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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 30, 2018

OR

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

Commission file number 001-38250

FAT Brands Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**08-2130269** **(I.R.S. Employer** **Identification No.)**

9720 Wilshire Blvd., Suite 500
Beverly Hills, CA 90212
(Address of principal executive offices, including zip code)

(310) 319-1850
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $.0001 par value, registered on the NASDAQ Capital Market

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

None

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

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K. [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[X]	Smaller reporting company	[X]
Emerging growth company	[X]		

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. [X]

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

The aggregate market value of voting common stock held by non-affiliated stockholders as of July 1, 2018 was approximately $14,564,000.

As of March 25, 2019, there were 11,807,349 shares of common stock outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein and certain statements contained in future filings by the Company with the SEC may not be based on historical facts and 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. All statements other than statements of historical facts contained in this Form 10-K may be forward-looking statements. Statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, including, among others, statements regarding expected new franchisees, brands, store openings and future capital expenditures are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions.

Forward-looking statements are subject to significant business, economic and competitive risks, uncertainties and contingencies, many of which are difficult to predict and beyond our control, which could cause our actual results to differ materially from the results expressed or implied in such forward-looking statements. These and other risks, uncertainties and contingencies are described in this Annual Report on Form 10-K, including under "Item 1A. Risk Factors", and the other reports that we file with the SEC from time to time.

These forward-looking statements speak only as of the date of this Form 10-K. Except as may be required by law, the Company does not undertake, and specifically disclaims any obligation, to publicly release the results of any revisions that may be made to any Forward-Looking Statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The following discussion and analysis should be read in conjunction with the Financial Statements of FAT Brands Inc. and the notes thereto included elsewhere in this filing. References in this filing to "the Company," "we," "our," and "us" refer to FAT Brands Inc. and its subsidiaries unless the context indicates otherwise.

PART I

ITEM 1. BUSINESS

Business Overview

FAT Brands Inc., formed in March 2017 as a wholly-owned subsidiary of Fog Cutter Capital Group, Inc. ("FCCG"), is a leading multi-brand restaurant franchising company that develops, markets, and acquires predominantly fast casual restaurant concepts around the world. As a franchisor, we generally do not own or operate restaurant locations, but rather generate revenue by charging franchisees an initial franchise fee as well as ongoing royalties. This asset light franchisor model provides the opportunity for strong profit margins and an attractive free cash flow profile while minimizing restaurant operating company risk, such as long-term real estate commitments or capital investments. Our scalable management platform enables us to add new stores and restaurant concepts to our portfolio with minimal incremental corporate overhead cost, while taking advantage of significant corporate overhead synergies. The acquisition of additional brands and restaurant concepts as well as expansion of our existing brands are key elements of our growth strategy.

As of December 30, 2018, we were the owner and franchisor of the following restaurant brands:

Fatburger. Founded in Los Angeles, California in 1947, Fatburger (The Last Great Hamburger Stand ^{TM}) has, throughout its history, maintained its reputation as an iconic, all-American, Hollywood favorite hamburger restaurant serving a variety of freshly made-to-order, customizable, big, juicy, and tasty Fatburgers, Turkeyburgers, Chicken Sandwiches, Impossible™ Burgers, Veggieburgers, French fries, onion rings, soft-drinks and milkshakes. With a legacy spanning over 70 years, Fatburger's dedication to superior quality inspires robust loyalty amongst its customer base and has long appealed to American cultural and social leaders. We have counted many celebrities and athletes as past franchisees and customers, and we believe this prestige has been a principal driver of the brand's strong growth. Fatburger offers a premier dining experience, demonstrating the same dedication to serving gourmet, homemade, custom-built burgers as it has since 1947. As of December 30, 2018, there were 158 franchised and sub-franchised Fatburger locations across 5 states and 18 countries.

Buffalo's Cafe. Established in Roswell, Georgia in 1985, Buffalo's Cafe (Where Everyone is Family ^{TM}) is a family-themed casual dining concept known for its chicken wings and 13 distinctive homemade wing sauces, burgers, wraps, steaks, salads and other classic American cuisine. Featuring a full bar and table service, Buffalo's Cafe offers a distinctive dining experience affording friends and family the flexibility to share an intimate dinner together or to casually watch sporting events while enjoying extensive menu offerings. Beginning in 2011, Buffalo's Express was developed and launched as a fast-casual, smaller footprint variant of Buffalo's Cafe offering a limited version of the full menu with an emphasis on chicken wings, wraps and salads. Current Buffalo's Express outlets are co-branded with Fatburger locations, providing our franchisees with complementary concepts that share kitchen space and result in a higher average unit volume (compared to stand-alone Fatburger locations). As of December 30, 2018, there were 18 franchised Buffalo's Cafe and 89 co-branded Fatburger / Buffalo's Express locations globally.

Ponderosa & Bonanza Steakhouse. Ponderosa Steakhouse, founded in 1965, and Bonanza Steakhouse, founded in 1963 (collectively, "Ponderosa"), offer the quintessential American steakhouse experience, for which there is strong and growing demand in international markets, particularly in Asia and the Middle East. Ponderosa and Bonanza Steakhouses offer guests a high-quality buffet and broad array of great tasting, affordably-priced steak, chicken and seafood entrées. Buffets at Ponderosa and Bonanza Steakhouses feature a large variety of all you can eat salads, soups, appetizers, vegetables, breads, hot main courses and desserts. An additional variation of the brand, Bonanza Steak & BBQ, offers a full-service steakhouse with fresh farm-to-table salad bar and a menu showcase of USDA flame-grilled steaks and house-smoked BBQ, with contemporized interpretations of traditional American classics. As of December 30, 2018, there were 85 Ponderosa and 14 Bonanza restaurants operating under franchise and sub-franchise agreements in 17 states in the United States, Canada, Puerto Rico, the United Arab Emirates, Egypt, Qatar and Taiwan.

Hurricane Grill & Wings. Founded in Fort Pierce, Florida in 1995, Hurricane Grill & Wings is a tropical beach themed casual dining restaurant known for its fresh, jumbo, chicken wings, 35 signature sauces, burgers, bowls, tacos, salads and sides. Featuring a full bar and table service, Hurricane Grill & Wings laid-back, casual, atmosphere affords family and friends the flexibility to enjoy dining experiences together regardless of the occasion. The acquisition of Hurricane Grill & Wings has been complementary to FAT Brands existing portfolio chicken wing brands, Buffalo's Cafe and Buffalo's Express. As of December 30, 2018, there were 56 franchised Hurricane Grill & Wings and 3 franchised Hurricane BTWs (Hurricane's fast-casual burgers, tacos & wings concept), across 9 states.

Yalla Mediterranean . Founded in 2014, Yalla Mediterranean is a Los Angeles-based restaurant chain specializing in authentic, healthful, Mediterranean cuisine with an environmentally conscience and focus on sustainability. The word "yalla" which means "let's go" is embraced in every aspect of Yalla Mediterranean's culture and is a key component of our concept. Yalla Mediterranean offers a healthful Mediterranean menu of wraps, plates, and bowls in a fast-casual setting, with cuisine prepared fresh daily using, GMO-free, local ingredients for a menu that includes vegetarian, vegan, gluten-free and dairy-free options accommodating customers with a wide variety of dietary needs and preferences. The brand demonstrates its commitment to the environment by using responsibly-sourced proteins and utensils, bowls and serving trays made from compostable materials. Each of Yalla's seven locations across California also feature on-tap selections of craft beers and fine wines. We intend to sell the existing Yalla locations to franchisees and expand the business through additional franchising.

Beyond our current brand portfolio, and the Hurricane Grill and Wings and Yalla Mediterranean acquisitions, we intend to acquire other restaurant franchise concepts that will allow us to offer additional food categories and expand our geographic footprint. In evaluating potential acquisitions, we specifically seek concepts with the following characteristics:

- established, widely-recognized brands;
- steady cash flows;
- track records of long-term, sustainable operating performance;
- good relationships with franchisees;
- sustainable operating performance;
- geographic diversification; and
- growth potential, both geographically and through co-branding initiatives across our portfolio.

Leveraging our scalable management platform, we expect to achieve cost synergies post-acquisition by reducing the corporate overhead of the acquired company – most notably in the legal, accounting and finance functions. We also plan to grow the top line revenues of newly acquired brands through support from our management and systems platform, including public relations, marketing and advertising, supply chain assistance, site selection analysis, staff training and operational oversight and support.

Our franchisee base consisted of 158 franchisees as of December 30, 2018. Of these franchisees, 136 operate in North America and 44 own multiple restaurant locations. System wide, our franchisees operated 334 restaurants as of December 30, 2018 (233 of which were located in North America), with store level sales in excess of $368 million in 2018. As of December 30, 2018, we had a total of 200 new unit development commitments which remain to be completed.

The FAT Brands Difference – Fresh. Authentic. Tasty.

Our name represents the values that we embrace as a company and the food that we provide to customers – Fresh. Authentic. Tasty (which we refer to as " **FAT** "). The success of our franchisor model is tied to consistent delivery by our restaurant operators of freshly prepared, made-to-order food that our customers desire. With the input of our customers and franchisees, we continually strive to keep a fresh perspective on our brands by enhancing our existing menu offerings and introducing appealing new menu items. When enhancing our offerings, we ensure that any changes are consistent with the core identity and attributes of our brands, although we do not intend to adapt our brands to be all things to all people. In conjunction with our restaurant operators (which means the individuals who manage and/or own our franchised restaurants), we are committed to delivering authentic, consistent brand experiences that have strong brand identity with customers. Ultimately, we understand that we are only as good as the last meal served, and we are dedicated to having our franchisees consistently deliver tasty, high-quality food and positive guest experiences in their restaurants.

In pursuing acquisitions and entering new restaurant brands, we are committed to instilling our FAT Brands values into new restaurant concepts. As our restaurant portfolio continues to grow, we believe that both our franchisees and diners will recognize and value this ongoing commitment as they enjoy a wider concept offering.

Competitive Strengths

We believe that our competitive strengths include:

- *Management Platform Built for Growth.* We have developed a robust and comprehensive management and systems platform that supports the expansion of our existing brands while enabling the accretive and efficient acquisition and integration of additional restaurant concepts. We dedicate our considerable resources and industry knowledge to promote the success of our franchisees, offering them multiple support services such as public relations, marketing and advertising, supply chain assistance, site selection analysis, staff training and operational oversight and support. Furthermore, our platform is scalable and adaptable, allowing us to incorporate new concepts into the FAT Brands family with minimal incremental corporate costs. We intend to grow our existing brands as well as make strategic and opportunistic acquisitions that complement our existing portfolio of concepts providing an entrance into targeted restaurant segments. We believe that our platform is a key differentiator in pursuing this strategy.

- *Asset Light Business Model Driving High Free Cash Flow Conversion.* We maintain an asset light business model requiring minimal capital expenditures by franchising our restaurant concepts to our owner / operators. The multi-brand franchisor model also enables us to efficiently scale the number of restaurant locations with very limited incremental corporate overhead and minimal exposure to store-level risk, such as long-term real estate commitments and increases in employee wage costs. Our multi-brand approach also gives us the organizational depth to provide a host of services to our franchisees, which we believe enhances their financial and operational performance. As a result, new store growth and accelerating financial performance of the FAT Brands network drive increases in our franchise fee and royalty revenue streams while expanding profit and free cash flow margins.

