ SCOTT A. RICHARDSON
Scott A. Richardson
Senior Vice President and Chief Financial Officer

Date: April 23, 2019