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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

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

For the transition period from ___ to ___

Commission file number: 001-34785

XpresSpa Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-4988129**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
780 Third Avenue, 12th Floor, New York, NY	**10017**
(Address of principal executive offices)	(Zip Code)

(Registrant's Telephone Number, Including Area Code): **(212) 309-7549**

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

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

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

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	XSPA	The Nasdaq Stock Market LLC

As of May 15, 2019, 1,956,712 shares of the registrant's common stock were outstanding.

XpresSpa Group, Inc. and Subsidiaries

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2019 (Unaudited)	December 31, 2018
Current assets		
Cash and cash equivalents	$ 2,884	$ 3,403
Inventory	881	782
Other current assets	1,122	1,465
Assets held for disposal	109	109
Total current assets	4,996	5,759
Restricted cash	428	487
Property and equipment, net	11,289	11,795
Intangible assets, net	8,599	9,167
Operating lease right-of-use assets, net	9,565	—
Other assets	3,383	3,376
Total assets	$ 38,260	$ 30,584
Current liabilities		
Accounts payable, accrued expenses and other current liabilities	$ 8,795	$ 8,132
Debt	6,500	6,500
Convertible notes, net	1,695	1,986
Liabilities held for disposal	40	40
Total current liabilities	17,030	16,658
Derivative warrant liabilities	324	476
Operating lease liabilities	9,565	—
Other liabilities	316	315
Total liabilities	27,235	17,449
Commitments and contingencies (see Note 19)		
Stockholders' equity		
Series A Convertible Preferred stock, $0.01 par value per share; 6,968 shares authorized; 348 issued and none outstanding	—	—
Series B Convertible Preferred stock, $0.01 par value per share; 1,609,167 shares authorized; 80,458 issued and none outstanding	—	—
Series C Junior Preferred stock, $0.01 par value per share; 300,000 shares authorized; none issued and outstanding	—	—
Series D Convertible Preferred Stock, $0.01 par value per share; 500,000 shares authorized; 23,760 shares issued and 21,027 shares outstanding with a liquidation value of $20,186	4	4
Series E Convertible Preferred Stock, $0.01 par value per share, 1,473,300 shares authorized; 48,387 shares issued and outstanding with a liquidation value of $3,023	10	10
Common stock, $0.01 par value per share; 150,000,000 shares authorized; 1,941,341 and 1,761,802 issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	354	352
Additional paid-in capital	296,823	295,904
Accumulated deficit	(289,886)	(286,913)
Accumulated other comprehensive loss	(272)	(251)
Total stockholders' equity attributable to the Company	7,033	9,106
Noncontrolling interests	3,992	4,029
Total stockholders' equity	11,025	13,135
Total liabilities and stockholders' equity	$ 38,260	$ 30,584

*Adjusted to reflect the impact of the 1:20 reverse stock split that became effective on February 22, 2019.

The accompanying notes form an integral part of these condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(In thousands, except share and per share data)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Revenue		
Products and services	$ 11,046	$ 11,800
Other	1,184	800
Total revenue	12,230	12,600
Cost of sales		
Labor	5,778	6,210
Occupancy	1,865	2,060
Products and other operating costs	1,455	1,507
Total cost of sales	9,098	9,777
Depreciation and amortization	1,649	1,653
Goodwill impairment	—	19,630
General and administrative*	3,600	4,596
Total operating expenses	14,347	35,656
Operating loss from continuing operations	(2,117)	(23,056)
Interest expense	(611)	(183)
Other non-operating income (expense), net	(105)	(90)
Loss from continuing operations before income taxes	(2,833)	(23,329)
Income tax benefit (expense)	(11)	84
Consolidated net loss from continuing operations	(2,844)	(23,245)
Loss from discontinued operations before income taxes		(605)
Income tax benefit (expense)	—	—
Consolidated net loss from discontinued operations	—	(605)
Consolidated net loss	(2,844)	(23,850)
Net income attributable to noncontrolling interests	(129)	(83)
Net loss attributable to the Company	$ (2,973)	$ (23,933)
Consolidated net loss from continuing operations	$ (2,844)	$ (23,245)
Other comprehensive loss from continuing operations	(21)	(66)
Comprehensive loss from continuing operations	(2,865)	(23,311)
Consolidated net loss from discontinued operations	—	(605)
Other comprehensive loss from discontinued operations	—	—
Comprehensive loss from discontinued operations	—	(605)
Comprehensive loss	$ (2,865)	$ (23,916)
Loss per share**		
Loss per share from continuing operations	$ (1.61)	$ (17.54)
Loss per share from discontinued operations	—	(0.46)
Total basic and diluted net loss per share	$ (1.61)	$ (18.00)
Weighted-average number of shares outstanding during the period:**		
Basic	1,852,072	1,279,639
Diluted	1,852,072	1,279,639
***Includes stock-based compensation expense, as follows:**		
General and administrative	$ 104	$ 312

**Adjusted to reflect the impact of the 1:20 reverse stock split that became effective on February 22, 2019.

The accompanying notes form an integral part of these condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands)

	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Company equity	Non-controlling interest	Total equity
December 31, 2018	$ 14	$ 352	$ 295,904	$ (286,913)	$ (251)	$ 9,106	$ 4,029	$ 13,135
Issuance of common stock for repayment of debt and interest	—	2	815	—	—	817	—	817
Stock-based compensation	—	—	104	—	—	104	—	104
Net loss for the period	—	—	—	(2,973)	—	(2,973)	129	(2,844)
Foreign currency translation	—	—	—	—	(21)	(21)	—	(21)
Distributions to noncontrolling interests	—	—	—	—	—	—	(166)	(166)
March 31, 2019	$ 14	$ 354	$ 296,823	$ (289,886)	$ (272)	$ 7,033	$ 3,992	$ 11,025

	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Company equity	Non-controlling interest	Total equity
December 31, 2017	$ 4	$ 265	$ 290,396	$ (249,708)	$ (74)	$ 40,883	$ 4,956	$ 45,839
Vesting of restricted stock units (“RSUs”)	—	1	(1)	—	—	—	—	—
Stock-based compensation	—	—	312	—	—	312	—	312
Net loss for the period	—	—	—	(23,933)	—	(23,933)	83	(23,850)
Foreign currency translation	—	—	—	—	(66)	(66)	—	(66)
Distributions to noncontrolling interests	—	—	—	—	—	—	(220)	(220)
March 31, 2018	$ 4	$ 266	$ 290,707	$ (273,641)	$ (140)	$ 17,196	$ 4,819	$ 22,015

The accompanying notes form an integral part of these condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three months ended March 31,	
	2019	**2018**
Cash flows from operating activities		
Consolidated net loss	$ (2,844)	$ (23,850)
Consolidated net loss from discontinued operations	—	(605)
Consolidated net loss from continuing operations	(2,844)	(23,245)
Adjustments to reconcile consolidated net loss from continuing operations to net cash used in operating activities:		
Items not affecting cash flows		
Depreciation, impairment, and amortization	1,649	1,653
Impairment of goodwill	—	19,630
Amortization of debt discount and debt issuance costs	394	—
Stock-based compensation	104	312
Issuance of shares of common stock for repayment of debt and interest	132	—
Change in fair value of derivative warrant liabilities	(152)	(33)
Gain on the sale of patents	—	(450)
Changes in assets and liabilities		
Decrease in inventory	(99)	109
Decrease (increase) in other current assets and other assets	336	(1,559)
Decrease in accounts payable, accrued expenses and other current liabilities	663	(176)
Increase in other liabilities	1	62
Net cash provided by (used in) operating activities – continuing operations	184	(3,697)
Net cash provided by (used in) operating activities – discontinued operations	—	1,363
Net cash provided by (used in) operating activities	184	(2,334)
Cash flows from investing activities		
Acquisition of property and equipment	(575)	(1,178)
Acquisition of software	—	(66)
Proceeds from the sale of patents	—	250
Cash received from note receivable	—	800
Net cash used in investing activities – continuing operations	(575)	(194)
Net cash used in investing activities – discontinued operations	—	—
Net cash used in investing activities	(575)	(194)
Cash flows used in financing activities		
Distributions to noncontrolling interests	(166)	(220)
Net cash used in financing activities – continuing operations	(166)	(220)
Net cash used in financing activities – discontinued operations	—	—
Net cash used in financing activities	(166)	(220)
Effect of exchange rate changes and foreign currency translation	(21)	(66)
Decrease in cash and cash equivalents and restricted cash	(578)	(2,814)
Cash and cash equivalents and restricted cash at beginning of period	3,890	6,368
Cash and cash equivalents and restricted cash at end of period	$ 3,312	$ 3,554
Cash paid during the period for		
Interest	$ 183	$ 150
Non-cash investing and financing transactions		
Issuance of common stock to repay $685 of debt and interest	$ 817	$ —

The accompanying notes form an integral part of these condensed consolidated financial statements.

Note 1. General

Overview

On January 5, 2018, the Company changed its name to XpresSpa Group, Inc. (“XpresSpa Group” or the “Company”) from FORM Holdings Corp. The Company’s common stock, par value $0.01 per share (the “Common Stock”), which had previously been listed under the trading symbol “FH” on the Nasdaq Capital Market, has been listed under the trading symbol “XSPA” since January 8, 2018. Rebranding to XpresSpa Group aligned the Company’s corporate strategy to build a pure-play health and wellness services company, which the Company commenced following its acquisition of XpresSpa Holdings, LLC (“XpresSpa”) on December 23, 2016.

As a result of the transition to a pure-play health and wellness services company, the Company currently has one operating segment that is also its sole reporting unit, XpresSpa, a leading airport retailer of spa services. XpresSpa is a well-recognized airport spa brand with 55 locations, consisting of 50 domestic and 5 international locations as of March 31, 2019. XpresSpa offers travelers premium spa services, including massage, nail and skin care, as well as spa and travel products. During the first three months of 2019 and 2018, XpresSpa generated $12,230 and $12,600 of revenue, respectively. As of March 31, 2019 and 2018, approximately 79% and 87%, respectively, of XpresSpa’s total revenue was generated by services, primarily massage and nailcare, and 21% and 13%, respectively, was generated by retail products, primarily travel accessories and other revenue.

XpresSpa is a leading airport retailer of spa services and related products. As of March 31, 2019, XpresSpa operated 55 total locations in 24 airports, and one off-airport location in New York City, in three countries including the United States, Netherlands and United Arab Emirates. Services and products include:

- massage services for the neck, back, feet and whole body;
- nail care, such as pedicures, manicures and polish changes;
- travel products, such as neck pillows, blankets and massage tools; and
- new offerings, such as cryotherapy services, NormaTec compression services, and Dermalogica personal care services and retail products.

For over 15 years, increased security requirements have led travelers to spend more time at the airport. In addition, in anticipation of the long and often stressful security lines, travelers allow for more time to get through security and, as a result, often experience increased downtime prior to boarding. Consequently, travelers at large airport hubs have idle time in the terminal after passing through security.

XpresSpa was developed to address the stress and idle time spent at the airport, allowing travelers to spend this time productively, by relaxing and focusing on personal care and wellness. XpresSpa is well positioned to benefit from consumers’ growing interest in health and wellness and increasing demand for spa services and related wellness products.

In addition, a confluence of microeconomic events has created favorable conditions for the expansion of retail concepts at airports, in particular retail concepts that attract higher spending from air travelers. The competition for airplane landings has forced airports to lower landing fees, which in turn has necessitated augmenting their retail offerings to offset budget shortfalls. Infrastructure projects at airports across the country, intended to make an airport more desirable to airlines, require funding from bond issuances that in turn rely upon, in part, the expected minimum rent guarantees and expected income from concessionaires.

The Company owns certain patent portfolios, which it looks to monetize through sales and licensing agreements. During the year ended December 31, 2018, the Company determined that its former intellectual property operating segment would no longer be an area of focus and, as such, will no longer operate as a separate operating segment, as it is not expected to generate any material revenues or operating costs.

In October 2017, the Company completed the sale of FLI Charge, Inc. ("FLI Charge") and in March 2018, the Company completed the sale of Group Mobile Int'l LLC ("Group Mobile"). These two entities previously comprised the Company's technology operating segment. The results of operations for FLI Charge and Group Mobile are presented in the condensed consolidated statements of operations and comprehensive loss as consolidated net loss from discontinued operations. The carrying amounts of assets and liabilities belonging to Group Mobile as of December 31, 2018, are presented in the condensed consolidated balance sheets as assets held for disposal and liabilities held for disposal, respectively.

Liquidity and Going Concern

As of March 31, 2019, the Company had approximately $2,884 of cash and cash equivalents, $2,003 of inventory and prepaid expenses and $109 of assets held for disposal, which amount to total current assets of $4,996. The Company's total current liabilities balance, which includes accounts payable, accrued expenses, debt, and the current portion of Convertible Notes (as defined below), was $17,030 as of March 31, 2019. The working capital deficiency of $12,034 as of March 31, 2019 includes $1,695 of Convertible Notes classified as short-term for which principal repayments may be made in shares of Common Stock at the Company's election, subject to certain conditions.