- *Strong Brands Aligned with FAT Brands Vision.* We have an enviable track record of delivering Fresh, Authentic, and Tasty meals across our franchise system. Our Fatburger and Buffalo's concepts have built distinctive brand identities within their respective segments, providing made-to-order, high-quality food at competitive prices. The Ponderosa and Bonanza brands deliver an authentic American steakhouse experience with which customers identify. Hurricane Grill & Wings offer customers fresh, jumbo chicken wings with an assortment of sauces and rubs in a casual dining atmosphere, while our newest acquisition, Yalla Mediterranean offers a healthful Mediterranean menu of wraps, plates, and bowls in a fast-casual setting. By maintaining alignment with the FAT Brands vision across an expanding platform, we believe that our concepts will appeal to a broad base of domestic and global consumers.

- *Experienced and Diverse Global Franchisee Network.* We have new restaurant commitments of over 200 locations across our brands. We anticipate that our current franchisees will open more than 30 new restaurants annually for at least the next five years. The acquisition of additional restaurant franchisors will also increase the number of restaurants operated by our existing franchisee network. Additionally, our franchise development team has built an attractive pipeline of new potential franchisees, with many experienced restaurant operators and new entrepreneurs eager to join the FAT Brands family.

- *Ability to Cross-Sell Existing Franchisees Concepts from the FAT Brands Portfolio.* Our ability to easily, and efficiently, cross-sell our existing franchisees new brands from our FAT Brands portfolio affords us the ability to grow more quickly and satisfy our existing franchisees' demands to expand their organizations. By having the ability to offer our franchisees a variety of concepts (i.e., a fast-casual better-burger concept, a fast-casual chicken wing concept, a casual dining concept and steakhouse concepts) from the FAT Brands portfolio, our existing franchisees are able to acquire the rights to, and develop, their respective markets with a well-rounded portfolio of FAT Brands concept offerings affording them the ability to strategically satisfy their respective market demands by developing our various concepts where opportunities are available.

- *Seasoned and Passionate Management Team.* Our management team and employees are critical to our success. Our senior leadership team has more than 200 years of combined experience in the restaurant industry, and many have been a part of our team since the acquisition of the Fatburger brand in 2003. We believe that our management team has the track record and vision to leverage the FAT Brands platform to achieve significant future growth. In addition, through their holdings in FCCG, our senior executives own a significant equity interest in the company, ensuring long-term commitment and alignment with our public shareholders. Our management team is complemented by an accomplished Board of Directors.

Growth Strategy

The principal elements of our growth strategy include:

- *Opportunistically Acquire New Brands* . Our management platform was developed to cost-effectively and seamlessly scale with new restaurant concept acquisitions. The recent acquisition of the Hurricane Grill & Wings and Yalla Mediterranean brands are a continuation of this growth strategy. We have identified food categories that appeal to a broad international base of customers, targeting the burgers, chicken, pizza, steak, coffee, sandwich and dessert segments for future growth. We have developed a strong and actionable pipeline of potential acquisition opportunities to achieve our objectives. We seek concepts with established, widely-recognized brands; steady cash flows; track records of long-term, good relationships with franchisees; sustainable operating performance; geographic diversification; and growth potential, both geographically and through co-branding initiatives across our portfolio. We approach acquisitions from a value perspective, targeting modest multiples of franchise-level cash flow valuations to ensure that acquisitions are immediately accretive to our earnings prior to anticipated synergies.

- *Optimize Capital Structure to Enable Profitable Growth through Acquisitions* . While we believe our existing business can be funded through cash generated from current operations, we intend to finance future acquisitions of restaurant brands through the issuance of debt and equity financing placed with investors and issued directly to sellers of restaurant brands. We are actively pursuing various financing alternatives, with the goal of reducing and optimizing our all-in cost of capital and providing us with the means to pursue larger and more profitable acquisitions.

- *Accelerate Same-Store Sales Growth.* Same-store sales growth reflects the change in year-over-year sales for the comparable store base, which we define as the number of stores open for at least one full fiscal year. To optimize restaurant performance, we have embraced a multi-faceted same-store sales growth strategy. We utilize customer feedback and closely analyze sales data to introduce, test and perfect existing and new menu items. In addition, we regularly utilize public relations and experiential marketing, which we leverage via social media and targeted digital advertising to expand the reach of our brands and to drive traffic to our stores. Furthermore, we have embraced emerging technology to develop our own brand-specific mobile applications, allowing guests to find restaurants, order online, earn rewards and join our e-marketing providers. We have also partnered with third-party delivery service providers, including UberEATS, Grub Hub, Amazon Restaurants and Postmates, which provide online and app-based delivery services and constitute a new sales channel for our existing locations. Finally, many of our franchisees are pursuing a robust capital expenditure program to remodel legacy restaurants and to opportunistically co-brand them with our Buffalo’s Express and / or Fat Bar concepts (serving beer, wine, spirits and cocktails).

- *Drive Store Growth through Co-Branding, Virtual Restaurants, and Cloud Kitchens.* We franchise co-branded Fatburger / Buffalo’s Express locations, giving franchisees the flexibility of offering multiple concepts, while sharing kitchen space, resulting in a higher average check (compared to stand-alone Fatburger locations). Franchisees benefit by serving a broader customer base, and we estimate that co-branding results in a 20%-30% increase in average unit volume compared to stand-alone locations with minimal incremental cost to franchisees. Our acquisition strategy reinforces the importance of co-branding, as we expect to offer each of the complementary brands that we acquire to our existing franchisees on a co-branded basis.

In addition to driving growth through co-branding opportunities, we are leveraging the current industry trend of virtual restaurants, whereby one (or more) of our brands serves its food out of the kitchen of another brand for online delivery only, and cloud kitchens, whereby restaurants open without a customer-facing store-front solely for the purpose of servicing delivery or virtual kitchens. Virtual restaurants and cloud kitchens allow us to introduce our brands in geographic areas where previously unknown such as introducing selected menu items from Hurricane Grill & Wings to the southern California market through the preparation in and delivery from Fatburger franchised restaurants via a program with UberEats.

- *Extend Brands into New Segments*. We have a strong track record of extending our brands into new segments, and we believe that we have a significant opportunity to capture new markets by strategically adapting our concepts while reinforcing the brand identity. In addition to dramatically expanding the traditional Buffalo's Cafe customer base through Fatburger / Buffalo's Express co-branding, we have also begun evaluating opportunities to leverage the Buffalo's brand by promoting Buffalo's Express on a stand-alone basis. Furthermore, we have also begun the roll-out of Fat Bars (serving beer, wine, spirits and cocktails), which we are opportunistically introducing to select existing Fatburger locations on a modular basis. Similarly, we plan to create smaller-scale, fast casual Ponderosa and Bonanza concepts, to drive new store growth, particularly internationally.

- *Continue Expanding FAT Brands Internationally*. We have a significant global presence, with international franchised stores in Canada, China, Qatar, Taiwan, Iraq, the United Kingdom, Indonesia, Tunisia, Singapore, Philippines, Panama, the United Arab Emirates, Kuwait, Saudi Arabia, Malaysia, Japan, Pakistan, and Egypt. We believe that the appeal of our Fresh, Authentic, and Tasty concepts is global, and we are targeting further penetration of Middle Eastern and Asian markets, particularly through leveraging the Buffalo's, Ponderosa and Hurricane brands.

- Enhance Footprint in Existing Markets through Current Franchisee Networks . We had 158 franchisees who collectively operated more than 334 restaurants as of December 30, 2018. As noted, our existing and new franchisees have made new store commitments of over 200 locations across our brands, and we anticipate that our new and existing franchisees will open more than 30 new stores annually for at least the next four years. Beyond these existing commitments, we have found that many of our franchisees have grown their businesses over time, increasing the number of stores operated in their organizations and expanding their concept offerings across the FAT Brands portfolio of concepts.

- *Attract New Franchisees in Existing and Unpenetrated Markets*. In addition to the large pipeline of new store commitments from current franchisees, we believe the existing markets for Fatburger, Buffalo's Cafe, Buffalo's Express, Ponderosa, Bonanza, Hurricane, and Yalla locations are far from saturated and can support a significant increase in units. Furthermore, new franchisee relationships represent the optimal way for our brands to penetrate geographic markets where we do not currently operate. In many cases, prospective franchisees have experience in and knowledge of markets where we are not currently active, facilitating a smoother brand introduction than we or our existing franchisees could achieve independently. We generate franchisee leads through various channels, including franchisee referrals, traditional and non-traditional franchise brokers and broker networks, franchise development advertising, and franchise trade shows and conventions.

Franchise Program – FAT Brands

General. We utilize a franchise development strategy as our primary method for new store growth by leveraging the interest of our existing franchisees and those potential franchisees with an entrepreneurial spirit looking to launch their own business. We have a rigorous franchisee qualification and selection process to ensure that each franchisee meets our strict brand standards.

Fatburger Franchise Agreements. For Fatburger locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store ($65,000 per store internationally) and a royalty fee of 2% to 6% of net sales on a 15-year term. For 2018, the average royalty rate was 4.9%. In addition, the franchisee must also pay an advertising fee of approximately 3% of net sales on local marketing and approximately 1% of net sales on international marketing.

Buffalo's Franchise Agreements. For Buffalo's Cafe and Buffalo's Express locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store and a royalty fee of 2.5% to 6% of gross sales on a 15-year term. For 2018, the average royalty rate was 3.9%. In addition, the Buffalo's Cafe franchisee agrees to pay an advertising fee of 2% of net sales on local marketing and 2% of net sales to the Buffalo's Cafe advertising fund. For Buffalo's Express locations, the franchisee pays approximately 1% of net sales on local store marketing and approximately 3% of net sales to the Buffalo's Express advertising fund.

Ponderosa / Bonanza Franchise Agreements. For Ponderosa locations, the current franchise agreement provides for an initial franchise fee of $40,000 per store and a royalty fee of 0.75% to 4% of net sales on a 15-year term. For 2018, the average royalty rate was 2.6%. In addition, currently franchisees are paying approximately 0.5% of net sales to a pooled advertising fund. For Bonanza locations, the current franchise agreement provides for an initial franchise fee of $40,000 per store and a royalty fee of 0.75% to 4% of net sales on a 15-year term. For 2018, the average royalty rate was 2.1%. In addition, currently franchisees are paying approximately 0.5% of net sales to a pooled advertising fund.

Hurricane Franchise Agreements. For Hurricane locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store and a royalty fee of 6% of net sales on a 15-year term. For 2018, the average royalty rate was 4.2%. In addition, the franchisee must also pay an advertising fee of 2% of net sales to a pooled advertising fund.

Yalla Mediterranean Franchise Agreements. Prior to our acquisition of Yalla Mediterranean in December 2018, the brand did not have a franchising program. We are currently in the process of converting the seven existing Yalla restaurants to franchise locations and developing a worldwide franchising effort similar to those of our other brands.

Development Agreements. We use development agreements to facilitate the planned expansion of Fatburger and Buffalo's restaurants through single and multiple unit development. During 2018, almost all of our new Fatburger and Buffalo's openings occurred as a result of existing development agreements. Each development agreement gives a developer the exclusive right to construct, own and operate Fatburger or Buffalo's stores within a defined area. In exchange, the franchisee agrees to open a minimum number of stores in the area in a prescribed time period. Franchisees that enter into development agreements are required to pay a fee, which is credited against franchise fees due when the store is opened in the future. Franchisees may forfeit such fees and lose their rights to future development if they do not maintain the required schedule of openings.

Franchisee Support – FAT Brands

Marketing

Our *Fresh, Authentic and Tasty* values are the anchor that inspires our marketing efforts. Our resolve to maintain our premium positioning, derived from the FAT Brands' values, is reinforced by our management platform, capital light business model, experienced and diverse global franchisee network and seasoned and passionate management team. Although our marketing and advertising programs are concept-specific, we believe that our patrons appreciate the value of their experiences visiting our establishments and, thus, the core of our marketing strategy is to engage and dialogue with customers at our restaurant locations as well as through social media.

