

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

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

**For the Fiscal Year Ended December 31, 2019**

Commission File Number 001-35570

**CHANTICLEER HOLDINGS, INC.**

(Exact name of registrant as specified in the charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-2932652**

(I.R.S. Employer  
Identification Number)

**7621 Little Avenue, Suite 414, Charlotte, NC 28226**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(704) 366-5122**

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

| <u>Title of each class</u>       | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|----------------------------------|--------------------------|--|
| Common Stock, \$0.0001 Par Value | BURG                     | The Nasdaq Stock Market LLC                      |

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

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

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

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted 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 such files). [X] Yes [ ] No.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting 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 [ ]

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

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

The aggregate market value of the voting stock held by non-affiliates was \$4.3 million based on the closing sale price of the Company's Common Stock as reported on the NASDAQ Stock Market on June 30, 2019.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 12,402,962 shares of common stock issued and outstanding as of March 16, 2020.

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## PART I

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. These statements include projections, predictions, expectations or statements as to beliefs or future events or results or refer to other matters that are not historical facts. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these statements. The forward-looking statements contained in this Annual Report are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by the words “anticipate”, “estimate”, “plan”, “project”, “continuing”, “ongoing”, “target”, “aim”, “expect”, “believe”, “intend”, “may”, “will”, “should”, “could”, or the negative of those words and other comparable words. You should be aware that those statements reflect only the Company’s predictions. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind when reading this Annual Report and not place undue reliance on these forward-looking statements. Factors that might cause such differences include, but are not limited to:

- our ability to satisfy the required conditions and otherwise complete our planned Merger on a timely basis or at all;
- the expected benefits and potential value created by the proposed Merger for our stockholders, including the ownership percentage of our stockholders in the combined organization immediately following the consummation of the proposed Merger if it is completed;
- our ability to maintain our operations and obtain additional funding for our operations, if necessary, until the consummation of the proposed Merger;
- the accuracy of our estimates regarding expenses, capital requirements and need for additional financing;
- our estimates regarding the sufficiency of our cash resources, expenses, including those related to the consummation of the proposed Merger, capital requirements and needs for additional financing, and our ability to obtain additional financing and to continue as a going concern if the Merger is not completed.
- our ability to operate our business and generate profits. We have not been profitable to date;
- decline in global financial markets and economic downturn resulting from the coronavirus COVID-19 global pandemic,
- Business interruptions resulting from the coronavirus COVID-19 global pandemic,
- Our ability to remediate weaknesses we identified in our disclosure controls and procedures and our internal control over financial reporting in a timely enough manner to eliminate the risks posed by such material weaknesses in future periods,
- general risk factors affecting the restaurant industry, including current economic climate, costs of labor and food prices;
- intensive competition in our industry and competition with national, regional chains and independent restaurant operators;
- our rights to operate and franchise the Hooters-branded restaurants are dependent on the Hooters’ franchise agreements;
- our ability, and our dependence on the ability of our franchisees, to execute on business plans effectively;
- actions of our franchise partners or operating partners which could harm our business;
- failure to protect our intellectual property rights, including the brand image of our restaurants;
- changes in customer preferences and perceptions;

- increases in costs, including food, rent, labor and energy prices;
- constraints could affect our ability to maintain competitive cost structure, including, but not limited to labor constraints;
- work stoppages at our restaurants or supplier facilities or other interruptions of production;
- the risks associated with leasing space subject to long-term non-cancelable leases;
- we may not attain our target development goals and aggressive development could cannibalize existing sales;
- negative publicity about the ingredients we use, or the potential occurrence of food-borne illnesses or other problems at our restaurants;
- breaches of security of confidential consumer information related to our electronic processing of credit and debit card transactions;
- we may be unable to reach agreements with various taxing authorities on payment plans to pay off back taxes;
- our debt financing agreements expose us to interest rate risks, contain obligations that may limit the flexibility of our operations, and may limit our ability to raise additional capital;

You should also consider carefully the Risk Factors contained in Part I, Item 1A of this Annual Report, which address additional factors that could cause actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect the Company's business, operating results and financial condition. The risks discussed in this Quarterly Report and the Annual Report are factors that, individually or in the aggregate, the Company believes could cause its actual results to differ materially from expected and historical results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider such disclosures to be a complete discussion of all potential risks or uncertainties.

The forward-looking statements are based on information available to the Company as of the date hereof, and, except to the extent required by federal securities laws, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, the Company cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

#### **ITEM 1: BUSINESS**

Chanticleer Holdings, Inc. ("Chanticleer" or the "Company") is in the business of owning, operating and franchising fast casual dining concepts domestically and internationally.

The consolidated financial statements include the accounts of Chanticleer Holdings, Inc. and its subsidiaries (collectively referred to as the "Company").

We operate and franchise a system-wide total of 46 fast casual restaurants of which 35 are company-owned and 11 are owned and operated by franchisees under franchise agreements.

American Burger Company ("ABC") is a fast-casual dining chain consisting of 6 locations in North Carolina and New York, known for its diverse menu featuring fresh salads, customized burgers, milk shakes, sandwiches, and beer and wine.

BGR: The Burger Joint ("BGR") was acquired in March 2015 and consists of 8 company-owned locations in the United States and 11 franchisee-operated locations in the United States and the Middle East (2 of the franchisee-operated locations were purchased by the Company in 2018 and became company-owned locations).

Little Big Burger ("LBB") was acquired in September 2015 and consists of 19 company-owned locations in the Portland, Oregon, Seattle, Washington, and Charlotte, North Carolina areas. Of the company-owned restaurants, 8 of those locations are operated under partnership agreements with investors where we control the management and operations of the stores and the partner supplies the capital to open the store in exchange for a noncontrolling interest.

We also operate 1 Hooters full-service restaurants in the United States, and 1 location in the United Kingdom. Hooters restaurants, which are casual beach-themed establishments featuring music, sports on large flat screens, and a menu that includes seafood, sandwiches, burgers, salads, and of course, Hooters original chicken wings and the “nearly world famous” Hooters Girls. Chanticleer started initially as an investor in Hooters of America and, subsequently evolved into a franchisee operator. We continue to hold a minority investment in corporate owned Hooters. However, we do not currently intend to invest in growing the Hooters segment and instead plan to utilize the cash flows from this segment to support growth in our other fast casual brands.

## **Restaurant Geographic Locations**

### *United States*

We currently operate ABC, BGR and LBB restaurants in the United States. ABC is in North Carolina and New York. BGR operates company restaurants in the mid-Atlantic region of the United States, as well as franchise locations across the US and internationally. LBB operates in Oregon, Washington and North Carolina. We operate Hooters restaurants in Portland, Oregon. We also operate gaming machines in Portland, Oregon under license from the Oregon Lottery Commission.

### *Europe*

We currently own and operate one Hooters restaurant in the United Kingdom located in Nottingham, England.

## **Competition**

The restaurant industry is extremely competitive. We compete with other restaurants on the taste, quality and price of our food offerings. Additionally, we compete with other restaurants on service, ambience, location and overall customer experience. We believe that we compete primarily with local and regional sports bars and national casual dining and quick casual establishments, and to a lesser extent with quick service restaurants in general. Many of our competitors are well-established national, regional or local chains and many have greater financial and marketing resources than we do. We also compete with other restaurant and retail establishments for site locations and restaurant employees.

## **Proprietary Rights**

We have trademarks and trade names associated with American Burger, BGR and Little Big Burger. We believe that the trademarks, service marks and other proprietary rights that we use in our restaurants have significant value and are important to our brand-building efforts and the marketing of our restaurant concepts. Although we believe that we have sufficient rights to all of our trademarks and service marks, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks or service marks in the future and may be liable for damages.

We also use the “Hooters” mark and certain other service marks and trademarks used in our Hooters restaurants pursuant to our franchise agreements with Hooters of America.

## **Government Regulation**

### *Environmental regulation*

We are subject to a variety of federal, state and local environmental laws and regulations. Such laws and regulations have not had a significant impact on our capital expenditures, earnings or competitive position.

### ***Local regulation***

Our locations are subject to licensing and regulation by a number of government authorities, which may include health, sanitation, safety, fire, building and other agencies in the countries, states or municipalities in which the restaurants are located. Opening sites in new areas could be delayed by license and approval processes or by more requirements of local government bodies with respect to zoning, land use and environmental factors. Our agreements with our franchisees require them to comply with all applicable federal, state and local laws and regulations.

Each restaurant requires appropriate licenses from regulatory authorities allowing it to sell liquor, beer and wine, and each restaurant requires food service licenses from local health authorities. Our licenses to sell alcoholic beverages may be suspended or revoked at any time for cause, including violation by us or our employees of any law or regulation pertaining to alcoholic beverage control. We are subject to various regulations by foreign governments related to the sale of food and alcoholic beverages and to health, sanitation and fire and safety standards. Compliance with these laws and regulations may lead to increased costs and operational complexity and may increase our exposure to governmental investigations or litigation.

### ***Franchise regulation***

We must comply with regulations adopted by the Federal Trade Commission (the “FTC”) and with several state and foreign laws that regulate the offer and sale of franchises. The FTC’s Trade Regulation Rule on Franchising (“FTC Rule”) and certain state and foreign laws require that we furnish prospective franchisees with a franchise disclosure document containing information prescribed by the FTC Rule and applicable state and foreign laws and regulations. We register the disclosure document in domestic and foreign jurisdictions that require registration for the sale of franchises. Our domestic franchise disclosure document complies with FTC Rule and various state disclosure requirements, and our international disclosure documents comply with applicable requirements.

We also must comply with state and foreign laws that regulate some substantive aspects of the franchisor-franchisee relationship. These laws may limit a franchisor’s ability to: terminate or not renew a franchise without good cause; interfere with the right of free association among franchisees; disapprove the transfer of a franchise; discriminate among franchisees regarding charges, royalties and other fees; and place new stores near existing franchises. Bills intended to regulate certain aspects of franchise relationships have been introduced into the United States Congress on several occasions during the last decade, but none have been enacted.

### ***Employment regulations***

We are subject to state and federal employment laws that govern our relationship with our employees, such as minimum wage requirements, overtime and working conditions and citizenship requirements. Many of our employees are paid at rates which are influenced by changes in the federal and state wage regulations. Accordingly, changes in the wage regulations could increase our labor costs. The work conditions at our facilities are regulated by the Occupational Safety and Health Administration and are subject to periodic inspections by this agency. In addition, the enactment of recent legislation and resulting new government regulation relating to healthcare benefits may result in additional cost increases and other effects in the future.

### ***Gaming regulations***

We are also subject to regulations in Oregon where we operate gaming machines. Gaming operations are generally highly regulated and conducted under the permission and oversight of the state or local gaming commission, lottery or other government agencies.

### ***Other regulations***

We are subject to a variety of consumer protection and similar laws and regulations at the federal, state and local level. Failure to comply with these laws and regulations could subject us to financial and other penalties.

**Seasonality**

The sales of our restaurants may peak at various times throughout the year due to certain promotional events, weather and holiday related events. For example, our domestic fast casual restaurants tend to peak in the Spring, Summer and Fall months when the weather is milder. Quarterly results also may be affected by the timing of the opening of new stores and the closing of existing stores. For these reasons, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

**Corporate Information**

Our principal executive offices are located at 7621 Little Avenue, Suite 414, Charlotte, NC 28226. Our web site is [www.chanticleerholdings.com](http://www.chanticleerholdings.com).

**Employees**

At December 31, 2019, our locations had approximately 587 employees, including 52 in the United Kingdom, and 535 in the United States.

**Available information**

We are subject to the reporting requirements of the Exchange Act and, accordingly, we file annual reports, quarterly reports and other information with the Securities and Exchange Commission, or SEC. Access to copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the SEC, including amendments to such filings, may be obtained free of charge from our website, <http://www.chanticleerholdings.com>.

These filings are available promptly after we file them with, or furnish them to, the SEC. We are not incorporating our website or any information from the website into this annual report. The SEC also maintains a website, <http://www.sec.gov>, that contains our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Report on Form 8-K and other filings with the SEC. Access to these filings is free of charge.

**MERGER**

Chanticleer, Biosub Inc., a Delaware corporation and a wholly-owned subsidiary of Chanticleer (“Merger Sub”), and Sonnet BioTherapeutics, Inc., a New Jersey corporation (“Sonnet”), have entered into an Agreement and Plan of Merger, as amended (the “Merger Agreement”), pursuant to which Merger Sub will merge with and into Sonnet, with Sonnet surviving the merger as a wholly-owned subsidiary of the combined company. These transactions are referred to herein collectively as the “merger.” Following the merger, Chanticleer will be renamed “Sonnet BioTherapeutics Holdings, Inc.” and is sometimes referred to herein as the “combined company.” The shareholders of Sonnet will become the majority owners of Chanticleer’s outstanding common stock upon the closing of the merger. Additionally, as part of this transaction, Chanticleer will spin-off (the “Disposition”) its current restaurant operations, including all assets and liabilities, into a newly created entity (the “Spin-Off Entity”), the equity of which will be distributed out to the stockholders of Chanticleer as of the record date for the Disposition.

Pursuant to the Merger Agreement, each share of common stock of Sonnet, no par value per share (the “Sonnet Common Stock”) (other than Cancelled Shares (as defined in the Merger Agreement) and Dissenting Shares (as defined in the Merger Agreement)), issued and outstanding immediately prior to the effective time of the merger (the “Effective Time”) shall be automatically converted into the right to receive an amount of shares of common stock, par value \$0.0001 per share, of Chanticleer (“Chanticleer Common Stock”) equal to the Common Stock Exchange Ratio (as defined in the Merger Agreement) (the “Merger Consideration”). In connection with the transactions contemplated by the merger, on February 7, 2020, Sonnet and Chanticleer entered into a securities purchase agreement (the “Securities Purchase Agreement”), with certain accredited investors (the “Investors”) pursuant to which, among other things, Sonnet agreed to issue to the Investors shares of Sonnet Common Stock immediately prior to the merger and Chanticleer agreed to issue to the Investors warrants to purchase shares of Chanticleer Common Stock on the tenth trading day following the consummation of the merger (the “Investor Warrants”) in a private placement transaction for an aggregate purchase price of approximately \$19 million (which amount is comprised of (x) a \$4 million credit to Chardan Capital Markets, LLC (“Chardan”), in lieu of certain transaction fees otherwise owed to Chardan by Sonnet, and (y) \$15 million in cash from the other Investors) (the “Pre-Merger Financing”). As a result, immediately following the Effective Time, and not accounting for additional shares of Chanticleer Common Stock that may be issuable pursuant to the adjustment provisions in the Investor Warrants sold in the Pre-Merger Financing the former Sonnet shareholders (including the Investors) will hold approximately 94% of the outstanding shares of Chanticleer Common Stock, the stockholders of Chanticleer will retain ownership of approximately 6% of the outstanding shares of Chanticleer Common Stock and the Spin-Off Entity will hold the Spin-Off Entity Warrant (as defined below), exercisable for 2% of the outstanding shares of Chanticleer Common Stock. All outstanding Sonnet stock options and warrants, if any, whether vested or unvested, that have not been exercised prior to the Effective Time will be converted into a stock option or warrant, as applicable, to purchase shares of Chanticleer Common Stock, proportionately adjusted based on the Common Stock Exchange Ratio. The exact number of shares of Chanticleer Common Stock that will be issued to Sonnet shareholders will be fixed immediately prior to the Effective Time to reflect the capitalization of Chanticleer as of immediately prior to such time. For a more complete description of the Common Stock Exchange Ratio.

In addition, at the closing of the Merger, Chanticleer will issue to the Spin-Off Entity a warrant (the “Spin-Off Entity Warrant”) to purchase that number of shares of Chanticleer Common Stock equal to two percent (2%) of the number of shares of issued and outstanding Chanticleer Common Stock immediately after the Effective Time. The warrant will be a five-year warrant, will have an exercise price of \$0.01 per share and will not be exercisable for 180 days following the Effective Time.

Subject to approval of the Nasdaq Stock Market LLC (“Nasdaq”), the merger, together with the Disposition, will result in a publicly-traded company operating under the Sonnet name and the proposed Nasdaq ticker symbol “SONN” that will focus on advancing Sonnet’s pipeline of oncology candidates and the strategic expansion of Sonnet’s technology platform into other human diseases. Upon completion of the merger, the board of directors of the public company will be comprised of the current members of the board of directors of Sonnet, and Dr. Pankaj Mohan will serve as its Chairman, as well as the President and Chief Executive Officer of the public company.

Shares of Chanticleer Common Stock are currently listed on the Nasdaq Capital Market under the symbol “BURG.” The closing of the merger will be subject to a number of closing conditions, including approval of the continued trading of shares of Chanticleer Common Stock on the Nasdaq Capital Market following the consummation of the merger.

Chanticleer is holding a special meeting of stockholders in order to obtain the stockholder approvals necessary to complete the merger and other matters.

#### **ITEM 1A: RISK FACTORS**

*Investing in our common stock involves risks. Prospective investors in our common stock should carefully consider, among other things, the following risk factors in connection with the other information and financial statements contained in this Report. We have identified the following factors that could cause actual results to differ materially from those projected in any forward-looking statements we may make from time to time.*

*We operate in a continually changing business environment in which new risk factors emerge from time to time. We can neither predict these new risk factors, nor can we assess the impact, if any, of these new risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statement. If any of these risks, or combination of risks, actually occurs, our business, financial condition and results of operations could be seriously and materially harmed, and the trading price of our common stock could decline. All forward-looking statements in this document are based on information available to us as of the date hereof, and we assume no obligations to update any such forward-looking statements.*



## **Risks Related to Our Company and Industry**

### ***We have not been profitable to date and operating losses could continue.***

We have incurred operating losses and generated negative cash flows since our inception and have financed our operations principally through equity investments and borrowings. Future profitability is difficult to predict with certainty. Failure to achieve profitability could materially and adversely affect the value of our Company and our ability to effect additional financings. The success of the business depends on our ability to increase revenues to offset expenses. If our revenues fall short of projections or we are unable to reduce operating expenses, our business, financial condition and operating results will be materially adversely affected.

### ***Our financial statements have been prepared assuming a going concern.***

Our financial statements as of December 31, 2019 were prepared under the assumption that we will continue as a going concern for the next twelve months from the date of issuance of these financial statements. Our independent registered public accounting firm has issued a report that includes an explanatory paragraph referring to our losses from operations and expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern is dependent upon our ability to obtain additional financing, re-negotiate or extend existing indebtedness, obtain further operating efficiencies, reduce expenditures and ultimately, create profitable operations. We may not be able to refinance or extend our debt or obtain additional capital on reasonable terms. Our financial statements do not include adjustments that would result from the outcome of this uncertainty.

### ***Any prior acquisitions, as well as future acquisitions, may have unanticipated consequences that could harm our business and our financial condition.***

Any acquisition that we pursue, whether successfully completed or not, involves risks, including:

- material adverse effects on our operating results, particularly in the fiscal quarters immediately following the acquisition as the acquired restaurants are integrated into our operations;
- risks associated with entering into markets or conducting operations where we have no or limited prior experience;
- problems retaining key personnel;
- potential impairment of tangible and intangible assets and goodwill acquired in the acquisition;
- potential unknown liabilities;
- difficulties of integration and failure to realize anticipated synergies; and
- disruption of our ongoing business, including diversion of management's attention from other business concerns.

Future acquisitions of restaurants or other businesses, which may be accomplished through a cash purchase transaction, the issuance of our equity securities or a combination of both, could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and impairment charges related to goodwill and other intangible assets, any of which could harm our business and financial condition.

### ***There are risks inherent in expansion of operations, including our ability to generate profits from new restaurants, find suitable sites and develop and construct locations in a timely and cost-effective way.***

We cannot project with certainty the number of new restaurants we and our franchisees will open. Our failure to effectively develop locations in new territories would adversely affect our ability to execute our business plan by, among other things, reducing our revenues and profits and preventing us from realizing our strategy. Furthermore, we cannot assure you that our new restaurants will generate revenues or profit margins consistent with those currently operated by us.

The number of openings and the performance of new locations will depend on various factors, including:

- the availability of suitable sites for new locations;
- our ability to negotiate acceptable lease or purchase terms for new locations, obtain adequate financing, on favorable terms, required to construct, build-out and operate new locations and meet construction schedules, and hire and train and retain qualified restaurant managers and personnel;
- managing construction and development costs of new restaurants at affordable levels;
- the establishment of brand awareness in new markets; and
- the ability of our Company to manage expansion.

Additionally, competition for suitable restaurant sites in target markets is intense. Restaurants we open in new markets may take longer to reach expected sales and profit levels on a consistent basis and may have higher construction, occupancy or operating costs than restaurants we open in existing markets, thereby affecting our overall profitability.

New markets may have competitive conditions, consumer tastes and discretionary spending patterns that are more difficult to predict or satisfy than our existing markets. We may need to make greater investments than we originally planned in advertising and promotional activity in new markets to build brand awareness. We may find it more difficult in new markets to hire, motivate and keep qualified employees who share our vision, passion and culture. We may also incur higher costs from entering new markets if, for example, we assign regional managers to manage comparatively fewer restaurants than in more developed markets.

We may not be able to successfully develop critical market presence for our brand in new geographical markets, as we may be unable to find and secure attractive locations, build name recognition or attract new customers. Inability to fully implement or failure to successfully execute our plans to enter new markets could have a material adverse effect on our business, financial condition and results of operations.

Not all of these factors are within our control or the control of our partners, and there can be no assurance that we will be able to accelerate our growth or that we will be able to manage the anticipated expansion of our operations effectively.

***We have debt financing arrangements that could have a material adverse effect on our financial health and our ability to obtain financing in the future and may impair our ability to react quickly to changes in our business.***

Our exposure to debt financing could limit our ability to satisfy our obligations, limit our ability to operate our business and impair our competitive position. For example, it could:

- increase our vulnerability to adverse economic and industry conditions, including interest rate fluctuations, because a portion of our borrowings are at variable rates of interest;
- require us to dedicate significant future cash flows to the repayment of debt, reducing the availability of cash to fund working capital, capital expenditures or other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- limit our ability to obtain additional debt or equity financing due to applicable financial and restrictive covenants contained in our debt agreements.

We may also incur additional indebtedness in the future, which could materially increase the impact of these risks on our financial condition and results of operations.

We may not be able to refinance our current debt obligations. Failure to successfully recapitalize the business could have a material adverse effect on our business, financial condition and results of operations.

***Various subsidiaries of the Company are delinquent in payment of payroll taxes to taxing authorities prior to the current year when previous management was in place, and a failure to remit these payments promptly or through settlements could have a material adverse effect on our business, financial condition and results of operations.***

As of December 31, 2019, approximately \$2.9 million of employee and employer taxes (including estimated penalties and interest) has been accrued but not remitted in years prior to 2019 to certain taxing authorities by certain subsidiaries of the Company for cash compensation paid. As a result, these subsidiaries of the Company are liable for such payroll taxes. These various subsidiaries of the Company have received warnings and demands from the taxing authorities and management is prioritizing and working with the taxing authorities to make these payments in order to avoid further penalties and interest. Failure to remit these payments promptly could result in increased penalty fees and have a material adverse effect on our business, financial condition and results of operations.

***Litigation and unfavorable publicity could negatively affect our results of operations as well as our future business.***

We are subject to potential for litigation and other customer complaints concerning our food safety, service and/or other operational factors. Guests may file formal litigation complaints that we are required to defend, whether we believe them to be true or not. Substantial, complex or extended litigation could have an adverse effect on our results of operations if we incur substantial defense costs and our management is distracted. Employees may also, from time to time, bring lawsuits against us regarding injury, discrimination, wage and hour, and other employment issues. Additionally, potential disputes could subject us to litigation alleging non-compliance with franchise, development, support service, or other agreements. Additionally, we are subject to the risk of litigation by our stockholders as a result of factors including, but not limited to, performance of our stock price.

In certain states we are subject to “dram shop” statutes, which generally allow a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Some dram shop litigation against restaurant companies has resulted in significant judgments, including punitive damages. We carry liquor liability coverage as part of our existing comprehensive general liability insurance, but we cannot provide assurance that this insurance will be adequate in the event we are found liable in a dram shop case.

In recent years there has been an increase in the use of social media platforms and similar devices that allow individuals’ access to a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate in its impact. A variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, negative comments about our Company, exposure of personally identifiable information, fraud or outdated information. The inappropriate use of social media platforms by our guests, employees or other individuals could increase our costs, lead to litigation, or result in negative publicity that could damage our reputation, and create an adverse change in the business climate that impairs goodwill. If we are unable to quickly and effectively respond, we may suffer declines in guest traffic, which could materially affect our financial condition and results of operations.

***Food safety and foodborne illness concerns could have an adverse effect on our business.***

We cannot guarantee that our internal control and training will be fully effective in preventing all food safety issues at our restaurants, including any occurrences of foodborne illnesses such as salmonella, E. coli and hepatitis A. In addition, there is no guarantee that our franchise restaurants will maintain the high levels of internal controls and training we require at our company-operated restaurants.

Furthermore, we and our franchisees rely on third-party vendors, making it difficult to monitor food safety compliance and increasing the risk that foodborne illness would affect multiple locations rather than a single restaurant. Some foodborne illness incidents could be caused by third-party vendors and transporters outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of foodborne illness in any of our restaurants or markets or related to food products we sell could negatively affect our restaurant revenue nationwide if highly publicized on national media outlets or through social media.

This risk exists even if it were later determined that the illness was wrongly attributed to us or one of our restaurants. Several other restaurant chains have experienced incidents related to foodborne illnesses that have had a material adverse effect on their operations. The occurrence of a similar incident at one or more of our restaurants, or negative publicity or public speculation about an incident, could have a material adverse effect on our business, financial condition and results of operations.

***We operate in the highly competitive restaurant industry. If we are not able to compete effectively, it will have a material adverse effect on our business, financial condition and results of operations.***

We face significant competition from restaurants in the fast-casual dining and traditional fast food segments of the restaurant industry. These segments are highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location and the ambience and condition of each restaurant. Our competition includes a variety of locally owned restaurants and national and regional chains offering dine-in, carry-out, delivery and catering services. Many of our competitors have existed longer and have a more established market presence with substantially greater financial, marketing, personnel and other resources than we do. Among our competitors are a number of multi-unit, multi-market, fast casual restaurant concepts, some of which are expanding nationally. As we expand, we will face competition from these restaurant concepts as well as new competitors that strive to compete with our market segments. These competitors may have, among other things, lower operating costs, better locations, better facilities, better management, more effective marketing and more efficient operations. Additionally, we face the risk that new or existing competitors will copy our business model, menu options, presentation or ambience, among other things.

Any inability to successfully compete with the restaurants in our markets and other restaurant segments will place downward pressure on our customer traffic and may prevent us from increasing or sustaining our revenue and profitability. Consumer tastes, nutritional and dietary trends, traffic patterns and the type, number and location of competing restaurants often affect the restaurant business, and our competitors may react more efficiently and effectively to those conditions. Several of our competitors compete by offering menu items that are specifically identified as low in carbohydrates, gluten-free or healthier for consumers. In addition, many of our traditional fast food restaurant competitors offer lower-priced menu options or meal packages or have loyalty programs. Our sales could decline due to changes in popular tastes, “fad” food regimens, such as low carbohydrate diets, and media attention on new restaurants. If we are unable to continue to compete effectively, our traffic, sales and restaurant contribution could decline which would have a material adverse effect on our business, financial condition and results of operations.

***We do not have full operational control over the franchisee-operated restaurants.***

We are and will be dependent on our franchisees to maintain quality, service and cleanliness standards, and their failure to do so could materially affect our brands and harm our future growth. Our franchisees have flexibility in their operations, including the ability to set prices for our products in their restaurants, hire employees and select certain service providers. In addition, it is possible that some franchisees may not operate their restaurants in accordance with our quality, service and cleanliness, health or product standards. Although we intend to take corrective measures if franchisees fail to maintain high quality service and cleanliness standards, we may not be able to identify and rectify problems with sufficient speed and, as a result, our image and operating results may be negatively affected.

***Our business could be adversely affected by declines in discretionary spending and may be affected by changes in consumer preferences.***

Our success depends, in part, upon the popularity of our food products. Shifts in consumer preferences away from our restaurants or cuisine could harm our business. Also, our success depends to a significant extent on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. Accordingly, we may experience declines in sales during economic downturns or during periods of uncertainty. A continuing decline in the amount of discretionary spending could have a material adverse effect on our sales, results of operations, and business and financial condition.