The Company has aggressively reduced operating and overhead expenses and generated positive cash flows for the three months ended March 31, 2019. While the Company continues to focus on its overall profitability, the Company expects to incur net losses in the foreseeable future. The report of the Company's independent registered public accounting firm on its financial statements for the years ended December 31, 2018 and 2017 includes an explanatory paragraph indicating that there is substantial doubt about the Company's ability to continue as a going concern. The receipt of this explanatory paragraph with respect to the Company's financial statements for the years ended December 31, 2018 and 2017 resulted in a breach of a covenant under the Senior Secured Note which constitutes an event of default under the Senior Secured Note. Upon the occurrence of an event of default under the Senior Secured Note, Rockmore may, among other things, declare the Senior Secured Note and all accrued and unpaid interest thereon and all other amounts owing under the Senior Secured Note to be due and payable. If the maturity date of the Senior Secured Note is accelerated as a result of the event of default referenced above, an event of default under the Convertible Notes would be triggered. If an event of default under the Convertible Notes occurs, the outstanding principal amount of the Convertible Notes, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the holder's election, immediately due and payable in cash.

The Company has taken actions to improve its overall cash position and access to liquidity by exploring valuable strategic partnerships, right-sizing its corporate structure, and stream-lining operations. In addition, the Company expects to generate additional liquidity through the monetization of certain investments and other assets. The Company expects that these actions will be executed in alignment with the anticipated timing of its liquidity needs. There can be no assurance, however, that any such opportunities will materialize

The Company's historical operating results indicate that there is substantial doubt related to the Company's ability to continue as a going concern. The Company believes it is probable that the actions discussed above will transpire and will successfully mitigate the substantial doubt raised by its historical operating results and will satisfy its liquidity needs 12 months from the issuance of the financial statements. However, the Company cannot reasonably predict with any certainty that the results of its planned actions will generate the expected liquidity required to satisfy its liquidity needs.

If the Company continues to experience operating losses, and the Company is not able to generate additional liquidity through the actions described above or through some combination of other actions, while not expected, the Company may not be able to access additional funds and the Company might need to secure additional sources of funds, which may or may not be available. Additionally, a failure to generate additional liquidity could negatively impact its access to inventory or services that are important to the operation of the business.

Recent Developments

CEO Transition

On February 8, 2019, Edward Jankowski resigned as Chief Executive Officer of the Company and as a director of the Company. Mr. Jankowski's resignation was not as a result of any disagreement with the Company on any matters related to the Company's operations, policies or practices. Mr. Jankowski will receive termination benefits including $375 payable in equal installments over a twelve-month term commencing on February 13, 2019 and COBRA continuation coverage paid in full by the Company for up to a maximum of twelve months.

Effective as of February 11, 2019, Douglas Satzman was appointed by the Company's board of directors as the Chief Executive Officer of the Company and as a director of the Company.

Reverse Stock Split

On February 22, 2019, The Company filed a certificate of amendment to its amended and restated certificate of incorporation with the Secretary of State of the State of Delaware to effect a 1-for-20 reverse stock split of the Company's shares of Common Stock. Such amendment and ratio were previously approved by the Company's stockholders and board of directors, respectively.

As a result of the reverse stock split, every twenty (20) shares of the Company's pre-reverse split Common Stock were combined and reclassified into one (1) share of Common Stock. Proportionate voting rights and other rights of Common Stock holders were affected by the reverse stock split. Stockholders who would have otherwise held a fractional share of Common Stock received payment in cash in lieu of any such resulting fractional shares of Common Stock as the post-reverse split amounts of Common Stock were rounded down to the nearest full share. Such cash payment in lieu of a fractional share of Common Stock was calculated by multiplying such fractional interest in one share of Common Stock by the closing trading price of the Company's Common Stock on February 22, 2019, and rounded to the nearest cent. No fractional shares were issued in connection with the reverse stock split.

The Company's Common Stock began trading on the Nasdaq Capital Market on a post-reverse split basis at the open of business on February 25, 2019.

Dispositions

On October 20, 2017, the Company sold FLI Charge to a group of private investors and FLI Charge management, who now own and operate FLI Charge. In February 2019, the Company entered into an agreement to release FLI Charge's obligation to pay any royalties on FLI Charge's perpetual gross revenues with regard to conductive wireless charging, power, or accessories, and to cancel its warrants exercisable in FLI Charge in exchange for cash proceeds of $1,100, which were received in full on February 15, 2019.

On March 22, 2018, the Company sold Group Mobile to a third party. The Company has not provided any continued management or financing support to FLI Charge or Group Mobile.

Rebranding

On January 5, 2018, the Company changed its name to XpresSpa Group, Inc. from FORM Holdings Corp, which aligned the Company's corporate strategy to build a pure-play health and wellness services company. The Company's Common Stock, par value $0.01 per share, which had previously been listed under the trading symbol "FH" on the Nasdaq Capital Market, has been listed under the trading symbol "XSPA" since January 8, 2018.

Sale of Patents

In January 2018, the Company sold certain patents to Crypto Currency Patent Holdings Company LLC, a unit of Marathon Patent Group, Inc. (“Marathon”), for approximately $1,250, comprised of $250 in cash and 250,000 shares of Marathon Common Stock valued at approximately $1,000 at the time of the transaction. The Marathon Common Stock was subject to a lockup period (the “Lockup Period”) which commenced on the transaction date and ended on July 11, 2018, subject to a leak-out provision. The Marathon Common Stock is recognized as a cost method investment and, as such, was required to be measured at cost on the date of acquisition, which, as of the transaction date, approximated fair value. The fair value of the Marathon Common Stock was estimated by multiplying the number of shares as they become tradeable by the price per share as of the transaction date; however, due to the fact that the Marathon Common Stock is restricted during the Lockup Period, the Company applied a discount on the lack of marketability to estimate the fair value at the measurement date. The fair value of the consideration as of the Transaction Date was determined to be $450.

Collaboration Agreement

On November 12, 2018, the Company entered into a Product Sale and Marketing Agreement (the “Collaboration Agreement”) with Calm.com, Inc. (“Calm”) primarily related to the display, marketing, promotion, offer for sale and sale of Calm’s products in each of the Company’s branded stores throughout the United States.

The Collaboration Agreement will remain in effect until July 31, 2019, unless terminated earlier in accordance with its terms, and automatically renew for successive terms of six months unless either party provides written notice of termination no later than thirty days prior to any such automatic renewal.

Financings

Secured Convertible Notes

On May 15, 2018, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with certain institutional investors (the “Investors”), pursuant to which the Company agreed to sell up to (i) an aggregate principal amount of $4,438 in 5% Secured Convertible Notes due on November 16, 2019, which included $88 of convertible notes issued to Palladium Capital Advisors as Placement Agent (the “Convertible Notes”), convertible into shares of its Common Stock at a conversion price of $12.40 per share, (ii) Class A Warrants (the “Class A Warrants”) to purchase 357,862 shares of Common Stock at an exercise price of $12.40 per share and (iii) Class B Warrants (the “Class B Warrants,” and together with the Class A Warrants, the “Warrants”) to purchase 178,931 shares of Common Stock at an exercise price of $12.40 per share. The Convertible Notes bear interest at a rate of 5% per annum. The Convertible Notes are senior secured obligations of the Company and are secured by certain of its personal property. Unless earlier converted or redeemed, the Convertible Notes will mature on November 16, 2019. The transaction closed on May 17, 2018, at which time the Company received $4,350 in gross proceeds from the Investors.

The principal amount of the outstanding Convertible Notes was originally to be repaid monthly in the amount of approximately $296, beginning on September 17, 2018, and the Company may make such payments and related interest payments in cash or, subject to certain conditions, in registered shares of its Common Stock (or a combination thereof), at its election. If the Company chooses to repay the Convertible Notes in shares of its Common Stock, the shares will be issued at a 10% discount to the volume weighted average price of its Common Stock for the five (5) trading days commencing eight (8) days prior to the relevant repayment date and ending on the fourth (4^{th}) trading day prior to such repayment date, subject to a minimum floor price of not less than 20% of the conversion price of the Convertible Notes on the issue date. The Company may also repay the Convertible Notes in advance of the maturity schedule subject to an early repayment penalty of 15%.

On August 14, 2018, the Company entered into an Amendment Agreement (the “First Amendment Agreement”) whereby the initial monthly principal repayment and accrued interest due on the Convertible Notes of $351 was settled in 103,350 shares of Common Stock on August 15, 2018. All other material terms of the Securities Purchase Agreement remained unchanged. During the year ended December 31, 2018, several of the Investors converted their monthly principal payments and accrued interest due on the Convertible Notes into shares of Common Stock pursuant to the First Amendment Agreement, resulting in the issuance of an additional 377,109 shares of Common Stock.

On December 11, 2018, the Company entered into a Second Amendment Agreement (the "Second Amendment Agreement") whereby each Holder waived the Company's obligation to make any monthly payments for the months of January, February and March 2019. Pursuant to the Second Amendment Agreement, each Holder was permitted to convert its pro-rata share of the Convertible Notes, at a conversion price of $4.00 per share of Common Stock, such that the maximum number of shares to be issued pursuant to the Second Amendment Agreement shall not exceed 250,000 shares of Common Stock. All other material terms of the Securities Purchase Agreement remained unchanged. During the three months ended March 31, 2019, five investors converted a portion of their allotted shares, in settlement of $465, into shares of Common Stock pursuant to the Second Amendment Agreement, resulting in the issuance of an additional 179,555 shares of Common Stock.

Collaboration Agreement and Series E Preferred Stock Financing

In connection with the entry into the Collaboration Agreement, the Company entered into a stock purchase agreement (the "Purchase Agreement") with Calm, pursuant to which the Company issued to Calm an aggregate of 32,258 shares of the Company's newly designated Series E Convertible Preferred Stock, par value $0.01 per share (the "Series E Preferred Stock"), which are initially convertible into 161,290 shares of Common Stock, par value $0.01 per share, at a conversion price of $12.40 per share, subject to certain adjustments. The purchase price per share of the Series E Preferred Stock was $62.00 per share for gross proceeds to the Company of $2,000. In addition, on December 28, 2018, in satisfaction of the conditions under the Purchase Agreement, the Company sold, and Calm purchased, 16,129 additional shares of Series E Preferred Stock (the "Additional Series E Shares"), which are initially convertible into 80,645 shares of Common Stock at a conversion price of $12.40 per share, subject to certain adjustments, for gross proceeds to the Company of $1,000. The sale of Additional Series E Shares were on the same terms and conditions as those contained in the Purchase Agreement.

Note 2. Accounting and Reporting Policies

(a) Basis of presentation and principles of consolidation

The unaudited interim condensed financial statements, which have been derived from audited financial statements, have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and the instructions to Rule 10-01 of Regulation S-X, and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The condensed consolidated financial statements include the accounts of the Company, all entities that are wholly-owned by the Company, and all entities in which the Company has a controlling financial interest. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected by the Company. Such adjustments are of a normal, recurring nature. The results of operations for the three-month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the entire fiscal year or for any other interim period. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Use of estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from such estimates. Significant items subject to such estimates and assumptions include the Company's intangible assets, the useful lives of the Company's intangible assets, the valuation of the Company's derivative warrant liabilities, the valuation of stock-based compensation, deferred tax assets and liabilities, income tax uncertainties, and other contingencies.

(c) Cash and cash equivalents

The Company maintains cash in checking accounts with financial institutions. The Company has established guidelines relating to diversification and maturities of its investments in order to minimize credit risk and maintain high liquidity of funds. Cash equivalents include amounts due from third-party financial institutions for credit and debit card transactions which typically settle in less than five days. As of March 31, 2019 and December 31, 2018, cash and cash equivalents included $622 and $260 of credit card receivables, respectively. As of March 31, 2019, the Company held significant portions of its cash balance in overseas accounts, totaling $1,424, which is not insured by the Federal Deposit Insurance Corporation ("FDIC"). If the Company were to distribute the amounts held overseas, the Company would need to follow an approval and distribution process as defined in its operating and partnership agreements, which may delay and/or reduce the availability of cash to the Company. In addition, as of March 31, 2019, there was an additional $428 of restricted cash held by a third party recorded as restricted cash on the condensed consolidated balance sheets.

(d) Right-of-use assets and lease liability

The right-of-use asset represents a lessee's right to use an asset over the life of a lease. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. The amortization period for the right-of-use asset is from the lease commencement date to the earlier of the end of the lease term or the end of the useful life of the asset.

The addition of these items on the balance sheet is in accordance with ASU 2016-02 issued by FASB. This standard requires operating leases to be recorded on the balance sheet as assets and liabilities and requires disclosure of key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations and comprehensive loss.

See “(h) Recently issued accounting pronouncements” below for more details.

(e) Revenue recognition

The Company recognizes revenue from the sale of XpresSpa products and services at the point of sale, net of discounts and applicable sales taxes. Revenues from the XpresSpa wholesale and e-commerce businesses are recorded at the time goods are shipped. Accordingly, the Company recognizes revenue for its single performance obligation related to both in-store and online sales at the point at which the service has been performed or the control of the merchandise has passed to the customer. The Company excludes all sales taxes assessed to its customers. Sales taxes assessed on revenues are included in accounts payable, accrued expenses and other current liabilities in the condensed consolidated balance sheets until remitted to the state agencies.