Our *Fresh, Authentic and Tasty* values are an invitation for our guests to align with FAT Brands' commitment to consistently deliver freshly prepared, made-to-order food that customers desire. We are dedicated to keeping a fresh perspective on our concepts, perfecting our existing menu offerings as well as introducing appealing new items. We ensure that any changes are consistent with the core identity of our brands, and we will not adapt our brands to be all things to all people.

Our marketing initiatives include a robust mix of local community marketing, in-store campaigns, product placements, partnerships, promotions, social media, influencer marketing, traditional media and word of mouth advertising. Corresponding with the evolutionary shift in how customers receive content and engage with media and brands today, we have also dramatically increased our focus on mobile, social, and digital advertising to leverage the content we generate from public relations and experiential marketing in order to better connect with customers, sharing information about new menu offerings, promotions, new store openings and other relevant FAT Brands information. Currently, across our brands, we have over 17,500 Twitter followers, 75,000 Instagram followers and over 1,000,000 Facebook likes. We communicate with customers in creative and organic ways that fortify our connections with them and increase brand awareness.

Site Selection and Development.

Our franchisees work alongside our franchise development department during the search, review, leasing and development process for a new restaurant location. Typically, it takes between 60 and 90 days from the time we sign an agreement with a franchisee until that franchisee signs a lease. When selecting a location, our team assists franchisees in seeking locations with the following site characteristics:

- *Average Daily Traffic:* 35,000+ people
- *Access:* Easy, distinguishable, and preferably with signaled entry and intersection; two-to-three curb cuts to center and entry from two streets
- *Activity Generators:* Going home traffic side, easily accessible for lunchtime traffic (pedestrian and automobile), high-frequency specialty retail and storefront urban corridors with convenient parking
- *Lease Terms:* Five-year minimum with four five-year options; fixed rates preferred
- *Visibility:* Site and signage must be highly visible from street and/or traffic generators, ideally visible from at least 500 feet in two directions

Supply Chain Assistance

FAT Brands has always been committed to seeking out and working with best-in-class suppliers and distribution networks. Our *Fresh, Authentic and Tasty* vision guides us in how we source and develop our ingredients, always looking for the best ways to provide top quality food that is as competitively priced as possible for our franchisees and customers. We utilize a third-party purchasing and consulting company that provides distribution, rebate collection, product negotiations, audits and sourcing services focusing on negotiating distributor, vendor and manufacturer contracts, thereby ensuring that our brands receive meaningful buying power for our franchisees. Our Supply Chain team has developed a reliable supply chain and continues to focus on identifying additional back-ups to avoid any possible interruption of service and product globally. We have a regional strategy for ground beef supply to ensure that we are always serving our proprietary blend of freshly ground and never frozen beef in our stores in the continental United States. Internationally, we utilize the same strategy market-by-market in each country in which our franchisees operate. Only when a fresh never frozen beef option is unavailable do we procure frozen beef, which is then freshly ground in stores. Domestically, we have the same, Southern California based, beef supplier for all of our U.S. Fatburger locations. We have the same, South East United States based, beef supplier for Buffalo's Cafe. Ponderosa and Bonanza Steakhouses utilize contracted beef suppliers as does our Hurricane brand. Internationally, we have a select group of beef suppliers providing product to our franchisees market-by-market for each brand. We utilize the same procurement strategies for our poultry (chicken and turkey), veggie, hotdog and Mediterranean offerings.

Domestically, FAT Brands has distribution agreements with broadline national distributors as well as regional providers. Internationally, our franchisees have distribution agreements with different providers market-by-market. We utilize distribution centers operated by our distributors. Our broadline national distributors are the main purchasing link in the United States among many of our suppliers, and distribute most of our dry, refrigerated and frozen goods, non-alcoholic beverages, paper goods and cleaning supplies. Internationally, distributors are also used to provide the majority of products to our franchisees.

Food Safety and Quality Assurance . Food safety is a top priority of FAT Brands. As such, we maintain rigorous safety standards for our menu offerings. We have carefully selected preferred suppliers that adhere to our safety standards, and our franchisees are required to source their ingredients from these approved suppliers. Furthermore, our commitment to food safety is strengthened through the direct relationship between our Supply Chain and Field Consultant Assistance teams.

Management Information Systems. FAT Brands restaurants utilize a variety of back-office, computerized and manual, point-of-sale systems and tools, which we believe are scalable to support our growth plans. We utilize these systems following a multi-faceted approach to monitor restaurants operational performance, food safety, quality control, customer feedback and profitability.

The point-of-sale systems are designed specifically for the restaurant industry and we use many customized features to evaluate and increase operational performance, provide data analysis, marketing promotional tracking, guest and table management, high-speed credit card and gift card processing, daily transaction data, daily sales information, product mix, average transaction size, order modes, revenue centers and other key business intelligence data. Utilizing these point-of-sale systems back-end, web-based, enterprise level, software solution dashboards, our home office and Franchise Operations Consultant Support staff are provided with real-time access to detailed business data which allows for our home office and Franchise Operations Consultant Support staff to closely, and remotely, monitor stores performance and assist in providing focused and timely support to our franchisees. Furthermore, these systems supply sales, bank deposit and variance data to our accounting department on a daily basis, and we use this data to generate daily sales information and weekly consolidated reports regarding sales and other key measures for each restaurant with final reports following the end of each period.

In addition to utilizing these point-of-sale systems, FAT Brands utilizes systems which provide detailed, real-time (and historical) operational data for all locations, allowing our management team to track product inventories, equipment temperatures, repair and maintenance schedules, intra-shift team communications, consistency in following standard operating procedures and tracking of tasks. FAT Brands also utilizes a web-based employee scheduling software program providing franchisees, and their management teams, increased flexibility and awareness of scheduling needs allowing them to efficiently, and appropriately, manage their labor costs and store staffing requirements/needs. Lastly, FAT Brands utilizes a proprietary customer feedback system allowing customers to provide feedback in real-time to our entire management team, franchisees and store managers.

Field Consultant Assistance.

In conjunction with utilizing the FAT Brands Management Information Systems, FAT Brands has a team of dedicated Franchise Operations Consultant Support staff who oversee designated market areas and specific subsets of restaurants. Our Franchise Operations Consultant Support staff work in the field daily with franchisees, and their management teams, to ensure that the integrity of all FAT Brands concepts are upheld and that franchisees are utilizing the tools and systems FAT Brands requires in order to optimize and accelerate franchisee profitability. FAT Brands Franchise Operations Consultant Support staff responsibilities include (but are not limited to):

- Conducting announced and un-announced store visits and evaluations
- Continuous training and re-training of new and existing franchise operations
- Conducting quarterly workshops for franchisees and their management teams
- Development and collection of monthly profit and loss statements for each store
- Store set-up, training, oversight and support for pre- and post- new store openings
- Training, oversight and implementation of in-store marketing initiatives
- Inspections of equipment, temperatures, food-handling procedures, customer service, products in store, cleanliness, and team member attitude

Training, Pre-Opening Assistance and Opening Support

FAT Brands offers Executive level and Operational level training programs to its franchisees, pre-opening assistance and opening assistance. Once open, FAT Brands constantly provides ongoing operational and marketing support to our franchisees by assisting their management teams in effectively operating their restaurants and increasing their stores financial profitability.

Competition

As a franchisor, our most important customers are our franchisees, who own and operate FAT Brands restaurants. Our direct competitors for franchisees include well-established national, regional or local franchisors with franchises in the geographies or restaurant segments in which we operate or in which we intend to operate.

Our franchisees compete in the fast casual and casual dining segments of the restaurant industry, a highly competitive industry in terms of price, service, location, and food quality. The restaurant industry is often affected by changes in consumer trends, economic conditions, demographics, traffic patterns, and concern about the nutritional content of fast casual foods. Furthermore, there are many well-established competitors with substantially greater financial resources, including a number of national, regional, and local fast casual, casual dining, and convenience stores. The restaurant industry also has few barriers to entry and new competitors may emerge at any time.

Food Safety

Food safety is a top priority. As such, we maintain rigorous safety standards for each menu item. We have carefully selected preferred food suppliers that adhere to our safety standards, and our franchisees are required to source their ingredients from these approved suppliers.

Seasonality

Our franchisees have not historically experienced significant seasonal variability in their financial performance.

Intellectual Property

We own, domestically and internationally, valuable intellectual property including trademarks, service marks, trade secrets and other proprietary information related to our restaurant and corporate brands. This intellectual property includes logos and trademarks which are of material importance to our business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. We seek to actively protect and defend our intellectual property from infringement and misuse.

Employees

As of December 30, 2018, our company, including our subsidiaries, employed approximately 44 people. We believe that we have good relations with our employees.

Government Regulation

U.S. Operations. Our U.S. operations are subject to various federal, state and local laws affecting our business, primarily laws and regulations concerning the franchisor/franchisee relationship, marketing, food labeling, sanitation and safety. Each of our franchised restaurants in the U.S. must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety, fire and zoning agencies in the state and/or municipality in which the restaurant is located. To date, we have not been materially adversely affected by such licensing and regulation or by any difficulty, delay or failure to obtain required licenses or approvals.

International Operations . Our restaurants outside the U.S. are subject to national and local laws and regulations which are similar to those affecting U.S. restaurants. The restaurants outside the U.S. are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment, as well as anti-bribery and anti-corruption laws.

See “Risk Factors” for a discussion of risks relating to federal, state, local and international regulation of our business.

Our Corporate Information

FAT Brands Inc. was formed as a Delaware corporation on March 21, 2017. Our corporate headquarters are located at 9720 Wilshire Blvd., Suite 500, Beverly Hills, California 90212. Our main telephone number is (310) 319-1850. Our principal Internet website address is www.fatbrands.com. The information on our website is not incorporated by reference into, or a part of, this Annual Report.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the " Exchange Act "), are filed with the Securities and Exchange Commission (the " SEC "). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements and other information with the SEC. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549, and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this Annual Report. Further, our references to the URLs for these websites are intended to be inactive textual references only. We also make the documents listed above available without charge through the Investor Relations Section of our website at www.fatbrands.com .

ITEM 1A. RISK FACTORS

Except for the historical information contained herein or incorporated by reference, this report and the information incorporated by reference contain forward-looking statements that involve risks and uncertainties. These statements include projections about our accounting and finances, plans and objectives for the future, future operating and economic performance and other statements regarding future performance. These statements are not guarantees of future performance or events. Our actual results could differ materially from those discussed in this report. Factors that could cause or contribute to these differences include, but are not limited to, those discussed in the following section, as well as those discussed in Part II, Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere throughout this report and in any documents incorporated in this report by reference.

You should consider carefully the following risk factors and in the other information included or incorporated in this report. If any of the following risks, either alone or taken together, or other risks not presently known to us or that we currently believe to not be significant, develop into actual events, then our business, financial condition, results of operations or prospects could be materially adversely affected. If that happens, the market price of our common stock could decline, and stockholders may lose all or part of their investment.

Risks Related to Our Business and Industry

Our operating and financial results and growth strategies are closely tied to the success of our franchisees.