***Increases in costs, including food, labor and energy prices, will adversely affect our results of operations.***

Our profitability is dependent on our ability to anticipate and react to changes in our operating costs, including food, labor, occupancy (including utilities and energy), insurance and supply costs. Various factors beyond our control, including climatic changes and government regulations, may affect food costs. Specifically, our dependence on frequent, timely deliveries of fresh meat and produce subject us to the risks of possible shortages or interruptions in supply caused by adverse weather or other conditions which could adversely affect the availability and cost of any such items. In the past, we have been able to recover some of our higher operating costs through increased menu prices. There have been, and there may be in the future, delays in implementing such menu price increases, and competitive pressures may limit our ability to recover such cost increases in their entirety.

Our ability to maintain consistent price and quality throughout our restaurants depends in part upon our ability to acquire specified food products and supplies in sufficient quantities from third-party vendors, suppliers and distributors at a reasonable cost. We do not control the businesses of our vendors, suppliers and distributors, and our efforts to specify and monitor the standards under which they perform may not be successful. If any of our vendors or other suppliers are unable to fulfill their obligations to our standards, or if we are unable to find replacement providers in the event of a supply or service disruption, we could encounter supply shortages and incur higher costs to secure adequate supplies, which would have a material adverse effect on our business, financial condition and results of operations.

Furthermore, if our current vendors or other suppliers are unable to support our expansion into new markets, or if we are unable to find vendors to meet our supply specifications or service needs as we expand, we could likewise encounter supply shortages and incur higher costs to secure adequate supplies, which could have a material adverse effect on our business, financial condition and results of operations.

***Changes in employment laws and minimum wage standards may adversely affect our business.***

Labor is a primary component in the cost of operating our restaurants. If we face labor shortages or increased labor costs because of increased competition for employees, higher employee turnover rates, increases in the federal, state or local minimum wage or other employee benefits costs (including costs associated with health insurance coverage), our operating expenses could increase, and our growth could be negatively impacted.

In addition, our success depends in part upon our ability to attract, motivate and retain enough well-qualified restaurant operators and management personnel, as well as a sufficient number of other qualified employees, including customer service and kitchen staff, to keep pace with our expansion schedule. In addition, restaurants have traditionally experienced relatively high employee turnover rates. Although we have not yet experienced significant problems in recruiting or retaining employees, our ability to recruit and retain such individuals may delay the planned openings of new restaurants or result in higher employee turnover in existing restaurants, which could have a material adverse effect on our business, financial condition and results of operations.

Various federal and state employment laws govern the relationship with our employees and impact operating costs. These laws include employee classification as exempt or non-exempt for overtime and other purposes, minimum wage requirements, unemployment tax rates, workers' compensation rates, immigration status and other wage and benefit requirements. Significant additional government-imposed increases in the following areas could have a material adverse effect on our business, financial condition and results of operations:

- Minimum wages;
- Mandatory health benefits;
- Vacation accruals;
- Paid leaves of absence, including paid sick leave; and
- Tax reporting.

We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration compliance laws. These factors could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to risks arising under federal and state labor laws.***

We are subject to risks under federal and state labor laws, including disputes concerning whether and when a union can be organized, and once unionized, collective bargaining rights, various issues arising from union contracts, and matters relating to a labor strike. Labor laws are complex and differ vastly from state to state.

***We are subject to the risks associated with leasing space subject to long-term non-cancelable leases.***

We lease all the real property and we expect the new restaurants we open in the future will also be leased. We are obligated under non-cancelable leases for our restaurants and our corporate headquarters. Our restaurant leases generally require us to pay a proportionate share of real estate taxes, insurance, common area maintenance charges and other operating costs. Some restaurant leases provide for contingent rental payments based on sales thresholds, although we generally do not expect to pay significant contingent rent on these properties based on the thresholds in those leases. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases.

If an existing or future restaurant is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as each of our leases expires, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to pay increased occupancy costs or to close restaurants in desirable locations. These potential increased occupancy costs and closed restaurants could have a material adverse effect on our business, financial condition and results of operations.

***Our business and the growth of our Company are dependent on the skills and expertise of management and key personnel.***

During the upcoming stages of our Company's anticipated growth, we are entirely dependent upon the management skills and expertise of our management and key personnel. We do not have employment agreements with many of our executive officers. The loss of services of our executive officers could dramatically affect our business prospects. Certain of our employees are particularly valuable to us because:

- they have specialized knowledge about our company and operations;
- they have specialized skills that are important to our operations; or
- they would be particularly difficult to replace.

If the services of any key management personnel ceased to be available to us, our growth prospects or future operating results may be adversely impacted.

***Our food service business, gaming revenues and the restaurant industry are subject to extensive government regulation.***

We are subject to extensive and varied country, federal, state and local government regulation, including regulations relating to public health, gambling, safety and zoning codes. We operate each of our locations in accordance with standards and procedures designed to comply with applicable codes and regulations. However, if we could not obtain or retain food or other licenses, it would adversely affect our operations. Although we have not experienced, and do not anticipate experiencing any significant difficulties, delays or failures in obtaining required licenses, permits or approvals, any such problem could delay or prevent the opening of, or adversely impact the viability of, a particular location or group of restaurants.

***We may be subject to significant foreign currency exchange controls in certain countries in which we operate.***

Certain foreign economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds out of certain countries. Any shortages or restrictions may impede our ability to convert these currencies into U.S. dollars and to transfer funds, including for the payment of dividends or interest or principal on our outstanding debt. If any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

***Our foreign operations subject us to risks that could negatively affect our business.***

One of our Hooters restaurants and some of our franchisee-owned restaurants operate in foreign countries and territories outside of the U.S. As a result, our business is exposed to risks inherent in foreign operations. These risks, which can vary substantially by market, include political instability, corruption, social and ethnic unrest, changes in economic conditions (including wage and commodity inflation, consumer spending and unemployment levels), the regulatory environment, tax rates and laws and consumer preferences as well as changes in the laws and policies that govern foreign investment in countries where our restaurants are operated.

In addition, our results of operations and the value of our foreign assets are affected by fluctuations in foreign currency exchange rates, which may adversely affect reported earnings. More specifically, an increase in the value of the United States Dollar relative to other currencies, such as the British Pound, could have an adverse effect on our reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

***We may not attain our target development goals and aggressive development could cannibalize existing sales.***

Our growth strategy depends in large part on our ability to increase our net restaurant count. The successful development of new units will depend in large part on our ability and the ability of our franchisees to open new restaurants and to operate these restaurants on a profitable basis. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results like those of our existing restaurants. Other risks that could impact our ability to increase our net restaurant count include prevailing economic conditions and our, or our franchisees'/partners', ability to obtain suitable restaurant locations, obtain required permits and approvals in a timely manner and hire and train qualified personnel.

Our franchisee operators also frequently depend upon financing from banks and other financial institutions in order to construct and open new restaurants. If it becomes more difficult or expensive for our franchisees/partners to obtain financing to develop new restaurants, our planned growth could slow, and our future revenue and cash flows could be adversely impacted.

In addition, the new restaurants could impact the sales of our existing restaurants nearby. It is not our intention to open new restaurants that materially cannibalize the sales of our existing restaurants. However, as with most growing retail and restaurant operations, there can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets over time.

***The recent global coronavirus COVID-19 outbreak could harm our business and results of operations.***

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours. It is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time. A health pandemic is a disease outbreak that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. 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. The conditions may impact our restaurant customer traffic and our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We also may be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations. Even if such measures are not implemented, the perceived risk of infection or significant health risk may adversely affect our business.

***Changing conditions in the global economy and financial markets may materially adversely affect our business, results of operations and ability to raise capital.***

Our business and results of operations may be materially affected by conditions in the financial markets and the economy generally. The demand for our products could be adversely affected in an economic downturn and our revenues may decline under such circumstances. In addition, we may find it difficult, or we may not be able, to access the credit or equity markets, or we may experience higher funding costs in the event of adverse market conditions. Future instability in these markets could limit our ability to access the capital we require to fund and grow our business.

***We have identified material weaknesses in our internal controls and procedures and internal control over financial reporting. If not remediated, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our common stock.***

Maintaining effective internal control over financial reporting and effective disclosure controls and procedures are necessary for us to produce reliable financial statements. As discussed in Item 9A – “Controls and Procedures” of this Form 10-K, we have re-evaluated our internal control over financial reporting and our disclosure controls and procedures and concluded that they were not effective as of December 31, 2019.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The Company is committed to remediating its material weaknesses as promptly as possible. Implementation of the Company’s remediation plans has commenced and is being overseen by the audit committee. However, there can be no assurance as to when these material weaknesses will be remediated or that additional material weaknesses will not arise in the future. Even effective internal control can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. Any failure to remediate the material weaknesses, or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements, which in turn could have a material adverse effect on our financial condition and the trading price of our common stock and we could fail to meet our financial reporting obligations.

***Changes to accounting rules or regulations may adversely affect the reporting of our results of operations.***

Changes to existing accounting rules or regulations may impact the reporting of our future results of operations or cause the perception that we are more highly leveraged. Other new accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. For instance, new accounting rules will require lessees to capitalize operating leases in their financial statements in future periods which will require us to record significant right of use assets and lease obligations on our balance sheet. This and other future changes to accounting rules or regulations could have a material adverse effect on the reporting of our business, financial condition and results of operations. In addition, many existing accounting standards require management to make subjective assumptions, such as those required for stock compensation, tax matters, franchise accounting, acquisitions, litigation, and asset impairment calculations. Changes in accounting standards or changes in underlying assumptions, estimates and judgments by our management could significantly change our reported or expected financial performance.



***We may not be able to adequately protect our intellectual property, which could harm the value of our brand and have a material adverse effect on our business, financial condition and results of operations.***

Our intellectual property is material to the conduct of our business. Our ability to implement our business plan successfully depends in part on our ability to further build brand recognition using our trademarks, tradenames and other proprietary intellectual property, including our name and logos and the unique ambience of our restaurants. While it is our policy to protect and defend vigorously our rights to our intellectual property, we cannot predict whether steps taken by us to protect our intellectual property rights will be adequate to prevent misappropriation of these rights or the use by others of restaurant features based upon, or otherwise similar to, our restaurant concept. It may be difficult for us to prevent others from copying elements of our concept and any litigation to enforce our rights will likely be costly and may not be successful. Although we believe that we have sufficient rights to all our trademarks and service marks, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and could divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks or service marks in the future and may be liable for damages, which in turn could have a material adverse effect on our business, financial condition and results of operations.

In addition, we license certain of our proprietary intellectual property, including our name and logos, to third parties. For example, we grant our franchisees and licensees a right to use certain of our trademarks in connection with their operation of the applicable restaurant. If a franchisee or other licensee fails to maintain the quality of the restaurant operations associated with the licensed trademarks, our rights to, and the value of, our trademarks could potentially be harmed. Negative publicity relating to the franchisee or licensee could also be incorrectly associated with us, which could harm our business. Failure to maintain, control and protect our trademarks and other proprietary intellectual property would likely have a material adverse effect on our business, financial condition and results of operations and on our ability to enter into new franchise agreements.

***We may incur costs resulting from breaches of security of confidential consumer information related to our electronic processing of credit and debit card transactions.***

Most of our restaurant 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. In addition, most states have enacted legislation requiring notification of security breaches involving personal information, including credit and debit card information. Any such claim or proceeding could cause us to incur significant unplanned expenses, which could have a material adverse effect on our business, financial condition and results of operations. Further, adverse publicity resulting from these allegations may have a material adverse effect on our business and results of operations.

***We rely heavily on information technology, and any material failure, weakness, interruption or breach of security could prevent us from effectively operating our business.***

We rely heavily on information systems, including point-of-sale processing in our restaurants, for management of our supply chain, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. Our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a breach in security of these systems could result in delays in customer service and reduce efficiency in our operations. Remediation of such problems could result in significant, unplanned capital investments.

***Adverse weather conditions could affect our sales.***

Adverse weather conditions, such as regional winter storms, floods, severe thunderstorms and hurricanes, could affect our sales at restaurants in locations that experience these weather conditions, which could materially adversely affect our business, financial condition or results of operations.

***The uncertainty surrounding the effect of Brexit may impact our UK operations.***

The uncertainty surrounding the effect of Brexit, including the uncertainty in relation to the legal and regulatory framework for the UK and its relationship with the remaining members of the EU (including, in relation to trade) after Brexit was effected in January 2020, has caused increased economic volatility and market uncertainty globally. It is too early to ascertain the long-term effects.

***Negative publicity could reduce sales at some or all our restaurants.***

We may, from time to time, be faced with negative publicity relating to food quality and integrity, the safety, sanitation and welfare of our restaurant facilities, customer complaints, labor issues, or litigation alleging illness or injury, health inspection scores, integrity of our or our suppliers' food processing and other policies, practices and procedures, employee relationships and welfare or other matters at one or more of our restaurants. Negative publicity may adversely affect us, regardless of whether the allegations are valid or whether we are held to be responsible. The risk of negative publicity is particularly great with respect to our franchised restaurants because we are limited in the manner in which we can regulate them, especially on a real-time basis and negative publicity from our franchised restaurants may also significantly impact company-operated restaurants. A similar risk exists with respect to food service businesses unrelated to us, if customers mistakenly associate such unrelated businesses with our operations. Employee claims against us based on, among other things, wage and hour violations, discrimination, harassment or wrongful termination may also create not only legal and financial liability but negative publicity that could adversely affect us and divert our financial and management resources that would otherwise be used to benefit the future performance of our operations. These types of employee claims could also be asserted against us, on a co-employer theory, by employees of our franchisees. A significant increase in the number of these claims or an increase in the number of successful claims could materially adversely affect our business, financial condition, results of operations and cash flows.

***The interests of our franchisees may conflict with ours or yours in the future and we could face liability from our franchisees or related to our relationship with our franchisees.***

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under the franchise agreement and the terms and conditions of the franchisee/franchisor relationship or have interests adverse to ours. This may lead to disputes with our franchisees and we expect such disputes to occur from time to time in the future as we continue to offer franchises. Such disputes may result in legal action against us. To the extent we have such disputes, the attention, time and financial resources of our management and our franchisees will be diverted from our restaurants, which could have a material adverse effect on our business, financial condition, results of operations and cash flows even if we have a successful outcome in the dispute.

In addition, various state and federal laws govern our relationship with our franchisees and our potential sale of a franchise. A franchisee and/or a government agency may bring legal action against us based on the franchisee/franchisor relationships that could result in the award of damages to franchisees and/or the imposition of fines or other penalties against us.

***We have significant obligations under payables and debt obligations. Our ability to operate as a going concern are contingent upon successfully obtaining additional financing and renegotiating terms of existing indebtedness in the near future. Failure to do so would adversely affect our ability to continue operations.***

If capital is not available or we are not able to agree on reasonable terms with our lenders, we may then need to scale back or freeze our organic growth plans, sell assets under unfavorable terms, reduce expenses, and/or curtail future acquisition plans to manage our liquidity and capital resources. We may not be able to refinance or otherwise extend or repay our current obligations, which could impact our ability to continue to operate as a going concern.

*In the event that management proceeds with asset sales and/or store closures rather than continuing to hold and operate all its assets long term, management's assessment of the fair value, and ultimate recoverability, of goodwill, intangibles, and other long-lived assets would be impacted and the Company could incur significant noncash charges and cash exit costs in future periods.*

We have approximately \$18.1 million in current liabilities. In the event that additional working capital is not available, we may be forced to scale back or freeze our growth plans, sell assets on less than favorable terms, reduce expenses, and/or curtail future acquisition plans to manage our liquidity and capital resources. In the event that management elects to proceed with asset sales and/or store closures in the future rather than continue to hold and operate all its assets long term, management's assessment of the fair value, and ultimate recoverability, of goodwill, intangibles, and other long-lived assets would be impacted and the Company could incur significant noncash charges and cash exit costs in future periods.

*We have remedied defaults under our debt obligations. However, we may not be able to refinance, extend or repay our substantial indebtedness owed to our secured lenders, which would have a material adverse effect on our financial condition and ability to continue as a going concern.*

We have approximately \$18.1 million in current liabilities, which includes \$6.6 million of debt. If we are unable to repay these obligations at maturity and we are otherwise unable to extend the maturity dates or refinance these obligations, we would be in default. We cannot provide any assurances that we will be able to raise the necessary amount of capital to repay these obligations or that we will be able to extend the maturity dates or otherwise refinance these obligations. Upon a default, our secured lenders would have the right to exercise their rights and remedies to collect, which would include foreclosing on our assets. Accordingly, a default would have a material adverse effect on our business, and we would likely be forced to seek bankruptcy protection.

#### **Risks Related to Our Common Stock**

*Our stock price has experienced price fluctuations and may continue to do so, resulting in a substantial loss in your investment.*

The current market for our common stock has been characterized by volatile prices. As a result, investors in our common stock may experience a decrease in the value of their securities, including decreases unrelated to our operating performance or prospects. The market price of our common stock is likely to be highly unpredictable and subject to wide fluctuations in response to various factors, many of which are beyond our control. These factors include:

- quarterly variations in our operating results and achievement of key business metrics;
- changes in the global economy and in the local economies in which we operate;
- our ability to obtain working capital financing, if necessary;
- the departure of any of our key executive officers and directors;
- changes in the federal, state, and local laws and regulations to which we are subject;
- changes in earnings estimates by securities analysts, if any;
- any differences from reported results and securities analysts published or unpublished expectations;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;
- future sales of our securities;
- announcements or press releases relating to the casual dining restaurant sector or to our own business or prospects;
- negative media and social media coverage;
- regulatory, legislative, or other developments affecting us or the restaurant industry generally; and
- market conditions specific to casual dining restaurant, the restaurant industry and the stock market generally.

***Our common stock could be further diluted as the result of the issuance of additional shares of common stock, convertible securities, warrants or options.***

In the past, we have issued common stock, convertible securities (such as convertible notes) and warrants in order to raise capital. We have also issued common stock as compensation for services and incentive compensation for our employees, directors and certain vendors. We have shares of common stock reserved for issuance upon the exercise of certain of these securities and may increase the shares reserved for these purposes in the future. Our issuance of additional common stock, convertible securities, options and warrants could affect the rights of our stockholders, could reduce the market price of our common stock or could result in adjustments to exercise prices of outstanding warrants (resulting in these securities becoming exercisable for, as the case may be, a greater number of shares of our common stock), or could obligate us to issue additional shares of common stock to certain of our stockholders.

***Shares eligible for future sale may adversely affect the market.***

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, stockholders who have been non-affiliates for the preceding three months may sell shares of our common stock freely after six months subject only to the current public information requirement. Affiliates may sell shares of our common stock after six months subject to the Rule 144 volume, manner of sale, current public information and notice requirements. Any substantial sales of our common stock pursuant to Rule 144 may have a material adverse effect on the market price of our common stock.

***We do not expect to pay cash dividends in the foreseeable future and therefore investors should not anticipate cash dividends on their investment.***

Our board of directors does not intend to pay cash dividends in the foreseeable future but instead intends to retain any and all earnings to finance the growth of the business. To date, we have not paid any cash dividends and there can be no assurance that cash dividends will ever be paid on our common stock.

***We may issue additional shares of our common stock, which could depress the market price of our common stock and dilute your ownership.***

Market sales of large amounts of our common stock, or the potential for those sales even if they do not actually occur, may have the effect of depressing the market price of our common stock. In addition, if our future financing needs require us to issue additional shares of common stock or securities convertible into common stock, the amount of common stock available for resale could be increased which could stimulate trading activity and cause the market price of our common stock to drop, even if our business is doing well. Furthermore, the issuance of any additional shares of our common stock, or securities convertible into our common stock could be substantially dilutive to holders of our common stock.

***Director and officer liability is limited.***

As permitted by Delaware law, our bylaws limit the liability of our directors for monetary damages for breach of a director's fiduciary duty except for liability in certain instances. As a result of our bylaw provisions and Delaware law, stockholders may have limited rights to recover against directors for breach of fiduciary duty.

***Failure to establish and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.***

As a publicly traded company, we are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which requires management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. We have identified internal control weaknesses and may need to undertake various actions, such as implementing new internal controls, new systems and procedures and hiring additional accounting or internal audit staff, which could increase our operating expenses. In addition, we may identify additional deficiencies in our internal control over financial reporting as part of that process.

In addition, if we are unable to resolve internal control deficiencies in a timely manner, investors could lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected.

#### **Risks Related to the Merger**

***The exchange ratio set forth in the Merger Agreement is not adjustable based on the market price of our common stock, so the merger consideration at the closing of the Merger may have a greater or lesser value than at the time the Merger Agreement was signed.***

Any changes in the market price of our common stock before the completion of the Merger will not affect the number of shares of our common stock issuable to Sonnet's stockholders pursuant to the Merger Agreement. Therefore, if before the completion of the Merger the market price of our common stock increases from the market price of our common stock on the date of the Merger Agreement, then Sonnet's stockholders could receive merger consideration with substantially greater value than the value of such merger consideration on the date of the Merger Agreement. Similarly, if before the completion of the Merger the market price of our common stock declines from the market price on the date of the Merger Agreement, then Sonnet's stockholders could receive merger consideration with substantially lower value than the value of such merger consideration on the date of the Merger Agreement. The Merger Agreement does not include a price-based termination right. Because the exchange ratio does not adjust as a result of changes in the market price of our common stock, for each one percentage point change in the market price of our common stock, there is a corresponding one percentage point rise or decline, respectively, in the value of the total merger consideration payable to Sonnet's stockholders pursuant to the Merger Agreement.

***The proposed Merger is subject to approval of the Merger Agreement by our stockholders and the Sonnet stockholders. Failure to obtain these approvals would prevent the closing of the Merger.***

Before the proposed Merger can be completed, the stockholders of each of Chanticleer and Sonnet must approve the Merger Agreement. Failure to obtain the required stockholder approvals may result in a material delay in, or the abandonment of, the Merger. Any delay in completing the proposed Merger may materially adversely affect the timing and benefits that are expected to be achieved from the proposed Merger.

***Certain provisions of the Merger Agreement may discourage third parties from submitting alternative takeover proposals, including proposals that may be superior to the arrangements contemplated by the Merger Agreement.***

The terms of the Merger Agreement prohibit each of Chanticleer and Sonnet from soliciting alternative takeover proposals or cooperating with persons making unsolicited takeover proposals, except in limited circumstances when such party's board of directors determines in good faith that an unsolicited alternative takeover proposal is or is reasonably likely to lead to a superior takeover proposal and that failure to cooperate with the proponent of the proposal would be reasonably likely to be inconsistent with the applicable board's fiduciary duties.

***Because the lack of a public market for Sonnet's capital stock makes it difficult to evaluate the value of Sonnet's capital stock, the stockholders of Sonnet may receive shares of our common stock in the Merger that have a value that is less than, or greater than, the fair market value of Sonnet's capital stock.***

The outstanding capital stock of Sonnet is privately held and is not traded in any public market. The lack of a public market makes it extremely difficult to determine the fair market value of Sonnet. Because the percentage of our common stock to be issued to Sonnet's stockholders was determined based on negotiations between the parties, it is possible that the value of our common stock to be received by Sonnet's stockholders will be less than the fair market value of Sonnet, or Chanticleer may pay more than the aggregate fair market value for Sonnet.

***If the conditions to the Merger are not met, the Merger will not occur.***

Even if the Merger is approved by the stockholders of Chanticleer and Sonnet, specified conditions must be satisfied or waived to complete the Merger. We cannot assure you that all of the conditions will be satisfied or waived. If the conditions are not satisfied or waived, the Merger will not occur or will be delayed, and Chanticleer and Sonnet each may lose some or all of the intended benefits of the proposed Merger. Additionally, if the Merger does not occur, we may not have sufficient cash to continue operations.

***Litigation relating to the proposed Merger could require Chanticleer or Sonnet to incur significant costs and suffer management distraction, and could delay or enjoin the proposed Merger.***

Chanticleer and Sonnet could be subject to demands or litigation related to the proposed Merger, whether or not the Merger is consummated. Such actions may create uncertainty relating to the Merger, or delay or enjoin the Merger, and responding to such demands. In addition, such demands or litigation could lead to a dissolution or bankruptcy if the costs associated with such demands or litigation are significant enough.

***During the pendency of the proposed Merger, Chanticleer and Sonnet may not be able to enter into a business combination with another party at a favorable price because of restrictions in the Merger Agreement, which could adversely affect their respective businesses.***

Covenants in the Merger Agreement impede the ability of Chanticleer and Sonnet to make acquisitions, subject to certain exceptions relating to fiduciary duties or to complete other transactions that are not in the ordinary course of business pending completion of the proposed Merger. As a result, if the Merger is not completed, the parties may be at a disadvantage to their competitors during such period. In addition, while the Merger Agreement is in effect, each party is generally prohibited from soliciting, initiating, encouraging or entering into certain extraordinary transactions, such as a merger, sale of assets, or other business combination outside the ordinary course of business with any third party, subject to certain exceptions relating to fiduciary duties. Any such transactions could be favorable to such party's stockholders

***We received a deficiency letter in December 2018 from the (the Staff of Nasdaq notifying the Company that it was not in compliance with Nasdaq Listing Rule 5550(b)(2). If we were to fail to regain compliance, our shares could be delisted from the Nasdaq Capital Market, which could materially reduce the liquidity of our common stock and have an adverse effect on our market price. A delisting could limit our ability to consummate the proposed Merger.***

On August 14, 2019, we received notification from the Listing Qualifications Department of The Nasdaq Stock Market ("Nasdaq") indicating that, for the 30 consecutive business days ending August 13, 2019, the bid price for the Company's common stock had closed below the \$1.00 per share minimum bid price requirement for continued listing on The Nasdaq Capital Market under Nasdaq Listing Rule 5550(a)(2). (the "Bid Price Rule"). The Nasdaq notice indicated that, in accordance with Nasdaq Marketplace Rule 5810(c)(3)(A), the Company will be provided 180 calendar days through February 10, 2020 to regain compliance. If, at any time before February 10, 2020 the bid price of the Company's common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, Nasdaq staff will provide written notification that it has achieved compliance with the Bid Price Rule. If the Company fails to regain compliance with the Bid Price Rule before February 10, 2020 but meets all of the other applicable standards for initial listing on the Nasdaq Capital Market with the exception of the minimum bid price, then the Company may be eligible to have an additional 180 calendar days to regain compliance with the Bid Price Rule. To regain compliance with Rule 5550(b)(2), the market value of our listed securities must meet or exceed \$35 million for a minimum of ten consecutive business days during the 180-day grace period ending on or before February 10, 2020 (Nasdaq has the discretion to monitor compliance for as long as 20 consecutive business days before deeming us in compliance). We could also regain compliance with Nasdaq's alternative continued listing requirements by having stockholders' equity of \$2.5 million or more, or net income from continuing operations of \$500,000 in the most recently completed fiscal year.

A delisting would also likely make it more difficult for us to obtain financing through the sale of our equity. Any such sale of equity would likely be more dilutive to our current stockholders than would be the case if our shares were listed.

***We may not satisfy The Nasdaq Capital Market's other requirements for continued listing. If we cannot satisfy these requirements, Nasdaq could delist our common stock and could impact our ability to consummate the proposed Merger.***

Our common stock is listed on The Nasdaq Capital Market under the symbol "BURG". To continue to be listed on Nasdaq, we are required to satisfy a number of conditions. We cannot assure you that we will be able to satisfy the Nasdaq listing requirements in the future. If we are delisted from Nasdaq, trading in our shares of common stock may be conducted, if available, on the "OTC Bulletin Board Service" or, if available, via another market. In the event of such delisting, an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of the shares of our common stock, and our ability to raise future capital through the sale of the shares of our common stock or other securities convertible into or exercisable for our common stock could be severely limited. This could have a long-term impact on our ability to raise future capital through the sale of our common stock.

***Failure to complete the merger may result in Chanticleer or Sonnet paying a termination fee to the other party and could harm the common stock price of Chanticleer and future business and operations of each company.***

If the merger is not completed, Chanticleer and Sonnet are subject to the following risks:

- if the Merger Agreement is terminated under certain circumstances and certain events occur, Chanticleer or Sonnet will be required to pay the other party a termination fee of \$500,000;
- the price of Chanticleer stock may decline; and
- costs related to the merger, such as legal, accounting and investment banking fees must be paid even if the merger is not completed.

In addition, if the Merger Agreement is terminated and the Chanticleer or Sonnet board of directors determines to seek another business combination, there can be no assurance that Chanticleer or Sonnet will be able to find a partner willing to provide equivalent or more attractive consideration than the consideration to be provided by each party in the merger.