The Company also has a franchise agreement with an unaffiliated franchisee to operate an XpresSpa location. The Company has identified the franchise right as a distinct performance obligation that transfers over time, and therefore any portion of the non-recurring initial franchise fee that is allocated to the franchise right should be recognized over the course of the contract rather than all upfront as would be the case with distinct performance obligations. Under the Company’s franchising model, all initial franchising fees relate to the franchise right and therefore are recognized over the course of the contract which commences upon signing of the agreement. Upon receipt of the non-recurring, non-refundable initial franchise fee, management records a deferred revenue asset and recognizes revenue on a straight-line basis over the contract term. As of March 31, 2019, there were no franchise royalty revenues as operations have not yet commenced. Once operations commence, franchise royalty revenue will be recorded in the period earned.

Other revenue relates to one-time intellectual property licenses as well as the sale of certain of the Company’s intellectual property. Revenue from patent licensing is recognized when the Company transfers promised intellectual property rights to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those intellectual property rights. Currently, revenue arrangements related to intellectual property provide for the payment of contractually determined fees and other consideration for the grant of certain intellectual property rights related to the Company’s patents. These rights typically include some combination of the following: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patents, (ii) the release of the licensee from certain claims, and (iii) the dismissal of any pending litigation. The intellectual property rights granted typically extend until the expiration of the related patents. Pursuant to the terms of these agreements, the Company has no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on the Company’s part to maintain or upgrade the related technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement, or upon receipt of the upfront payment. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, receipt of the upfront fee, and transfer of the promised intellectual property rights.

(f) Cost of sales

Cost of sales for the Company’s wellness operating segment consists of store-level costs. Store-level costs include all costs that are directly attributable to the store operations and include:

- payroll and related benefits for store operations and store-level management;
- rent, percentage rent and occupancy costs;
- the cost of merchandise;
- freight, shipping and handling costs;
- production costs;
- inventory shortage and valuation adjustments, including purchase price allocation increase in fair values which was recorded as part of acquisition; and
- costs associated with sourcing operations.

Cost of sales for the Company’s intellectual property operating segment mainly includes expenses incurred in connection with the Company’s patent licensing and enforcement activities, patent-related legal expenses paid to external patent counsel (including contingent legal fees), licensing and enforcement related research, consulting and other expenses paid to third parties, as well as related internal payroll expenses.

(g) Fair value measurements

The Company measures fair value in accordance with FASB ASC 820-10, *Fair Value Measurements and Disclosures*. FASB ASC 820-10 clarifies that fair value is an exit price, representing the amount that would be received by selling an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, FASB ASC 820-10 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

(h) Recently issued accounting pronouncements

ASU No. 2016-02, Leases (Topic 842)
This standard provides new guidance related to accounting for leases and supersedes GAAP on lease accounting with the intent to increase transparency. This standard requires operating leases to be recorded on the balance sheet as assets and liabilities and requires disclosure of key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations and comprehensive loss.

In 2016, FASB issued ASU 2016-02, Leases, and several amendments (collectively, “ASU 2016-02”), which requires the Company to recognize assets and liabilities arising from most operating leases on the consolidated statements of financial condition. In 2018, the FASB issued ASU 2018-11, Targeted Improvements (“ASU 2018-11”), which provides a transition option to not apply the new lease standard to the comparative periods presented in the consolidated statements of financial condition. Under this transition option, the Company shall apply the new leases standard at the adoption date and recognizes any cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The Company adopted ASU 2016-02 effective for the fiscal year beginning after December 15, 2018 on a modified retrospective basis. The Company applied the transition option permitted by ASU 2018-11 and elected the package of practical expedients to alleviate certain operational and reporting complexities related to the adoption. The Company recognized right-of-use assets and lease liabilities for its current operating leases of $9,565 as of March 31, 2019 upon adoption of ASU 2016-02.

ASU No. 2014-15, Presentation of Financial Statements — Going Concern, Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern
This standard requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. Substantial doubt about an entity’s ability to continue as a going concern exists when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Management’s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The amendments in this Update are effective for the annual period beginning after December 15, 2016. See Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” for management’s assessment and conclusion for the three months ended March 31, 2019.

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments
This standard changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to an expected loss model and adds certain new required disclosures. Under the expected loss model, entities will recognize estimated credit losses to be incurred over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. The new standard is effective for the fiscal year beginning after December 15, 2019, with early adoption permitted. The Company is currently in the process of evaluating the potential impact of the adoption on its consolidated financial statements.

ASU No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815)
This standard provides new guidance to address the complexity of accounting for certain financial instruments with down round features. The amendments of this ASU change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. A down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. A freestanding equity-linked financial instrument (or embedded conversion feature) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. The new standard is effective for the fiscal year beginning after December 15, 2018 with early adoption permitted. The Company early adopted this standard effective January 1, 2018. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities
This standard was created to provide more specific guidance and to simplify the application of hedge accounting in current U.S. GAAP to facilitate financial reporting that more closely reflects an entity's risk management activities. The new standard is effective for the fiscal year beginning after December 15, 2018. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
This standard provides guidance on the reclassification of certain tax effects from AOCI to retained earnings in the period in which the effects of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. The new standard is effective for the fiscal year beginning after December 15, 2018. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement
This amendment provides updates to the disclosure requirements on fair value measures in Topic 820 which includes the changes in unrealized gains and losses in other comprehensive income for recurring Level 3 fair value measurements, the option of additional quantitative information surrounding unobservable inputs and the elimination of disclosures around the valuation processes for Level 3 measurements. The new standard is effective for the fiscal year beginning after December 15, 2019. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

Note 3. Net Loss per Share of Common Stock

The table below presents the computation of basic and diluted net loss per share of Common Stock, reflective of the impact of the 1:20 reverse stock split that became effective on February 22, 2019:

	Three months ended March 31,	
	2019	**2018**
Basic and diluted numerator:		
Net loss from continuing operations attributable to shares of common stock	$ (2,973)	$ (23,328)
Net loss from discontinued operations attributable to shares of common stock	—	(605)
Net loss attributable to the Company	$ (2,973)	$ (23,933)
Basic and diluted denominator:		
Basic shares of common stock outstanding	1,852,072	1,329,639
Basic loss per share of common stock from continuing operations	$ (1.61)	$ (17.54)
Basic loss per share of common stock from discontinued operations	—	(0.46)
Basic and diluted net loss per share of common stock	$ (1.61)	$ (18.00)
Net loss per share data presented excludes from the calculation of diluted net loss the following potentially dilutive securities, as they had an anti-dilutive impact:		
Both vested and unvested options to purchase an equal number of shares of common stock of the Company	147,500	178,979
Unvested RSUs to issue an equal number of shares of common stock of the Company	55,250	16,509
Warrants to purchase an equal number of shares of common stock of the Company	703,670	154,375
Preferred stock on an as converted basis	6,364,328	168,216
Convertible notes on an as converted basis	217,500	—
Total number of potentially dilutive instruments, excluded from the calculation of net loss per share	7,488,248	518,079

Note 4. Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash in the condensed consolidated balance sheets are comprised of the following as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Cash denominated in United States dollars	$ 832	$ 2,000
Cash denominated in currency other than United States dollars	1,430	1,143
Restricted cash	428	487
Credit and debit card receivables	622	260
Total cash, cash equivalents, and restricted cash	$ 3,312	$ 3,890

Note 5. Other Assets

Other assets in the condensed consolidated balance sheets are comprised of the following as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Cost method investments	$ 2,482	$ 2,482
Lease deposits	901	894
Other assets	$ 3,383	$ 3,376

As of March 31, 2019, the Company's other assets included:

- $1,625 cost method investment in Route1 Inc. ("Route1"), which the Company received from the disposition of Group Mobile in March 2018;
- $787 cost method investment in InfoMedia Services Limited ("InfoMedia"), which the Company acquired in 2014;
- $23 cost method investment in Marathon Patent Group, Inc. ("Marathon"), which the Company acquired in January 2018;
- $47 cost method investment in FLI Charge, which the Company received from the disposition of FLI Charge in October 2017; and
- $901 deposits made pursuant to various lease agreements, which will be returned to the Company at the end of the leases.

Note 6. Intangible Assets

The following table provides information regarding the Company's intangible assets, which consist of the following:

	March 31, 2019			December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount	Weighted average amortization period (years)
Trade name	$ 13,309	(5,032)	8,277	$ 13,309	$ (4,485)	$ 8,824	5.75
Customer relationships	312	(312)	—	312	(312)	—	1.75
Software	312	(85)	227	312	(69)	243	2.75
Patents	26,897	(26,802)	95	26,897	(26,797)	100	13.44
Total intangible assets	$ 40,830	(32,231)	8,599	$ 40,830	$ (31,663)	$ 9,167	

The Company's trade name relates to the value of the XpresSpa trade name, customer relationships represent the value of the loyalty customers, software relates to certain capitalized third-party costs related to a new point-of-sale system, and patents consist of intellectual property portfolios acquired from third parties.

The Company's intangible assets are amortized over their expected useful lives. During the three-months ended March 31, 2019, the Company recorded amortization expense of $568.

There were no impairment indicators related to any of the Company's amortizable intangible assets during the three months ended March 31, 2019 for the Company's continuing operations.

Note 7. Leases

The Company leases its retail space at various domestic and international airports. Additionally, the Company leases its corporate office and an additional retail space in New York. Certain leases entered by the Company fall under ASC 842 discussed in Note 2 above. The Company determines if an arrangement is a lease at inception and if it qualifies under ASC 842. Certain lease arrangements contain fixed payments throughout the term of the lease. Others involve a variable component to determine lease obligation in which a certain percentage of sales is used to calculate the lease payment.

Additionally, based on the requirements of operating and finance leased defined in ASC 842-10, all qualifying leases held by the Company are classified as an operating lease. Operating lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

See below table for the reconciliation as of March 31, 2019:

January 1, 2019	$ 10,440
New leases entered	—
Termination of existing qualifying leases	—
Amortization of lease obligation	(875)
March 31, 2019	$ 9,565

As of March 31, 2019, operating leases under ASC 842 contain the future minimum commitments:

Calendar Years ending December 31,		Amount
2019	$	2,947
2020		3,146
2021		2,504
2022		2,152
2023		1,238
Thereafter		1,039
Total lease payments	$	13,026
Less: incremental borrowing rate		(3,461)
Total lease liabilities	$	9,565

The weighted average remaining lease term and weighted average discount rate were as follows:

Weighted average remaining lease term (years)	4.31
Weighted average discount rate	11.24%

Supplemental cash flow information related to leases was as follows:

Cash paid for amounts included in the measurement of lease liabilities	1,213

Variable lease payment costs for the three months ended March 31, 2019 was $338.

Note 8. Segment Information

The Company's continuing operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the enterprise's CODM in deciding how to allocate resources and in assessing performance. As a result of the Company's transition to a pure-play health and wellness services company, it currently has one operating segment that is also its sole reporting unit, XpresSpa.

The Company currently operates in two geographical segments: the United States and all other countries. The following table represents the geographical revenue and segment operating loss for the three-month period ended March 31, 2019 and 2018, and total asset information as of March 31, 2019 and December 31, 2018. There were no concentrations of geographical revenue, segment operating loss or total assets related to any single foreign country that were material to the Company's condensed consolidated financial statements.

	Three months ended March 31,	
	2019	2018
Revenue		
United States	$ 10,971	$ 11,259
All other countries	1,259	1,341
Total revenue	12,230	12,600
Cost of sales		
United States	8,337	8,990
All other countries	761	787
Total cost of sales	9,098	9,777
Segment operating income (loss)		
United States	(2,263)	(23,276)
All other countries	146	220
Operating loss from continuing operations	(2,117)	(23,056)
Non-operating expense, net	(716)	(273)
Loss from continuing operations before income taxes	$ (2,833)	$ (23,329)

	March 31, 2019	December 31, 2018
Assets		
United States	$ 36,098	$ 27,809
All other countries	2,053	2,666
Assets held for disposal	109	109
Total assets	$ 38,260	$ 30,584

Note 9. Senior Secured Note and Convertible Notes

Senior Secured Notes

As part of the acquisition of XpresSpa, which was completed on December 23, 2016, the Company recorded the debt described below.

XpresSpa entered into a credit agreement and secured promissory note (the "Senior Secured Note") with Rockmore Investment Master Fund Ltd. ("Rockmore"), a related party, on April 22, 2015 that was amended on August 8, 2016. Rockmore is an investment entity controlled by the Company's Chairman of the Board of Directors, Bruce T. Bernstein.

The total principal of the Senior Secured Note is $6,500 payable in full upon maturity on December 31, 2019. In May 2017, per the original agreement and with Rockmore's consent, the Company elected to extend the maturity date of the Senior Secured Note from May 1, 2018 to May 1, 2019. No other material terms of the Senior Secured Note were modified. The Senior Secured Note bears 11.24% interest per year (based on 360 days in a year) that is payable as follows:

- 9.24% annual interest, calculated on a monthly basis, which is payable in arrears on the last business day of each month plus

- 2% annual interest, calculated on a monthly basis, which accrues monthly and becomes due and payable on the anniversary dates of the Senior Secured Note.