Our restaurants are operated by our franchisees, which makes us dependent on the financial success and cooperation of our franchisees. We have limited control over how our franchisees' businesses are run, and the inability of franchisees to operate successfully could adversely affect our operating and financial results through decreased royalty payments. If our franchisees incur too much debt, if their operating expenses or commodity prices increase or if economic or sales trends deteriorate such that they are unable to operate profitably or repay existing debt, it could result in their financial distress, including insolvency or bankruptcy. If a significant franchisee or a significant number of our franchisees become financially distressed, our operating and financial results could be impacted through reduced or delayed royalty payments. Our success also depends on the willingness and ability of our franchisees to implement major initiatives, which may include financial investment. Our franchisees may be unable to successfully implement strategies that we believe are necessary for their further growth, which in turn may harm the growth prospects and financial condition of the company. Additionally, the failure of our franchisees to focus on the fundamentals of restaurant operations, such as quality service and cleanliness (even if such failures do not rise to the level of breaching the related franchise documents), could have a negative impact on our business.

Our franchisees could take actions that could harm our business and may not accurately report sales.

Our franchisees are contractually obligated to operate their restaurants in accordance with the operations, safety, and health standards set forth in our agreements with them and applicable laws. However, although we will attempt to properly train and support all our franchisees, they are independent third parties whom we do not control. The franchisees own, operate, and oversee the daily operations of their restaurants, and their employees are not our employees. Accordingly, their actions are outside of our control. Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that our franchisees will have the business acumen or financial resources necessary to operate successful franchises at their approved locations, and state franchise laws may limit our ability to terminate or not renew these franchise agreements. Moreover, despite our training, support and monitoring, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements or may not hire and adequately train qualified managers and other restaurant personnel. The failure of our franchisees to operate their franchises in accordance with our standards or applicable law, actions taken by their employees or a negative publicity event at one of our franchised restaurants or involving one of our franchisees could have a material adverse effect on our reputation, our brands, our ability to attract prospective franchisees, our company-owned restaurants, and our business, financial condition or results of operations.

Franchisees typically use a point of sale, or POS, cash register system to record all sales transactions at the restaurant. We require franchisees to use a specific brand or model of hardware or software components for their restaurant system. Currently, franchisees report sales manually and electronically, but we do not have the ability to verify all sales data electronically by accessing their POS cash register systems. We have the right under our franchise agreement to audit franchisees to verify sales information provided to us, and we have the ability to indirectly verify sales based on purchasing information. However, franchisees may underreport sales, which would reduce royalty income otherwise payable to us and adversely affect our operating and financial results.

If we fail to identify, recruit and contract with a sufficient number of qualified franchisees, our ability to open new franchised restaurants and increase our revenues could be materially adversely affected.

The opening of additional franchised restaurants depends, in part, upon the availability of prospective franchisees who meet our criteria. Most of our franchisees open and operate multiple restaurants, and our growth strategy requires us to identify, recruit and contract with a significant number of new franchisees each year. We may not be able to identify, recruit or contract with suitable franchisees in our target markets on a timely basis or at all. In addition, our franchisees may not have access to the financial or management resources that they need to open the restaurants contemplated by their agreements with us, or they may elect to cease restaurant development for other reasons. If we are unable to recruit suitable franchisees or if franchisees are unable or unwilling to open new restaurants as planned, our growth may be slower than anticipated, which could materially adversely affect our ability to increase our revenues and materially adversely affect our business, financial condition and results of operations.

If we fail to open new domestic and international franchisee-owned restaurants on a timely basis, our ability to increase our revenues could be materially adversely affected.

A significant component of our growth strategy includes the opening of new domestic and international franchised restaurants. Our franchisees face many challenges associated with opening new restaurants, including:

- identification and availability of suitable restaurant locations with the appropriate size; visibility; traffic patterns; local residential neighborhood, retail and business attractions; and infrastructure that will drive high levels of customer traffic and sales per restaurant;

- competition with other restaurants and retail concepts for potential restaurant sites and anticipated commercial, residential and infrastructure development near new or potential restaurants;

- ability to negotiate acceptable lease arrangements;

- availability of financing and ability to negotiate acceptable financing terms;

- recruiting, hiring and training of qualified personnel;
- construction and development cost management;
- completing their construction activities on a timely basis;
- obtaining all necessary governmental licenses, permits and approvals and complying with local, state and federal laws and regulations to open, construct or remodel and operate our franchised restaurants;
- unforeseen engineering or environmental problems with the leased premises;
- avoiding the impact of adverse weather during the construction period; and
- other unanticipated increases in costs, delays or cost overruns.

As a result of these challenges, our franchisees may not be able to open new restaurants as quickly as planned or at all. Our franchisees have experienced, and expect to continue to experience, delays in restaurant openings from time to time and have abandoned plans to open restaurants in various markets on occasion. Any delays or failures to open new restaurants by our franchisees could materially and adversely affect our growth strategy and our results of operations.

Our growth strategy includes pursuing opportunistic acquisitions of additional brands, and we may not find suitable acquisition candidates or successfully operate or integrate any brands that we may acquire.

As part of our growth strategy, we intend to opportunistically acquire new brands and restaurant concepts. Although we believe that opportunities for future acquisitions may be available from time to time, competition for acquisition candidates may exist or increase in the future. Consequently, there may be fewer acquisition opportunities available to us as well as higher acquisition prices. There can be no assurance that we will be able to identify, acquire, manage or successfully integrate additional brands or restaurant concepts without substantial costs, delays or operational or financial problems.

The difficulties of integration include coordinating and consolidating geographically separated systems and facilities, integrating the management and personnel of the acquired brands, maintaining employee morale and retaining key employees, implementing our management information systems and financial accounting and reporting systems, establishing and maintaining effective internal control over financial reporting, and implementing operational procedures and disciplines to control costs and increase profitability.

In the event we are able to acquire additional brands or restaurant concepts, the integration and operation of such acquisitions may place significant demands on our management, which could adversely affect our ability to manage our existing restaurants. In addition, we may be required to obtain additional financing to fund future acquisitions, but there can be no assurance that we will be able to obtain additional financing on acceptable terms or at all.

We may not achieve our target development goals and the addition of new franchised restaurants may not be profitable.

Our growth strategy depends in part on our ability to add franchisees and our franchisees' ability to increase our net restaurant count in domestic and international markets. The successful development and retention of new restaurants depends in large part on our ability to attract franchisee investment commitments and the ability of our franchisees to open new restaurants and operate these restaurants profitably. We cannot guarantee that we or our current or future franchisees will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results similar to those of our franchisees' existing restaurants.

Expansion into target markets could also be affected by our franchisees' ability to obtain financing to construct and open new restaurants. If it becomes more difficult or more expensive for our franchisees to obtain financing to develop new restaurants, the expected growth rate of our system could slow, and our future revenues and operating cash flows could be adversely impacted.

Opening new franchise restaurants in existing markets and aggressive development could cannibalize existing sales and may negatively affect sales at existing franchised restaurants.

We intend to continue opening new franchised restaurants in our existing markets as a core part of our growth strategy. Expansion in existing markets may be affected by local economic and market conditions. Further, the customer target area of our franchisees' restaurants varies by location, depending on a number of factors, including population density, other local retail and business attractions, area demographics and geography. As a result, the opening of a new restaurant in or near markets in which our franchisees' restaurants already exist could adversely affect the sales of these existing franchised restaurants. Our franchisees may selectively open new restaurants in and around areas of existing franchised restaurants. Sales cannibalization between restaurants may become significant in the future as we continue to expand our operations and could affect sales growth, which could, in turn, materially adversely affect our business, financial condition or results of operations. There can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets.

The number of new franchised restaurants that actually open in the future may differ materially from the number of signed commitments from potential new franchisees.

The number of new franchised restaurants that actually open in the future may differ materially from the number of signed commitments from potential new franchisees. Historically, a portion of our commitments sold have not ultimately opened as new franchised restaurants. The historic conversion rate of signed commitments to new franchised locations may not be indicative of the conversion rates we will experience in the future and the total number of new franchised restaurants actually opened in the future may differ materially from the number of signed commitments disclosed at any point in time.

Termination of development agreements with certain franchisees could adversely impact our revenues.

We enter into development agreements with certain franchisees that plan to open multiple restaurants in a designated area. These franchisees are granted certain rights with respect to specified territories, and at their discretion, these franchisees may open more restaurants than specified in their agreements. The termination of development agreements with a franchisee or a lack of expansion by these franchisees could result in the delay of the development of franchised restaurants, discontinuation or an interruption in the operation of one of our brands in a particular market or markets. We may not be able to find another operator to resume development activities in such market or markets. While termination of development agreements may result in a short-term recognition of forfeited deposits as revenue, any such development delay, discontinuation or interruption would result in a delay in, or loss of, long-term royalty income to us by way of reduced sales and could materially and adversely affect our business, financial condition or results of operations.

Our brands may be limited or diluted through franchisee and third-party activity.

Although we monitor and regulate franchisee activities under the terms of our franchise agreements, franchisees or other third parties may refer to or make statements about our brands that do not make proper use of our trademarks or required designations, that improperly alter trademarks or branding, or that are critical of our brands or place our brands in a context that may tarnish our reputation. This may result in dilution of, or harm to, our intellectual property or the value of our brands. Franchisee noncompliance with the terms and conditions of our franchise agreements may reduce the overall goodwill of our brands, whether through the failure to meet health and safety standards, engage in quality control or maintain product consistency, or through the participation in improper or objectionable business practices. Moreover, unauthorized third parties may use our intellectual property to trade on the goodwill of our brands, resulting in consumer confusion or dilution. Any reduction of our brands' goodwill, consumer confusion, or dilution is likely to impact sales, and could materially and adversely impact our business and results of operations.

Our success depends substantially on our corporate reputation and on the value and perception of our brands.

Our success depends in large part upon our and our franchisees' ability to maintain and enhance the value of our brands and our customers' loyalty to our brands. Brand value is based in part on consumer perceptions on a variety of subjective qualities. Business incidents, whether isolated or recurring, and whether originating from us, franchisees, competitors, suppliers or distributors, can significantly reduce brand value and consumer trust, particularly if the incidents receive considerable publicity or result in litigation. For example, our brands could be damaged by claims or perceptions about the quality or safety of our products or the quality or reputation of our suppliers, distributors or franchisees, regardless of whether such claims or perceptions are true. Similarly, entities in our supply chain may engage in conduct, including alleged human rights abuses or environmental wrongdoing, and any such conduct could damage our or our brands' reputations. Any such incidents (even if resulting from actions of a competitor or franchisee) could cause a decline directly or indirectly in consumer confidence in, or the perception of, our brands and/or our products and reduce consumer demand for our products, which would likely result in lower revenues and profits. Additionally, our corporate reputation could suffer from a real or perceived failure of corporate governance or misconduct by a company officer, or an employee or representative of us or a franchisee.

Our success depends in part upon successful advertising and marketing campaigns and franchisee support of such advertising and marketing campaigns.

We believe our brands are critical to our business. We expend resources in our marketing efforts using a variety of media, including social media. We expect to continue to conduct brand awareness programs and customer initiatives to attract and retain customers. Additionally, some of our competitors have greater financial resources, which enable them to spend significantly more on marketing and advertising than us. Should our competitors increase spending on marketing and advertising, or should our advertising and promotions be less effective than our competitors, our business, financial condition and results of operations could be materially adversely affected.

The support of our franchisees is critical for the success of our advertising and marketing campaigns we seek to undertake, and the successful execution of these campaigns will depend on our ability to maintain alignment with our franchisees. Our franchisees are required to spend approximately 1%-3% of net sales directly on local advertising or contribute to a local fund managed by franchisees in certain market areas to fund the purchase of advertising media. Our franchisees are also required to contribute a percentage of their net sales to a national fund to support the development of new products, brand development and national marketing programs. In addition, we, our franchisees and other third parties have contributed additional advertising funds in the past. While we maintain control over advertising and marketing materials and can mandate certain strategic initiatives pursuant to our franchise agreements, we need the active support of our franchisees if the implementation of these initiatives is to be successful. Additional advertising funds are not contractually required, and we, our franchisees and other third parties may choose to discontinue contributing additional funds in the future. Any significant decreases in our advertising and marketing funds or financial support for advertising activities could significantly curtail our marketing efforts, which may in turn materially adversely affect our business, financial condition and results of operations.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could adversely impact our business.