Chanticleer may be unable to identify and complete an alternative strategic transaction or continue to operate the business due to its limited cash availability, and it may be required to dissolve and liquidate its assets. In such case, Chanticleer would be required to pay all of its debts and contractual obligations, and to set aside certain reserves for potential future claims, and there can be no assurances as to the amount or timing of available cash, if any, left to distribute to stockholders after paying the debts and other obligations of Chanticleer and setting aside funds for reserves.

As of December 31, 2019, Chanticleer's cash balance was approximately \$500,000, its working capital was negative \$16.9 million, and it had significant near-term commitments and contractual obligations. Chanticleer has typically funded its operating costs, acquisition activities, working capital requirements and capital expenditures with proceeds from the issuances of its common stock and other financing arrangements, including convertible debt, lines of credit, notes payable, capital leases, and other forms of external financing. Chanticleer has \$6.6 million of principal due on its debt obligations as of December 31, 2019, plus interest. In addition, if Chanticleer fails to meet various debt covenants going forward and is notified of the default by the noteholders of the 8% non-convertible secured debentures, Chanticleer may be assessed additional default interest and penalties which would increase its obligations. Chanticleer cannot provide assurance that it will be able to refinance its long-term debt or sell assets or raise additional capital.

In the event that capital is not available, or Chanticleer is unable to refinance its debt obligations or obtain waivers, it may then have to scale back or freeze its organic growth plans, sell assets on less than favorable terms, reduce expenses, and/or curtail future acquisition plans to manage its liquidity and capital resources. Chanticleer may also incur financial penalties or other negative actions from its lenders if it is not able to refinance or otherwise extend or repay its current obligations or obtain waivers. As of December 31, 2019, Chanticleer and its subsidiaries had approximately \$2.9 million of accrued employee and employer taxes, including penalties and interest, which are due to certain taxing authorities. Chanticleer is currently in discussions with various taxing authorities on settling these liabilities through payment plans.

***The consummation of the transactions contemplated by the Merger Agreement is dependent upon Chanticleer and Sonnet obtaining all relevant and necessary consents and approvals.***

A condition to consummation of the merger is that Chanticleer and Sonnet obtain certain consents or approvals from third parties, including consents from parties to certain commercial agreements, leases and debt agreements in connection with the merger and the Spin-Off and approval from NASDAQ to maintain the listing of the Chanticleer Common Stock on the Nasdaq Capital Market following the merger and to list the shares of Chanticleer Common Stock being issued in the merger. In addition, the stockholders of Chanticleer must approve the issuance of Chanticleer Common Stock pursuant to the Merger Agreement. The Sonnet shareholders must adopt the Merger Agreement and approve the merger to be consummated pursuant thereto. There can be no assurance that Chanticleer or Sonnet will be able to obtain all such relevant consents and approvals on a timely basis or at all. Each of Chanticleer and Sonnet has incurred, and expects to continue to incur, significant costs and expenses in connection with the proposed merger. Any failure to obtain, or delay in obtaining, the necessary consents or approvals would prevent Chanticleer and Sonnet from being able to consummate, or delay the consummation of, the transactions contemplated by the Merger Agreement, which could materially adversely affect the business, financial condition and results of operations of Chanticleer and Sonnet, and, correspondingly, the combined company if the merger is consummated. There is no guarantee that such approvals will be obtained or that such conditions will be satisfied.

***The \$6 Million Payment Condition may not be satisfied.***

One of the conditions to the obligations of Chanticleer under the Merger Agreement is that on or prior to the closing of the merger, Sonnet shall satisfy the \$6 Million Payment Condition. No assurance can be given that Sonnet will be able to raise the remaining funds necessary to satisfy the \$6 Million Payment Condition. If Sonnet cannot raise additional funds on acceptable terms and if Chanticleer is not otherwise willing to waive the \$6 Million Payment Condition, the parties will not be able to consummate the merger.

***The merger may be completed even though material adverse changes may result from the announcement of the merger, industry-wide changes and other causes.***

In general, either Chanticleer or Sonnet can refuse to complete the merger if there is a material adverse change affecting the other party between October 10, 2019, the date of the Merger Agreement, and the closing. However, certain types of changes do not permit either party to refuse to complete the merger, even if such change could be said to have a material adverse effect on Chanticleer or Sonnet, including:

- general business or economic conditions affecting the industries in which Sonnet or Chanticleer operate (except to the extent any changes in such conditions have a disproportionate effect on Sonnet or Chanticleer relative to other participants in such industries);
- natural disasters, acts of war, armed hostilities or terrorism;
- changes in financial, banking or securities markets;
- the taking of any action required to be taken by the Merger Agreement; or
- with respect to Chanticleer, any change in the stock price or trading volume of Chanticleer common stock.

If adverse changes occur and Chanticleer and Sonnet still complete the merger, the combined company stock price may suffer. This in turn may reduce the value of the merger to the stockholders of Chanticleer and Sonnet.



***The combined company will need to raise additional capital by issuing securities or debt or through licensing arrangements, which may cause dilution to the combined company's stockholders or restrict the combined company's operations or proprietary rights.***

The combined company will be required to raise additional capital and may be required to raise funds sooner than currently planned. Additional financing may not be available to the combined company when it needs it or may not be available on favorable terms. To the extent that the combined company raises additional capital by issuing equity securities, such an issuance may cause significant dilution to the combined company's stockholders' ownership and the terms of any new equity securities may have preferences over the combined company's common stock. Any debt financing the combined company enters into may involve covenants that restrict its operations. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of the combined company's assets, as well as prohibitions on its ability to create liens, pay dividends, redeem its stock or make investments. In addition, if the combined company raises additional funds through licensing arrangements, it may be necessary to grant licenses on terms that are not favorable to the combined company.

***Certain Chanticleer and Sonnet executive officers and directors have interests in the merger that are different from yours and that may influence them to support or approve the merger without regard to your interests.***

Certain officers and directors of Chanticleer and Sonnet participate in arrangements that provide them with interests in the merger that are different from yours, including, among others, the continued service as directors and officers of the combined company, in the case of Sonnet, severance benefits and continued indemnification.

For example, all of the current officers and directors of Sonnet will continue as the officers and directors of the combined company upon the closing of the merger.

***Chanticleer and Sonnet stockholders may not realize a benefit from the merger commensurate with the ownership dilution they will experience in connection with the merger.***

If the combined company is unable to realize the full strategic and financial benefits currently anticipated from the merger, Chanticleer and Sonnet securityholders will have experienced substantial dilution of their ownership interests in their respective companies without receiving any commensurate benefit, or only receiving part of the commensurate benefit to the extent the combined company is able to realize only part of the strategic and financial benefits currently anticipated from the merger.

***The issuance of shares of Chanticleer Common Stock to Sonnet shareholders in the merger will dilute substantially the voting power of Chanticleer's current stockholders.***

If the merger is completed, the former Sonnet shareholders will hold approximately 94% of the outstanding shares of Chanticleer Common Stock, the stockholders of Chanticleer will retain ownership of only approximately 6% of the outstanding shares of Chanticleer Common Stock and the Spin-Off Entity will hold the Spin-Off Entity Warrant, exercisable for 2% of the outstanding shares of Chanticleer Common Stock. Accordingly, the issuance of shares of Chanticleer Common Stock to Sonnet shareholders in the merger will reduce substantially the voting power of each share of Chanticleer Common Stock held by Chanticleer's current security holders. Consequently, Chanticleer security holders as a group will have substantially less influence over the management and policies of the combined company after the merger, than prior thereto.

***The pendency of the merger could have an adverse effect on the trading price of Chanticleer Common Stock and Chanticleer's business, financial condition, results of operations or business prospects.***

While there have been no significant adverse effects to date, the pendency of the merger could disrupt Chanticleer's businesses in the following ways, including:

- the attention of Chanticleer's management may be directed toward the closing of the merger and related matters and may be diverted from the day-to-day business operations; and
- third parties may seek to terminate or renegotiate their relationships with Chanticleer as a result of the merger, whether pursuant to the terms of their existing agreements with Chanticleer or otherwise.

Should they occur, any of these matters could adversely affect the trading price of Chanticleer Common Stock or harm Chanticleer's and/or the Spin-Off Entity's financial condition, results of operations or business prospects.

***Chanticleer and Sonnet do not anticipate that the combined company will pay any cash dividends in the foreseeable future.***

The current expectation is that the combined company will retain its future earnings, if any, to fund the development and growth of the combined company's business. As a result, capital appreciation, if any, of the common stock of the combined company will be your sole source of gain, if any, for the foreseeable future.

***The ownership of the combined company common stock is expected to be highly concentrated, which may prevent you and other stockholders from influencing significant corporate decisions and may result in conflicts of interest that could cause the combined company stock price to decline.***

Executive officers and directors of the combined company and their affiliates are expected to beneficially own or control significant number of the outstanding shares of the combined company common stock following the closing of the merger. Accordingly, these executive officers, directors and their affiliates, acting as a group, will have substantial influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of the combined company assets or any other significant corporate transactions. These stockholders may also delay or prevent a change of control of the combined company, even if such a change of control would benefit the other stockholders of the combined company. The significant concentration of stock ownership may adversely affect the trading price of the combined company's common stock due to investors' perception that conflicts of interest may exist or arise.

***Anti-takeover provisions under Delaware law could make an acquisition of the combined company more difficult and may prevent attempts by the combined company stockholders to replace or remove the combined company management.***

Because the combined company will be incorporated in Delaware, it is governed by the provisions of Section 203 of the Delaware General Corporation Law, or the DGCL, which prohibits stockholders owning in excess of 15% of the outstanding combined company voting stock from merging or combining with the combined company. Although Chanticleer and Sonnet believe these provisions collectively will provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with the combined company's board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by the combined company's stockholders to replace or remove then current management by making it more difficult for stockholders to replace members of the board of directors, which is responsible for appointing the members of management.

***The rights of holders of Sonnet securities will change as a result of the merger.***

After the merger, the rights of those shareholders of Sonnet who will become Chanticleer stockholders will be governed by Chanticleer's certificate of incorporation and Chanticleer's bylaws, which are governed by the laws of the State of Delaware, which may be different from the laws of the State of New Jersey.

***The historical audited and unaudited pro forma condensed combined financial information may not be representative of our results after the merger.***

The historical audited and unaudited pro forma condensed combined financial information included elsewhere in this prospectus has been presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that actually would have occurred had the merger been completed as of the date indicated, nor is it indicative of future operating results or financial position.

*The market price of the combined company's common stock following the merger and the Spin-Off may decline as a result of the merger.*

The market price of the combined company's common stock may decline as a result of the merger and the Spin-Off for a number of reasons including if:

- investors react negatively to the prospects of the combined company's business and prospects from the merger and the Spin-Off;
- the effect of the merger and Spin-Off on the combined company's business and prospects is not consistent with the expectations of financial or industry analysts; or
- the combined company does not achieve the perceived benefits of the merger and the Spin-Off as rapidly or to the extent anticipated by financial or industry analysts.

## **ITEM 2: PROPERTIES**

The Company, through its subsidiaries, leases the land and buildings for 1 restaurant in Nottingham, United Kingdom, and 38 restaurant locations in the U.S. The terms for our leases vary from two to twenty years and have options to extend. We lease some of our restaurant facilities under "triple net" leases that require us to pay minimum rent, real estate taxes, maintenance costs and insurance premiums and, in some instances, percentage rent based on sales in excess of specified amounts. We also lease our corporate office space in Charlotte, North Carolina.

Our office and restaurant facilities are suitable and adequate for our business as it is presently conducted.

## **ITEM 3: LEGAL PROCEEDINGS**

On March 26, 2013, our South African operations received Notice of Motion filed in the Kwazulu-Natal High Court, Durban, Republic of South Africa, filed against Rolalor (PTY) LTD ("Rolalor") and Labyrinth Trading 18 (PTY) LTD ("Labyrinth") by Jennifer Catherine Mary Shaw ("Shaw"). Rolalor and Labyrinth were the original entities formed to operate the Johannesburg and Durban locations, respectively. On September 9, 2011, the assets and the then-disclosed liabilities of these entities were transferred to Tundraspex (PTY) LTD ("Tundraspex") and Dimaflo (PTY) LTD ("Dimaflo"), respectively. The current entities, Tundraspex and Dimaflo are not parties in the lawsuit. Shaw is requesting that the Respondents, Rolalor and Labyrinth, be wound up in satisfaction of an alleged debt owed in the total amount of R4,082,636 (approximately \$480,000). The two Notices were defended and argued in the High Court of South Africa (Durban) on January 31, 2014. Madam Justice Steryi dismissed the action with costs on May 5, 2014. Ms. Shaw appealed this decision and in December 2016, the Court dismissed the Labyrinth case with costs payable to the Company and allowed the Rolalor case to proceed to liquidation. The Company did not object to the proposed liquidation of Rolalor as the entity has no assets and the Company does not expect there to be any material impact on the Company. No amounts have been accrued as of December 31, 2018 or 2017 in the accompanying consolidated balance sheets. However, all these potential liabilities were assumed by the buyers of the 5 South African locations, and are thus, will not impact Chanticleer going forward.

From time to time, the Company may be involved in legal proceedings and claims that have arisen in the ordinary course of business are generally covered by insurance. As of December 31, 2019, the Company does not expect the amount of ultimate liability with respect to these matters to be material to the company's financial condition, results of operations or cash flows.

## **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**

Our common stock is listed on the NASDAQ Capital Market under the symbol "BURG".

## Number of Shareholders and Total Outstanding Shares

As of December 31, 2019, there were 10,404,347 shares of our common stock issued and outstanding, respectively, and approximately 185 shareholders of record at our transfer agent. Because many shares of common stock are held by brokers and other institutions on behalf of individual stockholders and those shares change hands from time to time, we do not receive a precise tally of the total number of shareholders on a regular basis. However, our best estimate of the total holders of our common stock ranges from approximately 2,200 to approximately 2,500 shareholders.

## Reverse Split

As of May 19, 2017, the Company effected a one-for-ten reverse stock split of the Company's shares of common stock. As a result of reverse stock split, each ten shares of common stock issued and outstanding were combined into one share of common stock. No fractional shares were issued in connection with the reverse stock split. The Company rounded fractional shares up to the nearest whole number.

The reverse stock split had no impact on the par value per share of the Company's common stock or the number of authorized shares. All current and prior period amounts related to shares, share prices and earnings per share contained in the accompanying unaudited condensed consolidated financial statements have been restated to give retrospective presentation for the reverse stock split.

## Recent Sales of Unregistered Securities

Unregistered sales of our common stock during the first three quarters of 2019 were reported in Item 2 of Part II of the Form 10-Q filed for each quarter or on Current Report on Form 8-K. There were no unregistered sales of common stock during the fourth quarter of 2019 to be reported.

## ITEM 6: SELECTED FINANCIAL DATA

Not applicable.

## ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion of our results of operations and financial condition together with the Selected Financial Data and our audited consolidated financial statements as of and for the year ended December 31, 2019 including the notes thereto, included in this Report. The discussion below contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in Item 1A. "Risk Factors". Actual results may differ materially from those contained in any forward-looking statements. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur, and you are urged to review and consider disclosures that we make in this and other reports that discuss factors germane to our business.*

### Overview

We operate and franchise a system-wide total of 46 fast casual restaurants, of which 35 are company-owned and 11 are owned and operated by franchisees under franchise agreements.

American Burger Company ("ABC") is a fast-casual dining chain consisting of 6 locations in North Carolina and New York, known for its diverse menu featuring fresh salads, customized burgers, milk shakes, sandwiches, and beer and wine.

BGR: The Burger Joint ("BGR") was acquired in March 2015 and consists of 8 company-owned locations in the United States and 11 franchisee-operated locations in the United States and the Middle East (2 of the franchisee-operated locations were purchased by the Company in 2018 and became company-owned locations).

Little Big Burger (“LBB”) was acquired in September 2015 and consists of 19 company-owned locations in the Portland, Oregon, Seattle, Washington, and Charlotte, North Carolina areas. Of the company-owned restaurants, 8 of those locations are operated under partnership agreements with investors where we control the management and operations of the stores and the partner supplies the capital to open the store in exchange for a noncontrolling interest.

We also operate 1 Hooters full-service restaurants in the United States, and 1 location in the United Kingdom. Hooters restaurants, which are casual beach-themed establishments featuring music, sports on large flat screens, and a menu that includes seafood, sandwiches, burgers, salads, and of course, Hooters original chicken wings and the “nearly world famous” Hooters Girls. Chanticleer started initially as an investor in corporate owned Hooters and, subsequently evolved into a franchisee operator. We continue to hold a minority investment stake in Hooters of America. However, we do not currently intend to invest in growing the Hooters brand, and instead are managing this brand alongside our other fast casual brands.

As of December 31, 2019, our system-wide store count totaled 46 locations, consisting of 35 company-owned locations and 11 franchisee-operated locations.

**RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019 COMPARED TO THE YEAR ENDED DECEMBER 31, 2018**

Our results of operations are summarized below:

|  | Twelve Months Ended    |               |                       |               | % Change     |
|--|------------------------|---------------|-----------------------|---------------|--------------|
|  | December 31, 2019      |               | December 31, 2018     |               |              |
|  | Amount                 | % of Revenue* | Amount                | % of Revenue* |              |
| Restaurant sales, net                            | \$ 29,055,521          |               | \$ 29,785,526         |               | -2.5%        |
| Gaming income, net                               | 462,507                |               | 402,611               |               | 14.9%        |
| Management fee income                            | 50,000                 |               | 100,000               |               | -50.0%       |
| Franchise income                                 | 575,090                |               | 445,335               |               | 29.1%        |
| <b>Total revenue</b>                             | <b>30,143,118</b>      |               | <b>30,733,472</b>     |               | <b>-1.9%</b> |
| <b>Expenses:</b>                                 |                        |               |                       |               |              |
| Restaurant cost of sales                         | 9,494,777              | 32.7%         | 9,701,549             | 32.6%         | -2.1%        |
| Restaurant operating expenses                    | 19,406,358             | 66.8%         | 18,423,991            | 61.9%         | 5.3%         |
| Restaurant pre-opening and closing expenses      | 361,554                | 1.2%          | 398,473               | 1.3%          | -9.3%        |
| General and administrative                       | 5,966,447              | 19.8%         | 3,862,146             | 12.6%         | 54.5%        |
| Asset impairment charge                          | 9,149,852              | 30.4%         | 1,899,817             | 6.2%          | 381.6%       |
| Depreciation and amortization                    | 1,842,352              | 6.1%          | 1,816,826             | 5.9%          | 1.4%         |
| <b>Total expenses</b>                            | <b>46,221,340</b>      | <b>153.3%</b> | <b>36,102,802</b>     | <b>117.5%</b> | <b>28.0%</b> |
| <b>Operating loss from continuing operations</b> | <b>\$ (16,078,222)</b> |               | <b>\$ (5,369,330)</b> |               |              |

\* Restaurant cost of sales, operating expenses and pre-opening and closing expense percentages are based on restaurant sales, net. Other percentages are based on total revenue.

**Revenue**

Total revenue decreased \$0.6 million to \$30.1 million for the year ended December 31, 2019 from \$30.7 million for the year ended December 31, 2018.

- Revenue from Restaurant Sales decreased 2.5% for the year ended December 31, 2019 to \$29.1 million.
- Gaming income increased 14.9% for the year ended December 31, 2019 to \$462,507 versus the year ended December 31, 2018.
- Franchise Income increased 29.1% for the year ended December 31, 2019 to \$575,090 versus the year ended December 31, 2018.

| Revenue               | Twelve Months Ended<br>December 31, 2019 |            |
|-----------------------|--|------------|
|                       | Total                                    | % of Total |
| Restaurant sales, net | \$ 29,055,521                            | 96.4%      |
| Gaming income, net    | 462,507                                  | 1.5%       |
| Management fees       | 50,000                                   | 0.2%       |
| Franchise income      | 575,090                                  | 1.9%       |
| Total revenue         | \$ 30,143,118                            | 100.0%     |

| Revenue               | Twelve Months Ended<br>December 31, 2018 |            |
|-----------------------|--|------------|
|                       | Total                                    | % of Total |
| Restaurant sales, net | \$ 29,785,526                            | 96.9%      |
| Gaming income, net    | 402,611                                  | 1.3%       |
| Management fees       | 100,000                                  | 0.3%       |
| Franchise income      | 445,335                                  | 1.4%       |
| Total revenue         | \$ 30,733,472                            | 100.0%     |

#### *Restaurant cost of sales*

Restaurant cost of sales decreased 2.1% to \$9.5 million for the year ended December 31, 2019 from \$9.7 million for the year ended December 31, 2018. Additionally, the percent of restaurant sales increased slightly to 32.7% for the year ended December 31, 2019 from 32.6% for the year ended December 31, 2018.

| Cost of Restaurant Sales | Twelve Months Ended |                           |                   |                           |          |
|--------------------------|---------------------|---------------------------|-------------------|---------------------------|----------|
|                          | December 31, 2019   |                           | December 31, 2018 |                           | % Change |
|                          | Amount              | % of Restaurant Net Sales | Amount            | % of Restaurant Net Sales |          |
| Total Company            | \$ 9,494,777        | 32.7%                     | \$ 9,701,549      | 32.6%                     | -2.1%    |

#### *Restaurant operating expenses*

Restaurant operating expenses increased 5.3% to \$19.4 million for the year ended December 31, 2019 from \$18.4 million for the year ended December 31, 2018. Additionally, the percent of restaurant operating expenses increased to 66.8% for the year ended December 31, 2019 from 61.9% for the year ended December 31, 2018.

| Operating Expenses | Twelve Months Ended |                           |                   |                           |          |
|--------------------|---------------------|---------------------------|-------------------|---------------------------|----------|
|                    | December 31, 2019   |                           | December 31, 2018 |                           | % Change |
|                    | Amount              | % of Restaurant Net Sales | Amount            | % of Restaurant Net Sales |          |
| Total Company      | \$ 19,406,358       | 66.8%                     | \$ 18,423,991     | 61.9%                     | 5.3%     |

### ***Restaurant pre-opening and closing expenses***

Restaurant pre-opening and closing expenses decreased to \$361,554 for the year ended December 31, 2019 compared with \$398,473 for the year ended December 31, 2018. The Company has one (1) Little Big Burger restaurant under lease and is incurring pre-opening rent and other costs while preparing to start construction.

### ***General and administrative expense (“G&A”)***

G&A increased 54.5% to \$6.0 million for the year ended December 31, 2019 from \$3.9 million for the year ended December 31, 2018. Significant components of G&A are summarized as follows:

|  | Twelve Months Ended |                     | % Change |
|--|---------------------|---------------------|----------|
|  | December 31, 2019   | December 31, 2018   |          |
| Audit, legal and other professional services | \$ 1,887,919        | \$ 1,120,029        | 68.6%    |
| Salary and benefits                          | 2,375,592           | 1,667,315           | 42.5%    |
| Travel and entertainment                     | 200,353             | 157,689             | 27.1%    |
| Shareholder services and fees                | 114,864             | 62,273              | 84.5%    |
| Advertising, Insurance and other             | 1,387,759           | 854,839             | 62.3%    |
| Total G&A Expenses                           | <u>\$ 5,966,487</u> | <u>\$ 3,862,146</u> | 54.5%    |

As a percentage of total revenue, G&A increased to 19.8% for the year ended December 31, 2019 from 12.6% for the year ended December 31, 2018. This increase in G&A was driven by increased legal fees related to resolving unionization efforts, increased professional fees related to a rights offering, expenses related to the proposed reverse merger with Sonnet, addition of executive management salaries, and increased marketing expenses from a customer segmentation study to build a customer loyalty program.

### ***Asset impairment charges***

Asset impairment charges totaled \$9.1 million for the year ended December 31, 2019 as compared with \$1.9 million for the year ended December 31, 2018. The Company recognized impairment charges related to the closure of three BGR locations, a Hooters location, and one American Burger location. Also, the Company recognized impairment charges related to its Hooters Nottingham location of approximately \$975,000, and an impairment of \$1.0 million related to the Hooters in Portland, Oregon. Due to the adoption of ASC 842 and termination fees from the above-mentioned store closures, the Company recognized another \$5.2 million impairment.

Asset impairment charges totaled \$1.9 million for the year ended December 31, 2018 as compared with \$2.4 million for the year ended December 31, 2017. The Company recognized impairment charges related to the closure of one Just Fresh location and one American Burger location in Charlotte, North Carolina. In addition, the Company recognized impairment charges related to its Hooters Nottingham location of approximately \$1.5 million. The impairment charges were primarily reflected in the first half of 2018, primarily from reducing goodwill based on management’s intent with regard to the related store location.

### ***Depreciation and amortization***

Depreciation and amortization expense remained constant at \$1.8 million for the year ended December 31, 2019 from \$1.8 million for the year ended December 31, 2018. The decrease is primarily attributable to a decrease in depreciation expense from restaurant closures in 2019 as those assets in those stores were primarily written off at closure.

### Other income (expense)

Other income (expense) consisted of the following:

| Other Income (Expense) | Twelve Months Ended   |                       |          |
|------------------------|-----------------------|-----------------------|----------|
|                        | December 31, 2019     | December 31, 2018     | % Change |
| Interest expense       | \$ (673,573)          | \$ (2,549,436)        | -73.6%   |
| Other income (expense) | (617,837)             | (152,780)             | 304.4%   |
| Total other expense    | <u>\$ (1,291,410)</u> | <u>\$ (2,702,216)</u> | -52.2%   |

Other expense, net decreased to \$1.3 million for the year ended December 31, 2019 from \$2.7 million for the year ended December 31, 2018.

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019 COMPARED TO THE YEAR ENDED DECEMBER 31, 2018

|   | Year Ended         |                       |
|---|--------------------|-----------------------|
|   | December 31, 2019  | December 31, 2018     |
| Net Cash Provided by (used in) Operating Activities | \$ (4,046,550)     | \$ (1,109,634)        |
| Net Cash Used in Investing Activities               | 678,669            | (2,051,031)           |
| Net Cash Provided by Financing Activities           | 3,343,397          | 2,115,442             |
| Effect of foreign currency exchange rates on cash   | 1,390              | 3,091                 |
|   | <u>\$ (23,094)</u> | <u>\$ (1,042,132)</u> |

Cash used in operating activities was \$4.0 million for the year ended December 31, 2019 compared to cash used in activities of \$1.1 million in the prior year period.

Cash from investing activities for the year ended December 31, 2019 was \$678,669 compared to cash used of \$2.1 million in the prior year period. The primary drivers of the increase in cash from investing were the sale of the five Hooters South Africa locations and the cash from the sale of Just Fresh.

Cash provided by financing activities for the year ended December 31, 2019 was \$3.3 million compared to cash provided by financing activities of \$2.1 million in the prior year period. The primary drivers of the cash provided by financing activities during 2019 was proceeds from a rights offering and exercise of warrants.

### LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

As of December 31, 2019, our cash balance was approximately \$500,000, our working capital was negative \$16.9 million, and we have significant near-term commitments and contractual obligations. The level of additional cash needed to fund operations and our ability to conduct business for the next twelve months will be influenced primarily by the following factors:

- our ability to access the capital and debt markets to satisfy current obligations and operate the business;
- our ability to refinance or otherwise extend maturities of current debt obligations;
- the level of investment in acquisition of new restaurant businesses and entering new markets;
- our ability to manage our operating expenses and maintain gross margins as the Company grows;
- popularity of and demand for the Company's fast-casual dining concepts; and
- general economic conditions and changes in consumer discretionary income.



We have typically funded our operating costs, acquisition activities, working capital requirements and capital expenditures with proceeds from the issuances of our common stock and other financing arrangements, including convertible debt, lines of credit, notes payable, capital leases, and other forms of external financing.

As we execute our business plan over the next 12 months, we intend to carefully monitor the impact of growth on our working capital needs and cash balances relative to the availability of cost-effective debt and equity financing. In the event that capital is not available, or we are unable to refinance our debt obligations or obtain waivers, we may then have to scale back or freeze our organic growth plans, sell assets on less than favorable terms, reduce expenses, and/or curtail future acquisition plans to manage our liquidity and capital resources. We may also incur financial penalties or other negative actions from our lenders if we are not able to refinance or otherwise extend or repay our current obligations or obtain waivers.

In addition, our business is subject to additional risks and uncertainties, including, but not limited to, those described in Item 1A. "Risk Factors".

## **CRITICAL ACCOUNTING POLICIES**

The Company's significant accounting policies are more fully described in Note 1 of Notes to the Consolidated Financial Statements in Item 8. The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions to determine certain assets, liabilities, revenues and expenses. Management bases these estimates and assumptions upon the best information available at the time of the estimates or assumptions. The Company's estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from estimates. The Company believes that the following are its most significant accounting policies:

### **Revenue recognition**

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. The Company elected a practical expedient to aggregate the effect of all contract modifications that occurred before the adoption date, which did not have a material impact to our consolidated financial statements. Results for reporting periods beginning on or after January 1, 2018 are presented under Accounting Standards Codification Topic 606 ("ASC 606"). Prior period amounts were not revised and continue to be reported in accordance with ASC Topic 605 ("ASC 605"), the accounting standard then in effect.