On May 14, 2018, the Company and Rockmore agreed to extend the maturity date of the Senior Secured Note from May 1, 2019 to December 31, 2019. No other material terms of the Senior Secured Note were modified. As consideration for the agreement to extend the maturity date of the Senior Secured Note and the consent to the Securities Purchase Agreement, the Company issued to Rockmore 250,000 Class A Warrants. These Class A Warrants were issued on the same terms and conditions as the Class A Warrants issued pursuant to the Securities Purchase Agreement. The warrants issued to Rockmore were classified as equity warrants in the condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018.

The Senior Secured Note can be prepaid by XpresSpa at a 4% penalty at any point at its election. The Senior Secured Note is secured by substantially all of the assets of XpresSpa. In addition, XpresSpa needs consent of Rockmore to incur any additional debt, except for:

- debt to finance acquisition, construction, or improvement of fixed and capital assets;

- performance bonds, bid bonds, appeal bonds, surety bonds, and similar;

- pension fund and employee benefit plan obligations;

- unsecured debt not exceeding $1,000;

- convertible notes not exceeding $5,000; and

- letters of credit, bank guarantees and others in the ordinary course of business.

In addition, Rockmore was entitled to certain reporting rights and annual audited financial information, which Rockmore waived in March 2017.

During the three-month periods ended March 31, 2019 and 2018, XpresSpa paid and recorded $183 of interest expense in connection with the Rockmore debt.

Convertible Notes

On May 15, 2018, the Company entered into the Securities Purchase Agreement with the Investors, pursuant to which the Company agreed to sell up to (i) an aggregate principal amount of $4,438 in the Convertible Notes, which includes $88 of Convertible Notes issued to Palladium Capital Advisors as Placement Agent, convertible into Common Stock at a conversion price of $12.40 per share, (ii) Class A Warrants to purchase 357,862 shares of Common Stock at an exercise price of $12.40 per share and (iii) Class B Warrants to purchase up to 178,931 shares of Common Stock at an exercise price of $12.40 per share. The Convertible Notes bear interest at a rate of 5% per annum. The Convertible Notes are senior secured obligations of the Company and are secured by certain of its personal property. Unless earlier converted or redeemed, the Convertible Notes will mature on November 16, 2019. The transaction closed on May 17, 2018.

The principal amount of the outstanding Convertible Notes was originally to be repaid monthly in the amount of $296, beginning on September 17, 2018, and the Company may make such payments and related interest payments in cash or, subject to certain conditions, in registered shares of Common Stock (or a combination thereof), at its election. If the Company chooses to repay the Convertible Notes in shares of Common Stock, the shares will be issued at a 10% discount to the volume weighted average price of Common Stock for the five (5) trading days commencing eight (8) days prior to the relevant repayment date and ending on the fourth (4^{th}) trading day prior to such repayment date, subject to a minimum floor price of not less than 20% of the conversion price of the Convertible Notes on the issue date. The Company may also repay the Convertible Notes in advance of the maturity schedule subject to an early repayment penalty of 15%.

On August 14, 2018, the Company and each of the Investors entered into an Amendment Agreement ("First Amendment Agreement") whereby the initial monthly principal repayment and accrued interest due on the Convertible Notes of $351 was settled in 2,067 shares of Common Stock on August 15, 2018. All other material terms of the Securities Purchase Agreement remained unchanged. During the three-month period ended September 30, 2018, several of the Investors converted their monthly principal payments and accrued interest due on the Convertible Notes into shares of Common Stock pursuant to the First Amendment Agreement, resulting in the issuance of an additional 2,737 shares of Common Stock.

On December 11, 2018, the Company entered into a Second Amendment Agreement ("Second Amendment Agreement") whereby certain investors waived the Company's obligation to make any monthly payments for the months of January, February and March 2019. Pursuant to the Second Amendment Agreement, each of such investors was permitted to convert its pro-rata share of the Convertible Notes, at a conversion price of $4.00 per share of Common Stock, such that the maximum number of shares to be issued pursuant to this amendment shall not exceed 250,000 shares of Common Stock. All other material terms of the Securities Purchase Agreement remained unchanged. During the three-month period ended December 31, 2018, one of the investors converted a portion of their allotted shares, in settlement of $23,000, into shares of Common Stock pursuant to the Second Amendment Agreement, resulting in the issuance of an additional 5,627 shares of Common Stock.

On April 16, 2019, the Company failed to make a minimum monthly payment as required pursuant to the Convertible Notes, which failure constitutes an event of default under the Convertible Notes. Pursuant to the terms of the Convertible Notes, upon an event of default, an Investor may elect to accelerate payment of the outstanding principal amount of such Investor's Convertible Note, liquidated damages and other amounts owing in respect thereof through the date of acceleration, which amounts become immediately due and payable in cash. As of May 15, 2019, no Investor has provided notice to the Company electing to exercise its right to accelerate payment.

The table below summarizes changes in the book value of the Convertible Notes from December 31, 2018 to March 31, 2019:

Book value as of December 31, 2018	$	1,986
Debt repayments in the period		(685)
Amortization of debt discount and debt issuance costs, included in interest expense		394
Book value as of March 31, 2019	$	1,695

The debt discount and debt issuance costs are amortized on a straight-line basis over the remaining term of the Convertible Notes. During the three months ended March 31, 2019, the Company recorded $394 of amortization of debt discount and debt issuance costs, which was included in interest expense for the three months ended March 31, 2019. Additionally, for the three months ended March 31, 2019, the Company recorded $26 of interest expense related to the Convertible Notes, which is included in interest expense.

Note 10. Fair Value Measurements

Derivative Warrant Liabilities

The following table presents the placement in the fair value hierarchy of derivative warrant liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018:

May 2018 Warrants

	Balance		Fair value measurement at reporting date using					
			Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)	
March 31,2019:								
A Warrants	$	324	$	—	$	—	$	324
Total	$	324	$	—	$	—	$	324
December 31, 2018:								
A Warrants	$	476	$	—	$	—	$	476
Total	$	476	$	—	$	—	$	476

The Company measures its derivative warrant liabilities at fair value. The derivative warrant liabilities were classified within Level 3 because they were valued using the Black-Scholes-Merton model, which utilizes significant inputs that are unobservable in the market. These derivative warrant liabilities were initially measured at fair value and are marked to market at each balance sheet date. The derivative warrant liabilities are recorded as derivative warrant liabilities in the condensed consolidated balance sheets and the revaluation of the derivative warrants liabilities is included in other non-operating income (expense) in the condensed consolidated statements of operations and comprehensive loss.

In addition to the above, the Company's financial instruments as of March 31, 2019 and December 31, 2018 consisted of cash and cash equivalents, trade and loan receivables, inventory, accounts payable and other current liabilities. The carrying amounts of all the aforementioned financial instruments approximate fair value because of the short-term maturities of these instruments.

The following table summarizes the changes in the Company's derivative warrant liabilities measured at fair value using significant unobservable inputs (Level 3) during the three months ended March 31, 2019:

December 31, 2018	$	476
Issuance of warrants		—
Decrease in fair value of the derivative warrant liabilities		(152)
March 31, 2019	$	324

Valuation processes for Level 3 Fair Value Measurements

Fair value measurement of the derivative warrant liabilities falls within Level 3 of the fair value hierarchy. The fair value measurements are evaluated by management to ensure that changes are consistent with expectations of management based upon the sensitivity and nature of the inputs.

May 2018 Warrants

March 31, 2019:

Description	Valuation technique	Unobservable inputs	Range
Derivative warrant liabilities – A Warrants	Black-Scholes-Merton	Volatility	69.1%
		Risk-free interest rate	2.26%
		Expected term, in years	4.13
		Dividend yield	0.00%

The fair value of B warrants is $0 as they expired during the first three months of 2019.

December 31, 2018:

Description	Valuation technique	Unobservable inputs	Range
Derivative warrant liabilities – A Warrants	Black-Scholes-Merton	Volatility	70.61%
		Risk-free interest rate	2.53%
		Expected term, in years	4.38
		Dividend yield	0.00%

Sensitivity of Level 3 measurements to changes in significant unobservable inputs

The inputs to estimate the fair value of the Company's derivative warrant liabilities were the current market price of the Company's Common Stock, the exercise price of the derivative warrant liabilities, their remaining expected term, the volatility of the Company's Common Stock price and the risk-free interest rate over the expected term. Significant changes in any of those inputs in isolation can result in a significant change in the fair value measurement.

Generally, an increase in the market price of the Company's shares of Common Stock, an increase in the volatility of the Company's shares of Common Stock, and an increase in the remaining term of the derivative warrant liabilities would each result in a directionally similar change in the estimated fair value of the Company's derivative warrant liabilities. Such changes would increase the associated liability while decreases in these assumptions would decrease the associated liability. An increase in the risk-free interest rate or a decrease in the differential between the derivative warrant liabilities' exercise price and the market price of the Company's shares of Common Stock would result in a decrease in the estimated fair value measurement and thus a decrease in the associated liability. The Company has not declared, and does not plan to declare, dividends on its Common Stock, and as such, there is no change in the estimated fair value of the derivative warrant liabilities due to the dividend assumption.

Note 11. Warrants*

The following table summarizes information about warrant activity during the three months ended March 31, 2019 year ended December 31, 2018:

	No. of warrants*	Weighted average exercise price*	Exercise price range*
December 31, 2018	703,669	$ 23.00	$ 12.40 – 100.00
Granted	—	—	—
Exercised	—	—	—
Expired	—	—	—
March 31, 2019	703,669	$ 23.00	$ 12.40 – 100.00

The Company's outstanding equity warrants as of March 31, 2019 consist of the following:

	No. outstanding*	Exercise price*	Remaining contractual life	Expiration Date
October 2015 Warrants	2,500	$ 100.00	2.04 years	April 15, 2021
December 2016 Warrants	125,000	$ 60.00	2.73 years	December 23, 2021
May 2018 Warrants	12,500	$ 12.40	4.63 years	November 17, 2023
Outstanding as of March 31, 2019	140,000			

The Company's outstanding derivative warrants as of December 31, 2018 consist of the following:

	No. outstanding*	Exercise price*	Remaining contractual life	Expiration Date
May 2015 Warrants	26,875	$ 60.00	1.09 years	May 4, 2020

*Adjusted to reflect the impact of the 1:20 reverse stock split that became effective on February 22, 2019.

Note 12. Stock-based Compensation*

The Company has a stock-based compensation plan available to grant stock options and RSUs to the Company's directors, employees and consultants. Under the 2012 Employee, Director and Consultant Equity Incentive Plan (the "Plan"), a maximum of 78,000 shares of Common Stock may be awarded. In 2015 and 2016, the Company amended the Plan so that a maximum number of shares of Common Stock that may be awarded was increased to 355,000. As of March 31, 2019, 108,549 shares were available for future grants under the Plan.

Total stock-based compensation expense for the three months ended March 31, 2019 and 2018 was $104 and $312, respectively.

During the three months ended March 31, 2019, 37,500 RSUs of the Company's shares of Common Stock, par value $0.20, were granted. These RSUs vest in full on February 10, 2019. No additional RSUs were granted, exercised, or expired during this period.

During the three months ended March 31, 2019, options to purchase 75,000 shares of Common Stock with an exercise price per share of $4.20 were granted. These options vest in substantially equal installments on each of the first four anniversaries of the grant date, February 10, 2019. Additionally, there were forfeitures of 29,478 shares of stock options during this period.

All share information is adjusted to reflect the impact of the 1:20 reverse stock split that became effective on February 22, 2019.

As of March 31, 2019, there was no aggregate intrinsic value associated with either the options outstanding or the options exercisable, as they were out-of-the-money. As of December 31, 2018, there was no aggregate intrinsic value associated with either the options outstanding or the options exercisable, as they were out-of-the-money. There were no options exercised during the three months ended March 31, 2019.

The Company did not recognize tax benefits related to its stock-based compensation as there is a full valuation allowance recorded.

Note 13. Related Party Transactions

On April 14, 2018, the Company entered into a consulting agreement with an employee of Mistral Equity Partners, which is a significant shareholder of the Company and whose Chief Executive Officer is a member of the Board of Directors of the Company, to consult on certain business-related matters. The total consideration is approximately $10 per month through June 30, 2019. The agreement may be terminated by either party at any time upon delivery of written notice. Pursuant to the agreement, the Company recorded consulting expense of $30 for the three months ended March 31, 2019.

Note 14. Property and Equipment

The following table summarizes information about property and equipment activity during the three months ended March 31, 2019 and 2018:

Balance of property and equipment as of January 1, 2018	$ 15,797
Additions	1,171
Depreciation expense	(1,040)
Balance of property and equipment as of March 31, 2018	15,928
Balance of property and equipment as of January 1, 2019	11,795
Additions	570
Depreciation expense	(1,076)
Balance of property and equipment as of March 31, 2019	$ 11,289

Property and equipment is comprised of three categories: leasehold improvements, furniture and fixtures, and other operating equipment.