In recent years, there has been a marked increase in the use of social media platforms, including blogs, chat platforms, social media websites, and other forms of Internet based communications which allow individuals access to a broad audience of consumers and other interested persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of information via social media could harm our business, reputation, financial condition, and results of operations, regardless of the information's accuracy. The damage may be immediate without affording us an opportunity for redress or correction.

In addition, social media is frequently used to communicate with our customers and the public in general. Failure by us to use social media effectively or appropriately, particularly as compared to our brands' respective competitors, could lead to a decline in brand value, customer visits and revenue. Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our brands, exposure of personally identifiable information, fraud, hoaxes or malicious dissemination of false information. The inappropriate use of social media by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and adversely affect our results of operations.

Negative publicity relating to one of our franchised restaurants could reduce sales at some or all of our other franchised restaurants.

Our success is dependent in part upon our ability to maintain and enhance the value of our brands, consumers' connection to our brands and positive relationships with our franchisees. We may, from time to time, be faced with negative publicity relating to food quality, public health concerns, restaurant facilities, customer complaints or litigation alleging illness or injury, health inspection scores, integrity of our franchisees or their suppliers' food processing, employee relationships or other matters, regardless of whether the allegations are valid or whether we are held to be responsible. The negative impact of adverse publicity relating to one franchised restaurant may extend far beyond that restaurant or franchisee involved to affect some or all of our other franchised restaurants. The risk of negative publicity is particularly great with respect to our franchised restaurants because we are limited in the manner in which we can regulate them, especially on a real-time basis. The considerable expansion in the use of social media over recent years can further amplify any negative publicity that could be generated by such incidents. A similar risk exists with respect to unrelated food service businesses, if consumers associate those businesses with our own operations. Additionally, employee claims against us based on, among other things, wage and hour violations, discrimination, harassment or wrongful termination may also create negative publicity that could adversely affect us and divert our financial and management resources that would otherwise be used to benefit the future performance of our operations. A significant increase in the number of these claims or an increase in the number of successful claims would have a material adverse effect on our business, financial condition and results of operations. Consumer demand for our products and our brands' value could diminish significantly if any such incidents or other matters create negative publicity or otherwise erode consumer confidence in us or our products, which would likely result in lower sales and could have a material adverse effect on our business, financial condition and results of operations.

Failure to protect our service marks or other intellectual property could harm our business.

We regard our Fatburger®, Buffalo's Cafe®, Ponderosa®, Bonanza®, Hurricane®, and Yalla Mediterranean® service marks, and other service marks and trademarks related to our franchise restaurant businesses, as having significant value and being important to our marketing efforts. We rely on a combination of protections provided by contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws, to protect our franchised restaurants and services from infringement. We have registered certain trademarks and service marks in the U.S. and foreign jurisdictions. However, from time to time we become aware of names and marks identical or confusingly similar to our service marks being used by other persons. Although our policy is to oppose any such infringement, further or unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and adversely affect our business. In addition, effective intellectual property protection may not be available in every country in which our franchisees have, or intend to open or franchise, a restaurant. There can be no assurance that these protections will be adequate and defending or enforcing our service marks and other intellectual property could result in the expenditure of significant resources. We may also face claims of infringement that could interfere with the use of the proprietary knowhow, concepts, recipes, or trade secrets used in our business. Defending against such claims may be costly, and we may be prohibited from using such proprietary information in the future or forced to pay damages, royalties, or other fees for using such proprietary information, any of which could negatively affect our business, reputation, financial condition, and results of operations.

If our franchisees are unable to protect their customers' credit card data and other personal information, our franchisees could be exposed to data loss, litigation, and liability, and our reputation could be significantly harmed.

Privacy protection is increasingly demanding, and the use of electronic payment methods and collection of other personal information expose our franchisees to increased risk of privacy and/or security breaches as well as other risks. The majority of our franchisees' restaurant sales are by credit or debit cards. In connection with credit or debit card transactions in-restaurant, our franchisees collect and transmit confidential information by way of secure private retail networks. Additionally, our franchisees collect and store personal information from individuals, including their customers and employees.

Although our franchisees use secure private networks to transmit confidential information and debit card sales, their security measures and those of technology vendors may not effectively prohibit others from obtaining improper access to this information. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and are often difficult to detect for long periods of time, which may cause a breach to go undetected for an extensive period of time. Advances in computer and software capabilities, new tools, and other developments may increase the risk of such a breach. Further, the systems currently used for transmission and approval of electronic payment transactions, and the technology utilized in electronic payment themselves, all of which can put electronic payment at risk, are determined and controlled by the payment card industry, not by us, through enforcement of compliance with the Payment Card Industry-Data Security Standards. Our franchisees must abide by the Payment Card Industry-Data Security Standards, as modified from time to time, in order to accept electronic payment transactions. Furthermore, the payment card industry is requiring vendors to become compatible with smart chip technology for payment cards, referred to as EMV-Compliant, or else bear full responsibility for certain fraud losses, referred to as the EMV Liability Shift, which could adversely affect our business. To become EMV-Compliant, merchants must utilize EMV-Compliant payment card terminals at the point of sale and also obtain a variety of certifications. The EMV Liability Shift became effective on October 1, 2015.

If a person is able to circumvent our franchisees' security measures or those of third parties, he or she could destroy or steal valuable information or disrupt our operations. Our franchisees may become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and our franchisees may also be subject to lawsuits or other proceedings relating to these types of incidents. Any such claim or proceeding could cause our franchisees to incur significant unplanned expenses, which could have an adverse impact on our financial condition, results of operations and cash flows. Further, adverse publicity resulting from these allegations could significantly harm our reputation and may have a material adverse effect on us and our franchisees' business.

We and our franchisees rely on computer systems to process transactions and manage our business, and a disruption or a failure of such systems or technology could harm our ability to effectively manage our business.

Network and information technology systems are integral to our business. We utilize various computer systems, including our franchisee reporting system, by which our franchisees report their weekly sales and pay their corresponding royalty fees and required advertising fund contributions. When sales are reported by a franchisee, a withdrawal for the authorized amount is initiated from the franchisee's bank on a set date each week based on gross sales during the week ended the prior Sunday. This system is critical to our ability to accurately track sales and compute royalties and advertising fund contributions and receive timely payments due from our franchisees. Our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, worms and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us to litigation or actions by regulatory authorities. Despite the implementation of protective measures, our systems are subject to damage and/or interruption as a result of power outages, computer and network failures, computer viruses and other disruptive software, security breaches, catastrophic events, and improper usage by employees. Such events could result in a material disruption in operations, a need for a costly repair, upgrade or replacement of systems, or a decrease in, or in the collection of, royalties and advertising fund contributions paid to us by our franchisees. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability which could materially affect our results of operations. It is also critical that we establish and maintain certain licensing and software agreements for the software we use in our day-to-day operations. A failure to procure or maintain these licenses could have a material adverse effect on our business operations.

Failure in our information technology and storage systems could significantly disrupt the operation of our business.

Our ability to execute our business plan and maintain operations depends on the continued and uninterrupted performance of our information technology ("IT") systems. IT systems are vulnerable to risks and damages from a variety of sources, including telecommunications or network failures, malicious human acts and natural disasters. Moreover, despite network security and back-up measures, some of our and our vendors' servers are potentially vulnerable to physical or electronic break-ins, including cyber-attacks, computer viruses and similar disruptive problems. These events could lead to the unauthorized access, disclosure and use of non-public information. The techniques used by criminal elements to attack computer systems are sophisticated, change frequently and may originate from less regulated and remote areas of the world. As a result, we may not be able to address these techniques proactively or implement adequate preventative measures. If our computer systems are compromised, we could be subject to fines, damages, litigation and enforcement actions, and we could lose trade secrets, the occurrence of which could harm our business. Despite precautionary measures to prevent unanticipated problems that could affect our IT systems, sustained or repeated system failures that interrupt our ability to generate and maintain data could adversely affect our ability to operate our business.

We may engage in litigation with our franchisees.

Although we believe we generally enjoy a positive working relationship with the vast majority of our franchisees, the nature of the franchisor-franchisee relationship may give rise to litigation with our franchisees. In the ordinary course of business, we are the subject of complaints or litigation from franchisees, usually related to alleged breaches of contract or wrongful termination under the franchise arrangements. We may also engage in future litigation with franchisees to enforce the terms of our franchise agreements and compliance with our brand standards as determined necessary to protect our brands, the consistency of our products and the customer experience. We may also engage in future litigation with franchisees to enforce our contractual indemnification rights if we are brought into a matter involving a third party due to the franchisee's alleged acts or omissions. In addition, we may be subject to claims by our franchisees relating to our franchise disclosure document, including claims based on financial information contained in our franchise disclosure document. Engaging in such litigation may be costly and time-consuming and may distract management and materially adversely affect our relationships with franchisees and our ability to attract new franchisees. Any negative outcome of these or any other claims could materially adversely affect our results of operations as well as our ability to expand our franchise system and may damage our reputation and brands. Furthermore, existing and future franchise-related legislation could subject us to additional litigation risk in the event we terminate or fail to renew a franchise relationship.

The retail food industry in which we operate is highly competitive.

The retail food industry in which we operate is highly competitive with respect to price and quality of food products, new product development, advertising levels and promotional initiatives, customer service, reputation, restaurant location, and attractiveness and maintenance of properties. If consumer or dietary preferences change, if our marketing efforts are unsuccessful, or if our franchisees' restaurants are unable to compete successfully with other retail food outlets in new and existing markets, our business could be adversely affected. We also face growing competition as a result of convergence in grocery, convenience, deli and restaurant services, including the offering by the grocery industry of convenient meals, including pizzas and entrees with side dishes. Competition from delivery aggregators and other food delivery services has also increased in recent years, particularly in urbanized areas. Increased competition could have an adverse effect on our sales, profitability or development plans, which could harm our financial condition and operating results.

Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.

The food products sold by our franchisees are sourced from a variety of domestic and international suppliers. We, along with our franchisees, are also dependent upon third parties to make frequent deliveries of food products and supplies that meet our specifications at competitive prices. Shortages or interruptions in the supply of food items and other supplies to our franchisees' restaurants could adversely affect the availability, quality and cost of items we use and the operations of our franchisees' restaurants. Such shortages or disruptions could be caused by inclement weather, natural disasters, increased demand, problems in production or distribution, restrictions on imports or exports, the inability of vendors to obtain credit, political instability in the countries in which suppliers and distributors are located, the financial instability of suppliers and distributors, suppliers' or distributors' failure to meet our standards, product quality issues, inflation, the price of gasoline, other factors relating to the suppliers and distributors and the countries in which they are located, food safety warnings or advisories or the prospect of such pronouncements, the cancellation of supply or distribution agreements or an inability to renew such arrangements or to find replacements on commercially reasonable terms, or other conditions beyond our control or the control of our franchisees.

A shortage or interruption in the availability of certain food products or supplies could increase costs and limit the availability of products critical to our franchisees' restaurant operations, which in turn could lead to restaurant closures and/or a decrease in sales and therefore a reduction in royalty fees to us. In addition, failure by a key supplier or distributor to our franchisees to meet its service requirements could lead to a disruption of service or supply until a new supplier or distributor is engaged, and any disruption could have an adverse effect on our franchisees and therefore our business. See "Business—Supply Chain."

An increase in food prices may have an adverse impact on our and our franchisees' profit margins.