Upon adoption, the Company recorded a decrease to opening stockholders' equity of \$1,042,000 with a corresponding increase of \$1,042,000 in deferred revenue. Additional franchise income of \$83,000 was recognized during the year-ended December 31, 2018 under ASC 606, compared to what would have been recognized under ASC 605.

Prior to the adoption of ASC 606, the Company's initial franchise fees were recorded as deferred revenue when received and proportionate amounts were recognized as revenue when certain milestones such as completion of employee training, lease signing, and store opening were achieved. With the adoption of ASC 606, such initial franchise fees are deferred and recognized over the franchise license term as discussed further below.

The Company generates revenues from the following sources: (i) restaurant sales; (ii) management fee income; (iii) gaming income; and (iv) franchise revenues, consisting of royalties based on a percentage of sales reported by franchise restaurants and initial signing fees.

#### *Restaurant Sales, Net*

The Company records revenue from restaurant sales at the time of sale, net of discounts, coupons, employee meals, and complimentary meals and gift cards. Sales tax and value added tax ("VAT") collected from customers and remitted to governmental authorities are presented on a net basis within revenue in our consolidated statements of operations.

#### *Management Fee Income*

The Company receives revenue from management fees from certain non-affiliated companies, including from managing its investment in Hooters of America which are generally earned and recognized over the performance period.

#### *Gaming Income*

The Company receives revenue from operating a gaming facility adjacent to its Hooters restaurant in Jantzen Beach, Oregon. Revenue from gaming is recognized as earned from gaming activities, net of payouts to customers, taxes and government fees. These fees are recognized as they are earned based on the terms of the agreements.

#### *Franchise Income*

The Company grants franchises to operators in exchange for initial franchise license fees and continuing royalty payments. The license granted for each restaurant or area is considered a performance obligation. All other obligations (such as providing assistance during the opening of a restaurant) are combined with the license and were determined to be a single performance obligation. Accordingly, the total transaction price (comprised of the restaurant opening and territory fees) is allocated to each restaurant expected to be opened by the licensee under the contract. There are significant judgments regarding the estimated total transaction price, including the number of stores expected to be opened. We recognize the fee allocated to each restaurant as revenue on a straight-line basis over the restaurant's license term, which generally begins upon the signing of the contract for area development agreements and upon the signing of a store lease for franchise agreements. The payments for these upfront fees are generally received upon contract execution. Continuing fees, which are based upon a percentage of franchisee revenues and are not subject to any constraints, are recognized on the accrual basis as those sales occur. The payments for these continuing fees are generally made on a weekly basis.

#### *Deferred Revenue*

Deferred revenue consists of contract liabilities resulting from initial and renewal franchise license fees paid by franchisees, which are generally recognized on a straight-line basis over the term of the underlying franchise agreement, as well as upfront development fees paid by franchisees, which are generally recognized on a straight-line basis over the term of the underlying franchise agreement once it is executed or if the development agreement is terminated.

#### **Leases**

We determine if a contract contains a lease at inception. Our material operating leases consist of restaurant locations and office space. Our leases generally have remaining terms of 1-20 years and most include options to extend the leases for additional 5-year periods. Generally, the lease term is the minimum of the noncancelable period of the lease or the lease term inclusive of reasonably certain renewal periods up to a term of 20 years. If the estimate of our reasonably certain lease term was changed, our depreciation and rent expense could differ materially.

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, we estimate incremental borrowing rates corresponding to the reasonably certain lease term. As we have no outstanding debt nor committed credit facilities, secured or otherwise, we estimate this rate based on prevailing financial market conditions, comparable company and credit analysis, and management judgment. If the estimate of our incremental borrowing rate was changed, our operating lease assets and liabilities could differ materially.

## **Intangible Assets**

### *Goodwill and indefinite lived intangibles*

Generally accepted accounting principles in the United States require the Company to perform goodwill and indefinite lived intangible asset impairment tests annually and more frequently when negative conditions or a triggering event arise. In September 2011, the FASB issued amended guidance that simplified how entities test goodwill for impairment. After an assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test(s) become optional. As allowed under the amended guidance, the Company chose not to assess the qualitative factors of its reporting units and, instead, performed the quantitative tests.

### *Tradename/trademark*

The fair value of trade name/trademarks are estimated and compared to the carrying value. The Company estimates the fair value of trademarks using the relief-from-royalty method, which requires assumptions related to projected sales from its annual long-range plan; assumed royalty rates that could be payable if the Company did not own the trademarks; and a discount rate. The Company recognizes an impairment loss when the estimated fair value of the trade name/trademarks is less than its carrying value.

### *Franchise Costs*

Intangible assets are recorded for the initial franchise fees for our Hooter's restaurants. The Company amortizes these amounts over a 20-year period, which is the life of the franchise agreement. The Company also has intangible assets representing the acquisition date fair value of customer contracts acquired in connection with BGR's franchise business. The Company previously determined this intangible asset to be indefinite lived based on the Company's expectations of franchisee renewals. Management also revised its estimated useful life of the related intangible asset and began amortizing the related asset over the weighted average life of the underlying franchise agreements.

## **COMMITMENTS AND CONTINGENCIES**

The Company, through its subsidiaries, leases the land and buildings for 1 restaurant in Nottingham, United Kingdom, and 38 restaurant locations in the U.S. The terms for our restaurant leases vary from two to twenty years and have options to extend. We lease some of our restaurant facilities under "triple net" leases that require us to pay minimum rent, real estate taxes, maintenance costs and insurance premiums and, in some instances, percentage rent based on sales in excess of specified amounts.

We also lease our corporate office space in Charlotte, North Carolina.

## **ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

CHANTICLEER HOLDINGS, INC. AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Chanticleer Holdings, Inc. and Subsidiaries  
Charlotte, North Carolina

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Chanticleer Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, equity (deficit), and cash flows for the years then ended, and the related notes, (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company incurred \$18.5 million in losses for the year ended December 31, 2019, that included \$9.1 million in asset impairments, and the Company has a working capital deficit of approximately \$16.9 million as of December 31, 2019. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's evaluations of the events and conditions and management's plans regarding those matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Changes in Accounting Principle

As discussed in Note 2, the Company changed the manner in which it accounts for leases in 2019.

### Basis for Opinion

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

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

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

*/s/ Cherry Bekaert LLP*

We have served as the Company's auditor since 2015.

Charlotte, North Carolina  
March 18, 2020

**Chanticleer Holdings, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

| <b>ASSETS</b>  | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|--|--------------------------|--------------------------|
| <b>Current assets:</b>   |                          |                          |
| Cash   | \$ 500,681               | \$ 523,776               |
| Restricted cash  | 336                      | 335                      |
| Accounts and other receivables, net  | 131,887                  | 325,355                  |
| Inventories  | 287,111                  | 335,214                  |
| Prepaid expenses and other current assets  | 249,579                  | 159,206                  |
| <b>TOTAL CURRENT ASSETS</b>  | <b>1,169,594</b>         | <b>1,343,886</b>         |
| Property and equipment, net  | 5,630,490                | 9,756,272                |
| Operating lease assets   | 11,668,026               | -                        |
| Goodwill   | 8,567,888                | 10,564,353               |
| Intangible assets, net   | 3,656,995                | 4,469,815                |
| Investments  | 381,397                  | 800,000                  |
| Deposits and other assets  | 309,462                  | 386,081                  |
| Assets of discontinued operations  | 149,000                  | 2,472,833                |
| <b>TOTAL ASSETS</b>  | <b>\$ 31,532,852</b>     | <b>\$ 29,793,240</b>     |
| <b>LIABILITIES AND EQUITY (DEFICIT)</b>  |                          |                          |
| <b>Current liabilities:</b>  |                          |                          |
| Accounts payable and accrued expenses  | \$ 8,165,195             | \$ 6,176,138             |
| Current maturities of long-term debt and notes payable   | 6,630,961                | 3,663,192                |
| Current maturities of convertible notes payable  | -                        | 3,000,000                |
| Current operating lease liabilities  | 3,299,309                | -                        |
| Due to related parties   | -                        | 185,726                  |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>18,095,465</b>        | <b>13,025,056</b>        |
| Long-term debt   | -                        | 3,000,000                |
| Redeemable preferred stock: no par value, 62,876 shares issued and outstanding, net of discount of \$139,131 and \$173,914, respectively | 709,695                  | 674,912                  |
| Deferred rent  | -                        | 2,297,199                |
| Long-term operating lease liabilities  | 14,382,354               | -                        |
| Deferred revenue   | 959,445                  | 1,174,506                |
| Deferred tax liabilities   | 102,304                  | 76,765                   |
| Liabilities of discontinued operations   | 435,600                  | 1,287,277                |
| <b>TOTAL LIABILITIES</b>   | <b>34,684,863</b>        | <b>21,535,715</b>        |
| Commitments and contingencies (see Note 16)  |                          |                          |
| <b>Equity (Deficit):</b>   |                          |                          |
| Preferred stock: no par value; authorized 5,000,000 shares; 62,876 issued and outstanding  | -                        | -                        |
| Common stock: \$0.0001 par value; authorized 45,000,000 shares; issued and outstanding 10,404,347 and 3,715,444 shares, respectively     | 1,041                    | 373                      |
| Additional paid in capital   | 71,505,989               | 64,756,903               |
| Accumulated other comprehensive loss   | (46,437)                 | (202,115)                |
| Accumulated deficit  | (75,068,385)             | (57,124,673)             |
| <b>Total Chanticleer Holdings, Inc, Stockholders' Equity</b>   | <b>(3,607,792)</b>       | <b>7,430,488</b>         |
| Non-Controlling Interests  | 455,781                  | 827,037                  |
| <b>TOTAL EQUITY (DEFICIT)</b>  | <b>(3,152,011)</b>       | <b>8,257,525</b>         |
| <b>TOTAL LIABILITIES AND EQUITY (DEFICIT)</b>  | <b>\$ 31,532,852</b>     | <b>\$ 29,793,240</b>     |

See accompanying notes to consolidated financial statements

**Chanticleer Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**

|  | Year Ended             |                       |
|--|------------------------|-----------------------|
|  | December 31, 2019      | December 31, 2018     |
| <b>Revenue:</b>  |                        |                       |
| Restaurant sales, net  | \$ 29,055,521          | \$ 29,785,526         |
| Gaming income, net   | 462,507                | 402,611               |
| Management fee income  | 50,000                 | 100,000               |
| Franchise income   | 575,090                | 445,335               |
| <b>Total revenue</b>   | <b>30,143,118</b>      | <b>30,733,472</b>     |
| <b>Expenses:</b>   |                        |                       |
| Restaurant cost of sales   | 9,494,777              | 9,701,549             |
| Restaurant operating expenses  | 19,406,358             | 18,423,991            |
| Restaurant pre-opening and closing expenses  | 361,554                | 398,473               |
| General and administrative expenses  | 5,966,447              | 3,862,146             |
| Asset impairment charge  | 9,149,852              | 1,899,817             |
| Depreciation and amortization  | 1,842,352              | 1,816,826             |
| <b>Total expenses</b>  | <b>46,221,340</b>      | <b>36,102,802</b>     |
| <b>Operating loss</b>  | <b>(16,078,222)</b>    | <b>(5,369,330)</b>    |
| <b>Other expense</b>   |                        |                       |
| Interest expense   | (673,573)              | (2,549,436)           |
| Other income (expense)   | (617,837)              | (152,780)             |
| Total other expense  | (1,291,410)            | (2,702,216)           |
| Loss before income taxes   | (17,369,632)           | (8,071,546)           |
| <b>Income tax benefit (expense)</b>  | <b>(73,726)</b>        | <b>701,224</b>        |
| <b>Loss from continuing operations</b>   | <b>(17,443,358)</b>    | <b>(7,370,322)</b>    |
| <b>Discontinued operations</b>   |                        |                       |
| Income (Loss) from discontinued operations, net of tax   | (1,021,674)            | 171,055               |
| <b>Consolidated net loss</b>   | <b>(18,465,032)</b>    | <b>(7,199,267)</b>    |
| Less: Net loss attributable to non-controlling interests   | 402,386                | 507,955               |
| Less: Net loss attributable to non-controlling interest of discontinued operations   | 336,262                | (163,108)             |
| <b>Net loss attributable to Chanticleer Holdings, Inc.</b>   | <b>\$ (17,726,384)</b> | <b>\$ (6,854,420)</b> |
| Dividends on redeemable preferred stock  | (112,238)              | (118,604)             |
| <b>Net loss attributable to common shareholders of Chanticleer Holdings, Inc.</b>  | <b>\$ (17,838,622)</b> | <b>\$ (6,973,024)</b> |
| <b>Net loss attributable to Chanticleer Holdings, Inc. per common share, basic and diluted:</b>                                | <b>\$ (2.56)</b>       | <b>\$ (1.98)</b>      |
| <b>Net loss attributable to Chanticleer Holdings, Inc. Before Discontinued Operations per common share, basic and diluted:</b> | <b>\$ (2.46)</b>       | <b>\$ (1.98)</b>      |
| <b>Weighted average shares outstanding, basic and diluted</b>  | <b>6,978,848</b>       | <b>3,520,125</b>      |

See accompanying notes to consolidated financial statements

**Chanticleer Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Loss**

|  | Twelve Months Ended           |                              |
|--|-------------------------------|------------------------------|
|  | <u>December 31, 2019</u>      | <u>December, 2018</u>        |
| <b>Net loss attributable to Chanticleer Holdings, Inc.</b> | <b>\$ (17,726,384)</b>        | <b>\$ (6,854,420)</b>        |
| Foreign currency translation gain (loss)                   | 155,678                       | 732,786                      |
| <b>Comprehensive loss</b>                                  | <b><u>\$ (17,570,706)</u></b> | <b><u>\$ (6,121,634)</u></b> |

See accompanying notes to consolidated financial statements



**Chanticleer Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Equity (Deficit)**  
**Twelve Months Ended December 31, 2019 and 2018**

|   | Common Stock     |            | Additional<br>Paid-in<br>Capital | Common<br>Stock<br>Subscribed | Subscriptions<br>Receivable | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Non-<br>Controlling<br>Interest | Total             |
|---|------------------|------------|----------------------------------|-------------------------------|-----------------------------|---|------------------------|---------------------------------|-------------------|
|   | Shares           | Amount     |                                  |                               |                             |   |                        |                                 |                   |
| <b>Balance, December 31, 2017</b>                   | 3,045,809        | \$ 305     | \$ 60,750,330                    | \$ -                          | \$ -                        | \$ (934,901)                                  | \$ (49,109,303)        | \$ 782,453                      | \$ 11,488,884     |
| Common stock and warrants issued for:               |                  |            |                                  |                               |                             |   |                        |                                 |                   |
| Consulting services                                 | 1,231            | -          | 3,767                            | -                             | -                           | -   | -                      | -                               | 3,767             |
| Convertible debt                                    | 66,667           | 7          | 199,994                          | -                             | -                           | -   | -                      | -                               | 200,001           |
| Preferred Unit dividend                             | 8,502            | 1          | 19,525                           | -                             | -                           | -   | (27,794)               | -                               | (8,268)           |
| Foreign currency translation                        | -                | -          | -                                | -                             | -                           | 824,941                                       | -                      | -                               | 824,941           |
| Shares issued on exercise of warrants               | 100,000          | 10         | 289,990                          | -                             | -                           | -   | -                      | -                               | 290,000           |
| Net loss  | -                | -          | -                                | -                             | -                           | -   | (2,597,432)            | (84,407)                        | (2,681,839)       |
| Cumulative effect of change in accounting principle | -                | -          | -                                | -                             | -                           | -   | (1,042,346)            | -                               | (1,042,346)       |
| <b>Balance, March 31, 2018</b>                      | <u>3,222,209</u> | <u>323</u> | <u>61,263,606</u>                | <u>-</u>                      | <u>-</u>                    | <u>(109,960)</u>                              | <u>(52,776,875)</u>    | <u>698,046</u>                  | <u>9,075,140</u>  |
| Common stock and warrants issued for:               |                  |            |                                  |                               |                             |   |                        |                                 |                   |
| Cash proceeds, net                                  | 403,214          | 41         | 1,372,142                        | -                             | -                           | -   | -                      | -                               | 1,372,183         |
| Consulting services                                 | 55,257           | 5          | 150,996                          | -                             | -                           | -   | -                      | -                               | 151,001           |
| Preferred Unit dividend                             | 5,790            | 1          | 19,098                           | -                             | -                           | -   | (28,007)               | -                               | (8,908)           |
| Accrued interest on note payable                    | 12,800           | 1          | 43,343                           | -                             | -                           | -   | -                      | -                               | 43,344            |
| Foreign currency translation                        | -                | -          | -                                | -                             | -                           | 3,271   | -                      | -                               | 3,271             |
| Non-controlling interest contributions              | -                | -          | -                                | -                             | -                           | -   | -                      | 750,000                         | 750,000           |
| Non-controlling interest distributions              | -                | -          | -                                | -                             | -                           | -   | -                      | (42,603)                        | (42,603)          |
| Reclassification of Minority Interest               | -                | -          | 353,699                          | -                             | -                           | -   | -                      | (353,699)                       | -                 |
| Net loss  | -                | -          | -                                | -                             | -                           | -   | (760,462)              | (45,343)                        | (805,805)         |
| <b>Balance, June 30, 2018</b>                       | <u>3,699,270</u> | <u>371</u> | <u>63,202,884</u>                | <u>-</u>                      | <u>-</u>                    | <u>(106,689)</u>                              | <u>(53,565,344)</u>    | <u>1,006,401</u>                | <u>10,537,623</u> |
| Common stock and warrants issued for:               |                  |            |                                  |                               |                             |   |                        |                                 |                   |
| Preferred Unit dividend                             | 7,293            | 1          | 19,310                           | -                             | -                           | -   | (28,219)               | -                               | (8,908)           |
| Foreign currency translation                        | -                | -          | -                                | -                             | -                           | (33,989)                                      | -                      | -                               | (33,989)          |
| Non-controlling interest contributions              | -                | -          | -                                | -                             | -                           | -   | -                      | 50,000                          | 50,000            |
| Non-controlling interest distributions              | -                | -          | -                                | -                             | -                           | -   | -                      | (58,557)                        | (58,557)          |
| Reclassification of Minority Interest               | -                | -          | (4,723)                          | -                             | -                           | -   | -                      | 4,723                           | -                 |
| Net loss  | -                | -          | -                                | -                             | -                           | -   | (1,237,875)            | (80,737)                        | (1,318,612)       |
| <b>Balance, September 30, 2018</b>                  | <u>3,706,563</u> | <u>372</u> | <u>63,217,471</u>                | <u>-</u>                      | <u>-</u>                    | <u>(140,678)</u>                              | <u>(54,831,438)</u>    | <u>921,830</u>                  | <u>9,167,557</u>  |
| Common stock and warrants issued for:               |                  |            |                                  |                               |                             |   |                        |                                 |                   |
| Preferred Unit dividend                             | 8,881            | 1          | 19,522                           | -                             | -                           | -   | (34,585)               | -                               | (15,062)          |
| Foreign currency translation                        | -                | -          | -                                | -                             | -                           | (61,437)                                      | -                      | -                               | (61,437)          |
| Warrants issued in debt modification                | -                | -          | 1,494,999                        | -                             | -                           | -   | -                      | -                               | 1,494,999         |
| Shareholder payment for short swing                 | -                | -          | 5,546                            | -                             | -                           | -   | -                      | -                               | 5,546             |
| Non-controlling interest contributions              | -                | -          | -                                | -                             | -                           | -   | -                      | 100,000                         | 100,000           |
| Non-controlling interest distributions              | -                | -          | -                                | -                             | -                           | -   | -                      | (41,063)                        | (41,063)          |
| Reclassification of Minority Interest               | -                | -          | 19,365                           | -                             | -                           | -   | -                      | (19,365)                        | -                 |
| Net loss  | -                | -          | -                                | -                             | -                           | -   | (2,258,650)            | (134,365)                       | (2,393,015)       |
| <b>Balance, December 31, 2018</b>                   | <u>3,715,444</u> | <u>373</u> | <u>64,756,903</u>                | <u>-</u>                      | <u>-</u>                    | <u>(202,115)</u>                              | <u>(57,124,673)</u>    | <u>827,037</u>                  | <u>8,257,525</u>  |

**Chanticleer Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Equity (Deficit) (Continued)**  
**Twelve Months Ended December 31, 2019 and 2018**

|  | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Common<br>Stock<br>Subscribed | Subscriptions<br>Receivable | Accumulated<br>other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Non<br>Controlling<br>Interest | Total               |
|--|------------------------|------------------------|----------------------------------|-------------------------------|-----------------------------|---|------------------------|--------------------------------|---------------------|
| Common stock and warrants issued for:                    |                        |                        |                                  |                               |                             |   |                        |                                |                     |
| Preferred Unit dividend                                  | 16,342                 | 1                      | 19,521                           | -                             | -                           | -   | (27,795)               | -                              | (8,273)             |
| Share-based compensation                                 | -                      | -                      | 100,707                          | -                             | -                           | -   | -                      | -                              | 100,707             |
| Foreign currency translation                             | -                      | -                      | -                                | -                             | -                           | 37,832  | -                      | -                              | 37,832              |
| Non-controlling interest contributions                   | -                      | -                      | -                                | -                             | -                           | -   | -                      | 575,000                        | 575,000             |
| Non-controlling interest distributions                   | -                      | -                      | -                                | -                             | -                           | -   | -                      | (10,804)                       | (10,804)            |
| Reclassification of Minority Interest                    | -                      | -                      | 249,104                          | -                             | -                           | -   | -                      | (249,104)                      | -                   |
| Net loss   | -                      | -                      | -                                | -                             | -                           | -   | (1,873,072)            | (115,591)                      | (1,988,663)         |
| <b>Balance, March 31, 2019</b>                           | <u>3,731,786</u>       | <u>374</u>             | <u>65,126,235</u>                | <u>-</u>                      | <u>-</u>                    | <u>(164,283)</u>                              | <u>(59,025,540)</u>    | <u>1,026,538</u>               | <u>6,963,324</u>    |
| Common stock and warrants issued for:                    |                        |                        |                                  |                               |                             |   |                        |                                |                     |
| Director fees  | 104,828                | 10                     | 252,949                          | -                             | -                           | -   | -                      | -                              | 252,959             |
| Consulting services                                      | 36,765                 | 4                      | 117,087                          | -                             | -                           | -   | -                      | -                              | 117,091             |
| Preferred Unit dividend                                  | 11,844                 | 1                      | 19,097                           | -                             | -                           | -   | (28,003)               | -                              | (8,905)             |
| Accrued interest on note payable                         | 8,800                  | 1                      | 13,839                           | -                             | -                           | -   | -                      | -                              | 13,840              |
| Share-based compensation                                 | 45,000                 | 5                      | 8,704                            | -                             | -                           | -   | -                      | -                              | 8,709               |
| Stock issued to settle convertible debt and note payable | 3,075,000              | 308                    | 3,074,692                        | -                             | -                           | -   | -                      | -                              | 3,075,000           |
| Subscriptions pursuant to rights offering, net           | -                      | -                      | 2,614,623                        | 300                           | (2,694,530)                 | -   | -                      | -                              | (79,607)            |
| Foreign currency translation                             | -                      | -                      | -                                | -                             | -                           | (67,827)                                      | -                      | -                              | (67,827)            |
| Shareholder payment for short swing                      | -                      | -                      | 1,676                            | -                             | -                           | -   | -                      | -                              | 1,676               |
| Non-controlling interest distributions                   | -                      | -                      | -                                | -                             | -                           | -   | -                      | (16,777)                       | (16,777)            |
| Reclassification of Minority Interest                    | -                      | -                      | (18,699)                         | -                             | -                           | -   | -                      | 18,699                         | -                   |
| Net loss   | -                      | -                      | -                                | -                             | -                           | -   | (3,216,799)            | (118,867)                      | (3,335,666)         |
| <b>Balance, June 30, 2019</b>                            | <u>7,014,023</u>       | <u>\$ 703</u>          | <u>\$ 71,210,203</u>             | <u>\$ 300</u>                 | <u>\$ (2,694,530)</u>       | <u>\$ (232,110)</u>                           | <u>\$ (62,270,342)</u> | <u>\$ 909,593</u>              | <u>\$ 6,923,817</u> |
| Common stock and warrants issued for:                    |                        |                        |                                  |                               |                             |   |                        |                                |                     |
| Preferred Unit dividend                                  | 19,387                 | 2                      | 19,006                           | -                             | -                           | -   | (28,219)               | -                              | (9,211)             |
| Subscriptions pursuant to rights offering, net           | 3,009,733              | 300                    | (308)                            | (300)                         | 2,694,530                   | -   | -                      | -                              | 2,694,222           |
| Share-based compensation                                 | -                      | -                      | 8,709                            | -                             | -                           | -   | -                      | -                              | 8,709               |
| Stock issued to settle convertible debt and note payable | -                      | -                      | -                                | -                             | -                           | -   | -                      | -                              | -                   |
| Foreign currency translation                             | -                      | -                      | -                                | -                             | -                           | (159,759)                                     | -                      | -                              | (159,759)           |
| Non-controlling interest distributions                   | -                      | -                      | -                                | -                             | -                           | -   | -                      | (33,605)                       | (33,605)            |
| Reclassification of Minority Interest                    | -                      | -                      | (15,598)                         | -                             | -                           | -   | -                      | 15,598                         | -                   |
| Net loss   | -                      | -                      | -                                | -                             | -                           | -   | (3,884,741)            | (406,544)                      | (4,291,285)         |
| <b>Balance, September 30, 2019</b>                       | <u>10,043,143</u>      | <u>1,005</u>           | <u>71,222,012</u>                | <u>-</u>                      | <u>-</u>                    | <u>(391,869)</u>                              | <u>(66,183,302)</u>    | <u>485,042</u>                 | <u>5,132,888</u>    |
| Common stock:  |                        |                        |                                  |                               |                             |   |                        |                                |                     |
| Director fees  | 89,647                 | 9                      | 83,991                           | -                             | -                           | -   | -                      | -                              | 84,000              |
| Preferred Unit dividend                                  | 30,402                 | 3                      | 19,520                           | -                             | -                           | -   | (28,221)               | -                              | (8,698)             |
| Accrued interest on note payable                         | 1,600                  | -                      | -                                | -                             | -                           | -   | -                      | -                              | -                   |
| Exercise of warrants at reduced price of \$0.50          | 239,555                | 24                     | 258,144                          | -                             | -                           | -   | (105,089)              | -                              | 153,079             |
| Share-based compensation                                 | -                      | -                      | 8,709                            | -                             | -                           | -   | -                      | -                              | 8,709               |
| Stock issued to settle convertible debt and note payable | -                      | -                      | -                                | -                             | -                           | -   | -                      | -                              | -                   |
| Foreign currency translation                             | -                      | -                      | -                                | -                             | -                           | 345,432                                       | -                      | -                              | 345,432             |
| Non-controlling interest distributions                   | -                      | -                      | -                                | -                             | -                           | -   | -                      | (18,002)                       | (18,002)            |
| Reclassification of Minority Interest                    | -                      | -                      | (86,387)                         | -                             | -                           | -   | -                      | 86,387                         | -                   |
| Net loss   | -                      | -                      | -                                | -                             | -                           | -   | (8,751,773)            | (97,646)                       | (8,849,419)         |
| <b>Balance, December 31, 2019</b>                        | <u>10,404,347</u>      | <u>1,041</u>           | <u>71,505,989</u>                | <u>-</u>                      | <u>-</u>                    | <u>(46,437)</u>                               | <u>(75,068,385)</u>    | <u>455,781</u>                 | <u>(3,152,011)</u>  |