During the three months ended March 31, 2019 and 2018, the Company recorded $1,076 and $1,047 of depreciation expense from continuing operations, respectively. Included in the depreciation expense from continuing operations for the three months ended March 31, 2019 and 2018 was a $0 and $131 expense, respectively, for impairment of fixed assets in locations where the Company has obligations under long-term leases.

As of March 31, 2019 and December 31, 2018, the Company had capitalized $719 and $770, respectively, related to construction-in-progress based on percentage of completion of each in-progress project.

	March 31, 2019	December 31, 2018	Useful Life
Furniture and fixtures	$ 1,137	$ 1,264	3-4 years
Leasehold improvements	17,872	18,932	Average 5-8 years
Other operating equipment	1,477	2,322	Maximum 5 years
	20,486	22,518	
Accumulated depreciation	(9,197)	(10,723)	
Total property and equipment, net	$ 11,289	$ 11,795	

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the shorter of remaining lease term or economic useful life (which is on average 5-8 years).

Note 15. Other Current Assets

As of March 31, 2019 and December 31, 2018, the Company's other current assets were comprised of the following:

	March 31, 2019	December 31, 2018
Prepaid expenses	$ 918	$ 1,204
Other	204	261
Total other current assets	$ 1,122	$ 1,465

Prepaid expenses are predominantly comprised of prepaid insurance policies which have terms of one year or less.

Note 16. Accounts Payable, Accrued Expenses and Other Current Liabilities

As of March 31, 2019 and December 31, 2018, the Company's accounts payable, accrued expenses and other current liabilities were comprised of the following:

	March 31, 2019	December 31, 2018
Accounts payable	$ 4,880	$ 3,825
Accrued expenses	1,464	1,704
Accrued compensation	1,082	1,126
Tax-related liabilities	683	719
Gift certificates and loyalty reward program liabilities	671	674
Other	15	84
Total accounts payable, accrued expenses and other current liabilities	$ 8,795	$ 8,132

Note 17. Discontinued Operations and Assets and Liabilities Held for Disposal

FLI Charge

On October 20, 2017 (the "Closing Date"), the Company sold FLI Charge, a wholly-owned subsidiary included in its discontinued technology operating segment, to a group of private investors and FLI Charge management, to own and operate FLI Charge. The Company did not provide any continued management or financing support to FLI Charge after the Closing Date.

Total consideration for the sale of FLI Charge was $1,250, payable in installments. Additionally, the Company is entitled to a 5% royalty, in perpetuity, on the gross revenue of FLI Charge and of any affiliate of FLI Charge with regard to conductive wireless charging, power, or accessories. During the three months ended March 31, 2019, the Company received a buyout from the royalty agreement in the amount of $1,184. This is reflected in "Other" revenue on the condensed consolidated statements of operation. The Company also received a warrant exercisable in FLI Charge or an affiliate of FLI Charge upon an initial public offering or certain defined events in connection with a change of control. The warrant had a five-year life and is based on a valuation of the lesser of $30,000 or the financing valuation of FLI Charge preceding the initial public offering or certain defined events.

Group Mobile

On March 7, 2018 (the "Signing Date"), the Company entered into a membership purchase agreement (the "Purchase Agreement") with Route1 Security Corporation, a Delaware corporation (the "Buyer"), and Route1 Inc., an Ontario corporation ("Route1"), pursuant to which the Buyer agreed to acquire Group Mobile, a wholly-owned subsidiary included in its discontinued technology operating segment, (the "Disposition"). The transaction closed on March 22, 2018 (the "Closing Date"), after which the Company no longer had any involvement with Group Mobile.

In consideration for the Disposition, the Buyer issued to the Company:

- 2,250,000 shares of common stock of Route1 ("Route1 Common Stock");
- warrants to purchase 30,000,000 shares of Route1 Common Stock, which feature an exercise price of CAD 5 cents per share of Common Stock and will be exercisable for a three-year period; and
- certain other payments over the three-year period pursuant to an earn-out provision in the Purchase Agreement.

The Company retained certain inventory with a value of $555, which was to be disposed of separately from the transaction with Route1 in the first half of 2018. Of this amount, $110 was sold and the remaining inventory excluded from the transaction was subsequently determined to be obsolete and unsalable and was fully written off in June 2018. Assets held for disposal includes $109 of accounts receivable, net of allowance, associated with the sale of the inventory excluded from the transaction with Route1.

Post-closing, the Company owned approximately 6.7% of Route1 common stock. The Route1 common stock is not tradable until a date no earlier than 12 months after the Closing Date; 50%, or 12,500,000 shares, of Route1 common stock are tradeable after 12 months plus an additional 2,083,333 shares of Route1 common stock are tradeable each month until 18 months after the Closing Date, subject to a change of control provision. The Company has the ability to sell the Route1 common stock and warrants to qualified institutional investors. The Group Mobile Purchase Agreement also contains representations, warranties, and covenants customary for transactions of this type.

The total consideration of the Disposition is recognized as a cost method investment and, as such, was measured at cost on the date of acquisition, which, as of the Closing Date, approximated fair value. The fair value of the total consideration as of the Closing Date was determined to be $1,625, which was less than the carrying value of the asset, and is included in other assets in the condensed consolidated balance sheets as of December 31, 2018. This resulted in a loss on disposal of $301, which is included in consolidated net loss from discontinued operations in the condensed consolidated statement of operations and comprehensive loss for the three months ended March 31, 2018.

The value of the total consideration for the Group Mobile disposition was determined using a combination of valuation methods including:

(i) The value of the Route 1 common stock was determined to be $308, which was estimated by multiplying the number of shares as they become tradeable by the price per share as of the Closing Date.

(ii) The value of the warrants was determined to be $176, which was obtained using the Black-Scholes-Merton model.

(iii) The value of the earn-out provision was determined to be $1,141, which was estimated using a Monte-Carlo simulation analysis.

The sale of Group Mobile was completed on March 22, 2018. The Company did not have any involvement with Group Mobile post transaction.

Operating Results and Assets and Liabilities Held for Sale

The following table presents the components of the consolidated net loss from discontinued operations, as presented in the condensed consolidated statements of operations and comprehensive loss for the three-month periods ended March 31, 2019 and March 31, 2018:

	Three months ended March 31,	
	2019	2018
Revenue	$ —	$ 2,834
Cost of sales	—	(2,305)
Depreciation and amortization	—	(131)
General and administrative	—	(680)
Loss on disposal	—	(301)
Non-operating income (expense), net	—	(22)
Loss from discontinued operations before income taxes	—	(605)
Income tax benefit (expense)	—	—
Consolidated net loss from discontinued operations	$ —	$ (605)

In addition, the following table presents the carrying amounts of the major classes of assets and liabilities held for sale as of March 31, 2019 and December 31, 2018, as presented in the condensed consolidated balance sheets:

	March 31, 2019	December 31, 2018
Accounts receivable, net	$ 109	$ 109
Assets held for disposal	$ 109	$ 109
Accounts payable, accrued expenses and other current liabilities	$ 40	$ 40
Liabilities held for disposal	$ 40	$ 40

Note 18. Income Taxes

The Company’s provision for income taxes consists of federal, state, local, and foreign taxes in amounts necessary to align the Company’s year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. Each quarter, the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as deemed necessary. The income tax provisions for the three-month period ended March 31, 2019 reflect an estimated global annual effective tax rate of approximately (.73)%.

As of March 31, 2019, deferred tax assets generated from the Company’s activities in the United States were offset by a valuation allowance because realization depends on generating future taxable income, which, in the Company’s estimation, is not more likely than not to be generated before such net operating loss carryforwards expire. Net operating losses generated for tax years beginning after December 31, 2017 do not expire. The Company expects its effective tax rate for its current fiscal year to be significantly lower than the statutory rate as a result of a full valuation allowance; therefore, any loss before income taxes does not generate a corresponding income tax benefit.

Income tax benefit for the three-month period ended March 31, 2019 of $10 was attributable primarily to the reduction to the valuation allowance as a result of the Tax Cuts and Jobs Act's impact on the lives of net operating losses. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from current estimates. Although the Company has an immaterial amount of uncertain tax positions, the Company does not expect to record any additional material provisions for unrecognized tax benefits in the next year.

Note 19. Commitments and Contingencies

Litigation and legal proceedings

Certain of the Company's outstanding legal matters include speculative claims for substantial or indeterminate amounts of damages. The Company regularly evaluates developments in its legal matters that could affect the amount of any potential liability and makes adjustments as appropriate. Significant judgment is required to determine both the likelihood of there being any potential liability and the estimated amount of a loss related to the Company's legal matters.

With respect to the Company's outstanding legal matters, based on its current knowledge, the Company's management believes that the amount or range of a potential loss will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties. The Company evaluated the outstanding legal matters and assessed the probability and likelihood of the occurrence of liability. Based on management's estimates, the Company recorded $290 as of December 31, 2018 and $250 as of December 31, 2017, which are included in accounts payable, accrued expenses and other current liabilities in the condensed consolidated balance sheets.

The Company expenses legal fees in the period in which they are incurred.

Cordial

Effective October 2014, XpresSpa terminated its former Airport Concession Disadvantaged Business Enterprise ("ACDBE") partner, Cordial Endeavor Concessions of Atlanta, LLC ("Cordial"), in several store locations at Hartsfield-Jackson Atlanta International Airport.

Cordial filed a series of complaints with the City of Atlanta, both before and after the termination, in which Cordial alleged, among other things, that the termination was not valid and that XpresSpa unlawfully retaliated against Cordial when Cordial raised concerns about the joint venture. In response to the numerous complaints it received from Cordial, the City of Atlanta required the parties to engage in two mediations.

After the termination of the relationship with Cordial, XpresSpa sought to substitute two new ACDBE partners in place of Cordial.

In April 2015, Cordial filed a complaint with the United States Federal Aviation Administration ("FAA"), which oversees the City of Atlanta with regard to airport ACDBE programs, and, in December 2015, the FAA instructed that the City of Atlanta review XpresSpa's request to substitute new partners in lieu of Cordial and Cordial's claims of retaliation. In response to the FAA instruction, pursuant to a corrective action plan approved by the FAA, the City of Atlanta held a hearing in February 2016 and ruled in favor of XpresSpa such substitution and claims of retaliation. Cordial submitted a further complaint to the FAA claiming that the City of Atlanta was biased against Cordial and that the City of Atlanta's decision was wrong. In August 2016, the parties met with the FAA. On October 4, 2016, the FAA sent a letter to the City of Atlanta directing that the City of Atlanta retract previous findings on Cordial's allegations and engage an independent third party to investigate issues previously decided by Atlanta. The FAA also directed that the City of Atlanta determine monies potentially due to Cordial.

On January 3, 2017, XpresSpa filed a lawsuit in the Supreme Court of the State of New York, County of New York, against Cordial and several related parties. The lawsuit alleges breach of contract, unjust enrichment, breach of fiduciary duty, fraudulent inducement, fraudulent concealment, tortious interference, and breach of good faith and fair dealing. XpresSpa is seeking damages, declaratory judgment, rescission/termination of certain agreements, disgorgement of revenue, fees and costs, and various other relief. On February 21, 2017, the defendants filed a motion to dismiss. On March 3, 2017, XpresSpa filed a first amended complaint against the defendants. On April 5, 2017, Cordial filed a motion to dismiss. On September 12, 2017, the Court held a hearing on the motion to dismiss. On November 2, 2017, the Court granted the motion to dismiss which was entered on November 13, 2017. On December 22, 2017, XpresSpa filed a notice of appeal, and on September 24, 2018, XpresSpa perfected its appellate rights and submitted a brief to the Supreme Court of New York, First Department appellate court. Oral arguments on the appeal are expected to take place in early 2019. Oral argument on the appeal went forward on March 20, 2019, and the Company expects the court to rule on the appeal in the coming months.

On March 30, 2018, Cordial filed a lawsuit against XpresSpa, a subsidiary of XpresSpa, and several additional parties in the Superior Court of Fulton County, Georgia, alleging the violation of Cordial's civil rights, tortious interference, breach of fiduciary duty, civil conspiracy, conversion, retaliation, and unjust enrichment. Cordial has threated to seek punitive damages, attorneys' fees and litigation expenses, accounting, indemnification, and declaratory judgment as to the status of the membership interests of XpresSpa and Cordial in the joint venture and Cordial's right to profit distributions and management fees from the joint venture. On May 3, 2018, the Court issued an order extending the time for the defendants to respond to Cordial's lawsuit until June 25, 2018. On May 4, 2018, the defendants moved the lawsuit to the United States District Court for the Northern District of Georgia. On June 5, 2018, the Court granted an extension of time for the defendants' response until August 17, 2018. On August 9, 2018, the Court granted an additional extension of time for the defendants' response until September 7, 2018, and thereafter provided another extension pending the Court's consideration of XpresSpa's Motion to Stay all action in the Georgia lawsuit, pending resolution of the New York lawsuit and the FAA action. On October 29, 2018, XpresSpa's Motion to Stay was denied. Prior to resolution of the Motion to Stay, Cordial filed a Motion for Temporary Restraining Order ("TRO Motion"), seeking to enjoin the defendants and specifically XpresSpa, from, among other things, distributing any cash flow, net profits, or management fees, or otherwise expending resources beyond necessary operation expenses. XpresSpa filed an opposition and, in a decision entered December 26, 2018, the Court denied Cordial's TRO Motion entirely. Defendants filed a Motion to Dismiss the Complaint in its entirety on November 20, 2018, which is pending decision by the Court.