Our franchisees' restaurants depend on reliable sources of large quantities of raw materials such as protein (including beef and poultry), cheese, oil, flour and vegetables (including potatoes and lettuce). Raw materials purchased for use in our franchisees' restaurants are subject to price volatility caused by any fluctuation in aggregate supply and demand, or other external conditions, such as weather conditions or natural events or disasters that affect expected harvests of such raw materials. As a result, the historical prices of raw materials used in the operation of our franchisees' restaurants have fluctuated. We cannot assure you that we or our franchisees will continue to be able to purchase raw materials at reasonable prices, or that prices of raw materials will remain stable in the future. In addition, a significant increase in gasoline prices could result in the imposition of fuel surcharges by our distributors.

Because our franchisees provide competitively priced food, we may not have the ability to pass through to customers the full amount of any commodity price increases. If we and our franchisees are unable to manage the cost of raw materials or to increase the prices of products proportionately, it may have an adverse impact on our and our franchisees' profit margins and their ability to remain in business, which would adversely affect our results of operations.

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

Foodborne illnesses, such as E. coli, hepatitis A, trichinosis and salmonella, occur or may occur within our system from time to time. In addition, food safety issues such as food tampering, contamination and adulteration occur or may occur within our system from time to time. Any report or publicity linking one of our franchisee's restaurants, or linking our competitors or our industry generally, to instances of foodborne illness or food safety issues could adversely affect our brands and reputations as well as our revenues and profits, and possibly lead to product liability claims, litigation and damages. If a customer of one of our franchisees' restaurants becomes ill as a result of food safety issues, restaurants in our system may be temporarily closed, which would decrease our revenues. In addition, instances or allegations of foodborne illness or food safety issues, real or perceived, involving our franchised restaurants, restaurants of competitors, or suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), or otherwise involving the types of food served at our franchisees' restaurants, could result in negative publicity that could adversely affect our revenues or the sales of our franchisees. The occurrence of foodborne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and/or lower margins for us and our franchisees.

Health concerns arising from outbreaks of viruses or other diseases may have an adverse effect on our business.

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic. The occurrence of such an outbreak of an epidemic illness or other adverse public health developments could materially disrupt our business and operations. Such events could also significantly impact our industry and cause a temporary closure of restaurants, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

Furthermore, viruses may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect restaurant guest traffic or the ability to adequately staff franchised restaurants. We could also be adversely affected if jurisdictions in which our franchisees' restaurants operate impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may affect our business.

New information or attitudes regarding diet and health could result in changes in regulations and consumer consumption habits that could adversely affect our results of operations.

Government regulation and consumer eating habits may impact our business as a result of changes in attitudes regarding diet and health or new information regarding the health effects of consuming certain menu offerings. These changes have resulted in, and may continue to result in, laws and regulations requiring us to disclose the nutritional content of our food offerings, and they have resulted, and may continue to result in, laws and regulations affecting permissible ingredients and menu offerings. For example, a number of states, counties and cities have enacted menu labeling laws requiring multi-unit restaurant operators to disclose to consumers certain nutritional information or have enacted legislation restricting the use of certain types of ingredients in restaurants. These requirements may be different or inconsistent with requirements under the Patient Protection and Affordable Care Act of 2010 (which we refer to as the " **PPACA** "), which establishes a uniform, federal requirement for certain restaurants to post nutritional information on their menus. Specifically, the PPACA requires chain restaurants with 20 or more locations operating under the same name and offering substantially the same menus to publish the total number of calories of standard menu items on menus and menu boards, along with a statement that puts this calorie information in the context of a total daily calorie intake. These inconsistencies could be challenging for us to comply with in an efficient manner. The PPACA also requires covered restaurants to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus and menu boards about the availability of this information upon request. An unfavorable report on, or reaction to, our menu ingredients, the size of our portions or the nutritional content of our menu items could negatively influence the demand for our products and materially adversely affect our business, financial condition and results of operations.

Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming. Additionally, if consumer health regulations or consumer eating habits change significantly, we may be required to modify or discontinue certain menu items, and we may experience higher costs associated with the implementation of those changes. We cannot predict the impact of the new nutrition labeling requirements under the PPACA until final regulations are promulgated. The risks and costs associated with nutritional disclosures on our menus could also impact our operations, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and disclosure, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of nutritional information obtained from third-party suppliers.

Our business may be adversely impacted by changes in consumer discretionary spending and general economic conditions.

Purchases at our franchisees' restaurants are generally discretionary for consumers and, therefore, our results of operations are susceptible to economic slowdowns and recessions. Our results of operations are dependent upon discretionary spending by consumers of our franchisees' restaurants, which may be affected by general economic conditions globally or in one or more of the markets we serve. Some of the factors that impact discretionary consumer spending include unemployment rates, fluctuations in the level of disposable income, the price of gasoline, stock market performance and changes in the level of consumer confidence. These and other macroeconomic factors could have an adverse effect on sales at our franchisees' restaurants, which could lead to an adverse effect on our profitability or development plans and harm our financial condition and operating results.

Our expansion into international markets exposes us to a number of risks that may differ in each country where we have franchised restaurants.

We currently have franchised restaurants in Canada, China, Qatar, Taiwan, Iraq, the United Kingdom, Indonesia, Tunisia, Singapore, Philippines, Panama, the United Arab Emirates, Kuwait, Saudi Arabia, Malaysia, Japan, Pakistan, and Egypt and plan to continue to grow internationally. Expansion in international markets may be affected by local economic and market as well as geopolitical conditions. Therefore, as we expand internationally, our franchisees may not experience the operating margins we expect, and our results of operations and growth may be materially and adversely affected. Our financial condition and results of operations may be adversely affected if global markets in which our franchised restaurants compete are affected by changes in political, economic or other factors. These factors, over which neither our franchisees nor we have control, may include:

- recessionary or expansive trends in international markets;
- changing labor conditions and difficulties in staffing and managing our foreign operations;
- increases in the taxes we pay and other changes in applicable tax laws;
- legal and regulatory changes, and the burdens and costs of our compliance with a variety of foreign laws;
- changes in inflation rates;
- changes in exchange rates and the imposition of restrictions on currency conversion or the transfer of funds;
- difficulty in protecting our brand, reputation and intellectual property;
- difficulty in collecting our royalties and longer payment cycles;
- expropriation of private enterprises;
- increases in anti-American sentiment and the identification of our brands as American brands;
- political and economic instability; and
- other external factors.

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

A significant portion of our franchised restaurants are operated in countries and territories outside of the United States, including in emerging markets, and we intend to continue expansion of our international operations. As a result, our business is increasingly exposed to risks inherent in international operations. These risks, which can vary substantially by country, include political instability, corruption and social and ethnic unrest, as well as changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), the regulatory environment, income and non-income based tax rates and laws, foreign exchange control regimes, consumer preferences and the laws and policies that govern foreign investment in countries where our franchised restaurants are operated. In addition, our franchisees do business in jurisdictions that may be subject to trade or economic sanction regimes. Any failure to comply with such sanction regimes or other similar laws or regulations could result in the assessment of damages, the imposition of penalties, suspension of business licenses, or a cessation of operations at our franchisees' businesses, as well as damage to our and our brands' images and reputations, all of which could harm our profitability.

Foreign currency risks and foreign exchange controls could adversely affect our financial results.

Our results of operations and the value of our foreign assets are affected by fluctuations in currency exchange rates, which may adversely affect reported earnings. More specifically, an increase in the value of the U.S. dollar relative to other currencies could have an adverse effect on our reported earnings. Our Canadian franchisees pay us franchise fees as a percentage of sales denominated in Canadian dollars, which are then converted to U.S. dollars at the prevailing exchange rate. This exposes us to risk of an increase in the value of the U.S. dollar relative to the Canadian dollar. There can be no assurance as to the future effect of any changes in currency exchange rates on our results of operations, financial condition or cash flows.

We depend on key executive management.

We depend on the leadership and experience of our relatively small number of key executive management personnel, and in particular key executive management, particularly our Chief Executive Officer, Andrew Wiederhorn. The loss of the services of any of our executive management members could have a material adverse effect on our business and prospects, as we may not be able to find suitable individuals to replace such personnel on a timely basis or without incurring increased costs, or at all. We do not maintain key man life insurance policies on any of our executive officers. We believe that our future success will depend on our continued ability to attract and retain highly skilled and qualified personnel. There is a high level of competition for experienced, successful personnel in our industry. Our inability to meet our executive staffing requirements in the future could impair our growth and harm our business.

Labor shortages or difficulty finding qualified employees could slow our growth, harm our business and reduce our profitability.

Restaurant operations are highly service-oriented and our success depends in part upon our franchisees' ability to attract, retain and motivate a sufficient number of qualified employees, including restaurant managers and other crew members. The market for qualified employees in our industry is very competitive. Any future inability to recruit and retain qualified individuals may delay the planned openings of new restaurants by our franchisees and could adversely impact our existing franchised restaurants. Any such delays, material increases in employee turnover rate in existing franchised restaurants or widespread employee dissatisfaction could have a material adverse effect on our and our franchisees' business and results of operations.

In addition, strikes, work slowdowns or other job actions may become more common in the United States. Although none of the employees employed by our franchisees are represented by a labor union or are covered by a collective bargaining agreement, in the event of a strike, work slowdown or other labor unrest, the ability to adequately staff our restaurants could be impaired, which could result in reduced revenue and customer claims, and may distract our management from focusing on our business and strategic priorities.

Changes in labor and other operating costs could adversely affect our results of operations.

An increase in the costs of employee wages, benefits and insurance (including workers' compensation, general liability, property and health) could result from government imposition of higher minimum wages or from general economic or competitive conditions. In addition, competition for qualified employees could compel our franchisees to pay higher wages to attract or retain key crew members, which could result in higher labor costs and decreased profitability. Any increase in labor expenses, as well as increases in general operating costs such as rent and energy, could adversely affect our franchisees' profit margins, their sales volumes and their ability to remain in business, which would adversely affect our results of operations.

A broader standard for determining joint employer status may adversely affect our business operations and increase our liabilities resulting from actions by our franchisees.

In 2015, the National Labor Relations Board (which we refer to as the " **NLRB** ") adopted a new and broader standard for determining when two or more otherwise unrelated employers may be found to be a joint employer of the same employees under the National Labor Relations Act. In addition, the general counsel's office of the NLRB has issued complaints naming McDonald's Corporation as a joint employer of workers at its franchisees for alleged violations of the U.S. Fair Labor Standards Act. In June 2017, the U.S. Department of Labor announced the rescission of these guidelines. However, there can be no assurance that future changes in law, regulation or policy will cause us or our franchisees to be liable or held responsible for unfair labor practices, violations of wage and hour laws, or other violations or require our franchises to conduct collective bargaining negotiations regarding employees of our franchisees. Further, there is no assurance that we or our franchisees will not receive similar complaints as McDonald's Corporation in the future, which could result in legal proceedings based on the actions of our franchisees. In such events, our operating expenses may increase as a result of required modifications to our business practices, increased litigation, governmental investigations or proceedings, administrative enforcement actions, fines and civil liability.

We could be party to litigation that could adversely affect us by increasing our expenses, diverting management attention or subjecting us to significant monetary damages and other remedies.

We may become involved in legal proceedings involving consumer, employment, real estate related, tort, intellectual property, breach of contract, securities, derivative and other litigation. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any such claims have merit, or whether we are ultimately held liable or settle, such litigation may be expensive to defend and may divert resources and management attention away from our operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also adversely affect our reputation, which in turn could adversely affect our results of operations.