See accompanying notes to consolidated financial statements

**Chanticleer Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

|  | Twelve Months Ended      |                          |
|--|--------------------------|--------------------------|
|  | December 31, 2019        | December 31, 2018        |
| <b>Cash flows from operating activities:</b>                                   |                          |                          |
| Net loss   | \$ (18,465,032)          | \$ (7,199,267)           |
| Net loss from discontinued operations  | 1,021,674                | (171,055)                |
| Net loss from continuing operations  | <u>(17,443,358)</u>      | <u>(7,370,322)</u>       |
| Adjustments to reconcile net loss to net cash flows from operating activities: |                          |                          |
| Depreciation and amortization  | 1,842,352                | 1,816,826                |
| Amortization of operating lease assets   | 1,701,962                | -                        |
| Asset impairment charges   | 9,149,852                | 1,899,817                |
| Write-off investment in HOA  | 435,000                  | -                        |
| Common stock and warrants issued for services                                  | 24,507                   | 129,767                  |
| Stock based compensation   | 126,829                  | -                        |
| Loss on warrant inducement   | 105,089                  | -                        |
| Gain on investments  | (21,616)                 | 45,932                   |
| Gain on tax settlements  | (195,982)                | -                        |
| Amortization of debt discount and discount on preferred stock                  | -                        | 893,873                  |
| Change in assets and liabilities:  |                          |                          |
| Accounts and other receivables   | 180,431                  | 114,007                  |
| Prepaid and other assets   | (152,588)                | 2,767                    |
| Inventory  | (68,163)                 | 72,802                   |
| Accounts payable and accrued liabilities                                       | 2,134,821                | 2,511,940                |
| Change in amounts payable to related parties                                   | (185,726)                | (624)                    |
| Deferred income taxes  | 25,539                   | (779,359)                |
| Operating lease liabilities  | (1,793,197)              | -                        |
| Deferred revenue   | (215,061)                | (22,130)                 |
| Deferred rent  | -                        | (54,307)                 |
| Net cash flows from continuing operating activities                            | <u>(4,349,309)</u>       | <u>(739,011)</u>         |
| Net cash flows from operating activities from discontinued operations          | <u>302,759</u>           | <u>(370,623)</u>         |
| Net cash flows from operating activities                                       | <u>(4,046,550)</u>       | <u>(1,109,634)</u>       |
| <b>Cash flows from investing activities:</b>                                   |                          |                          |
| Purchase of property and equipment   | (472,882)                | (1,698,747)              |
| Proceeds from tenant improvement allowances                                    | 335,075                  | -                        |
| Cash paid for acquisitions   | -                        | (30,000)                 |
| Proceeds from sale of assets   | 525,872                  | -                        |
| Net cash flows from continuing investing activities                            | <u>388,065</u>           | <u>(1,728,747)</u>       |
| Net cash flow from investing activities from discontinued operations           | <u>290,604</u>           | <u>(322,284)</u>         |
| Net cash flows from investing activities                                       | <u>678,669</u>           | <u>(2,051,031)</u>       |
| <b>Cash flows from financing activities:</b>                                   |                          |                          |
| Proceeds from sale of common stock and warrants                                | 153,055                  | 1,687,184                |
| Proceeds from rights offering, net   | 2,694,530                | -                        |
| Loan proceeds  | -                        | -                        |
| Loan repayments  | -                        | (270,579)                |
| Distributions to non-controlling interest                                      | (79,188)                 | (101,163)                |
| Contributions from non-controlling interest                                    | 575,000                  | 800,000                  |
| Net cash flows from continuing financing activities                            | <u>3,343,397</u>         | <u>2,115,442</u>         |
| Net cash flows from financing activities from discontinued operations          | <u>-</u>                 | <u>33,652</u>            |
| Net cash flows from financing activities                                       | <u>3,343,397</u>         | <u>2,115,442</u>         |
| Effect of exchange rate changes on cash  | 1,390                    | 3,091                    |
| <b>Net increase (decrease) in cash and restricted cash</b>                     | <b>(23,094)</b>          | <b>(1,042,132)</b>       |
| <b>Cash and restricted cash, beginning of period</b>                           | <b>524,111</b>           | <b>1,566,243</b>         |
| <b>Cash and restricted cash, end of period</b>                                 | <b>\$ <u>501,017</u></b> | <b>\$ <u>524,111</u></b> |
| <b>Supplemental Information:</b>   |                          |                          |
| <b>Cash &amp; Restricted Cash</b>  |                          |                          |
| Cash   | \$ 500,681               | \$ 523,776               |
| Restricted Cash  | 336                      | 335                      |
|  | <u>\$ 501,017</u>        | <u>\$ 524,111</u>        |

See accompanying notes to consolidated financial statements

**Chanticleer Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows, continued**

|   | Year Ended        |                   |
|---|-------------------|-------------------|
|   | December 31, 2019 | December 31, 2018 |
| <b>Supplemental cash flow information:</b>  |                   |                   |
| Cash paid for interest and income taxes:  |                   |                   |
| Interest  | \$ 556,352        | \$ 553,898        |
| Income taxes  | 110,707           | 40,589            |
| <b>Non-cash investing and financing activities:</b>                                     |                   |                   |
| Convertible debt settled through issuance of common stock                               |                   | 200,000           |
| Accrued interest settled through issuance of convertible debt                           |                   | 43,345            |
| Preferred stock dividends paid through issuance of common stock                         | 77,144            | 77,452            |
| Common stock issued for payment of directors fees                                       | 444,119           | -                 |
| Convertible debt and notes payable settled through subscriptions in the rights offering | 3,075,000         | -                 |
| Debt issued to fund acquisitions  | -                 | 196,366           |
| Fixed asset additions included in accounts payable and accrued expenses at year end     | 330,771           | 510,788           |
| Default interest paid in connection with warrants issued as part of debt modification   | -                 | 1,494,999         |

See accompanying notes to consolidated financial statements

**Chanticleer Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**1. NATURE OF BUSINESS**

**ORGANIZATION**

Chanticleer Holdings, Inc. (the “Company”) is in the business of owning, operating and franchising fast casual dining concepts domestically and internationally. The Company was organized October 21, 1999, under its original name, Tulvine Systems, Inc., under the laws of the State of Delaware. On April 25, 2005, Tulvine Systems, Inc. formed a wholly owned subsidiary, Chanticleer Holdings, Inc., and on May 2, 2005, Tulvine Systems, Inc. merged with, and changed its name to, Chanticleer Holdings, Inc.

The consolidated financial statements include the accounts of Chanticleer Holdings, Inc. and its subsidiaries presented below (collectively referred to as the “Company”):

| Name                                      | Jurisdiction of<br>Incorporation | Percent Owned |
|---|----------------------------------|---------------|
| <b>CHANTICLEER HOLDINGS, INC.</b>         | <b>DE, USA</b>                   |               |
| American Roadside Burgers, Inc.           | DE, USA                          | 100%          |
| American Burger Ally, LLC                 | NC, USA                          | 100%          |
| American Burger Morehead, LLC             | NC, USA                          | 100%          |
| American Burger Prosperity, LLC           | NC, USA                          | 50%           |
| American Roadside Burgers Smithtown, Inc. | DE, USA                          | 100%          |
| BGR Acquisition, LLC                      | NC, USA                          | 100%          |
| BGR Franchising, LLC                      | VA, USA                          | 100%          |
| BGR Operations, LLC                       | VA, USA                          | 100%          |
| BGR Acquisition 1, LLC                    | NC, USA                          | 100%          |
| BGR Annapolis, LLC                        | MD, USA                          | 100%          |
| BGR Arlington, LLC                        | VA, USA                          | 46%           |
| BGR Columbia, LLC                         | MD, USA                          | 100%          |
| BGR Michigan Ave, LLC                     | DC, USA                          | 100%          |
| BGR Mosaic, LLC                           | VA, USA                          | 100%          |
| BGR Old Keene Mill, LLC                   | VA, USA                          | 100%          |
| BGR Washingtonian, LLC                    | MD, USA                          | 46%           |
| Capitol Burger, LLC                       | MD, USA                          | 100%          |
| BT Burger Acquisition, LLC                | NC, USA                          | 100%          |
| BT’s Burgerjoint Rivergate LLC            | NC, USA                          | 100%          |
| BT’s Burgerjoint Sun Valley, LLC          | NC, USA                          | 100%          |
| LBB Acquisition, LLC                      | NC, USA                          | 100%          |
| Cuarto LLC                                | OR, USA                          | 100%          |
| LBB Acquisition 1 LLC                     | OR, USA                          | 100%          |
| LBB Hassalo LLC                           | OR, USA                          | 80%           |
| LBB Platform LLC                          | OR, USA                          | 80%           |
| LBB Capitol Hill LLC                      | WA, USA                          | 50%           |
| LBB Franchising LLC                       | NC, USA                          | 100%          |
| LBB Green Lake LLC                        | OR, USA                          | 50%           |
| LBB Lake Oswego LLC                       | OR, USA                          | 100%          |
| LBB Magnolia Plaza LLC                    | NC, USA                          | 50%           |
| LBB Multnomah Village LLC                 | OR, USA                          | 50%           |
| LBB Progress Ridge LLC                    | OR, USA                          | 50%           |
| LBB Rea Farms LLC                         | NC, USA                          | 50%           |
| LBB Wallingford LLC                       | WA, USA                          | 50%           |
| LBB Downtown PDX LLC                      | OR, USA                          | 100%          |
| Noveno LLC                                | OR, USA                          | 100%          |
| Octavo LLC                                | OR, USA                          | 100%          |
| Primero LLC                               | OR, USA                          | 100%          |
| Quinto LLC                                | OR, USA                          | 100%          |
| Segundo LLC                               | OR, USA                          | 100%          |
| Septimo LLC                               | OR, USA                          | 100%          |
| Sexto LLC                                 | OR, USA                          | 100%          |
| Jantzen Beach Wings, LLC                  | OR, USA                          | 100%          |
| Oregon Owl’s Nest, LLC                    | OR, USA                          | 100%          |
| West End Wings LTD                        | United Kingdom                   | 100%          |

All significant inter-company balances and transactions have been eliminated in consolidation.

**LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN**

As of December 31, 2019, our cash balance was approximately \$500,000, our working capital was negative \$16.9 million, and we have significant near-term commitments and contractual obligations. The level of additional cash needed to fund operations and our ability to conduct business for the next twelve months will be influenced primarily by the following factors:

- our ability to access the capital and debt markets to satisfy current obligations and operate the business;

- our ability to refinance or otherwise extend maturities of current debt obligations;
- the level of investment in acquisition of new restaurant businesses and entering new markets;
- our ability to manage our operating expenses and maintain gross margins as we grow;
- popularity of and demand for our fast-casual dining concepts; and
- general economic conditions and changes in consumer discretionary income.

We have typically funded our operating costs, acquisition activities, working capital requirements and capital expenditures with proceeds from the issuances of our common stock and other financing arrangements, including convertible debt, lines of credit, notes payable, capital leases, and other forms of external financing.

As we execute our business plan over the next 12 months, we intend to carefully monitor the impact of growth on our working capital needs and cash balances relative to the availability of cost-effective debt and equity financing. In the event that capital is not available, or we are unable to refinance our debt obligations or obtain waivers, we may then have to scale back or freeze our organic growth plans, sell assets on less than favorable terms, reduce expenses, and/or curtail future acquisition plans to manage our liquidity and capital resources. We may also incur financial penalties or other negative actions from our lenders if we are not able to refinance or otherwise extend or repay our current obligations or obtain waivers. These factors raise substantial doubt about our ability to continue as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours. It is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time. A health pandemic is a disease outbreak that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. 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. The conditions may impact our restaurant customer traffic and our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We also may be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations. Even if such measures are not implemented, the perceived risk of infection or significant health risk may adversely affect our business.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the valuation of the investments, deferred tax asset valuation allowances, valuing options and warrants using the Binomial Lattice and Black-Scholes models, intangible asset valuations and useful lives, depreciation and uncollectible accounts and reserves. Actual results could differ from those estimates.

### **REVENUE RECOGNITION**

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. The Company elected a practical expedient to aggregate the effect of all contract modifications that occurred before the adoption date, which did not have a material impact to our consolidated financial statements.

Upon adoption, the Company recorded a decrease to opening stockholders' equity of \$1,042,000 with a corresponding increase of \$1,042,000 in deferred revenue. Additional franchise income of \$83,000 was recognized during the year-ended December 31, 2018 under ASC 606, compared to what would have been recognized under ASC 605.

Prior to the adoption of ASC 606, the Company's initial franchise fees were recorded as deferred revenue when received and proportionate amounts were recognized as revenue when certain milestones such as completion of employee training, lease signing, and store opening were achieved. With the adoption of ASC 606, such initial franchise fees are deferred and recognized over the franchise license term as discussed further below.

The Company generates revenues from the following sources: (i) restaurant sales; (ii) management fee income; (iii) gaming income; and (iv) franchise revenues, consisting of royalties based on a percentage of sales reported by franchise restaurants and initial signing fees.

#### *Restaurant Sales, Net*

The Company records revenue from restaurant sales at the time of sale, net of discounts, coupons, employee meals, and complimentary meals and gift cards. Sales tax and value added tax ("VAT") collected from customers and remitted to governmental authorities are presented on a net basis within revenue in our consolidated statements of operations.

#### *Management Fee Income*

The Company receives revenue from management fees from certain non-affiliated companies, including from managing its investment in Hooters of America which are generally earned and recognized over the performance period.

#### *Gaming Income*

The Company receives revenue from operating a gaming facility adjacent to its Hooters restaurant in Jantzen Beach, Oregon. Revenue from gaming is recognized as earned from gaming activities, net of payouts to customers, taxes and government fees. These fees are recognized as they are earned based on the terms of the agreements.

#### *Franchise Income*

The Company grants franchises to operators in exchange for initial franchise license fees and continuing royalty payments. The license granted for each restaurant or area is considered a performance obligation. All other obligations (such as providing assistance during the opening of a restaurant) are combined with the license and were determined to be a single performance obligation. Accordingly, the total transaction price (comprised of the restaurant opening and territory fees) is allocated to each restaurant expected to be opened by the licensee under the contract. There are significant judgments regarding the estimated total transaction price, including the number of stores expected to be opened. We recognize the fee allocated to each restaurant as revenue on a straight-line basis over the restaurant's license term, which generally begins upon the signing of the contract for area development agreements and upon the signing of a store lease for franchise agreements. The payments for these upfront fees are generally received upon contract execution. Continuing fees, which are based upon a percentage of franchisee revenues and are not subject to any constraints, are recognized on the accrual basis as those sales occur. The payments for these continuing fees are generally made on a weekly basis.

#### *Deferred Revenue*

Deferred revenue consists of contract liabilities resulting from initial and renewal franchise license fees paid by franchisees, which are generally recognized on a straight-line basis over the term of the underlying franchise agreement, as well as upfront development fees paid by franchisees, which are generally recognized on a straight-line basis over the term of the underlying franchise agreement once it is executed or if the development agreement is terminated.

## **LONG-LIVED ASSETS**

Long-lived assets, such as property and equipment, and purchased intangible assets subject to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Some of the events or changes in circumstances that would trigger an impairment test include, but are not limited to:

- significant under-performance relative to expected and/or historical results (negative comparable sales growth or operating cash flows for two consecutive years);
- significant negative industry or economic trends;
- knowledge of transactions involving the sale of similar property at amounts below the Company's carrying value; or
- the Company's expectation to dispose of long-lived assets before the end of their estimated useful lives, even though the assets do not meet the criteria to be classified as "Held for Sale".

If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

## **RESTAURANT PRE-OPENING AND CLOSING EXPENSES**

Restaurant pre-opening and closing expenses are non-capital expenditures and are expensed as incurred. Restaurant pre-opening expenses consist of the costs of hiring and training the initial hourly work force for each new restaurant, travel, the cost of food and supplies used in training, grand opening promotional costs, the cost of the initial stocking of operating supplies and other direct costs related to the opening of a restaurant, including rent during the construction and in-restaurant training period. Restaurant closing expenses consists of the costs related to the closing of a restaurant location and include write-off of property and equipment, lease termination costs and other costs directly related to the closure, and have been treated as an asset impairment charge in the income statement. Pre-opening and closing expenses are expensed as incurred.

## **LIQUOR LICENSES**

The costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in other assets. Liquor licenses are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable. Annual liquor license renewal fees are expensed over the renewal term.

## **ACCOUNTS AND OTHER RECEIVABLES**

The Company monitors its exposure for credit losses on its receivable balances and the credit worthiness of its receivables on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and other balances, where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical experience. The majority of the Company's accounts are from customer credit card transactions with minimal historical credit risk. As of December 31, 2019 and 2018, the Company has not recorded an allowance for doubtful accounts. If circumstances related to specific customers change, estimates of the recoverability of receivables could also change.

## **INVENTORIES**

Inventories are recorded at the lower of cost (first-in, first-out method) or net realizable value, and consist primarily of restaurant food items, supplies, beverages and merchandise.



## LEASES

We determine if a contract contains a lease at inception. Our material operating leases consist of restaurant locations and office space. Our leases generally have remaining terms of 1-20 years and most include options to extend the leases for additional 5-year periods. Generally, the lease term is the minimum of the noncancelable period of the lease or the lease term inclusive of reasonably certain renewal periods up to a term of 20 years. If the estimate of our reasonably certain lease term was changed, our depreciation and rent expense could differ materially.

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, we estimate incremental borrowing rates corresponding to the reasonably certain lease term. As we have no outstanding debt nor committed credit facilities, secured or otherwise, we estimate this rate based on prevailing financial market conditions, comparable company and credit analysis, and management judgment. If the estimate of our incremental borrowing rate was changed, our operating lease assets and liabilities could differ materially.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company is required to disclose fair value information about financial instruments when it is practicable to estimate that value. The carrying amounts of the Company's cash, accounts receivable, other receivables, accounts payable, accrued expenses, other current liabilities, convertible notes payable and notes payable approximate fair value due to the short-term maturities of these financial instruments and/or because related interest rates offered to the Company approximate current rates.

## PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Depreciation and amortization, which includes amortization of assets held under capital leases, are recorded generally using the straight-line method over the estimated useful lives of the respective assets or, if shorter, the term of the lease for certain assets held under a capital lease. Leasehold improvements are amortized over the lesser of the expected lease term, or the estimated useful lives of the related assets using the straight-line method. Maintenance and repairs that do not improve or extend the useful lives of the assets are not considered assets and are charged to expense when incurred.

The estimated useful lives used to compute depreciation and amortization are as follows:

|                                      |            |
|--------------------------------------|------------|
| Leasehold improvements               | 5-15 years |
| Restaurant furnishings and equipment | 3-10 years |
| Furniture and fixtures               | 3-10 years |
| Office and computer equipment        | 3-7 years  |

## GOODWILL

Goodwill, which is not subject to amortization, is evaluated for impairment annually as of the end of the Company's year-end, or more frequently if an event occurs or circumstances change, such as material deterioration in performance or a significant number of store closures, that would indicate an impairment may exist. Goodwill is tested for impairment at a level of reporting referred to as a reporting unit. The Company's reporting units are consistent with its operating segments.

When evaluating goodwill for impairment, the Company may first perform a qualitative assessment to determine whether it is more likely than not that a reporting unit is impaired. If we do not perform a qualitative assessment, or if we determine that it is not more likely than not that the fair value of the reporting unit exceeds its carrying amount, we perform a quantitative assessment and calculate the estimated fair value of the reporting unit. If the carrying amount of the reporting unit exceeds the estimated fair value, an impairment charge is recorded to reduce the carrying value to the estimated fair value. The Company's decision to perform a qualitative impairment assessment in a given year is influenced by a number of factors, including the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, the amount of time in between quantitative fair value assessments, and the price of our common stock.

The Company performed a quantitative assessment and determined that goodwill was partially impaired as of December 31, 2019. Step one of the impairment test is based upon a comparison of the carrying value of net assets, including goodwill balances, to the fair value of net assets. Fair value is measured using a discounted cash flow model approach and a market approach. The Company evaluates all methods to ensure reasonably consistent results. Additionally, the Company evaluates the key input factors in the models used to determine whether a moderate change in any input factor or combination of factors would significantly change the results of the tests.

## **INTANGIBLE ASSETS**

### *Trade Name/Trademark*

The fair value of trade name/trademarks are estimated and compared to the carrying value. The Company estimates the fair value of trademarks using the relief-from-royalty method, which requires assumptions related to projected sales from its annual long-range plan; assumed royalty rates that could be payable if the Company did not own the trademarks; and a discount rate. Certain of the Company's trade name/trademarks have been determined to have a definite-lived life and are being amortized on a straight-line basis over estimated useful lives of 10 years. The amortization expense of these definite-lived intangibles is included in depreciation and amortization in the Company's consolidated statement of operations and comprehensive loss. Certain of the Company's trade name/trademarks have been classified as indefinite-lived intangible assets and are not amortized, but instead are reviewed for impairment at least annually or more frequently if indicators of impairment exist.

### *Franchise Costs*

Intangible assets are recorded for the initial franchise fees for our Hooter's restaurants. The Company amortizes these amounts over a 20-year period, which is the life of the franchise agreement. The Company also has intangible assets representing the acquisition date fair value of customer contracts acquired in connection with BGR's franchise business. The Company also amortizes these amounts over its estimated useful life of the related intangible asset and began amortizing the related asset over the weighted average life of the underlying franchise agreements.

## **INCOME TAXES**

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company has provided a valuation allowance for the full amount of the deferred tax assets.

As of December 31, 2019, and 2018, the Company had no accrued interest or penalties relating to any income tax obligations. The Company currently has no federal or state examinations in progress, nor has it had any federal or state tax examinations since its inception. The last three years of the Company's tax years are subject to federal and state tax examination.

## **STOCK-BASED COMPENSATION**

The compensation cost relating to share-based payment transactions (including the cost of all employee stock options) is required to be recognized in the financial statements. That cost is measured based on the estimated fair value of the equity or liability instruments issued. A wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans are included.

## LOSS PER COMMON SHARE

The Company is required to report both basic earnings per share, which is based on the weighted-average number of shares outstanding and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all diluted shares outstanding.

The following table summarizes the number of common shares potentially issuable upon the exercise of certain warrants, convertible notes payable and convertible interest as of December 31, 2019 and 2018, which have been excluded from the calculation of diluted net loss per common share since the effect would be antidilutive.

|                   | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-------------------|--------------------------|--------------------------|
| Warrants          | 3,306,237                | 3,768,762                |
| Convertible notes | -                        | 300,000                  |
| Stock options     | 32,800                   | -                        |
| Total             | <u>3,339,037</u>         | <u>4,068,762</u>         |

## ADVERTISING

Advertising costs are expensed as incurred. Advertising expenses which are included in restaurant operating expenses and general and administrative expenses in the accompanying consolidated statement of operations, totaled \$0.5 million and \$0.4 million for the years ended December 31, 2019 and 2018, respectively.

## AMORTIZATION OF DEBT DISCOUNT

The Company has issued various debt with warrants and conversion features for which total proceeds were allocated to individual instruments based on the relative fair value of each instrument at the time of issuance. The value of the debt was recorded as discount on debt and amortized over the term of the respective debt. For the years ended December 31, 2019 and 2018, amortization of debt discount was \$0 and \$1.2 million, respectively.

## FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in local currency are translated to U.S. dollars using the exchange rates as in effect at the balance sheet date. Results of operations are translated using average exchange rates prevailing throughout the period. Adjustments resulting from the process of translating foreign currency financial statements from functional currency into U.S. dollars are included in accumulated other comprehensive loss within stockholders' equity. Foreign currency transaction gains and losses are included in current earnings. The Company has determined that local currency is the functional currency for each of its foreign operations.

## COMPREHENSIVE INCOME (LOSS)

Standards for reporting and displaying comprehensive income (loss) and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements requires that all items that are required to be recognized under accounting standards as components of comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other financial statements. We are required to (a) classify items of other comprehensive income (loss) by their nature in financial statements, and (b) display the accumulated balance of other comprehensive income (loss) separately in the equity section of the balance sheet for all periods presented. Other comprehensive income (loss) items include foreign currency translation adjustments.

## CONCENTRATION OF CREDIT RISK

The Company maintains its cash with major financial institutions. Cash held in U.S. bank institutions is currently insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 at each institution. No similar insurance or guarantee exists for cash held in the United Kingdom bank accounts. There was approximately \$25,000 in uninsured cash balances at December 31, 2019.

## RECLASSIFICATIONS

Certain reclassifications have been made in the financial statements at December 31, 2018 and for the period then ended to conform to the current year presentation. The reclassifications had no effect on consolidated net loss.

## RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board “FASB” issued Accounting Standards Update “ASU” 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The adoption of ASU 2016-13 did not result in a material change to our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)”: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (“ASU 2018-15”), which clarifies the accounting for implementation costs in cloud computing arrangements. The adoption of ASU 2018-15 did not result in a material change to our consolidated financial statements.

We reviewed all other recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact to the consolidated financial statements.

## RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

On January 1, 2019, the Company adopted ASU 2016-02, “Leases (Topic 842),” along with related clarifications and improvements. This pronouncement requires lessees to recognize a liability for lease obligations, which represents the discounted obligation to make future lease payments, and a corresponding right-of-use asset on the balance sheet. The guidance requires disclosure of key information about leasing arrangements that is intended to give financial statement users the ability to assess the amount, timing, and potential uncertainty of cash flows related to leases. The Company elected the optional transition method to apply the standard as of the effective date and therefore, the Company has not applied the standard to the comparative period presented in its condensed consolidated financial statements.

The practical expedients elected in connection with the adoption of Leases Topic 842 were as follows:

|                                      | <b>Implications as of January 1, 2019</b>   |
|--------------------------------------|---|
| <b>Practical expedient package</b>   | The Company has not reassessed whether any expired or existing contracts are, or contain, leases.<br>The Company has not reassessed the lease classification for any expired or existing leases.<br>The Company has not reassessed initial direct costs for any expired or existing leases. |
| <b>Hindsight practical expedient</b> | The Company has not elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets.   |

Upon adoption of Leases (Topic 842), the Company recorded operating lease right-of-use assets and operating lease liabilities and derecognized deferred rent liabilities (including unamortized tenant improvement allowances) and favorable/unfavorable lease assets and liabilities upon transition. Upon adoption, the Company recorded operating lease liabilities of approximately \$22.1 million based on the present value of the remaining rental payments using discount rates as of the effective date. In addition, the Company recorded corresponding operating lease right-of-use assets of approximately \$19.8 million, calculated as the initial amount of the Company's operating lease liabilities adjusted for deferred rent (including unamortized tenant improvement allowances) and unamortized favorable/unfavorable lease assets and lease liabilities. See the table below for the impact of adoption of Topic 842 on the Company's balance sheet accounts as of the day of adoption, January 1, 2019:

|                                       | <u>As Previously Reported</u> | <u>New Lease Standard Adjustment</u> | <u>As Adjusted</u> |
|---------------------------------------|-------------------------------|--------------------------------------|--------------------|
| Operating lease assets                | \$ -                          | \$ 19,823,202                        | \$ 19,823,202      |
| Current operating lease liabilities   | -                             | 3,774,148                            | 3,774,148          |
| Long-term operating lease liabilities | -                             | 18,346,253                           | 18,346,253         |
| Deferred rent                         | 2,297,199                     | (2,297,199)                          | -                  |

### 3. ACQUISITIONS

On March 7, 2018, the Company entered into an agreement to purchase two BGR franchise locations in Maryland. The Company closed on the purchase of the Annapolis, MD location in the first quarter of 2018 and the Company closed on the Colombia, MD location as of October 1, 2018.

Total consideration consisted of \$30,000 in cash paid and a seller note of \$9,600 upon the closing of the first location (reflected in the accompanying condensed consolidated financial statements) and \$20,000 in cash and a seller note of \$187,000 upon closing of the second location in October.

The Company allocates the purchase price as of the date of acquisition based on the estimated fair value of the acquired assets and assumed liabilities.

### 4. SALE OF ASSETS AND MEMBERSHIP INTERESTS

In October 2019, the Company entered into a sale of business agreement for three of its South Africa Hooters locations. The total purchase price was R5,700,000 (approximately \$385,000). The net proceeds received by the Company was approximately \$220,000. In December 2019, the Company entered into a sale of business agreement for its two remaining South Africa Hooters locations. The total purchase price was R3,900,000 (approximately \$265,000). The net proceeds received by the Company was approximately \$130,000.

On November 6, 2019, the Company sold Just Fresh through the sale of 100% of the Company membership interest of JF Restaurants, LLC. The purchase price was \$500,000 with \$125,000 due at closing and the remaining \$375,000 in the form of a promissory note to be paid in full by December 31, 2019. The sale agreement included the assumption of trade payables at the closing date. The Company also entered into a Management Services Agreement whereby the Company will continue to act as the manager of JF Restaurants, LLC until the note is repaid in full. As manager, the Company will be entitled to a management fee of 5% of the monthly net cash flow from the operation of the restaurants. As of December 31, 2019, \$149,000 remained outstanding on the note and the Company gave the buyer an extension to pay the remaining balance owed. When the outstanding balance of the note is paid, the Company will distribute to the non-controlling interest holders their portion of the proceeds.