In re Chen et al.

In March 2015, four former XpresSpa employees who worked at XpresSpa locations in John F. Kennedy International Airport and LaGuardia Airport filed a putative class and collective action wage-hour litigation in the United States District Court, Eastern District of New York. *In re Chen et al.*, CV 15-1347 (E.D.N.Y.). Plaintiffs claim that they and other spa technicians around the country were misclassified as exempt commissioned salespersons under Section 7(i) of the federal Fair Labor Standards Act ("FLSA"). Plaintiffs also assert class claims for unpaid overtime on behalf of New York spa technicians under the New York Labor Law, and discriminatory employment practices under New York State and City laws. On July 1, 2015, the plaintiffs moved to have the court authorize notice of the FLSA misclassification claim sent to all employees in the spa technician job classification at XpresSpa locations around the country in the last three years. Defendants opposed the motion. On February 16, 2016, the Magistrate Judge assigned to the case issued a Report & Recommendation, recommending that the District Court Judge grant the plaintiffs' motion. On March 1, 2016, the defendants filed Opposition to the Magistrate Judge's Report & Recommendation, arguing that the District Court Judge should reject the Magistrate Judge's findings. On September 23, 2016, the court ruled in favor of the plaintiffs and conditionally certified the class. The parties held a mediation on February 28, 2017 and reached an agreement on a settlement in principle. On September 6, 2017, the parties entered into a settlement agreement. On September 15, 2017, the parties filed a motion for settlement approval with the Court. XpresSpa subsequently paid the agreed-upon settlement amount to the settlement claims administrator to be held in escrow pending a fairness hearing and final approval by the Court. On March 30, 2018, the Court entered a Memorandum and Order denying the motion without prejudice to renewal due to questions and concerns the Court had about certain settlement terms. On April 24, 2018, the parties jointly submitted a supplemental letter to the Court advocating for the fairness and adequacy of the settlement and appeared in Court on April 25, 2018 for a hearing to discuss the settlement terms in greater detail with the assigned Magistrate Judge. At the conclusion of the hearing, the Court still had questions about the adequacy and fairness of the settlement terms, and the Judge asked that the parties jointly submit additional information to the Court addressing the open issues. The parties submitted such information to the Court on May 18, 2018 and are awaiting the Court's ruling on the open issues.

Binn v. FORM Holdings Corp. et al.

On November 6, 2017, Moreton Binn and Marisol F, LLC, former stockholders of XpresSpa, filed a lawsuit against the Company and its directors in the United States District Court for the Southern District of New York. The lawsuit alleged violations of various sections of the Securities Exchange Act of 1934 ("Exchange Act"), material omissions and misrepresentations (negligent and fraudulent), fraudulent omission, expropriation, breach of fiduciary duties, aiding and abetting, and unjust enrichment in the defendants' conduct related to the Company's acquisition of XpresSpa, and sought rescission of the transaction, damages, equitable and injunctive relief, fees and costs, and various other relief. On January 17, 2018, the defendants filed a motion to dismiss the complaint. On February 7, 2018, the plaintiffs amended their complaint. On February 28, 2018, the defendants filed a motion to dismiss the amended complaint. By March 30, 2018, the motion to dismiss was fully briefed. On August 7, 2018, the Court ruled on the defendants' motion, dismissing eight of the plaintiffs' ten claims and denying the defendants' motion to dismiss with respect to the two remaining claims, related to the Exchange Act. On October 30, 2018, the Court ordered that the plaintiffs could file an amended complaint and, in response, the defendants could move for summary judgment. Consistent with the Court's Order, on November 16, 2018, the plaintiffs filed a second amended complaint, modifying their allegations, and asserting claims pursuant to the Exchange Act and the Securities Act of 1933, as well as bringing a breach of contract claim. On December 17, 2018, the defendants filed a motion for summary judgment seeking dismissal of all claims. On February 1, 2019, the plaintiffs filed an opposition to defendants' motion and a counter motion for partial summary judgment concerning one of the alleged misstatements. The defendants' motion for summary judgment was fully briefed as of March 1, 2019. The plaintiffs' partial motion for summary judgment was fully briefed as of March 15, 2019, and is pending before the Court.

On April 29, 2019, an emergency hearing was held before the Court in which the plaintiff sought a temporary restraining order and preliminary injunction to preclude acceleration of the maturity on the Senior Secured Note. The Court entered a temporary restraining order, while allowing parties the opportunity to brief the issue. The Court will hear oral arguments on the preliminary injunction on June 14, 2019.

Kainz v. FORM Holdings Corp. et al.

On March 20, 2019, a second suit was commenced in the United States District Court for the Southern District of New York against FORM Holdings Corp., seven of its directors and former directors, as well as a managing director of Mistral Equity Partners. The individual plaintiff, Roman Kainz, who was a shareholder of XpresSpa Holdings, LLC at the time of its merger with FORM Holdings Corp, alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by making false statements concerning, *inter alia*, the merger and the independence of FORM Holdings Corp.'s board of directors, violated Section 12(2) of the Securities Act of 1933, breached the Merger Agreement by making false and misleading statements concerning the merger, and fraudulently induced Plaintiff into signing the joinder agreement related to the Merger. This suit seeks rescission of the transaction, damages, equitable and injunctive relief, fees and costs, and various other relief. On May 8, 2019, the defendants filed a motion to dismiss the entire action. The motion is expected to be fully briefed by June 19, 2019.

Route1

On May 23, 2018, Route1 and Group Mobile filed a Statement of Claim against the Company in the Ontario (Canada) Superior Court of Justice seeking monetary damages based on indemnity claims made by Route1 and Group Mobile pursuant to the Group Mobile Purchase Agreement, including an offset against funds payable to the Company by Route1 and Group Mobile pursuant to the Group Mobile Purchase Agreement. On August 13, 2018, the Company filed its Defense and Counterclaim, seeking the payment of such funds payable to the Company by Route1 and Group Mobile pursuant to the Group Mobile Purchase Agreement.

Rodger Jenkins v. XpresSpa Group, Inc.

In March 2019, Rodger Jenkins filed a lawsuit against the Company in the United States District Court for the Southern District of New York. The lawsuit alleges breach of contract of the stock purchase agreement related to the Company's acquisition of Excalibur Integrated Systems, Inc. and seeks specific performance, compensatory damages and other fees, expenses and costs.

Intellectual Property

The Company is engaged in litigation related to certain of the intellectual property that it owns, for which no liability is recorded, as the Company does not expect a material negative outcome.

In addition to those matters specifically set forth herein, the Company and its subsidiaries are involved in various other claims and legal actions that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these actions will have a material adverse effect on the Company’s financial position, results of operations, liquidity, or capital resources. However, a significant increase in the number of these claims, or one or more successful claims under which the Company incurs greater liabilities than the Company currently anticipates, could materially adversely affect the Company’s business, financial condition, results of operations and cash flows.

In the event that an action is brought against the Company or one of its subsidiaries, the Company will investigate the allegation and vigorously defend itself.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained herein that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipates," "believes," "can," "continues," "could," "estimates," "expects," "intends," "may," "will be," "plans," "projects," "seeks," "should," "targets," "will," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2018 filed on April 1, 2019, as subsequently amended on April 30, 2019 (the "2018 Annual Report") and this Quarterly Report on Form 10-Q and any future reports we file with the Securities and Exchange Commission ("SEC"). The forward-looking statements set forth herein speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements, except as required by law.

All references in this Quarterly Report on Form 10-Q to "we," "us" and "our" refer to XpresSpa Group, Inc., a Delaware corporation, and its condensed consolidated subsidiaries.

Overview

On January 5, 2018, we changed our name to XpresSpa Group, Inc. ("XpresSpa Group" or the "Company") from FORM Holdings Corp. Our Common Stock, par value $0.01 per share, which had previously been listed under the trading symbol "FH" on the Nasdaq Capital Market, has been listed under the trading symbol "XSPA" since January 8, 2018. Rebranding to XpresSpa Group aligned our corporate strategy to build a pure-play health and wellness services company, which we commenced following our acquisition of XpresSpa Holdings, LLC ("XpresSpa") on December 23, 2016.

As a result of the transition to a pure-play health and wellness services company, we currently have one operating segment that is also our sole reporting unit, XpresSpa, a leading airport retailer of spa services. XpresSpa is a well-recognized airport spa brand with 55 locations, consisting of 50 domestic and 5 international locations as of March 31, 2019. XpresSpa offers travelers premium spa services, including massage, nail and skin care, as well as spa and travel products. For the three-month period ended March 31, 2019 and 2018, XpresSpa generated $12,230,000 and $11,800,000 of revenue, respectively. For the three-month period ended March 31, 2019, approximately 88% of XpresSpa's total revenue was generated by services, primarily massage and nailcare, and 12% was generated by retail products, primarily travel accessories.

In October 2017, we completed the sale of FLI Charge, Inc. ("FLI Charge") and in March 2018, we completed the sale of Group Mobile Int'l LLC ("Group Mobile"). These two entities previously comprised our technology operating segment. The results of operations for Group Mobile are presented in the condensed consolidated statements of operations and comprehensive loss as consolidated net loss from discontinued operations. The carrying amounts of assets and liabilities belonging to Group Mobile as of December 31, 2018 are presented in the condensed consolidated balance sheets as assets held for disposal and liabilities held for disposal, respectively.

Liquidity and Going Concern

As of March 31, 2019, we had approximately $2,884,000 of cash and cash equivalents, $2,003,000 of inventory and other current assets and $109,000 of assets held for disposal, which amount to total current assets of $4,996,000. The Company's total current liabilities balance, which includes accounts payable, accrued expenses, debt, and Convertible Notes, was $17,030,000 as of March 31, 2019. The working capital deficiency of $12,024,000 as of March 31, 2019 includes $1,695,000 of convertible notes classified as short-term for which principal repayments may be made in shares of Common Stock at the Company's election, subject to certain conditions.

The Company has aggressively reduced operating and overhead expenses and generated positive cash flows for the three months ended March 31, 2019. While the Company continues to focus on its overall profitability, the Company expects to incur net losses in the foreseeable future. As discussed above and elsewhere in this Annual Report on Form 10-K, the report of our independent registered public accounting firm on our financial statements for the years ended December 31, 2018 and 2017 includes an explanatory paragraph indicating that there is substantial doubt about our ability to continue as a going concern. The receipt of this explanatory paragraph with respect to our financial statements for the years ended December 31, 2018 and 2017 will result in a breach of a covenant under the Senior Secured Note which, if unremedied for a period of 30 days after the date hereof, will constitute an event of default under the Senior Secured Note. Upon the occurrence of an event of default under the Senior Secured Note, Rockmore may, among other things, declare the Senior Secured Note and all accrued and unpaid interest thereon and all other amounts owing under the Senior Secured Note to be due and payable. If the maturity date of the Senior Secured Note is accelerated as a result of the event of default referenced above, an event of default under the Convertible Notes would be triggered. If an event of default under the Convertible Notes occurs, the outstanding principal amount of the Convertible Notes, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the holder's election, immediately due and payable in cash.

We have taken actions to improve our overall cash position and access to liquidity by exploring valuable strategic partnerships, right-sizing our corporate structure, and stream-lining our operations. We expect that the actions taken will enhance our liquidity and financial environment. In addition, we expect to generate additional liquidity through the monetization of certain investments and other assets. We expect that these actions will be executed in alignment with the anticipated timing of our liquidity needs. There can be no assurance, however, that any such opportunities will materialize.

Our historical operating results indicate that there is substantial doubt related to the Company's ability to continue as a going concern. We believe it is probable that the actions discussed above will transpire and will successfully mitigate the substantial doubt raised by our historical operating results and will satisfy our liquidity needs 12 months from the issuance of the financial statements. However, we cannot reasonably predict with any certainty that the results of our planned actions will generate the expected liquidity required to satisfy our liquidity needs.

If we continue to experience operating losses, and we are not able to generate additional liquidity through the actions described above or through some combination of other actions, while not expected, we may not be able to access additional funds and we might need to secure additional sources of funds, which may or may not be available to us. Additionally, a failure to generate additional liquidity could negatively impact our access to inventory or services that are important to the operation of our business.

Recent Developments

CEO Transition

On February 8, 2019, Edward Jankowski resigned as Chief Executive Officer of the Company and as a director of the Company. Mr. Jankowski's resignation was not as a result of any disagreement with the Company on any matters related to the Company's operations, policies or practices. Mr. Jankowski will receive termination benefits including $375,000 payable in equal installments over a twelve-month term commencing on February 13, 2019 and COBRA continuation coverage paid in full by the Company for up to a maximum of twelve months.

Effective as of February 11, 2019, Douglas Satzman was appointed by our board of directors as the Chief Executive Officer of the Company and as a director of the Company.

Reverse Stock Split

On February 22, 2019, we filed a certificate of amendment to our amended and restated certificate of incorporation with the Secretary of State of the State of Delaware to effect a 1-for-20 reverse stock split of our shares of Common Stock. Such amendment and ratio were previously approved by our stockholders and board of directors, respectively.