In addition, the restaurant industry around the world has been subject to claims that relate to the nutritional content of food products, as well as claims that the menus and practices of restaurant chains have led to customer health issues, including weight gain and other adverse effects. These concerns could lead to an increase in the regulation of the content or marketing of our products. We may also be subject to such claims in the future and, even if we are not, publicity about these matters (particularly directed at the quick service and fast casual segments of the retail food industry) may harm our reputation and adversely affect our business, financial condition and results of operations.

We have been named as a party to purported class action and shareholder derivative lawsuits and we may be named in additional litigation, all of which could require significant management time and attention and result in significant legal expenses. An unfavorable outcome in one or more of these lawsuits could have a material adverse effect on our business, financial condition, results of operations and cash flows.

On June 7, 2018, August 2, 2018 and August 24, 2018, separate, but similar, complaints were filed against the Company, Andrew Wiederhorn, Ron Roe, Fog Cutter Capital Group, Inc., Tripoint Global Equities, LLC and members of the Company's board of directors, alleging that the defendants are responsible for false and misleading statements and omitted material facts in connection with our initial public offering, which resulted in declines in the price of our common stock. The plaintiffs stated that they intend to certify the complaint as a class action and are seeking compensatory damages in an amount to be determined at trial.

The Company and other defendants dispute the allegations of the lawsuits and intend to vigorously defend against the claims. Regardless of the merits, the expense of defending such litigation may have a substantial impact if our insurance carrier fails to cover the cost of the litigation, and the time required to defend the actions could divert management's attention from the day-to-day operations of our business, which could adversely affect our business and results of operations. In addition, an unfavorable outcome in such litigation in an amount which is not covered by our insurance carrier could have a material adverse effect on our business and results of operations.

Changes in, or noncompliance with, governmental regulations may adversely affect our business operations, growth prospects or financial condition.

We and our franchisees are subject to numerous laws and regulations around the world. These laws change regularly and are increasingly complex. For example, we and our franchisees are subject to:

- The Americans with Disabilities Act in the U.S. and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.

- The U.S. Fair Labor Standards Act, which governs matters such as minimum wages, overtime and other working conditions, as well as family leave mandates and a variety of similar state laws that govern these and other employment law matters.

- Laws and regulations in government mandated health care benefits such as the Patient Protection and Affordable Care Act.

- Laws and regulations relating to nutritional content, nutritional labeling, product safety, product marketing and menu labeling.

- Laws relating to state and local licensing.

- Laws relating to the relationship between franchisors and franchisees.

- Laws and regulations relating to health, sanitation, food, workplace safety, child labor, including laws prohibiting the use of certain "hazardous equipment" by employees younger than the age of 18 years of age, and fire safety and prevention.

- Laws and regulations relating to union organizing rights and activities.

- Laws relating to information security, privacy, cashless payments, and consumer protection.

- Laws relating to currency conversion or exchange.

- Laws relating to international trade and sanctions.

- Tax laws and regulations.

- Antibribery and anticorruption laws.

- Environmental laws and regulations.

- Federal and state immigration laws and regulations in the U.S.

Compliance with new or existing laws and regulations could impact our operations. The compliance costs associated with these laws and regulations could be substantial. Any failure or alleged failure to comply with these laws or regulations by our franchisees or indirectly by us could adversely affect our reputation, international expansion efforts, growth prospects and financial results or result in, among other things, litigation, revocation of required licenses, internal investigations, governmental investigations or proceedings, administrative enforcement actions, fines and civil and criminal liability. Publicity relating to any such noncompliance could also harm our reputation and adversely affect our revenues.

Failure to comply with antibribery or anticorruption laws could adversely affect our business operations.

The U.S. Foreign Corrupt Practices Act and other similar applicable laws prohibiting bribery of government officials and other corrupt practices are the subject of increasing emphasis and enforcement around the world. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, agents, franchisees or other third parties will not take actions in violation of our policies or applicable law, particularly as we expand our operations in emerging markets and elsewhere. Any such violations or suspected violations could subject us to civil or criminal penalties, including substantial fines and significant investigation costs, and could also materially damage our reputation, brands, international expansion efforts and growth prospects, business and operating results. Publicity relating to any noncompliance or alleged noncompliance could also harm our reputation and adversely affect our revenues and results of operations.

Tax matters, including changes in tax rates, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.

We are subject to income taxes as well as non-income-based taxes, such as payroll, sales, use, value added, net worth, property, withholding and franchise taxes in both the U.S. and various foreign jurisdictions. We are also subject to regular reviews, examinations and audits by the U.S. Internal Revenue Service (which we refer to as the " **IRS** ") and other taxing authorities with respect to such income and non-income-based taxes inside and outside of the U.S. If the IRS or another taxing authority disagrees with our tax positions, we could face additional tax liabilities, including interest and penalties. Payment of such additional amounts upon final settlement or adjudication of any disputes could have a material impact on our results of operations and financial position.

In addition, we are directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulations worldwide. Changes in legislation, regulation or interpretation of existing laws and regulations in the U.S. and other jurisdictions where we are subject to taxation could increase our taxes and have an adverse effect on our operating results and financial condition.

Conflict or terrorism could negatively affect our business.

We cannot predict the effects of actual or threatened armed conflicts or terrorist attacks, efforts to combat terrorism, military action against any foreign state or group located in a foreign state or heightened security requirements on local, regional, national or international economies or consumer confidence. Such events could negatively affect our business, including by reducing customer traffic or the availability of commodities.

Risks Related to Our Company and Our Organizational Structure

We are included in FCCG's consolidated group for federal income tax purposes and, as a result, may be liable for any shortfall in FCCG's federal income tax payments

For so long as FCCG continues to own at least 80% of the total voting power and value of our capital stock, we will be included in FCCG's consolidated group for federal income tax purposes. By virtue of its controlling ownership and the Tax Sharing Agreement that we have with FCCG, FCCG effectively controls all of our tax decisions. Moreover, notwithstanding the Tax Sharing Agreement, federal tax law provides that each member of a consolidated group is jointly and severally liable for the group's entire federal income tax obligation. Thus, to the extent FCCG or other members of the group fail to make any federal income tax payments required of them by law, we are liable for the shortfall. Similar principles generally apply for income tax purposes in some state, local and foreign jurisdictions.

We are controlled by FCCG, whose interests may differ from those of our public stockholders.

FCCG controls approximately 80% of the combined voting power of our Common Stock and will, for the foreseeable future, have significant influence over corporate management and affairs and be able to control virtually all matters requiring stockholder approval. FCCG is able to, subject to applicable law, elect a majority of the members of our Board of Directors and control actions to be taken by us, including amendments to our certificate of incorporation and bylaws and approval of significant corporate transactions, including mergers and sales of substantially all of our assets. It is possible that the interests of FCCG may in some circumstances conflict with our interests and the interests of our other stockholders. For example, FCCG may have different tax positions from us, especially in light of the Tax Sharing Agreement, that could influence its decisions regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness. In addition, the determination of future tax reporting positions, the structuring of future transactions and the handling of any future challenges by any taxing authority to our tax reporting positions may take into consideration FCCG's tax or other considerations, which may differ from the considerations of us or our other stockholders.

Our anti-takeover provisions could prevent or delay a change in control of our company, even if such change in control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such change in control would be beneficial to our stockholders. These provisions include:

- net operating loss protective provisions, which require that any person wishing to become a "5% shareholder" (as defined in our certificate of incorporation) must first obtain a waiver from our board of directors, and any person that is already a "5% shareholder" of ours cannot make any additional purchases of our stock without a waiver from our board of directors;

- authorizing the issuance of "blank check" preferred stock that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;

- limiting the ability of stockholders to call special meetings or amend our bylaws;

- providing for a classified board of directors with staggered, three-year terms;

- requiring all stockholder actions to be taken at a meeting of our stockholders; and

- establishing advance notice and duration of ownership requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

These provisions could also discourage proxy contests and make it more difficult for minority stockholders to elect directors of their choosing and cause us to take other corporate actions they desire. In addition, because our Board of Directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team.

In addition, the Delaware General Corporation Law, or the DGCL, to which we are subject, prohibits us, except under specified circumstances, from engaging in any mergers, significant sales of stock or assets or business combinations with any stockholder or group of stockholders who owns at least 15% of our common stock.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Common Stock, which could depress the price of our Common Stock.

Our amended and restated certificate of incorporation authorizes us to issue one or more series of preferred stock. Our board of directors has the authority to determine the preferences, limitations and relative rights of the shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. We may authorize or issue shares of preferred stock with voting, liquidation, dividend and other rights superior to the rights of our Common Stock. To date we have authorized and issued shares of Series A Preferred Stock and Series A-1 Preferred Stock, which have liquidation and dividend rights superior to the rights of our Common Stock. The potential issuance of preferred stock may also delay or prevent a change in control of us, discourage bids for our Common Stock at a premium to the market price, and materially and adversely affect the market price and the voting and other rights of the holders of our Common Stock.

The provision of our certificate of incorporation requiring exclusive venue in the Court of Chancery in the State of Delaware for certain types of lawsuits may have the effect of discouraging lawsuits against our directors and officers.

Our amended and restated certificate of incorporation requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL or our amended and restated certificate of incorporation or the bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine will have to be brought only in the Court of Chancery in the State of Delaware. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

A limited public trading market may cause volatility in the price of our Common Stock.

There can be no assurance that our Common Stock will continue to be quoted on NASDAQ or that a meaningful, consistent and liquid trading market will develop. As a result, our stockholders may not be able to sell or liquidate their holdings in a timely manner or at the then-prevailing trading price of our Common Stock. In addition, sales of substantial amounts of our Common Stock, or the perception that such sales might occur, could adversely affect prevailing market prices of our common stock and our stock price may decline substantially in a short time and our stockholders could suffer losses or be unable to liquidate their holdings.

If our operating and financial performance in any given period does not meet the guidance that we provide to the public, our stock price may decline.

We may provide public guidance on our expected operating and financial results for future periods. Any such guidance will be comprised of forward-looking statements subject to the risks and uncertainties described in our public filings and public statements. Our actual results may not always be in line with or exceed any guidance we have provided, especially in times of economic uncertainty. If our operating or financial results for a particular period do not meet any guidance we provide or the expectations of investment analysts or if we reduce our guidance for future periods, the market price of our Common Stock may decline as well.

Our ability to pay regular dividends to our stockholders is subject to the discretion of our Board of Directors and may be limited by our holding company structure and applicable provisions of Delaware law.

While we have paid cash and stock dividends to holders of our Common Stock during fiscal 2018, our board of directors may, in its sole discretion, decrease the amount or frequency of cash or stock dividends or discontinue the payment of dividends entirely. In addition, as a holding company, we will be dependent upon the ability of our operating subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay cash dividends to our stockholders. Our ability to pay cash dividends will be subject to our consolidated operating results, cash requirements and financial condition, the applicable provisions of Delaware law which may limit the amount of funds available for distribution to our stockholders, our compliance with covenants and financial ratios related to existing or future indebtedness, and our other agreements with third parties. In addition, each of the companies in the corporate chain must manage its assets, liabilities and working capital in order to meet all of its cash obligations, including the payment of dividends or distributions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters, including our principal administrative, sales and marketing, customer support, and research and development operations, are located in Beverly Hills, California, where we currently lease and occupy 5,478 square feet of space pursuant to a lease that expires on April 30, 2020.

Our administrative and culinary operations for Bonanza and Ponderosa are located in Plano, Texas, where we currently lease and occupy 1,775 square feet of space pursuant to a lease that expires on March 31, 2021.

Our subsidiary, Yalla Acquisition, LLC, leases seven properties in California being operated as Yalla Mediterranean restaurants. It is our intention to identify franchisees who will operate these restaurants and assume the related lease liabilities.