## 5. DISCONTINUED OPERATIONS

As noted in Note 4, the Company sold Just Fresh and its South Africa Hooters locations in 2019. Because of the sale, the Company has reclassified the operations of Just Fresh and the South Africa Hooters locations to discontinued operations as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018.

The carrying amount of major classes of assets and liabilities included as part of discontinued operations are as follows:

|  | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Cash                                     | \$ -                     | \$ 106,095               |
| Accounts receivable                      | -                        | 61,884                   |
| Note receivable                          | 149,000                  | -                        |
| Inventory                                | -                        | 143,100                  |
| Property, plant and equipment            | -                        | 711,569                  |
| Operating lease assets                   | -                        | -                        |
| Goodwill and intangible assets           | -                        | 1,369,456                |
| Other assets                             | -                        | 80,729                   |
| Total assets                             | <u>149,000</u>           | <u>2,472,833</u>         |
| Accounts payable and accrued liabilities | 435,600                  | 1,210,368                |
| Debt                                     | -                        | 76,909                   |
| Total liabilities                        | <u>435,600</u>           | <u>1,287,277</u>         |
| Net Assets of discontinued operations    | <u>\$ (286,600)</u>      | <u>\$ 1,185,556</u>      |

The major line items comprising the loss of discontinued operations are as follows:

|  | <u>Year Ended</u>        |                          |
|--|--------------------------|--------------------------|
|  | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
| Restaurant revenues                      | \$ 8,203,692             | \$ 9,880,237             |
| Expenses:                                |                          |                          |
| Administrative expenses                  | 588,368                  | 716,642                  |
| Cost of sales                            | 3,067,867                | 3,586,874                |
| Depreciation and amortization            | 252,234                  | 346,761                  |
| Asset impairment charge                  | 857,357                  | 59,693                   |
| Restaurant operating expenses            | 4,460,078                | 5,156,041                |
| Other                                    | (538)                    | (156,829)                |
|  | <u>9,225,366</u>         | <u>9,709,182</u>         |
| Income (Loss) of discontinued operations | <u>\$ (1,021,674)</u>    | <u>\$ 171,055</u>        |

## 6. INVESTMENTS

Investments at cost consist of the following at December 31, 2019 and 2018:

|                            | <u>2019</u> | <u>2018</u> |
|----------------------------|-------------|-------------|
| Chanticleer Investors, LLC | \$ 381,397  | \$ 800,000  |

**Chanticleer Investors LLC** – The Company invested \$800,000 during 2011 and 2012 in exchange for a 22% ownership stake in Chanticleer Investors, LLC, which in turn held a 3% interest in Hooters of America, the operator and franchisor of the Hooters Brand worldwide. As a result, the Company's effective economic interest in Hooters of America was approximately 0.6%. Effective June 28, 2019, Hooters of America closed on the sale of a controlling interest in the company. The consideration paid in the sale transaction was a combination of cash proceeds and equity in the newly formed company. The Company netted approximately \$48,000 in cash upon the transaction and retained a non-controlling interest in the equity of the newly formed company. Based on an analysis of the transaction and the value of the cash received and retained non-controlling interest, the Company concluded that its investment was impaired as of June 30, 2019 and recorded a \$435,000 write down of the investment. The Company recorded an approximately \$16,000 in preferred return on its investment.

## 7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at December 31, 2019 and 2018:

|   | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|---|--------------------------|--------------------------|
| Leasehold improvements                    | \$ 7,926,789             | \$ 5,734,271             |
| Restaurant furniture and equipment        | 3,032,859                | 10,391,597               |
| Construction in progress                  | 650                      | 1,015,853                |
| Office and computer equipment             | 62,304                   | 73,681                   |
| Office furniture and fixtures             | 169,034                  | 76,485                   |
|   | <u>11,191,636</u>        | <u>17,291,887</u>        |
| Accumulated depreciation and amortization | <u>(5,561,146)</u>       | <u>(7,535,615)</u>       |
|   | <u>\$ 5,630,490</u>      | <u>\$ 9,756,272</u>      |

Depreciation and amortization expense was \$1,842,352 and \$1,816,826 for the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2019, the Company recorded an impairment of Property and Equipment of \$1.2 million based on review of ASC 360.

## 8. INTANGIBLE ASSETS, NET

### GOODWILL

Goodwill consist of the following at December 31, 2019 and 2018:

|   | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|---|--------------------------|--------------------------|
| Beginning Balance                           | \$ 10,564,353            | \$ 12,647,806            |
| Impairment                                  | (2,025,720)              | (1,191,111)              |
| Reclassification to discontinued operations | -                        | (716,112)                |
| Foreign currency translation gain (loss)    | 29,255                   | (176,230)                |
| Ending Balance                              | <u>\$ 8,567,888</u>      | <u>\$ 10,564,353</u>     |

## OTHER INTANGIBLE ASSETS

Franchise and trademark/tradename intangible assets consist of the following at December 31, 2019 and December 31, 2018:

|                                  |            | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|----------------------------------|------------|--------------------------|--------------------------|
| <b>Trademark, Tradenames:</b>    |            |                          |                          |
| American Roadside Burger         | 10 years   | \$ 1,786,930             | \$ 1,786,930             |
| BGR: The Burger Joint            | Indefinite | 985,996                  | 1,430,000                |
| Little Big Burger                | Indefinite | 1,550,000                | 1,550,000                |
|                                  |            | <u>4,322,926</u>         | <u>4,766,930</u>         |
| <b>Acquired Franchise Rights</b> |            |                          |                          |
| BGR: The Burger Joint            | 7 years    | 827,757                  | 827,757                  |
| <b>Franchise License Fees:</b>   |            |                          |                          |
| Hooters Pacific NW               | 20 years   | 74,507                   | 89,507                   |
| Hooters UK                       | 5 years    | 12,917                   | 12,422                   |
|                                  |            | <u>87,424</u>            | <u>101,929</u>           |
| Total Intangibles at cost        |            | <u>5,238,107</u>         | <u>5,696,616</u>         |
| Accumulated amortization         |            | <u>(1,581,112)</u>       | <u>(1,226,801)</u>       |
| Intangible assets, net           |            | <u>\$ 3,656,995</u>      | <u>\$ 4,469,815</u>      |

|                      | <u>Twelve Months Ended</u> |                          |
|----------------------|----------------------------|--------------------------|
|                      | <u>December 31, 2019</u>   | <u>December 31, 2018</u> |
| Amortization expense | <u>\$ 373,776</u>          | <u>\$ 419,642</u>        |

Management tested its long-lived assets for impairment as of December 31, 2019 comparing each brand's fair value to its carrying value. That assessment included the assumption that management would continue to hold and generate cash flows over a period of years. Those cash flows were discounted using the income approach and compared to the carrying value of the tradename. Based on the royalty-relief method, management determined there was a tradename/trademark impairment of BGR: The Burger Joint of approximately \$440,000.

## 9. DEBT AND NOTES PAYABLE

Debt and notes payable are summarized as follows:

|   | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Notes Payable (a)                           | \$ 6,000,000             | \$ 6,000,000             |
| Notes Payable Paragon Bank (b)              | 142,746                  | 319,983                  |
| Note Payable (c)                            | -                        | 75,000                   |
| Receivables financing facilities (d)        | 23,958                   | 124,205                  |
| Notes Payable (e)                           | 25,580                   | 144,004                  |
| Notes Payable (f)                           | 90,408                   | -                        |
| Contractor note - LBB Green Lake (g)        | 348,269                  | -                        |
|   | <u>6,630,961</u>         | <u>6,663,192</u>         |
| <b>Total debt</b>                           | <b>6,630,961</b>         | <b>6,663,192</b>         |
| <b>Current portion of long-term debt</b>    | <b>6,630,961</b>         | <b>3,663,192</b>         |
| <b>Long-term debt, less current portion</b> | <b>\$ -</b>              | <b>\$ 3,000,000</b>      |

For the year ended December 31, 2019 and 2018, amortization of debt discount was \$0 and \$1,173,190, respectively.

(a) On May 4, 2017, pursuant to a Securities Purchase Agreement, the Company issued 8% non-convertible secured debentures in the principal amount of \$6,000,000 and warrants to purchase 1,200,000 shares of common stock (as adjusted for the Company's subsequent one-for-ten reverse stock split) to accredited investors. The debentures bear interest at a rate of 8% per annum, payable in cash quarterly in arrears. The debentures mature on December 31, 2018 and contain customary financial and other covenants, including a requirement to maintain positive annual earnings before interest, taxes, depreciation and amortization. The debentures are secured by a second priority security interest on the Company's assets and the obligation is guaranteed by the Company's subsidiaries. The debentures contain a mandatory redemption provision that is triggered by an asset sale. Sale of greater than 33% of the Company's assets will also trigger an event of default. Upon any event of default, in addition to other customary remedies, the holders have the right, at their sole option, to purchase Little Big Burger from the Company, for an aggregate purchase price of \$6,500,000. The warrants have an exercise price of \$3.50 (as adjusted for the reverse stock split) and a ten-year term. Warrants to purchase 800,000 shares include a beneficial ownership limit upon exercise of 4.99% of the number of shares of the common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon exercise of the warrant; warrants to purchase the remaining 400,000 shares were amended to increase the beneficial ownership limit upon exercise to 19.99%. The shares of common stock underlying the warrants have registration rights, and, if the warrant shares were not registered, the holders would have the right to cashless exercise.



The consideration for \$6 million loan was allocated between the loan and the warrants based upon the relative fair value of the loan and the warrants. The Company valued the warrants associated with the new debt obligation using the Black-Sholes model, which resulted in the allocation of \$1.7 million to additional paid in capital with a corresponding offset to debt discount. In addition, there were \$0.3 million in debt origination costs that are also accounted for as an offset to outstanding debt. The resulting debt discount of \$2.0 million was amortized to interest expense over the 20-month term of the notes (amount was fully amortized at December 31, 2018).

The Company entered into an amendment to the 8% non-convertible secured debentures in December 2018. The maturity date was extended to March 31, 2020; provided however, if 50% of the principal balance of the debentures is not paid on or prior to December 31, 2019, the holders of the debentures in the aggregate principal amount greater than \$3 million, acting together, may demand full and immediate payment to the Company upon 15 days' written notice. In addition, each holder received new warrants to purchase 1,200,000 shares of common stock. The warrants have an exercise price of \$2.25 and are not exercisable for a period of six months. This amendment was accounted for as a debt modification and the relative fair value of the warrants, determined using the Black-Scholes model, of \$1.5 million was recorded as additional paid-in-capital at December 31, 2018. In connection with the debt modification, \$1.5 million of accrued default interest on the 8% non-convertible secured debentures was written off.

Additionally, the Company lowered the strike price for several classes of warrants to \$.50 to allow for warrant holders exercise their warrants in anticipation of the merger contemplated with Sonnet. As of December 31, 2019, there were 307,157 warrants exercised.

(b) The Company has two outstanding term loans with Paragon Bank, all of which are collateralized by all assets of the Company and personally guaranteed by our Chief Executive Officer. The outstanding balance, interest rate and maturity date of each loan is as follows:

|        | <u>Maturity date</u> | <u>Interest rate</u> | <u>Principal balance</u> |
|--------|----------------------|----------------------|--------------------------|
| Note 1 | 5/10/2019            | 5.25%                | \$ -                     |
| Note 2 | 8/10/2021            | 6.50%                | 142,746                  |
|        |                      |                      | <u>\$ 142,746</u>        |

(c) The Company has a promissory note payable on demand in the amount of \$75,000 with 800 shares of restricted company common stock to be paid to the lender each month while the note is outstanding. The Company had a promissory note payable on demand in the amount of \$75,000 with 800 shares of restricted company common stock to be paid to the lender each month while the note is outstanding. Effective June 28, 2019, the noteholder converted the outstanding note into subscription rights as part of the Company's rights offering which expired on June 28, 2019 and closed on July 2, 2019. See additional discussion on the rights offering in Note 13.

(d) During January 2019, in consideration for proceeds of \$194,800, the Company agreed to make payments of \$585 per day on two separate agreements for 220 days. Lastly, during May 2019, in consideration for proceeds of \$99,480, the Company agreed to make payments of \$585 per day for 220 days. The Company granted a security interest in the credit card receivables of the specified restaurants in connection with each of the Receivables Financing Agreements. Total outstanding on these advances is \$23,958 at December 31, 2019.

(e) In connection with the assets acquired from the two BGR franchisees, the Company entered into notes payable of \$9,600 and \$187,000 during 2018. The notes bear interest at 4% and are due within 12 months of each acquisition date. Principal and interest payments are due monthly. The total outstanding on these two notes is \$25,850 at December 31, 2019.

(f) During September 2019, the Company entered into two merchant capital advances in the amount of \$46,000. The Company agreed to repay these advances through daily payments until those amounts are repaid with the specified interest rate per those agreements. During October 2019, the Company entered into two additional merchant capital advances in the amount of \$84,700. The Company agreed to repay these advances through daily payments until those amounts are repaid with the specified interest rate per those agreements. Total outstanding on these advances is \$90,408 as of December 31, 2019.

(g) During August 2019, the Company entered into a promissory note to repay the contractor for the build-out of the new Little Big Burger – Green Lake store location. The note is due on January 30, 2020 with a stated interest rate of 12% per year.

The Company's various loan agreements contain financial and non-financial covenants and provisions providing for cross-default. The evaluation of compliance with these provisions is subject to interpretation and the exercise of judgment.

As of December 31, 2019, management concluded that no conditions exist that represent events of technical default under the 8% non-convertible secured debentures. The default interest that had been accrued previously was written off against the warrants that were issued in the December 2018 amendment to the 8% non-convertible secured debentures. In accordance with the December 2018 amendment, the holders of the 8% non-convertible secured debentures must notify the Company if there is an event of default for the default provisions to be triggered. Conditions may exist whereby the Company has failed a covenant, but the default provisions have not yet been triggered as the Company has not received notice from the noteholders.

#### 10. CONVERTIBLE NOTES PAYABLE

Convertible Notes payable are summarized as follows:

|  | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| 6% Convertible notes payable due June 2018 (a)         | \$ -                     | \$ 3,000,000             |
| <b>Total Convertible notes payable</b>                 | <b>-</b>                 | <b>3,000,000</b>         |
| <b>Current portion of convertible notes payable</b>    | <b>-</b>                 | <b>3,000,000</b>         |
| <b>Convertible notes payable, less current portion</b> | <b>\$ -</b>              | <b>\$ -</b>              |

(a) On August 2, 2013, the Company entered into an agreement with seven individual accredited investors, whereby the Company issued separate 6% Secured Subordinate Convertible Notes for a total of \$3,000,000 in a private offering and is collateralized by the assets of the Hooters Nottingham restaurant and a subordinate position to all other assets of the Company. In connection with the Company's agreement to conduct a capital raise in 2016, the lenders agreed to waive existing defaults and extended the original note maturity by eighteen months from December 31, 2016 to June 30, 2018. Effective June 28, 2019, the noteholders converted the outstanding notes into subscription rights as part of the Company's rights offering which expired on June 28, 2019 and closed on July 2, 2019. See additional discussion on the rights offering in Note 13.

#### 11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are summarized as follows:

|   | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Accounts payable and accrued expenses     | \$ 4,230,640             | \$ 2,381,273             |
| Accrued taxes (VAT, Sales, Payroll, etc.) | 3,319,928                | 3,243,806                |
| Accrued income taxes                      | (1,906)                  | 61,790                   |
| Accrued interest                          | 616,533                  | 489,269                  |
|   | <u>\$ 8,165,195</u>      | <u>\$ 6,176,138</u>      |

As of December 31, 2019, approximately \$2.9 million of employee and employer taxes have been accrued but not remitted to certain taxing authorities by the Company prior to 2019 for cash compensation paid. As a result, the Company is liable for such payroll taxes and any related penalties and interest.

## 12. INCOME TAXES

The income tax benefit for the years ended December 31, 2019 and 2018 consists of the following:

|                               | 2019             | 2018                |
|-------------------------------|------------------|---------------------|
| Foreign                       |                  |                     |
| Current                       | \$ 48,187        | \$ 1,803            |
| Deferred                      | 653,790          | 18,216              |
| Change in Valuation Allowance | (652,679)        | (8,010)             |
| U.S. Federal                  |                  |                     |
| Current                       | -                | -                   |
| Deferred                      | (4,683,141)      | (1,305,934)         |
| Change in Valuation Allowance | 4,662,699        | 291,721             |
| State & Local                 |                  |                     |
| Current                       | -                | -                   |
| Deferred                      | (272,656)        | (99,938)            |
| Change in Valuation Allowance | 317,526          | 400,918             |
|                               | <u>\$ 73,726</u> | <u>\$ (701,224)</u> |

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017.

The benefit for income tax using statutory U.S. federal tax rate of 21% is reconciled to the Company's effective tax rate as of December 31, 2019 and 2018 is as follows:

|   | 2019             | 2018                |
|---|------------------|---------------------|
| Computed "expected" income tax benefit          | \$ (3,647,623)   | \$ (1,659,103)      |
| State income taxes, net of federal benefit      | (367,974)        | (99,938)            |
| Noncontrolling interest                         | 185,031          | 87,389              |
| Prior year true-ups other deferred tax balances | (323,763)        | -                   |
| Permanent Items                                 | 37,480           | 147,602             |
| Capital loss expiration                         | -                | 50,220              |
| Foreign Tax Expense                             | 48,187           | 1,803               |
| Other   | 59,421           | 86,174              |
| Change in valuation allowance                   | 4,082,967        | 684,629             |
|   | <u>\$ 73,726</u> | <u>\$ (701,224)</u> |

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for tax purposes. Major components of deferred tax assets at December 31, 2019 and 2018 were:

|                                       | 2019                | 2018               |
|---------------------------------------|---------------------|--------------------|
| Net operating loss carryforwards      | \$ 13,689,074       | \$ 11,106,000      |
| Fixed assets and intangibles          | 469,152             | -                  |
| Section 1231 loss carryforwards       | 103,230             | 79,869             |
| Charitable contribution carryforwards | 23,731              | 23,770             |
| Section 163(j) limitation             | 648,074             | 479,264            |
| Other                                 | 45,801              | 91,764             |
| Restaurant startup expenses           | -                   | 23,369             |
| Accrued expenses                      | 946,040             | 159,623            |
| Deferred occupancy liabilities        | 37,044              | 128,936            |
| Revenue recognition                   | 240,333             | 243,059            |
| <b>Total deferred tax assets</b>      | <b>16,202,479</b>   | <b>12,335,654</b>  |
| Property and equipment                | -                   | -                  |
| Other asset & liability impairment    | -                   | (122,326)          |
| Investments                           | (328,825)           | (204,863)          |
| Intangibles and Goodwill              | -                   | (432,572)          |
| <b>Total deferred tax liabilities</b> | <b>(328,825)</b>    | <b>(759,761)</b>   |
| <b>Net deferred tax assets</b>        | <b>15,873,654</b>   | <b>11,575,893</b>  |
| Valuation allowance                   | (15,975,958)        | (11,652,658)       |
|                                       | <b>\$ (102,304)</b> | <b>\$ (76,765)</b> |

As of December 31, 2019 and 2018, the Company has U.S. federal and state net operating loss carryovers of approximately \$54,649,000 and \$44,919,000 respectively, which will expire at various dates beginning in 2031 through 2036, if not utilized with exception of loss carryovers generated in 2018 and 2019. As a result of TCJA, net operating losses generated in 2018 and beyond have indefinite lives. In accordance with Section 382 of the internal revenue code, deductibility of the Company's U.S. net operating loss carryovers may be subject to an annual limitation in the event of a change of control as defined under the Section 382 regulations. Quarterly ownership changes for the past 3 years were analyzed and it was determined that there was no change of control as of December 31, 2019.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all of the information available, management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance. For the years ended December 31, 2019 and December 31, 2018 the change in valuation allowance was approximately \$4,082,967 and \$927,688, respectively.

The Company evaluated the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in their financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the company has taken or expects to take in its return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between two positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits". A liability is recognized for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing-authority for a tax position that was not recognized as a result of applying the provisions of ASC 740.

Interest related to uncertain tax positions are required to be calculated, if applicable, and would be classified as "interest expense" in the two statements of operations. Penalties would be recognized as a component of "general and administrative expenses". As of December 31, 2019 and 2018, no interest or penalties were required to be reported.

The Company previously did not record a provision for taxes on undistributed foreign earnings, based on an intention and ability to permanently reinvest the earnings of its foreign subsidiaries in those operations. Under the Tax Cuts and Jobs Act, the Company has re-assessed its strategies by evaluating the impact of the Tax Cuts and Jobs Act on its operations. As a result of the Act, the Company analyzed if a liability needed to be recorded for the deemed repatriation of undistributed earnings. It was determined that there is a \$0 outstanding liability associated with this based on overall negative undistributed earnings (accumulated deficit) in the consolidated foreign group.

During the 2018 fiscal year, numerous provisions of the TCJA went into effect. The Company evaluated these provisions and incorporated the estimated impact in the 2018 income tax expense. These provisions include, but are not limited to, reductions in the corporate income tax rate with regard to current income taxes, limitations with regard to interest expense under IRC §163(j) that disallows a portion of interest expense but is carried forward with no future expiration, changes to the deductibility of meals and entertainment, changes to bonus depreciation and a reduced tax rate on foreign export sales.

An additional provision of the TJCA is the implementation of the Global Intangible-Low Taxed Income Tax, or “GILTI.” The Company has elected to account for the impact of GILTI in the period in which the tax actually applies to the Company. During fiscal 2019, the Company incurred \$157,000 of additional taxable income as a result of this provision. This increase of taxable income was incorporated into the overall net operating loss and valuation

### 13. STOCKHOLDERS’ EQUITY

The Company had 45,000,000 shares of its \$0.0001 par value common stock authorized at both December 31, 2019 and December 31, 2018. The Company had 10,404,347 and 3,715,444 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively.

The Company has 5,000,000 shares of its no par value preferred stock authorized at both December 31, 2019 and December 31, 2018. Beginning in December 2016, the Company conducted a rights offering of units, each unit consisting of one share of 9% Redeemable Series 1 Preferred Stock (“Series 1 Preferred”) and one Series 1 Warrant (“Series 1 Warrant”) to purchase 10 shares of common stock. Holders of the Series 1 Preferred are entitled to receive cumulative dividends out of legally available funds at the rate of 9% of the purchase price per year for a term of seven years, payable quarterly on the last day of March, June, September and December in each year in cash or registered common stock. Shares of common stock issued as dividends will be issued at a 10% discount to the five-day volume weighted average price per share of common stock prior to the date of issuance. Dividends will be paid prior to any dividend to the holders of common stock. The Series 1 Preferred in non-voting and has a liquidation preference of \$13.50 per share, equal to its purchase price. Chanticleer is required to redeem the outstanding Series 1 Preferred at the expiration of the seven-year term. The redemption price for any shares of Series 1 Preferred will be an amount equal to the \$13.50 purchase price per share plus any accrued but unpaid dividends to the date fixed for redemption.

As of December 31, 2019 and 2018, 62,876 shares of preferred stock were issued pursuant to the Preferred Stock Units rights offering.

On May 3, 2018, the Company entered into a Securities Purchase Agreement with institutional and accredited investors in a registered direct offering for the sale of 403,214 shares of common stock at a purchase price of \$3.50 per share, for a total gross purchase price of approximately \$1,411,249 pursuant to a Securities Purchase Agreement dated May 3, 2018 with institutional and accredited investors in a registered direct offering. The Company also has issued warrants to investors in connection with financing transactions. Fair value of any warrant issuances is valued utilizing the Black-Scholes model. The model includes subjective input assumptions that can materially affect the fair value estimates. The expected stock price volatility for the Company’s warrants was determined by the historical volatilities for industry peers and used an average of those volatilities. The Company also agreed to issue unregistered 5 ½ year warrants to purchase up to 403,214 shares of common stock to the investors in a concurrent private placement at an exercise price of \$4.50 per share. The Company has agreed to register the resale of the common shares underlying the warrants, which has been completed. The warrants are exercisable for cash in full commencing six months after the issuance date. The warrants qualified for equity accounting.

Oak Ridge Financial Services Group, Inc., a registered broker-dealer acted as placement agent for the offering and received, as compensation, 7% of gross proceeds of the amounts subscribed by institutional investors introduced by Oak Ridge, for an aggregate commission of \$36,767 and legal expenses in an amount less than \$2,500.

The offering was made pursuant to a prospectus supplement filed with the Securities and Exchange Commission on March 8, 2018 and an accompanying prospectus dated October 16, 2017, pursuant to Chanticleer’s shelf registration statement on Form S-3 that was filed with the Securities and Exchange Commission on April 27, 2015, amended on June 3, 2015 and became effective on June 9, 2015.

In 2019 the Company conducted a rights offering of units to its stockholders of record to purchase common stock at a subscription price of \$1.00 per share. The rights offering was made pursuant to the Company's effective registration statement on Form S-1 on file with the U.S. Securities and Exchange Commission (the "SEC") and accompanying prospectus filed with the SEC on June 12, 2019.

Upon closing of the rights offering in July, a total of 1,894,311 shares of common stock were issued pursuant to record holders' basic subscription privilege and a total of 4,190,542 shares of common stock were issued pursuant to record holders' over subscription. The Company accepted subscriptions to purchase 6,084,733 shares in the rights offering upon expiration of the rights offering on June 28, 2019. The Company received \$6,009,733 in gross proceeds from the rights offering. \$3,075,000 was subscribed by certain record holders' through the reduction in outstanding debt obligations of the Company. The shares associated with the reduction in outstanding debt obligations were deemed issued at June 30, 2019. The remaining proceeds of approximately \$2.7 million, which is net of fees owed to the dealer-managers and other offering costs, were received in early July after the closing of the rights offering.

Chardan Capital Markets, LLC and The Oak Ridge Financial Services Group Inc. were the co-dealer-managers on the transaction and the Company agreed to pay the dealer-managers a fee equal to 7% of the gross proceeds of the rights offering (excluding proceeds from the reduction of the debt obligations) and to reimburse the dealer-managers for their expenses up to \$75,000 for an aggregate commission of approximately \$286,000. Additional offering costs were incurred for legal, accounting and transfer agent services.

#### **Options and Warrants**

The Company's shareholders have approved the Chanticleer Holdings, Inc. 2014 Stock Incentive Plan (the "2014 Plan"), authorizing the issuance of options, stock appreciation rights, restricted stock awards and units, performance shares and units, phantom stock and other stock-based and dividend equivalent awards. Pursuant to the approved 2014 Plan, 400,000 shares post stock-split have been approved for grant.

As of December 31, 2019, the Company had 385,776 restricted and unrestricted stock outstanding on a cumulative basis under the plan pursuant to compensatory arrangements with employees, board members and outside consultants. Approximately 14,224 shares remained available for grant in the future. The Company issued 15,000 restricted stock units to an employee in 2016 and 30,000 restricted stock units to an employee in 2018. The fair value of the restricted stock was determined using the quoted market value of the Company's common stock on the date of grant. As of December 31, 2019, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately \$19,500. That cost is expected to be recognized over a period of one year. The restricted stock units vest over the terms specified in each employees' agreement. The Company issued 32,800 of stock options to employees in 2019. The stock options were valued on the date of grant using the Black-Scholes model. The stock options vest over the terms specified in each employees' agreement. There was approximately \$16,250 of total unrecognized compensation costs related to options granted as of December 31, 2019. That cost is expected to be recognized over a period of 1.25 years.