As a result of the reverse stock split, every twenty (20) shares of our pre-reverse split Common Stock were combined and reclassified into one (1) share of Common Stock. Proportionate voting rights and other rights of Common Stock holders were affected by the reverse stock split. Stockholders who would have otherwise held a fractional share of Common Stock received payment in cash in lieu of any such resulting fractional shares of Common Stock as the post-reverse split amounts of Common Stock were rounded down to the nearest full share. Such cash payment in lieu of a fractional share of Common Stock was calculated by multiplying such fractional interest in one share of Common Stock by the closing trading price of our Common Stock on February 22, 2019, and rounded to the nearest cent. No fractional shares were issued in connection with the reverse stock split.

Our Common Stock began trading on the Nasdaq Capital Market on a post-reverse split basis at the open of business on February 25, 2019.

All shares referred to in the MD&A have been adjusted to reflect the 1-for-20 reverse stock split on February 22, 2019.

Dispositions

On October 20, 2017, we sold FLI Charge to a group of private investors and FLI Charge management, who now own and operate FLI Charge. In February 2019, the Company entered into an agreement to release FLI Charge's obligation to pay any royalties on FLI Charge's perpetual gross revenues with regard to conductive wireless charging, power, or accessories, and to cancel its warrants exercisable in FLI Charge in exchange for cash proceeds of $1,100,000 which were received in full on February 15, 2019.

On March 22, 2018, we sold Group Mobile to a third party. We have not provided any continued management or financing support to FLI Charge or Group Mobile.

Rebranding

On January 5, 2018, we changed our name to XpresSpa Group, Inc. from FORM Holdings Corp, which aligned our corporate strategy to build a pure-play health and wellness services company. Our Common Stock, par value $0.01 per share, which had previously been listed under the trading symbol "FH" on the Nasdaq Capital Market, has been listed under the trading symbol "XSPA" since January 8, 2018.

Sale of Patents

In January 2018, we sold certain patents to Crypto Currency Patent Holdings Company LLC, a unit of Marathon Patent Group, Inc. ("Marathon"), for approximately $1,250,000, comprised of $250,000 in cash and 250,000 shares of Marathon Common Stock valued at approximately $1,000,000 (the "Marathon Common Stock") at the time of the transaction. The Marathon Common Stock was subject to a lockup period (the "Lockup Period") which commenced on the Transaction Date and ended on July 11, 2018, subject to a leak-out provision.

Collaboration Agreement

On November 12, 2018, we entered into a Product Sale and Marketing Agreement (the "Collaboration Agreement") with Calm.com, Inc. ("Calm") primarily related to the display, marketing, promotion, offer for sale and sale of Calm's products in each of our branded stores throughout the United States.

The Collaboration Agreement will remain in effect until July 31, 2019, unless terminated earlier in accordance with its terms, and automatically renew for successive terms of six months unless either party provides written notice of termination no later than thirty days prior to any such automatic renewal.

Financings

Secured Convertible Notes

On May 15, 2018, we entered into a securities purchase agreement (the "Securities Purchase Agreement") with certain institutional investors (the "Investors"), pursuant to which we agreed to sell up to (i) an aggregate principal amount of $4,438,000 in 5% Secured Convertible Notes due on November 16, 2019, which included $88,000 issued to Palladium Capital Advisors as Placement Agent (the "Convertible Notes"), convertible into shares of our Common Stock, par value $0.01 per share (the "Common Stock") at a conversion price of $12.40 per share, (ii) Class A Warrants (the "Class A Warrants") to purchase 357,862 shares of Common Stock at an exercise price of $12.40 per share and (iii) Class B Warrants (the "Class B Warrants," and together with the Class A Warrants, the "Warrants") to purchase 178,931 shares of Common Stock at an exercise price of $12.40 per share. The Convertible Notes bear interest at a rate of 5% per annum. The Convertible Notes are senior secured obligations of ours and are secured by certain of our personal property. Unless earlier converted or redeemed, the Convertible Notes will mature on November 16, 2019. The transaction closed on May 17, 2018, at which time we received $4,350,000 in gross proceeds from the Investors.

The principal amount of the outstanding Convertible Notes is to be repaid monthly in the amount of approximately $296,000, beginning on September 17, 2018, and we may make such payments and related interest payments in cash or, subject to certain conditions, in registered shares of our Common Stock (or a combination thereof), at our election. If we choose to repay the Convertible Notes in shares of our Common Stock, the shares will be issued at a 10% discount to the volume weighted average price of our Common Stock for the five (5) trading days commencing eight (8) days prior to the relevant repayment date and ending on the fourth (4^{th}) trading day prior to such repayment date, subject to a minimum floor price of not less than 20% of the conversion price of the Convertible Notes on the issue date. We may also repay the Convertible Notes in advance of the maturity schedule subject to an early repayment penalty of 15%.

On August 14, 2018, we entered into an Amendment Agreement ("Amendment Agreement") whereby the initial monthly principal repayment and accrued interest due on the Convertible Notes of $351,000 was settled in 103,350 shares of Common Stock on August 15, 2018. All other material terms of the Securities Purchase Agreement remained unchanged.

On December 11, 2018, we entered into a Second Amendment Agreement ("Second Amendment Agreement") whereby each Holder waived the Company's obligation to make any Monthly Payments for the months of January, February and March 2019. Pursuant to the Second Amendment Agreement, each Holder was permitted to convert its pro-rata share of the Convertible Notes, at a conversion price of $4.00 per share of Common Stock, such that the maximum number of shares to be issued pursuant to this amendment shall not exceed 250,000 shares of Common Stock. All other material terms of the Securities Purchase Agreement remained unchanged.

Series E Preferred Stock Financing

In connection with the entry into the Collaboration Agreement, we entered into a stock purchase agreement (the "Purchase Agreement") with Calm, pursuant to which we issued to Calm an aggregate of 32,258 shares of our newly designated Series E Convertible Preferred Stock, par value $0.01 per share (the "Series E Preferred Stock"), which are initially convertible into 161,290 shares of Common Stock, par value $0.01 per share, at a conversion price of $12.40 per share, subject to certain adjustments. The purchase price per share of the Series E Preferred Stock was $62.00 per share for gross proceeds to us of $2,000,000. In addition, on December 28, 2018, in satisfaction of the conditions under the Purchase Agreement, we sold, and Calm purchased, 16,129 additional shares of Series E Preferred Stock (the "Additional Series E Shares"), which are initially convertible into 80,645 shares of Common Stock at a conversion price of $12.40 per share, subject to certain adjustments, for gross proceeds to us of $1,000,000. The sale of Additional Series E Shares were on the same terms and conditions as those contained in the Purchase Agreement.

Our Strategy and Outlook

XpresSpa regularly measures comparable store sales, which it defines as current period sales from stores opened more than 12 months compared to those same stores' sales in the prior year period ("Comp Store Sales"). The measurement of Comp Store Sales on a daily, weekly, monthly, quarterly and year-to-date basis provides an additional perspective on XpresSpa's total sales growth when considering the influence of new unit contribution. A reconciliation between Comp Store Sales and total revenue as reported on the financial statements is presented below:

	Three Months Ended March 31, 2019			Three Months Ended March, 31 2018			%
	Comp Store	Non-Comp Store	Total	Comp Store	Non-Comp Store	Total	
Revenue	$ 10,634,000	$ 412,000	$ 11,046,000	$ 10,772,000	$ 1,028,000	$ 11,800,000	(1.3)%

Comp Store Sales decreased 1.3% during the three months ended March 31, 2019 as compared to the same period in 2018. As of March 31, 2019, XpresSpa had 55 open locations; during the first quarter of 2019, XpresSpa closed one location.

We plan to grow XpresSpa by:

- continuing to focus on spa-level productivity and leveraging retail partnerships to increase units per transaction, which will contribute to the growth of the Comp Store Sales;
- through the opening of new locations; and
- through our franchising program, which was approved in January 2018, and for which we signed our first franchisee in November 2018 with our first franchise location scheduled to open in the summer of 2019.

Q1 2019 Adjusted EBITDA Loss

	Three months ended March 31, 2019	Three months ended March 31, 2018
Products and services revenue	$ 11,046,000	$ 11,800,000
Cost of sales		
Labor	(5,778,000)	(6,210,000)
Occupancy	(1,865,000)	(2,060,000)
Products and other operating costs	(1,438,000)	(1,443,000)
Total cost of sales	(9,081,000)	(9,713,000)
Gross profit	1,965,000	2,087,000
Gross profit as a % of total revenue	17.8%	17.7%
Depreciation, amortization and impairment		
Depreciation	(1,081,000)	(1,047,000)
Amortization	(568,000)	(606,000)
Goodwill impairment	—	(19,630,000)
Total depreciation, amortization and impairment	(1,649,000)	(21,283,000)
Total general and administrative expense	(3,600,000)	(4,596,000)
Other operating revenue and expense		
Other operating revenue	1,184,000	800,000
Other operating expense	(17,000)	(64,000)
Total other operating revenue, net	1,167,000	736,000
Operating loss from continuing operations	(2,117,000)	(23,056,000)
Add:		
Depreciation and amortization	1,649,000	1,653,000
Goodwill impairment	—	19,630,000
Stock-based compensation expense	104,000	312,000
Adjusted EBITDA loss	$ (364,000)	$ (1,461,000)

We use GAAP and non-GAAP measurements to assess the trends in our business, including Adjusted EBITDA, a non-GAAP measure, which we define as earnings before interest, tax, depreciation and amortization expense, excluding merger and acquisition, integration and one-time costs and stock-based compensation.

Adjusted EBITDA is a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP. Reconciliations of operating loss from continuing operations for the three-month periods ended March 31, 2019 and March 31, 2018 to Adjusted EBITDA loss are presented in the tables above.

We consider Adjusted EBITDA to be an important indicator for the performance of our business, but not a measure of performance or liquidity calculated in accordance with U.S. GAAP. We have included this non-GAAP financial measure because management utilizes this information for assessing our performance and liquidity, and as an indicator of our ability to make capital expenditures and finance working capital requirements. We believe that Adjusted EBITDA is a measurement that is commonly used by analysts and some investors in evaluating the performance and liquidity of companies such as us. In particular, we believe that it is useful for analysts and investors to understand this indicator because it excludes transactions not related to our core cash operating activities. We believe that excluding these transactions allows investors to meaningfully analyze the performance of our core cash operations. Adjusted EBITDA should not be considered in isolation or as an alternative to cash flow from operating activities or as an alternative to operating income or as an indicator of operating performance or any other measure of performance derived in accordance with GAAP. In evaluating our performance as measured by Adjusted EBITDA, we recognize and consider the limitations of this measurement. Adjusted EBITDA does not reflect our obligations for the payment of income taxes, interest expense, or other obligations such as capital expenditures. Accordingly, Adjusted EBITDA is only one of the measurements that management utilizes.

Results of Operations

Revenue

We recognize revenue from the sale of XpresSpa products and services at the point of sale, net of discounts and applicable sales taxes. Revenues from the XpresSpa wholesale and e-commerce businesses are recorded at the time goods are shipped. Accordingly, we recognize revenue for our single performance obligation related to both in-store and online sales at the point at which the service has been performed or the control of the merchandise has passed to the customer. We exclude all sales taxes assessed to our customers. Sales taxes assessed on revenues are included in accounts payable, accrued expenses and other current liabilities in the condensed consolidated balance sheets until remitted to the state agencies.

We also have a franchise agreement with an unaffiliated franchisee to operate an XpresSpa location. We have identified the franchise right as a distinct performance obligation that transfers over time, and therefore any portion of the non-recurring initial franchise fee that is allocated to the franchise right should be recognized over the course of the contract rather than all upfront as would be the case with distinct performance obligations. Under our franchising model, all initial franchising fees relate to the franchise right and therefore are recognized over the course of the contract which commences upon signing of the agreement. Upon receipt of the non-recurring, non-refundable initial franchise fee, management records a deferred revenue asset and recognizes revenue on a straight-line basis over the contract term. As of March 31, 2019, there were no franchise royalty revenues as operations have not yet commenced. Once operations commence, franchise royalty revenue will be recorded in the period earned.

Other revenue relates to one-time intellectual property licenses as well as the sale of certain of our intellectual property. Revenue from patent licensing is recognized when we transfer promised intellectual property rights to purchasers in an amount that reflects the consideration to which we expect to be entitled in exchange for those intellectual property rights. Currently, revenue arrangements related to intellectual property provide for the payment of contractually determined fees and other consideration for the grant of certain intellectual property rights related to our patents. These rights typically include some combination of the following: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patents, (ii) the release of the licensee from certain claims, and (iii) the dismissal of any pending litigation. The intellectual property rights granted typically extend until the expiration of the related patents. Pursuant to the terms of these agreements, we have no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on our part to maintain or upgrade the related technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement, or upon receipt of the upfront payment. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, receipt of the upfront fee, and transfer of the promised intellectual property rights.

Cost of sales

Cost of sales consists of store-level costs. Store-level costs include all costs that are directly attributable to the store operations and include:

- payroll and related benefits for store operations and store-level management;
- rent, percentage rent and occupancy costs;
- the cost of merchandise;
- freight, shipping and handling costs;
- production costs;
- inventory shortage and valuation adjustments, including purchase price allocation increase in fair values which was recorded as part of acquisition; and
- costs associated with sourcing operations.

Cost of sales associated with revenue from intellectual property mainly includes expenses incurred in connection with the Company's patent licensing and enforcement activities, patent-related legal expenses paid to external patent counsel (including contingent legal fees), licensing and enforcement related research, consulting and other expenses paid to third parties, as well as related internal payroll expenses.

Depreciation, amortization and impairment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of our property and equipment is based on estimates of the period over which we expect the assets to be of economic benefit to us. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease.

Amortization of our intangible assets are recognized on a straight-line basis over the remaining useful life of the intangible assets. Impairment charges related to our intangible assets are recorded when an impairment indicator exists and the carrying amount of the related asset exceeds its fair value.

General and administrative

General and administrative expenses include management and administrative personnel, public and investor relations, overhead/office costs, insurance and various other professional fees, as well as sales and marketing costs and stock-based compensation for management and administrative personnel.

Non-operating income (expense)

Non-operating income (expense) includes transaction gains (losses) from foreign exchange rate differences, bank charges, deposits, interest related to outstanding debt, as well as fair value adjustments related to our derivative warrant liabilities. The value of these derivative warrant liabilities is highly influenced by assumptions used in its valuation, as well as by our stock price as of the period end (revaluation date).

Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the enterprise's Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance. As a result of the Company's transition to a pure-play health and wellness services company, it currently has one operating segment that is also its sole reporting unit, XpresSpa.

The Company owns certain patent portfolios, which it looks to monetize through sales and licensing agreements. In the previous year, the Company determined that its former intellectual property operating segment would no longer be an area of focus and, as such, will no longer operate as a separate operating segment, as it is not expected to generate any material revenues or operating costs.

Three-month period ended March 31, 2019 compared to the three-month period ended March 31, 2018

Revenue

	Three months ended March 31,		
	2019	**2018**	**Change**
Revenue	$ 12,230,000	$ 12,600,000	$ (370,000)

During the three-month period ended March 31, 2019, we recorded total revenue of $12,230,000, which represents a decrease of $370,000 (or 2.9%) compared to the three-month period ended March 31, 2018. The decrease in revenue was mainly due to the loss of revenue from locations closed due renovations during the quarter. Additionally, the net loss of two stores as compared to last year contributed to a decrease in revenue compared to the first three months of 2018.

Cost of sales

	Three months ended March 31,		
	2019	**2018**	**Change**
Cost of sales	$ 9,098,000	$ 9,777,000	$ (679,000)

During the three-month period ended March 31, 2019, we recorded total cost of sales of $9,098,000, which represents a decrease of $679,000 (or 6.9%) compared to the three-month period ended March 31, 2018. This is consistent with the decrease in revenues, as we have experienced a decrease in cost of sales associated with labor and occupancy due to the closure of underperforming stores during 2018. As of March 31, 2019, we had 55 locations compared to 57 locations as of March 31, 2018.

The overall decrease in cost of sales is also consistent with initiatives taken by management to streamline processes and reduce store-level costs which included reduced warehousing and shipping charges.

Cost of sales is expected to grow over time as our revenues increase. We expect that total cost of sales as a percentage of revenues will decline gradually over time as a result of the store-level performance improvements which we continue to prioritize.

Depreciation, amortization and impairment

	Three months ended March 31,		
	2019	2018	Change
Depreciation and amortization	$ 1,649,000	$ 1,653,000	$ (4,000)

During the three-month period ended March 31, 2019, depreciation and amortization expense totaled $1,649,000, which represents a decrease of $4,000 (or under 1%), compared to the depreciation and amortization expense recorded during the three-month period ended March 31, 2018. This is consistent year over year, which is in line with management's expectations.

Goodwill impairment

	Three months ended March 31,		
	2019	2018	Change
Goodwill impairment	$ —	$ 19,630,000	$ (19,630,000)

There was $19,630,000 of goodwill impairment recorded during the three-month period ended March 31, 2018, which provided a 100% reserve against goodwill.

On January 5, 2018, we changed our name to XpresSpa Group as part of a rebranding effort to align our corporate strategy to build a pure-play health and wellness services company, which we commenced following our acquisition of XpresSpa on December 23, 2016. Following the subsequent sale of Group Mobile on March 22, 2018, which was the only remaining component of our technology operating segment, our management made the decision that our intellectual property operating segment would no longer be an area of focus and would no longer operate as a separate operating segment as it is not expected to generate any material revenues. This completed our transition into a pure-play health and wellness company with only one operating segment, consisting of our XpresSpa business.

During the first quarter of fiscal year 2018, our stock price declined from an opening price of $1.36 on January 2, 2018 to $0.72 on March 29, 2018. Subsequently, on April 19, 2018, we entered into a separation agreement with our Chief Executive Officer regarding his resignation as Chief Executive Officer and as our Director. These events were identified by our management as triggering events requiring that goodwill be tested for impairment as of March 31, 2018. In addition to our rebranding efforts to a pure-play health and wellness services company, our stock price continued to decline even after the announcement of the new Chief Executive Officer. As the stock price had not rebounded, we determined that the impairment related to the three-month period ended March 31, 2018. We performed testing on the estimated fair value of goodwill and, as a result, we recorded an impairment charge of $19,630,000 to reduce the carrying value of goodwill to its fair value, which was determined to be zero. The impairment to goodwill was a result of the structural changes to the Company, including completion of the transition from a holding company to a pure-play health and wellness company and the change in Chief Executive Officer.

General and administrative

	Three months ended March 31,		
	2019	2018	Change
General and administrative	$ 3,600,000	$ 4,596,000	$ (996,000)

During the three-month period ended March 31, 2019, general and administrative expenses decreased by $996,000 (or 21.7%) compared to the three-month period ended March 31, 2018. This decrease is a result of streamlined processes at the corporate level to reduce administrative costs, as well as a reduction in stock-based compensation expense.

Non-operating expense, net

	Three months ended March 31,		
	2019	2018	Change
Non-operating expense, net	$ (716,000)	$ (273,000)	$ (443,000)

Net non-operating expenses include interest expense, gain or loss on the revaluation of derivative warrant liabilities and other non-operating income and expenses.

During the three-month period ended March 31, 2019, we recorded net non-operating expense of $716,000 compared to net non-operating expense of $273,000 recorded during the three-month period ended March 31, 2018.

For the three-month period ended March 31, 2019, we recorded interest expense of $183,000 related to the Senior Secured Note, amortization of debt discount, debt issuance costs, and interest on the Convertible Notes of $592,000, and other non-operating expenses of $92,000. These non-operating expenses were partially offset by a gain of $152,000 on the revaluation of the derivative warrant liabilities that is reported as non-operating income.

For the three-month period ended March 31, 2018, we recorded interest expense of $183,000 related to the Senior Secured Note and other non-operating expenses of $123,000. This non-operating expense was partially offset by a gain of $33,000 on the revaluation of the derivative warrant liabilities.

Discontinued Operations

In March 2018, we completed the sale of Group Mobile, previously part of our technology operating segment. The results of operations for Group Mobile are presented in the condensed consolidated statements of operations and comprehensive loss as consolidated net loss from discontinued operations. As of March 31,2019 and 2018, total loss from discontinued operations was $0 and $605, respectively.

Liquidity and Capital Resources

Our primary liquidity and capital requirements are for current and new XpresSpa locations. As of March 31, 2019, we had cash and cash equivalents of $2,884,000. We hold significant portions of our cash balance in overseas accounts, totaling $1,430,000, which is not insured by the Federal Deposit Insurance Corporation ("FDIC"). If we were to distribute the amounts held overseas, we would need to follow an approval and distribution process as it is defined in our operating and partnership agreements, which may delay and/or reduce the availability of our cash to us. Our total cash decreased by $519,000 from $3,403,000 as of December 31, 2018 to $2,884,000 as of March 31, 2019.

We expect to utilize our cash and cash equivalents, along with cash flows from operations, to provide capital to support the growth of our business, primarily through opening new XpresSpa locations, maintaining our existing XpresSpa locations and supporting corporate functions.

As of March 31, 2019, we had approximately $2,884,000 of cash and cash equivalents, $2,003,000 of inventory and other current assets and $109,000 of assets held for disposal, which amount to total current assets of $4,996,000. Our total current liabilities balance, which includes accounts payable, accrued expenses, Convertible Notes, and liabilities held for disposal was $17,030,000 as of March 31, 2019. The working capital deficiency of $12,024,000 as of March 31, 2019 includes $1,695,000 of convertible notes classified as short-term liabilities for which principal repayments may be made in shares of Common Stock at our election.

While we have aggressively reduced operating and overhead expenses, and while we continue to focus on our overall profitability, we have continued to generate negative cash flows from operations and we expect to incur net losses in the foreseeable future. As discussed above and elsewhere in this Annual Report on Form 10-K, the report of our independent registered public accounting firm on our financial statements for the years ended December 31, 2018 and 2017 includes an explanatory paragraph indicating that there is substantial doubt about our ability to continue as a going concern. The receipt of this explanatory paragraph with respect to our financial statements for the years ended December 31, 2018 and 2017 will result in a breach of a covenant under the Senior Secured Note which, if unremedied for a period of 30 days after the date hereof, will constitute an event of default under the Senior Secured Note. Upon the occurrence of an event of default under the Senior Secured Note, Rockmore may, among other things, declare the Senior Secured Note and all accrued and unpaid interest thereon and all other amounts owing under the Senior Secured Note to be due and payable. If the maturity date of the Senior Secured Note is accelerated as a result of the event of default referenced above, an event of default under the Convertible Notes would be triggered. If an event of default under the Convertible Notes occurs, the outstanding principal amount of the Convertible Notes, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the holder's election, immediately due and payable in cash.

We have taken actions to improve our overall cash position and access to liquidity by exploring valuable strategic partnerships, right-sizing our corporate structure, and stream-lining our operations. We expect that the actions taken in 2018 and in the first quarter of 2019 will enhance our liquidity and financial environment. In addition, we expect to generate additional liquidity through the monetization of certain investments and other assets. We expect that these actions will be executed in alignment with the anticipated timing of our liquidity needs. There can be no assurance, however, that any such opportunities will materialize.

Our historical operating results indicate that there is substantial doubt related to the Company's ability to continue as a going concern. We believe it is probable that the actions discussed above will transpire and will successfully mitigate the substantial doubt raised by our historical operating results and will satisfy our liquidity needs 12 months from the issuance of the financial statements. However, we cannot reasonably predict with any certainty that the results of our planned actions will generate the expected liquidity required to satisfy our liquidity needs.

If we continue to experience operating losses, and we are not able to generate additional liquidity through the actions described above or through some combination of other actions, while not expected, we may not be able to access additional funds and we might need to secure additional sources of funds, which may or may not be available to us. Additionally, a failure to generate additional liquidity could negatively impact our access to inventory or services that are important to the operation of our business.

Off-Balance Sheet Arrangements

We have no obligations, assets or liabilities that would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

Critical Accounting Policies

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on April 1, 2019, as subsequently amended on April 30, 2019, which includes a description of our critical accounting policies that involve subjective and complex judgments that could potentially affect reported results. While there have been no material changes to our critical accounting policies as to the methodologies or assumptions we apply under them, we continue to monitor such methodologies and assumptions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required as we are a smaller reporting company.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of March 31, 2019, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding legal proceedings, see Note 18 “Commitments and Contingencies” in our notes to the condensed consolidated financial statements included in “Item 1. Financial Statements.”

Item 1A. Risk Factors.

There have been no material changes to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of XpresSpa Group, Inc., filed with the Secretary of State of the State of Delaware on February 22, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 22, 2019).
10.1†	Form of Executive Employment Agreement between XpresSpa Group, Inc. and Douglas Satzman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2019).
10.2†	Separation Agreement between the Company and Mr. Edward Jankowski, dated March 14, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 15, 2019).
10.3†	Non-Disclosure Agreement between the Company and Mr. Edward Jankowski, dated March 14, 2019 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 15, 2019).
10.4†	Amendment to Section 382 Rights Agreement, dated March 18, 2019, by and between the Company and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 22, 2019).
31*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Exchange Act, Rules 13a - 14(a) and 15d - 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certifications of Principal Executive Officer and Principal 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

*	Filed herewith.
**	Furnished herein.
†	Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XpresSpa Group, Inc.

Date:	May 15, 2019	By:	/s/ Douglas Satzman
			Douglas Satzman
			Chief Executive Officer
			(Principal Executive Officer)
			(Principal Financial and Accounting Officer)

Exhibit 31

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Douglas Satzman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of XpresSpa Group, 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. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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 first 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. I have disclosed, based on my 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.

Dated: May 15, 2019

/s/ DOUGLAS SATZMAN

Chief Executive Officer
(Principal Executive Officer)
(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

The Quarterly Report for the quarter ended March 31, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2019

/s/ DOUGLAS SATZMAN

Douglas Satzman
Chief Executive Officer
(Principal Executive Officer)
(Principal Financial and Accounting Officer)