A summary of the warrant activity during the years ended December 31, 2019 and 2018 is presented below:

|                               | <u>Number of Warrants</u> | <u>Weighted<br/>Average<br/>Exercise Price</u> | <u>Weighted<br/>Average<br/>Remaining Life</u> |
|-------------------------------|---------------------------|--|--|
| Outstanding December 31, 2017 | 2,446,615                 | 16.34  | 2.2  |
| Granted                       | 1,603,214                 | 2.82   |  |
| Exercised                     | (100,000)                 | 3.50   |  |
| Forfeited                     | (181,067)                 | 50.28  |  |
| Outstanding December 31, 2018 | <u>3,768,762</u>          | <u>\$ 9.14</u>                                 | <u>7.1</u>                                     |
| Granted                       | -                         | -  | -  |
| Exercised                     | (307,157)                 | 0.50   | -  |
| Forfeited                     | (155,368)                 | 46.30  | -  |
| Outstanding December 31, 2019 | <u>3,306,237</u>          | <u>6.00</u>                                    | <u>6.8</u>                                     |
| Exercisable December 31, 2019 | <u>3,306,237</u>          | <u>\$ 6.00</u>                                 | <u>6.8</u>                                     |

| <u>Exercise Price</u> | <u>Outstanding<br/>Number of<br/>Warrants</u> | <u>Weighted<br/>Average<br/>Remaining Life<br/>in Years</u> | <u>Exercisable<br/>Number of<br/>Warrants</u> |
|-----------------------|---|---|---|
| >\$40.00              | 129,210                                       | 0.8   | 129,210                                       |
| \$30.00-\$39.99       | 8,600   | 0.5   | 8,600   |
| \$20.00-\$29.99       | 70,450  | 0.1   | 70,450  |
| \$10.00-\$19.99       | 19,050  | 4.0   | 19,050  |
| \$0.00-\$9.99         | 3,078,927                                     | 7.2   | 3,078,927                                     |
|                       | <u>3,306,237</u>                              | <u>6.8</u>  | <u>3,306,237</u>                              |

#### 14. RELATED PARTY TRANSACTIONS

##### Due to related parties

The Company has received non-interest-bearing loans and advances from related parties. The amounts owed by the Company as of December 31, 2019 and 2018 are as follows:

|                            | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|----------------------------|--------------------------|--------------------------|
| Chanticleer Investors, LLC | <u>\$ -</u>              | <u>\$ 185,726</u>        |
|                            | <u>\$ -</u>              | <u>\$ 185,726</u>        |

The amount from Chanticleer Investors LLC was related to cash distributions received from Chanticleer Investors LLC's interest Hooters of America which was payable to the Company's co-investors in that investment. The amount was repaid in the third quarter of 2019.

#### 15. SEGMENTS OF BUSINESS

Not Applicable.

## 16. COMMITMENTS AND CONTINGENCIES

### *Legal proceedings*

On March 26, 2013, our South African operations received Notice of Motion filed in the Kwazulu-Natal High Court, Durban, Republic of South Africa, filed against Rolalor (PTY) LTD (“Rolalor”) and Labyrinth Trading 18 (PTY) LTD (“Labyrinth”) by Jennifer Catherine Mary Shaw (“Shaw”). It was requested that the Respondents, Rolalor and Labyrinth, be wound up in satisfaction of an alleged debt owed in the total amount of R4,082,636 (approximately \$480,000). The outcome of the case resulted in the proposed liquidation of Rolalor in which the Company did not object as the entity has no assets. The Company does not expect there to be a material impact as a result of the proceedings, as the South African entities were sold, and the buyers retained any and all liabilities.

No amounts have been accrued as of December 31, 2019 and December 31, 2018 in the accompanying consolidated balance sheets.

From time to time, the Company may be involved in legal proceedings and claims that have arisen in the ordinary course of business are generally covered by insurance. As of December 31, 2019, the Company does not expect the amount of ultimate liability with respect to these matters to be material to the Company’s financial condition, results of operations or cash flows.

### *Leases*

The Company’s leases typically contain rent escalations over the lease term. The Company recognizes expense for these leases on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce our right-of-use asset related to the lease. These are amortized through the right-of-use asset as reductions of expense over the lease term.

Some of the Company’s leases include rent escalations based on inflation indexes and fair market value adjustments. Certain leases contain contingent rental provisions that include a fixed base rent plus an additional percentage of the restaurant’s sales in excess of stipulated amounts. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants. As part of the lease agreements, the Company is also responsible for payments regarding non-lease components (common area maintenance, operating expenses, etc.) and percentage rent payments based on monthly or annual restaurant sales amounts which are considered variable costs and are not included as part of the lease liabilities.

Related to the adoption of Leases Topic 842, our policy elections were as follows:

#### **Separation of lease and non-lease components**

The Company elected this expedient to account for lease and non-lease components as a single component for our entire population of operating lease assets.

#### **Short-term policy**

The Company has elected the short-term lease recognition exemption for all applicable classes of underlying assets. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the balance sheet.



Supplemental balance sheet information related to leases was as follows:

| <b>Operating Leases</b>       | <b>Classification</b>                 | <b>December 31, 2019</b> |
|-------------------------------|---------------------------------------|--------------------------|
| Right-of-use assets           | Operating lease assets                | \$ 11,668,026            |
| Current lease liabilities     | Current operating lease liabilities   | 3,299,309                |
| Non-current lease liabilities | Long-term operating lease liabilities | 14,382,354               |
|                               |                                       | <u>\$ 17,681,663</u>     |

Lease term and discount rate were as follows:

|   | <b>December 31, 2019</b> |
|---|--------------------------|
| Weighted average remaining lease term (years) | 8.19                     |
| Weighted average discount rate                | 10%                      |

The components of lease cost were as follows:

|                      | <b>Classification</b>   | <b>Year ended<br/>December 31, 2019</b> |
|----------------------|---|---|
| Operating lease cost | Restaurant operating expenses and Restaurant pre-opening and closing expenses | \$ 3,806,745                            |
| Variable lease cost  | Restaurant operating expenses   | 656,254                                 |
|                      |   | <u>\$ 4,462,999</u>                     |

Supplemental disclosures of cash flow information related to leases were as follows:

|   | <b>Year ended<br/>December 31, 2019</b> |
|---|---|
| Cash paid for operating leases  | \$ 3,946,783                            |
| Operating lease assets obtained in exchange for operating lease liabilities (1) | 19,822,753                              |

- (1) Amounts for the twelve months ended December 31, 2019 include the transition adjustment for the adoption of Topic 842 discussed in Note 2 to the consolidated financial statements.

Maturities of lease liabilities were as follows as of December 31, 2019:

|                                     | <b>Operating Leases</b> |
|-------------------------------------|-------------------------|
| January 1, 2020 - December 31, 2020 | \$ 3,276,865            |
| January 1, 2021 - December 31, 2021 | 3,231,537               |
| January 1, 2022 - December 31, 2022 | 3,153,285               |
| January 1, 2023 - December 31, 2023 | 2,836,188               |
| January 1, 2024 - December 31, 2024 | 2,754,457               |
| Thereafter                          | 12,407,558              |
| Total lease payments                | 27,659,890              |
| Less: imputed interest              | 9,978,227               |
| Present value of lease liabilities  | <u>\$ 17,681,663</u>    |

## 17. NON-CONTROLLING INTERESTS

The Company's consolidated financial statements include the accounts of entities where the Company has operating control but may own less than 100% of the equity interest in the LLC or other entity. A significant element of the Company's plans to finance growth is through the use of partnerships where private investors contribute all or substantially all of the capital required to open its Little Big Burger restaurants in return for an ownership interest in the LLC and an economic interest in the net income of the restaurant location. The Company manages the operations of the restaurant in return for a management fee and an economic interest in the net income of the restaurant location. While terms may vary by LLC, the investor generally contributes between \$250,000 and \$350,000 per location and is entitled to 80% of the net income of the LLC until such time as the investor recoups the initial investment and the investor return on net income changes from 80% to 50%, and in certain cases to 20%, of net income. The Company contributes the intellectual property and management related to operating a Little Big Burger, manages the construction, opening and ongoing operations of the store in return for a 5% management fee and 20% of net income until such time as the investor recoups the initial investment and the Company return on net income changes from 20% to 50%, and in certain cases to 80%, of net income.

The accounts of these partnerships are included in the consolidated accounts of the Company and intercompany transactions, including management fees and intercompany loans and advances, are eliminated in consolidation. The carrying amount of the Company's interest in subsidiaries where owns less than 100% is adjusted quarterly based on the company's ownership of the net assets of each entity.

## 18. PLAN OF MERGER

On October 10, 2019, the Company entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") with Sonnet BioTherapeutics, Inc., a New Jersey corporation ("Sonnet"), and Biosub Inc., a Delaware corporation and wholly-owned subsidiary of Chanticleer ("Merger Sub"). Upon the terms and subject to the satisfaction of the conditions described in the Merger Agreement, including approval of the transaction by Chanticleer's shareholders and Sonnet's shareholders, Merger Sub will be merged with and into Sonnet (the "Merger"), with Sonnet surviving the Merger as a wholly-owned subsidiary of Chanticleer. The shareholders of Sonnet will become the majority owners of Chanticleer's outstanding common stock upon the closing of the Merger. Additionally, as part of this transaction, Chanticleer will spin-off its current restaurant operations, including all assets and liabilities, into a newly created entity (the "Spin-Off Entity"), the equity of which will be distributed out to the current stockholders of Chanticleer. Terms of the Merger include a payment of \$6,000,000 to Chanticleer from Sonnet, a portion of which is intended to repay certain of Chanticleer's outstanding indebtedness in conjunction with the spin-off of the existing Chanticleer assets and liabilities.

Pursuant to the Merger Agreement, each share of common stock of Sonnet, no par value per share (other than Cancelled Shares (as defined in the Merger Agreement) and Dissenting Shares (as defined in the Merger Agreement)), issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") shall be automatically converted into the right to receive an amount of shares of common stock, par value \$0.0001 per share, of Chanticleer ("Chanticleer Common Stock") equal to the Common Stock Exchange Ratio (as defined in the Merger Agreement) (the "Merger Consideration"). As a result, immediately following the Effective Time, the former Sonnet shareholders will hold approximately 94% of the outstanding shares of Chanticleer Common Stock and the shareholders of Chanticleer will retain ownership of approximately 6% of the outstanding shares of Chanticleer Common Stock. In addition, at the closing of the Merger, Chanticleer will issue to the Spin-Off Entity a warrant to purchase that number of shares of Chanticleer Common Stock equal two percent (2%) of the number of shares of issued and outstanding Chanticleer Common Stock of Chanticleer at Closing. The Warrant will be a five-year warrant, will have an exercise price of \$0.01 per share and will not be exercisable for 180 days following the Closing. Upon completion of the Merger, Chanticleer will change its name to Sonnet BioTherapeutics Holdings, Inc.

On February 7, 2020, the Company, Biosub Inc. ("Merger Sub") and Sonnet BioTherapeutics, Inc. ("Sonnet") entered into Amendment No. 1 to Agreement and Plan of Merger (the "Amendment"), amending that certain Agreement and Plan of Merger (as so amended, the "Merger Agreement") dated October 10, 2019, by and among the Company, Merger Sub and Sonnet, pursuant to which the following amendments were made: (i) the phrase ", plus the amount of cash and cash equivalents on the balance sheet of Merger Partner on the Business Day immediately prior to the Effective Time, which amount shall be set forth on a schedule delivered to Public Company on the Business Day prior to the Effective Time" was deleted from the definition of "Merger Partner Valuation" in Section 2.1(c)(vi), and (ii) the phrase ", plus the amount of cash and cash equivalents on the balance sheet of Public Company on the Business Day immediately prior to the Effective Time, which amount shall be set forth on a schedule delivered to Merger Partner on the Business Day prior to the Effective Time" was deleted from the definition of "Public Company Valuation" in Section 2.1(c)(xi).

## 19. SUBSEQUENT EVENTS

### *Bridge Financing*

On February 7, 2020, Chanticleer entered into a Securities Purchase Agreement for the sale (the “Bridge Financing”) of up to 1,500 shares of a new series of convertible preferred stock of Chanticleer (the “Series 2 Preferred Stock”) with an institutional investor for gross proceeds to Chanticleer of up to \$1,500,000 (the “Preferred Securities Purchase Agreement”). The transaction will occur in up to two closings, the first of which, for 1,000 shares, is subject to customary closing conditions and is expected to occur by mid-February 2020, and the second of which, for 500 shares, is subject to the additional condition that Chanticleer have received votes sufficient to approve the proposals relating to the Merger Agreement at the special meeting of Chanticleer stockholders to occur on March 24, 2020.

The Series 2 Preferred Stock will have the following designations, rights and preferences, more fully set forth in a Certificate of Designations to be filed with the Secretary of State of Delaware prior to closing of the financing transaction (the “Certificate of Designations”):

### *Stated Value*

Each share of Series 2 Preferred Stock has a stated value of \$1,000.

### *Preferred Return*

The investor is guaranteed a return on investment equal to at least 125% of the stated value of the Series 2 Preferred Stock.

### *True-Up*

In the event that the proceeds received by the holder from the sale of all the shares of the common stock, par value \$0.0001 per share of Chanticleer (the “Chanticleer Common Stock”) underlying the Series 2 Preferred Stock (“conversion shares”) does not equal at least 125% of the stated value of the Series 2 Preferred Stock, on the first trading day after the six month anniversary of their issuance, the newly created subsidiary of the Company which will hold the current restaurant operations, including all assets and liabilities, of the Company, the equity of which will be distributed out to the stockholders of the Company as contemplated by the Merger Agreement (the “Spin-Off Entity”) shall pay the holder an amount in cash equal to the dollar value of 125% of the stated value of the Series 2 Preferred Stock less the proceeds previously realized by the holder from the sale of the conversion shares, net of brokerage commissions and any other fees incurred by the holder in connection with the sale of any conversion shares (“True-Up Payment”).

A segregated cash account will be maintained until the True-Up Payment is paid in full.

The True-Up Payment will be paid by the Spin-Off Entity out of (i) the proceeds from the exercise by Spin-Off Entity of the warrants to purchase shares of the Company’s common stock to be held by the Spin-Off Entity after the consummation of the transactions contemplated by the Merger Agreement (the “merger”) or (ii) the segregated cash account. Nonpayment of the True-Up Payment when it is due will trigger default interest rate of 18% per annum.

### *Mandatory Redemption*

If the merger is not completed within six months of issuance of the Series 2 Preferred Stock, Chanticleer will redeem all the outstanding Series 2 Preferred Stock for 125% of the aggregate stated value of the Series 2 Preferred Stock then outstanding plus any default interest and any other fees or liquidated damages then due and owing thereon under the Certificate of Designations.

### ***Conversion at Option of Holder/ Beneficial Ownership Limitation***

The Series 2 Preferred Stock is convertible at the option of holder at the lesser of (i) \$1.00 (subject to adjustment for forward and reverse stock splits, recapitalizations and the like) or (ii) 90% of the five day average volume weighted average price of the common, provided the conversion price has a floor of \$0.50 (subject to adjustment for forward and reverse stock splits, recapitalizations and the like) (the "Floor Conversion Price"). Conversion is subject to a beneficial ownership limitation of 4.99%. This limitation may be increased by the holder up to 9.99%, with 61 days' notice.

### ***Forced Conversion***

Chanticleer may require the holder to convert up to 1,400 shares of Series 2 Preferred Stock upon delivery of notice three days prior to the merger, subject to the beneficial ownership limitation and applicable Nasdaq rules. Shares of Series 2 Preferred Stock that are not converted will automatically be exchanged for an equal number of shares of a series or class of preferred stock of Spin-Off Entity, on substantially the same terms.

### ***No Dividends***

No dividends shall be declared or paid on the Series 2 Preferred Stock.

### ***Liquidation Preference***

Upon any liquidation, dissolution or winding-up of Chanticleer, the holder shall be entitled to receive out of the assets, whether capital or surplus, an amount equal to 125% of the stated value plus any default interest and any other fees or liquidated damages then due and owing thereon under the Certificate of Designations, for each share of Series 2 Preferred Stock before any distribution or payment shall be made to the holders of Chanticleer Common Stock.

### ***Voting Rights***

The holder of Series 2 Preferred Stock shall vote together with the holders of Chanticleer Common Stock as a single class on an as-converted basis on all matters presented to the holders of Chanticleer Common Stock and shall vote as a separate class on all matters presented to the holders of Series 2 Preferred Stock. In addition, without the approval of the holder, Chanticleer will not, (i) except with respect to the transactions contemplated by the Merger Agreement, sell all or substantially all of its assets, merge or consolidate with another entity or voluntarily liquidate or dissolve the corporation, (ii) alter or change the rights, preferences or privileges of the Series 2 Preferred Stock, (iii) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a liquidation senior to, or otherwise pari passu with, the Series 2 Preferred Stock, (iv) amend its certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holder, (v) increase the number of authorized shares of Series 2 Preferred Stock, (vi) except with respect to the transactions contemplated by the Merger Agreement (including redemption of Series 1 Preferred Stock of Chanticleer at closing of the merger, as contemplated by the Merger Agreement), redeem any shares of capital stock of the company (other than any redemption of securities from officers or employees of the company pursuant to existing contractual arrangements with such officers or employees or in connection with the termination of their employment) or (vii) enter into any agreement with respect to any of the foregoing.

### ***Triggering Events***

Breach of Chanticleer's obligations and other circumstances set forth in the Certificate of Designation will trigger a redemption event.

### ***Anti-Dilution***

The Certificate of Designations provides for customary adjustments in the event of dividends or stock splits and anti-dilution protection.

Concurrently with the Preferred Securities Purchase Agreement, the parties entered into a registration rights agreement (the “Preferred Registration Rights Agreement”). Pursuant to the Preferred Registration Rights Agreement, Chanticleer must file a registration statement registering the conversion shares no later than 15 days from the closing of this transaction.

### **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**

Under the PCAOB standards, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those responsible for oversight of the company’s financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is 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.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of December 31, 2019. Our management has determined that, as of December 31, 2019, the Company’s disclosure controls and procedures were ineffective.

#### **Management’s report on internal control over financial reporting**

Management Responsibility for Internal Control over Financial Reporting Management is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with the United States’ generally accepted accounting principles (US GAAP), including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management’s Evaluation of Internal Control over Financial Reporting Management evaluated our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework*. As a result of this assessment and based on the criteria in this framework, management has concluded that, as of December 31, 2019, our internal control over financial reporting was ineffective.

Material Weaknesses. A material weakness is a control deficiency, or a combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified the following deficiencies in its internal controls over financial reporting:

- The departure of the Chief Accounting Officer occurred in February 2020. Due to this departure, the Company lacks the necessary segregation of duties, and consequently, the Company lacks the necessary review processes to ensure the accuracy of its financial statements

Management determined that the deficiencies, evaluated in the aggregate, could potentially result in a material misstatement of the consolidated financial statements in a future annual or interim period that would not be prevented or detected. Therefore, the deficiencies constitute material weaknesses in internal control. Based on that evaluation, management determined that our internal controls over financial reporting were not effective as of December 31, 2019.

#### Remediation Plans

We have initiated several steps and plan to continue to evaluate and implement measures designed to improve our internal control over financial reporting in order to remediate the control deficiencies noted above. While our evaluation of the appropriate remediation plans is still ongoing, we are currently actively recruiting for a Chief Accounting Officer or Controller with significant experience in financial reporting and internal controls.

Additionally, the Company is seeking outside advice from third party consultants to assist in improving the Company's internal controls, simplify its reporting processes and reduced the risk of undetected errors. These consultants will provide management new internal control mechanisms and formalization of documentation to enhance the effectiveness of its internal controls over financial reporting

#### **ITEM 9B: OTHER INFORMATION**

Not applicable.

### **PART III**

#### **ITEM 10. Directors, Executive Officers and Corporate Governance.**

The following section sets forth the names, ages and current positions with the Company held by our directors and executive officers, together with certain biographical information. There is no immediate family relationship between or among any of our directors and our executive officers, and the Company is not aware of any arrangement or understanding between any director or executive officer and any other person pursuant to which he was elected to his current position.

Each director and executive officer will serve until he or she resigns or is removed or otherwise disqualified to serve or until his or her successor is elected.

## Directors

| <u>Name</u>        | <u>Age</u> | <u>Position</u>                      |
|--------------------|------------|--------------------------------------|
| Frederick L. Glick | 54         | President                            |
| Keith J. Johnson   | 61         | Independent Director                 |
| Neil G. Kiefer     | 67         | Independent Director                 |
| Russell J. Page    | 76         | Independent Director                 |
| Michael D. Pruitt  | 58         | Chairman and Chief Executive Officer |
| J. Eric Wagoner    | 68         | Independent Director                 |

### Keith J. Johnson

Mr. Johnson is the Chief Financial Officer of Watertech Equipment & Sales. He served as the Manager of Business Development for Hudson Technologies from November 2012 through September 2013. From August 2010 through November 2012, Mr. Johnson was President of Efficiency Technologies, Inc., the wholly owned operating subsidiary of Efftec International, Inc. He was the President and Chief Executive Officer of YRT<sup>2</sup> (Your Residential Technology Team) in Charlotte, North Carolina since 2004. Mr. Johnson has a BS in Accounting from Fairfield University in Fairfield, Connecticut. Mr. Johnson has served on our Board of Directors since April 2007 and currently is the Chairman of our Audit Committee and a member of our Compensation Committee. Mr. Johnson was asked to serve as director based in part on his financial expertise and general proven success in business.

### Neil G. Kiefer

Mr. Kiefer is the Chief Executive Officer of Hooters Management Corporation, Hooters, Inc., and all its affiliated companies, a position he has held since May 1992. In 1994, Mr. Kiefer was appointed to the boards of those entities, and he continues to serve on those boards. He was also Chief Executive Officer of the Hooters Casino Hotel in Las Vegas, Nevada from 2006 to 2012. Mr. Kiefer received his bachelor's degree from Bethany College in Bethany, West Virginia and received his law degree from Hofstra University in Hempstead, New York. He was admitted to the Florida Bar in 1979. Mr. Kiefer has served on our board since January 2017 and is a member of the Compensation Committee. He was asked to serve as director based in part on his extensive knowledge of the casual dining industry, board membership experience, and overall business acumen.

### Frederick L. Glick

Mr. Glick was appointed to serve as President effective November 16, 2018. Mr. Glick was the Vice President of Brewery Restaurants for the Karl Strauss Brewing Company brand in San Diego, California from 2013 to the present. Prior, from 2008 to 2013, Mr. Glick was the VP of Operations for Phil's BBQ in San Diego, California. From 1991 to 2008, Mr. Glick was the President, CEO, Operating Partner of Hootwine, Inc., a Hooters franchise, in Oceanside, California. Mr. Glick graduated with a B.S. in Business Administration from Lehigh University in 1986. Each year, Mr. Glick volunteers with local service and charitable organizations and serves on the state board of directors of the California Restaurant Association and CRAF (California Restaurant Association Foundation).

### Russell J. Page

Mr. Page is a Senior Vice President of Business Development with Paragon Bank. He is a 35-year investor relations executive and is the founder and principal of Rusty Page & Company, a unique equity marketing and investor relations consulting firm. He sat on the Board of Directors of The Diamond Hill Financial Trends Fund until 2013. Mr. Page previously served as Senior Managing Director of the NASDAQ Stock Market, as well as Senior Vice President and Equity Marketing Executive for NationsBank Corporation, the predecessor of Bank of America. Mr. Page is an alumnus of the University of North Carolina in Charlotte. Mr. Page has served on our Board of Directors since January 2013 and is a member of our Audit Committee. Mr. Page was asked to serve as a director based in part on his significant investor relations knowledge, board membership experience, and familiarity with the NASDAQ Stock Market.

Michael D. Pruitt

Mr. Pruitt founded Avenel Financial Group, a boutique financial services firm concentrating on emerging technology company investments, in 1999. In 2001, he formed Avenel Ventures, a technology investment and private venture capital firm. In February 2005, Mr. Pruitt formed Chanticleer Holdings, Inc., which commenced operations in June 2005 with him as Chairman of the Board of Directors and Chief Executive Officer, roles he continues to serve today. In January 2011, Mr. Pruitt became a director of the board of Hooters of America, LLC. Mr. Pruitt received a Bachelor of Arts degree from Coastal Carolina University in Conway, South Carolina, where he sits on the Board of Visitors of the E. Craig Wall Sr. College of Business Administration, the Coastal Education Foundation Board, and the Athletic Committee of the Board of Trustees.

J. Eric Wagoner

Mr. Wagoner has served as a Managing Director and Head of the High-Yield & Distressed Securities division of Source Capital Group since 1995. Mr. Wagoner has over 35 years of investment securities experience and has developed specialized expertise in high yield and distressed debt instruments. He serves as a member of the board of directors of Argus Research Group, a leading independent equity research firm, and is a member of the Board of Visitors at Wake Forest University. Mr. Wagoner is a graduate of the University of North Carolina and received his MBA from the Babcock Graduate School of Management at Wake Forest University. Mr. Wagoner holds NASD Series 7, 24 and 63 licenses. Mr. Wagoner has served on our Board of Directors since March 2018 and is a member of the Audit Committee and Compensation Committee. He was asked to serve as director based in part on his extensive securities knowledge and general proven success in business.

**Executive Officers**

| <u>Name</u>        | <u>Age</u> | <u>Position</u>                      |
|--------------------|------------|--------------------------------------|
| Michael D. Pruitt  | 58         | Chairman and Chief Executive Officer |
| Frederick L. Glick | 54         | President                            |
| Patrick Harkleroad | 47         | Chief Financial Officer              |

Information regarding Mr. Pruitt and Mr. Glick are included with the director profiles above.

Patrick Harkleroad

Mr. Harkleroad was appointed to serve as Chief Financial Officer effective January 21, 2019. From March 2018 to the present, Mr. Harkleroad built and led the financial consulting division of Sherpa, LLC, a recruiting and staffing company. Prior, from March 2017 to February 2018, Mr. Harkleroad was a financial consultant with the Business Enhancement Group of Carolina Financial Group (“CFG”), which provides financial and operational consulting to its portfolio and client companies. During his tenure at CFG, he served as the Chief Financial Officer for one of CFG’s portfolio companies, Trinity Frozen Foods, LLC (“Trinity”). At Trinity, Mr. Harkleroad oversaw all financial and accounting functions and was integral in bringing operational best practices to the company. Prior to his position at CFG, from January 2006 to January 2017, Mr. Harkleroad served as Chief Financial Officer of Retail Credit & Capital Corporation, Inc., dba Landmark Leisure Group in Charlotte, NC, a development company that created, owned, and operated original restaurant and pub concepts, including Blackfinn Ameripub, Vida Mexican Kitchen, and Strike City Lanes.



### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who own more than ten percent (10%) of our common stock to file initial reports of ownership and changes in ownership with the SEC. Additionally, SEC regulations require that we identify any individuals for whom one of the referenced reports was not filed on a timely basis during the most recent fiscal year or prior fiscal years. To the best of our knowledge, based solely on a review of copies of the reports filed with the SEC since January 1, 2018 and on representations by certain officers and directors, all persons subject to the reporting requirements of Section 16(a) filed the reports required to be filed on a timely basis.

### **Code of Ethics**

The Board of Directors of the Company (the “Board”) adopted a Code of Ethics, which was effective May 23, 2005, for all officers or persons performing similar functions. A copy of this document is available on our website at [www.chanticleerholdings.com](http://www.chanticleerholdings.com) under the “Investors - Corporate Governance” tabs.

### **Audit Committee**

We have a separately designated standing Audit Committee, established in accordance with Section 3 (a)(58)(A) of the Exchange Act, which is currently made up of Mr. Johnson (Chairman), Mr. Page, and Mr. Wagoner. The Board designates which directors will serve as the members of the Audit Committee. The Board has determined that Mr. Johnson meets the requirements of an “audit committee financial expert,” and he serves as Chairman of the Audit Committee. All members of the Audit Committee are independent pursuant to applicable SEC rules and regulations and NASDAQ listing standards. The Audit Committee is governed by a written charter approved by the Board, which is available on our website at [www.chanticleerholdings.com](http://www.chanticleerholdings.com) under the “Investors - Corporate Governance” tabs.

### **ITEM 11. Executive Compensation.**

The Compensation Committee of the Board deliberates executive compensation matters to the extent they are not delegated to the Company’s Chief Executive Officer.

## Summary Compensation Table

The following table shows the compensation of the Company's Chief Executive Officer and President and the next most highly paid executive officers whose compensation exceeded \$100,000 (together, the "Named Executive Officers") for the years ended December 31, 2019 and 2018.

| Name and Principal Position                       | Year | Salary     | Bonus | Stock Awards | All Other Compensation | Total      |
|---|------|------------|-------|--------------|------------------------|------------|
| Michael D. Pruitt (1)<br>Chief Executive Officer  | 2019 | \$ 264,997 | -     | -            | -                      | \$ 264,997 |
|   | 2018 | \$ 290,522 | -     | -            | -                      | \$ 290,522 |
| Frederick L. Glick (2)<br>President               | 2019 | \$ 247,554 | -     | -            | -                      | \$ 247,554 |
|   | 2018 | \$ 31,250  | -     | -            | -                      | \$ 31,250  |
| Patrick Harkleroad (3)<br>Chief Financial Officer | 2019 | \$ 152,462 | -     | -            | -                      | \$ 152,462 |
|   | 2018 | \$ -       | -     | -            | -                      | \$ -       |

(1) Mr. Pruitt sat on the Hooters of America, LLC board of directors until July 2019. The Company received annual payments of \$100,000 from Hooters of America, LLC while Mr. Pruitt served on its board.

(2) Mr. Glick was appointed to serve as President effective November 16, 2018.

(3) Mr. Harkleroad was appointed to serve as Chief Financial Officer effective January 21, 2019.

## Outstanding Equity Awards at Fiscal Year-End Table

The following table reflects information concerning unexercised options, stock that has not vested, and equity incentive plan awards for each Named Executive Officer outstanding as of the end of December 31, 2019.

| Name               | Option Awards   |   |  |                            |                        | Stock Awards  |   |   | Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested (\$) |
|--------------------|---|---|--|----------------------------|------------------------|---|---|---|--|
|                    | Number of securities underlying unexercised options (#) exercisable | Number of securities underlying unexercised options (#) unexercisable | Equity incentive plan awards: number of securities underlying unexercised unearned options (#) | Option exercise price (\$) | Option expiration date | Number of shares or units of stock that have not vested (#) | Market value of shares or units of stock that have not vested (#) | Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) |  |
| Michael D. Pruitt  | -   | -   | -  | -                          | -                      | -   | -   | -   | -  |
| Frederick L. Glick | -   | -   | 10,000   | 3.50                       | 11/15/2023             | -   | -   | 20,000  | (1)  |
|                    | -   | -   | 10,000   | 4.50                       | 11/15/2023             | -   | -   | -   | -  |
| Patrick Harkleroad | -   | -   | 5,000  | 3.50                       | 1/6/2024               | -   | -   | -   | -  |
|                    | -   | -   | 5,000  | 4.50                       | 1/6/2024               | -   | -   | -   | -  |

(1) Restricted stock award units do not have an exercise price and therefore are not included in the calculation of the weighted-average exercise price.

## Director Compensation Table

The following table reflects compensation earned for services performed in 2019 by members of our Board who were not Company employees. A director who is a Company employee, such as Mr. Pruitt, does not receive any compensation for service as a director. The compensation received by Mr. Pruitt as an employee of the Company is shown above in the Summary Compensation Table. We reimburse all directors for expenses incurred in their capacity as directors.

| Name             | Director Fees Earned or Paid in Cash (1) | Stock Awards | Option Awards | Total     |
|------------------|--|--------------|---------------|-----------|
| Keith J. Johnson | \$ 28,000                                | -            | -             | \$ 28,000 |
| Neil G. Kiefer   | \$ 28,000                                | -            | -             | \$ 28,000 |
| Russell J. Page  | \$ 28,000                                | -            | -             | \$ 28,000 |
| J. Eric Wagoner  | \$ 28,000                                | -            | -             | \$ 28,000 |

(1) Director fees earned in 2019 are accrued and unpaid; these fees will be paid in 2020. This chart reflects Directors as of December 31, 2019.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

**Security Ownership of Certain Beneficial Owners and Management**

To our knowledge, the following table sets forth information with respect to beneficial ownership of outstanding common stock as of December 31, 2019 by:

- each person known by the Company to beneficially own more than 5% of the outstanding shares of the common stock;
- each of our Named Executive Officers;
- each of our directors; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities as well as securities which the individual or group has the right to acquire within 60 days of the determination date. Unless otherwise indicated, the address for those listed below is c/o Chanticleer Holdings, Inc., 7621 Little Avenue, Suite 414, Charlotte, NC 28226. Except as indicated by footnote, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The number of shares of the common stock outstanding used in calculating the percentage for each listed person includes the shares of common stock underlying warrants, options or other convertible securities held by such persons that are exercisable within 60 days of December 31, 2019 but excludes shares of common stock underlying warrants, options or other convertible securities held by any other person. The number of shares of common stock issued and outstanding as of December 31, 2019 was 10,404,347. Except as noted otherwise, the amounts reflected below are based upon information provided to the Company and filings with the SEC.

| Name of Beneficial Owner                                       | Number of Shares<br>Beneficially Owned | Percent of<br>Class |
|--|--|---------------------|
| Michael D. Pruitt <sup>(1)</sup>                               | 96,835                                 | *                   |
| Frederick L. Glick <sup>(2)</sup>                              | 30,000                                 | *                   |
| Patrick Harkleroad <sup>(3)</sup>                              | 20,000                                 | *                   |
| Keith J. Johnson <sup>(4)</sup>                                | 26,461                                 | *                   |
| Neil G. Kiefer <sup>(5)</sup>                                  | 20,787                                 | *                   |
| Russell J. Page <sup>(6)</sup>                                 | 25,293                                 | *                   |
| J. Eric Wagoner <sup>(7)</sup>                                 | 16,086                                 | *                   |
| <b>Directors and Executive Officers as a Group (7 persons)</b> | <b>235,462</b>                         | <b>2.26%</b>        |

\* less than 1%

- (1) Mr. Pruitt directly holds 17,256 shares of common stock, Class A Warrants exercisable for 16,800 shares of common stock, and Class B Warrants exercisable for 16,800 shares of common stock. Mr. Pruitt's IRA holds 5,223 shares of common stock and 340 Series 1 Preferred Warrants exercisable for 3,400 shares of common stock. Additionally, Avenel Financial Group, Inc., a corporation controlled by Mr. Pruitt, holds 33,462 shares of common stock, warrants exercisable for 1,500 shares of common stock, Class A Warrants exercisable for 2,394 shares of common stock, and Class B Warrants exercisable for 2,394 shares of common stock.
- (2) Mr. Glick holds 30,000 restricted stock units exercisable for 30,000 shares of common stock, of which 15,000 have vested, and stock options exercisable for 20,000 shares of common stock, of which 15,000 have vested.
- (3) Mr. Harkleroad holds stock options exercisable for 10,000 shares of common stock, of which 3,750 have vested.
- (4) Mr. Johnson directly holds 26,261 shares of common stock, Class A Warrants exercisable for 100 shares of common stock, and Class B Warrants exercisable for 100 shares of common stock.
- (5) Mr. Kiefer directly holds 18,787 shares of common stock and holds 2,000 shares of common stock in an IRA account
- (6) Mr. Page directly holds 25,093 shares of common stock, Class A Warrants exercisable for 100 shares of common stock, and Class B Warrants exercisable for 100 shares of common stock
- (7) Mr. Wagoner directly holds 16,086 shares of common stock.

## Equity Compensation Plan Information

The following table provides information with respect to securities authorized for issuance under all the Company's equity compensation plans as of December 31, 2019.

| <u>Plan Category</u>                                      | <u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> | <u>Weighted average exercise price of outstanding options, warrants and rights</u> | <u>Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column(a))</u> |
|---|--|--|--|
| Equity compensation plan approved by security holders     | 385,776  | -  | 14,224   |
| Equity compensation plan not approved by security holders | -  | -  | -  |

### ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

#### Policies and Procedures for Review and Approval of Related Person Transactions

As required under the Audit Committee Charter, our Audit Committee is responsible for reviewing and approving all related party transactions for potential conflict of interest situations. A related party transaction refers to a transaction required to be disclosed pursuant to Item 404 of Regulation S-K promulgated by the SEC.

In evaluating a related person transaction, the Audit Committee considers all factors it deems appropriate, including, without limitation, whether the related person transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the related person's interest in the transaction, and whether products or services of a similar nature, quantity, or quality are readily available from alternative sources.

#### Related Person Transactions

##### *Due to Related Parties*

The Company has received non-interest-bearing loans and advances from related parties. The amounts owed by the Company as of December 31, 2019 and 2018 are as follows:

|                            | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|----------------------------|--------------------------|--------------------------|
| Chanticleer Investors, LLC | \$ 16,000                | \$ 185,726               |
| <b>Total</b>               | <b>\$ 16,000</b>         | <b>\$ 191,850</b>        |

The amount from Chanticleer Investors, LLC is related to cash distributions received from Chanticleer Investors, LLC's interest in Hooters of America which is payable to the Company's co-investors in that investment.

#### Director Independence

We undertook a review of the independence of our directors and, using the definitions and independence standards for directors provided in the rules of the NASDAQ Stock Market, considered whether any director has a material relationship with us that could interfere with his ability to exercise independent judgment in carrying out his responsibilities. As a result of this review, we determined that Mr. Johnson, Mr. Kiefer, Mr. Page, and Mr. Wagoner, who were directors as of December 31, 2019, are "independent directors" as defined under the rules of the NASDAQ Stock Market.

**ITEM 14. Principal Accountant Fees and Services.**

For the fiscal year ended December 31, 2019, Cherry Bekaert LLP billed the Company for services rendered as the Company's independent registered principal accounting firm.

|                                   | <b>2019</b>       | <b>2018</b>       |
|-----------------------------------|-------------------|-------------------|
| Audit Fees <sup>(1)</sup>         | \$ 306,200        | \$ 286,369        |
| Audit-Related Fees <sup>(2)</sup> | \$ 7,000          | \$ 8,870          |
| Tax Fees <sup>(3)</sup>           | -                 | -                 |
| Other Fees <sup>(4)</sup>         | \$ 45,900         | \$ 21,100         |
| <b>Total</b>                      | <b>\$ 359,100</b> | <b>\$ 316,339</b> |

(1) *Audit Fees.* This category includes fees for (i) the audit of our annual financial statements and review of financial statements included in our quarterly reports on Form 10-Q; and (ii) services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements for the relevant fiscal years. Due to the timing of this disclosure, management provided its best estimate on these fees for 2019.

(2) *Audit-Related Fees.* This category includes fees for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements that are not reported *under the caption "Audit Fees."*

(3) *Tax Fees.* There were no fees for tax services.

(4) *Other Fees.* This category includes other fees for services not included above.

The Audit Committee reviews, and in its sole discretion pre-approves, our independent registered public accounting firm's annual engagement letter, including proposed fees and all audit and non-audit services provided by the independent registered public accounting firm. All services described above were pre-approved by our Audit Committee. The Board may not engage the independent registered public accounting firm to perform non-audit services proscribed by law or regulation.

**PART IV****ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****(a)(1) Financial Statements.**

The following financial statements of Chanticleer Holdings, Inc. are contained in Item 8 of this Form 10-K:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets at December 31, 2019 and 2018
- Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2019 and 2018
- Consolidated Statements of Stockholders' Equity at December 31, 2019 and 2018
- Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018
- Notes to the Consolidated Financial Statements

**(a)(2) Financial Statements Schedules.**

Financial Statement Schedules were omitted, as they are not required or are not applicable, or the required information is included in the Financial Statements.

**(a)(3) Exhibits Filed.**

The exhibits listed in the accompanying Exhibit Index are filed as a part of this report.

**(b) Exhibits.**

See Exhibit Index.

**(c) Separate Financial Statements and Schedules.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on March 18, 2020.

**CHANTICLEER HOLDINGS, INC.**

By: /s/ Michael D. Pruitt  
Michael D. Pruitt, Chairman  
and Chief Executive Officer

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

| <u>Date</u>    | <u>Title (Capacity)</u>   | <u>Signature</u>                                    |
|----------------|---|---|
| March 18, 2020 | Chairman, Chief Executive Officer,<br>and Principal Executive Officer | <u>/s/ Michael D. Pruitt</u><br>Michael D. Pruitt   |
| March 18, 2020 | Chief Financial Officer   | <u>/s/ Patrick Harkleroad</u><br>Patrick Harkleroad |
| March 18, 2020 | Director  | <u>/s/ Russell J. Page</u><br>Russell J. Page       |
| March 18, 2020 | Director  | <u>/s/ Neil Kiefer</u><br>Neil Kiefer               |
| March 18, 2020 | Director  | <u>/s/ J. Eric Wagoner</u><br>J. Eric Wagoner       |
| March 18, 2020 | Director  | <u>/s/ Keith J. Johnson</u><br>Keith J. Johnson     |
| March 18, 2020 | Director  | <u>/s/ Frederick Glick</u><br>Frederick Glick       |

## EXHIBIT INDEX

| Exhibit | Description  |
|---------|--|
| 2.2     | <a href="#"><u>Amendment No. 1 to Agreement and Plan of Merger, by and among Chanticleer Holdings, Inc., Sonnet BioTherapeutics, Inc. and Biosub Inc., dated February 7, 2020 (incorporated by reference to Exhibit 2.11 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020)</u></a> |
| 3.1     | <a href="#"><u>Certificate of Incorporation (Incorporated by reference to the Exhibit 3.1.A to our Registration Statement on Form 10SB-12G, filed with the SEC on February 15, 2000 (File No. 000-29507))</u></a>  |
| 3.2     | <a href="#"><u>Certificate of Merger, filed May 2, 2005 (Incorporated by reference to Exhibit 2.1 filed with our Quarterly Report on Form 10-Q, filed with the SEC on August 15, 2011)</u></a>   |
| 3.3     | <a href="#"><u>Certificate of Amendment, filed July 16, 2008 (Incorporated by reference to Exhibit 3.1 filed with our Registration Statement on Form S-1/A (Registration No. 333-178307), filed with the SEC on February 3, 2012)</u></a>  |
| 3.4     | <a href="#"><u>Certificate of Amendment, filed March 18, 2011 (Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed with the SEC on March 18, 2011)</u></a>   |
| 3.5     | <a href="#"><u>Certificate of Amendment, filed May 23, 2012 (Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed with the SEC on May 24, 2012)</u></a>   |
| 3.6     | <a href="#"><u>Certificate of Amendment, filed February 3, 2014 (Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed with the SEC on February 4, 2014)</u></a>   |
| 3.7     | <a href="#"><u>Certificate of Amendment, filed October 2, 2014 (Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed with the SEC on October 2, 2014)</u></a>   |
| 3.8     | <a href="#"><u>Form of Certificate of Designation of the Series 1 Preferred Stock (Incorporated by reference to Exhibit 3.8 to Registration Statement on Form S-1 (Registration No. 333-214319, as filed December 5, 2016))</u></a>  |
| 3.9     | <a href="#"><u>Form of Certificate of Designation of the Series 2 Preferred Stock (incorporated by reference to Exhibit 3.1(i) to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020).</u></a>  |
| 3.8     | <a href="#"><u>Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020)</u></a>  |
| 4.1     | <a href="#"><u>Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1 (Registration No. 333-178307), filed with the SEC on December 2, 2011)</u></a>   |
| 4.2     | <a href="#"><u>Form of Unit Certificate dated June 2012 (Incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-1/A (Registration No. 333-178307), filed with the SEC on May 30, 2012)</u></a>   |
| 4.3     | <a href="#"><u>Form of Warrant for January 2015 Subscription Agreement with \$2.50 Exercise Price (Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K/A, filed with the SEC on January 9, 2015)</u></a>  |
| 4.4     | <a href="#"><u>Form of 8% Non-Convertible Secured Debenture dated May 4, 2017 (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-k, filed with the SEC on May 5, 2017)</u></a>  |
| 4.5     | <a href="#"><u>Form of Warrant dated May 4, 2017 (Incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K, filed with the SEC on May 5, 2017)</u></a>   |

- 4.6 [Amendment to Warrant dated April 7, 2017 by and between Chanticleer Holdings, Inc., and Larry S. Spitcaufsky, Trustee of Larry Spitcaufsky Family Trust UTD 1-19-88 \(Incorporated by reference to Exhibit 14.1 to Current Report on Form 8-K, filed with the SEC on August 9, 2017\)](#)
- 4.7 [Form of Warrant dated October 12, 2017 \(Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K, filed with the SEC on October 13, 2017\)](#)
- 4.8 [Form of Warrant dated May 3, 2018 \(Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, as amended, dated May 8, 2018\)](#)
- 4.9 [Registration Rights Agreement, dated February 7, 2020, by and between Chanticleer Holdings, Inc. and the Purchaser named therein \(incorporated by reference to Exhibit 4.15 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020\)](#)
- 4.10 [Form of Series A/B Warrants \(incorporated by reference to Exhibit 4.16 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020\)](#)
- 4.11 [Registration Rights Agreement, dated February 7, 2020, by and among Chanticleer Holdings, Inc. and certain investors named therein \(incorporated by reference to Exhibit 4.17 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020\)](#)
- 10.1 [Form of Franchise Agreement between the Company and Hooters of America, LLC \(Incorporated by reference to Exhibit 10.2 to our Registration Statement on Form S-1 \(Registration No. 333-178307\), filed with the SEC on December 2, 2011\)](#)
- 10.2\* [Chanticleer Holdings, Inc. 2014 Stock Incentive Plan effective February 3, 2014 \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the SEC on February 4, 2014\)](#)
- 10.3 [Amendment to 6% Secured Subordinated Convertible Note by and between the Company and certain note holder \(incorporated by reference to Exhibit 10.30 to our Annual Report on Form 10-K, filed with the SEC on March 31, 2017\).](#)
- 10.4 [Securities Purchase Agreement by and between the Company and certain accredited investors dated May 4, 2017 \(Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed with the SEC on May 5, 2017\)](#)
- 10.5 [Security Agreement by and between the Company and certain accredited investors dated May 4, 2017 \(Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed with the SEC on May 5, 2017\)](#)
- 10.6 [Subsidiary Guarantee dated May 4, 2017 \(Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed with the SEC on May 5, 2017\)](#)
- 10.7 [Form of Officer and Director Indemnification Agreement \(Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed with the SEC on August 30, 2017\)](#)



- 10.8 [Form of Securities Purchase Agreement by and between the Company and certain accredited investors dated August 12, 2017 \(Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed with the SEC on October 13, 2017\)](#)
- 10.9 [Form of Securities Purchase Agreement by and between the Company and certain accredited investors dated May 3, 2018 \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, as amended, dated May 8, 2018\)](#)
- 10.10\* [Employment Agreement dated November 16, 2018 by and between the Company and Frederick L. Glick \(incorporated by reference to Exhibit 10.40 to our Annual Report on 10-K, filed with the SEC on April 1, 2019\).](#)
- 10.11\* [Restricted Stock Unit Award Agreement dated November 16, 2018 by and between the Company and Frederick L. Glick \(incorporated by reference to Exhibit 10.41 to our Annual Report on 10-K, filed with the SEC on April 1, 2019\).](#)
- 10.12\* [Incentive Stock Option Agreement dated November 16, 2018 by and between the Company and Frederick L. Glick \(incorporated by reference to Exhibit 10.42 to our Annual Report on 10-K, filed with the SEC on April 1, 2019\).](#)
- 10.13 [Amendment to 8% Secured Debentures by and between the Company and Debenture Holders \(incorporated by reference to Exhibit 10.43 to our Annual Report on 10-K, filed with the SEC on April 1, 2019\).](#)
- 10.14 [Lease Agreement between Redus NC Commercial, LLC and Chanticleer Holdings, Inc. dated June 1, 2014, as amended \(incorporated by reference to Exhibit 10.1 to our Quarterly Report on 10-Q, filed with the SEC on November 14, 2019\).](#)
- 10.15\* [Employment Agreement dated January 7, 2019 by and between Patrick Harkleroad and the Company \(incorporated by reference to Exhibit 10.44 to our Annual Report on 10-K, filed with the SEC on April 1, 2019\).](#)
- 10.16 [Securities Purchase Agreement, dated as of February 7, 2020, by and between Chanticleer Holdings, Inc. and the Purchaser party thereto \(incorporated by reference to Exhibit 10.63 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020\)](#)
- 10.17 [Securities Purchase Agreement, dated as of February 7, 2020, by and among Chanticleer Holdings, Inc., Sonnet BioTherapeutics, Inc. and the investors party thereto \(incorporated by reference to Exhibit 10.64 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020\)](#)
- 10.18 [Side Letter and Amendment No. 2 to Common Stock Purchase Agreement, between GEM Global Yield Fund LLC SCS, Sonnet BioTherapeutics, Inc. and Chanticleer Holdings, Inc., dated February 7, 2020.](#)
- 10.9 [Securities Purchase Agreement, dated as of February 7, 2020, by and among Chanticleer Holdings, Inc., Sonnet BioTherapeutics, Inc. and the investors party thereto \(incorporated by reference to Exhibit 10.64 to the Company's Registration Statement on Form S-4 filed with the SEC on February 7, 2020\).](#)

- 21 [Subsidiaries of the Company+](#)
- 23.1 [Consent of Cherry Bekaert LLP, Independent Registered Public Accounting Firm+](#)
- 31.1 [Certification of Periodic Report by Michael D. Pruitt, as Chief Executive Officer, pursuant to Rule 13a-14\(a\) or 15d-14\(a\) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002+](#)
- 31.2 [Certification of Periodic Report by Patrick Harkleroad, as Chief Financial Officer, pursuant to Rule 13a-14\(a\) or 15d-14\(a\) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002+](#)
- 32.1 [Certification of Periodic Report by Michael D. Pruitt, as Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002+](#)
- 32.2 [Certification of Periodic Report by Patrick Harkleroad, as Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted 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

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

\* Indicates a management contract or compensatory plan or arrangement

+ Filed herewith

Our SEC file number reference for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 001-35570. Prior to June 7, 2012, our SEC file number reference was 000-29507.

| Name                                      | Jurisdiction of Incorporation | Percent Owned |
|---|-------------------------------|---------------|
| <b>CHANTICLEER HOLDINGS, INC.</b>         | <b>DE, USA</b>                |               |
| American Roadside Burgers, Inc.           | DE, USA                       | 100%          |
| American Burger Ally, LLC                 | NC, USA                       | 100%          |
| American Burger Morehead, LLC             | NC, USA                       | 100%          |
| American Burger Prosperity, LLC           | NC, USA                       | 50%           |
| American Roadside Burgers Smithtown, Inc. | DE, USA                       | 100%          |
| BGR Acquisition, LLC                      | NC, USA                       | 100%          |
| BGR Franchising, LLC                      | VA, USA                       | 100%          |
| BGR Operations, LLC                       | VA, USA                       | 100%          |
| BGR Acquisition 1, LLC                    | NC, USA                       | 100%          |
| BGR Annapolis, LLC                        | MD, USA                       | 100%          |
| BGR Arlington, LLC                        | VA, USA                       | 46%           |
| BGR Columbia, LLC                         | MD, USA                       | 100%          |
| BGR Michigan Ave, LLC                     | DC, USA                       | 100%          |
| BGR Mosaic, LLC                           | VA, USA                       | 100%          |
| BGR Old Keene Mill, LLC                   | VA, USA                       | 100%          |
| BGR Washingtonian, LLC                    | MD, USA                       | 46%           |
| Capitol Burger, LLC                       | MD, USA                       | 100%          |
| BT Burger Acquisition, LLC                | NC, USA                       | 100%          |
| BT's Burgerjoint Rivergate LLC            | NC, USA                       | 100%          |
| BT's Burgerjoint Sun Valley, LLC          | NC, USA                       | 100%          |
| LBB Acquisition, LLC                      | NC, USA                       | 100%          |
| Cuarto LLC                                | OR, USA                       | 100%          |
| LBB Acquisition 1 LLC                     | OR, USA                       | 100%          |
| LBB Hassalo LLC                           | OR, USA                       | 80%           |
| LBB Platform LLC                          | OR, USA                       | 80%           |
| LBB Capitol Hill LLC                      | WA, USA                       | 50%           |
| LBB Franchising LLC                       | NC, USA                       | 100%          |
| LBB Green Lake LLC                        | OR, USA                       | 50%           |
| LBB Lake Oswego LLC                       | OR, USA                       | 100%          |
| LBB Magnolia Plaza LLC                    | NC, USA                       | 50%           |
| LBB Multnomah Village LLC                 | OR, USA                       | 50%           |
| LBB Progress Ridge LLC                    | OR, USA                       | 50%           |
| LBB Rea Farms LLC                         | NC, USA                       | 50%           |
| LBB Wallingford LLC                       | WA, USA                       | 50%           |
| LBB Downtown PDX LLC                      | OR, USA                       | 100%          |
| Noveno LLC                                | OR, USA                       | 100%          |
| Octavo LLC                                | OR, USA                       | 100%          |
| Primero LLC                               | OR, USA                       | 100%          |
| Quinto LLC                                | OR, USA                       | 100%          |
| Segundo LLC                               | OR, USA                       | 100%          |
| Septimo LLC                               | OR, USA                       | 100%          |
| Sexto LLC                                 | OR, USA                       | 100%          |
| Jantzen Beach Wings, LLC                  | OR, USA                       | 100%          |
| Oregon Owl's Nest, LLC                    | OR, USA                       | 100%          |
| West End Wings LTD                        | United Kingdom                | 100%          |
| <b>Inactive or Sold Entities</b>          |                               |               |
| American Roadside Cross Hill, LLC         | NC, USA                       | 100%          |
| American Roadside McBee, LLC              | NC, USA                       | 100%          |
| American Roadside Southpark LLC           | NC, USA                       | 100%          |
| Avenel Financial Services, LLC            | NV, USA                       | 100%          |
| Avenel Ventures, LLC                      | NV, USA                       | 100%          |
| BGR Cascades, LLC                         | VA, USA                       | 100%          |
| BGR Chevy Chase, LLC                      | MD, USA                       | 100%          |
| BGR Dupont, LLC                           | DC, USA                       | 100%          |
| BGR Old Town, LLC                         | VA, USA                       | 100%          |
| BGR Potomac, LLC                          | MD, USA                       | 100%          |
| BGR Springfield Mall, LLC                 | VA, USA                       | 100%          |
| BGR Tysons, LLC                           | VA, USA                       | 100%          |
| BT's Burgerjoint Biltmore, LLC            | NC, USA                       | 100%          |
| BT's Burgerjoint Promenade, LLC           | NC, USA                       | 100%          |
| Chanticleer Advisors, LLC                 | NV, USA                       | 100%          |
| Chanticleer Finance UK (No. 1) Plc        | United Kingdom                | 100%          |
| Chanticleer Investment Partners, LLC      | NC, USA                       | 100%          |
| Dallas Spoon Beverage, LLC                | TX, USA                       | 100%          |
| Dallas Spoon, LLC                         | TX, USA                       | 100%          |
| DineOut SA Ltd.                           | England                       | 89%           |
| Hooters Brazil                            | Brazil                        | 100%          |
| Tacoma Wings, LLC                         | WA, USA                       | 100%          |
| Chanticleer South Africa (Pty) Ltd.       | South Africa                  | 100%          |
| Hooters Emperors Palace (Pty.) Ltd.       | South Africa                  | 88%           |
| Hooters On The Buzz (Pty) Ltd             | South Africa                  | 95%           |
| Hooters PE (Pty) Ltd                      | South Africa                  | 100%          |
| Hooters Ruimsig (Pty) Ltd.                | South Africa                  | 100%          |
| Hooters SA (Pty) Ltd                      | South Africa                  | 78%           |
| Hooters Umhlanga (Pty.) Ltd.              | South Africa                  | 90%           |
| Hooters Willows Crossing (Pty) Ltd        | South Africa                  | 100%          |
| JF Franchising Systems, LLC               | NC, USA                       | 56%           |







**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference of our report, dated March 18, 2020 (which includes an explanatory paragraph referring to the Company's ability to continue as a going concern), with respect to the consolidated balance sheets of Chanticleer Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018 and the related consolidated statements of operations, comprehensive loss, equity (deficit), and cash flows for the years then ended, in (i) the Company's Registration Statements on Form S-1 (File Nos. 333-214319, 333-230857), (ii) the Company's Registration Statements on Form S-3 (File Nos. 333-226107, 333-220336), (iii) the Company's Registration Statement on Form S-4 (File No. 333-235301) and (iv) the Company's Registration Statement on Form S-8 (File No. 333-193742), which report is included in this Annual report on Form 10-K of Chanticleer Holdings, Inc. and Subsidiaries as of and for the year ended December 31, 2019.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
March 18, 2020

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**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Michael D. Pruitt, certify that:

1. I have reviewed this annual report on Form 10-K of Chanticleer Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 18, 2020

/s/ Michael D. Pruitt

Michael D. Pruitt  
Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Patrick Harkleroad, certify that:

1. I have reviewed this annual report on Form 10-K of Chanticleer Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 18, 2020

/s/ Patrick Harkleroad

Patrick Harkleroad  
Chief Financial Officer  
(Principal Financial Officer)

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael D. Pruitt, certify that:

1. I am the Chief Executive Officer of Chanticleer Holdings, Inc. (the "Issuer").
2. Attached to this certification is the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "Report") filed by the Issuer with the Securities Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), which contains financial statements.
3. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:
  - The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
  - The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

March 18, 2020

*/s/ Michael D. Pruitt*

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Michael D. Pruitt  
Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS  
ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Patrick Harkleroad, certify that:

1. I am the Chief Financial Officer of Chanticleer Holdings, Inc. (the "Issuer").
2. Attached to this certification is the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "Report") filed by the Issuer with the Securities Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), which contains financial statements.
3. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:
  - The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
  - The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

March 18, 2020

*/s/ Patrick Harkleroad*  
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Patrick Harkleroad  
Chief Financial Officer  
(Principal Financial Officer)

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