We believe that all our existing facilities are in good operating condition and adequate to meet our current and foreseeable needs.

ITEM 3. LEGAL PROCEEDINGS

***Eric Rojany, et al. v. FAT Brands Inc., et al.* , Superior Court of California for the County of Los Angeles, Case No. BC708539, and *Daniel Alden, et al. v. FAT Brands Inc., et al.* , Superior Court of California for the County of Los Angeles, Case No. BC716017.**

On June 7, 2018, plaintiff Eric Rojany, a putative investor in the Company, filed a putative class action lawsuit against the Company, Andrew Wiederhorn, Ron Roe, Fog Cutter Capital Group, Inc., Tripoint Global Equities, LLC and members of the Company's board of directors, entitled *Rojany v. FAT Brands Inc.* , in the Superior Court of California for the County of Los Angeles, Case No. BC708539. The complaint asserted claims under Sections 12(a)(2) and 15 of the Securities Act of 1933, alleging that the defendants were responsible for false and misleading statements and omitted material facts in connection with the Company's initial public offering, which resulted in declines in the price of the Company's common stock. Plaintiff alleged that he intended to certify the complaint as a class action and sought compensatory damages in an amount to be determined at trial. On August 2, 2018, plaintiff Daniel Alden, another putative investor in the Company, filed a second putative class action lawsuit against the same defendants, entitled *Alden v. FAT Brands, Inc.* , in the same court, Case No. BC716017. On September 17, 2018, *Rojany* and *Alden* were consolidated under the *Rojany* case caption and number. On October 10, 2018, plaintiffs Eric Rojany, Daniel Alden, Christopher Hazelton-Harrington and Byron Marin filed a First Amended Consolidated Complaint ("FAC") against the Company, Andrew Wiederhorn, Ron Roe, James Neuhauser, Edward H. Rensi, Fog Cutter Capital Group Inc. and Tripoint Global Equities, LLC (collectively, "Defendants"), thereby removing Marc L. Holtzman, Squire Junger, Silvia Kessel and Jeff Lotman as defendants. The FAC asserted the same claims as asserted in the original complaint. On November 13, 2018, Defendants filed a demurrer to the FAC. On January 25, 2019, the Court sustained Defendants' demurrer to the FAC, with leave to amend in part. On February 25, 2019, Plaintiffs filed a Second Amended Consolidated Complaint ("SAC") against Defendants. On March 27, 2019, Defendants filed a demurrer to the SAC. A stay of discovery in the action remains in effect pending resolution of Defendants' demurrer to the SAC.

The Company and other defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

***Adam Vignola, et al. v. FAT Brands Inc., et al.* , United States District Court for the Central District of California, Case No. 2:18-cv-07469.**

On August 24, 2018, plaintiff Adam Vignola, a putative investor in the Company, filed a putative class action lawsuit against the Company, Andrew Wiederhorn, Ron Roe, Fog Cutter Capital Group, Inc., Tripoint Global Equities, LLC and members of the Company's board of directors, entitled *Vignola v. FAT Brands Inc.* , in the United States District Court for the Central District of California, Case No. 2:18-cv-07469. The complaint asserted claims under Sections 12(a)(2) and 15 of the Securities Act of 1933, alleging that the defendants are responsible for false and misleading statements and omitted material facts in connection with the Company's initial public offering, which resulted in declines in the price of the Company's common stock. The plaintiff alleged that he intended to certify the complaint as a class action and is seeking compensatory damages in an amount to be determined at trial. On October 23, 2018, Charles Jordan and David Kovacs (collectively, "Lead Plaintiffs") moved to be appointed lead plaintiffs, and the Court granted Lead Plaintiffs' motion on November 16, 2018. On January 15, 2019, Lead Plaintiffs filed a First Amended Class Action Complaint against the Defendants, thereby removing Marc L. Holtzman, Squire Junger, Silvia Kessel and Jeff Lotman as defendants. The allegations and claims for relief asserted in *Vignola* are substantively identical to those asserted in the FAC filed in *Rojany* . On March 18, 2019, Defendants filed a motion to dismiss the FAC or, in the alterative, to stay the action in favor of *Rojany* . The hearing on Defendants' motion is scheduled for June 17, 2019. All discovery and other proceedings in this action are currently stayed by operation of the Private Securities Litigation Reform Act of 1995.

The Company and other defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

The Company is obligated to indemnify its officers and directors to the extent permitted by applicable law in connection with the above actions, and has insurance for such individuals, to the extent of the limits of the applicable insurance policies and subject to potential reservations of rights. The Company is also obligated to indemnify Tripoint Global Equities, LLC under certain conditions relating to the *Rojany* and *Vignola* . These proceedings are in their early stages and the Company is unable to predict the ultimate outcome of these matters. There can be no assurance that the defendants will be successful in defending against these actions.

The Company is involved in other claims and legal proceedings from time-to-time 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 its business, financial condition, results of operations, liquidity or capital resources.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Trading Market and Historical Prices

Beginning October 23, 2017, our common stock, par value $0.0001 per share (the "Common Stock"), was quoted on the NASDAQ Capital Market under the ticker symbol "FAT".

Subsequent to December 30, 2018, the Company declared a stock dividend on February 7, 2019 and issued 245,376 shares of Common Stock in satisfaction of the dividend (See Note 20 in the accompanying consolidated financial statements). Unless otherwise noted, the Common Stock share information presented in this Form 10-K for periods prior to February 28, 2019 have not been adjusted retrospectively to reflect the impact of the stock dividend.

As of February 27, 2019, there were 21 shareholders of record for our Common Stock. The number of record holders does not include persons who held shares of our Common Stock in nominee or "street name" accounts through brokers.

The following table sets forth the high and low sales prices for our common stock as quoted on the NASDAQ as applicable, for the period indicated since our stock has been publicly traded.

2018	High	Low
First quarter	11.450	6.650
Second quarter	8.079	5.540
Third quarter	9.679	6.085
Fourth quarter	8.900	4.607

2017	High	Low
Fourth quarter	$ 13.990	$ 7.520

Dividends

We declared the following dividends on common stock during the fiscal year ended December 30, 2018:

Declaration Date	Record Date	Payment Date	Dividend per Share	Amount of Dividend
February 8, 2018	March 30, 2018	April 16, 2018	$ 0.12	$ 1,200,000
June 27, 2018	July 6, 2018	July 16, 2018	$ 0.12	1,351,517
October 8, 2018	October 18, 2018	October 31, 2018	$ 0.12	1,362,362
				$ 3,913,879

Subsequently, on February 7, 2019, we declared a stock dividend equal to 2.13% on our common stock, representing the number of shares equal to $0.12 per share of common stock based on the closing price as of February 6, 2019. The stock dividend was paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019. We issued 245,376 shares of common stock at a per share price of $5.64 in satisfaction of the dividend. No fractional shares were issued, instead we paid stockholders cash-in-lieu of shares.

We intend to declare quarterly dividends to holders of common stock. However, the declaration and payment of future dividends will be at the sole discretion of the board of directors and may be discontinued at any time. In determining the amount of any future dividends, the board of directors will take into account: (i) our consolidated financial results, available cash, future cash requirements and capital requirements, (ii) any contractual, legal, tax or regulatory restrictions on the payment of dividends to stockholders, (iii) general economic and business conditions, and (iv) any other factors that the board of directors may deem relevant. The ability to pay dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred equity securities of the Company or its subsidiaries.

Equity Compensation Plan Information

The 2017 Omnibus Equity Incentive Plan (the "Plan") is a comprehensive incentive compensation plan under which the Company can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to, FAT Brands Inc. and its subsidiaries. The purpose of the Plan is to help attract, motivate and retain qualified personnel and thereby enhance stockholder value. The Plan provides a maximum of 1,000,000 shares available for grant. Unexercised options which lapse or are forfeited become available for grant.

As of December 30, 2018, under the Plan, we have granted options to purchase 622,500 shares of common stock to employees and 45,000 shares of common stock to non-employee consultants. Each grant is subject to a three-year vesting requirement, with one-third of the options vesting each year.

The information presented in the table below is as of December 30, 2018.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	667,500	$ 9.03	332,500
Equity compensation plans not approved by security holders	-	-	-
Total	667,500	$ 9.03	332,500

Issuer Purchases of Equity Securities

We do not have a program in place to repurchase our own securities and as of December 30, 2018, we have not repurchased any of our equity securities.

Recent Sales of Unregistered Securities

In addition to those sales of unregistered securities we previously disclosed on reports that we filed with the SEC, we issued the following securities in transactions that were not registered under the Securities Act and were not previously disclosed on reports we filed with the SEC during the year ended December 30, 2018:

- On December 10, 2018, each of our non-employee board members received newly issued common stock in lieu of cash payments of accrued director fees. The combined amount of the director fees payable was $90,000 and the shares were issued at a price of $5.39 per share, which represents the closing price of our stock on December 10, 2018. As a result, we issued 16,698 shares of our common stock to satisfy the director fees payable.

The issuances of the securities referenced above were exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act and Rule 506 promulgated under Regulation D under the Securities Act as transactions by an issuer not involving a public offering. Each of the purchasers acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof.

ITEM 6. SELECTED FINANCIAL DATA.

Not required for smaller reporting companies.

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

Executive Overview

Business overview

FAT Brands Inc., formed in March 2017 as a wholly-owned subsidiary of Fog Cutter Capital Group, Inc. ("FCCG"), is a leading multi-brand restaurant franchising company that develops, markets, and acquires predominantly fast casual restaurant concepts around the world. As a franchisor, we generally do not own or operate restaurant locations, but rather generate revenue by charging franchisees an initial franchise fee as well as ongoing royalties. This asset light franchisor model provides the opportunity for strong profit margins and an attractive free cash flow profile while minimizing restaurant operating company risk, such as long-term real estate commitments or capital investments. Our scalable management platform enables us to add new stores and restaurant concepts to our portfolio with minimal incremental corporate overhead cost, while taking advantage of significant corporate overhead synergies. The acquisition of additional brands and restaurant concepts as well as expansion of our existing brands are key elements of our growth strategy.

As of December 30, 2018, the Company currently owns seven restaurant brands: Fatburger, Buffalo's Cafe, Buffalo's Express, Hurricane Grill & Wings, Ponderosa and Bonanza Steakhouses, and Yalla Mediterranean, that have over 340 locations open and more than 200 under development in 32 countries.

Operating segments

With minor exceptions, our operations are comprised exclusively of franchising a growing portfolio of restaurant brands. Our growth strategy is centered on expanding the footprint of existing brands and acquiring new brands through a centralized management organization which provides substantially all executive leadership, marketing, training and accounting services. While there are variations in the brands, the nature of our business is fairly consistent across our portfolio. Consequently, our management assesses the progress of our operations as a whole, rather than by brand or location, which has become more significant as the number of brands has increased.

Our chief operating decision maker ("CODM") is our Chief Executive Officer. Our CODM reviews financial performance and allocates resources at an overall level on a recurring basis. Therefore, management has determined that the Company has one operating and reportable segment.

Results of Operations

We operate on a 52-week or 53-week fiscal year ending on the last Sunday of the calendar year. In a 52-week fiscal year, each quarter contains 13 weeks of operations. In a 53-week fiscal year, each of the first, second and third quarters includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations, which may cause our revenue, expenses and other results of operations to be higher due to an additional week of operations. The 2018 fiscal year was a 52-week year and the 2017 fiscal year was a 53-week year.

Results of Operations of FAT Brands Inc.

The following table summarize key components of our consolidated results of operations for the fiscal year ended December 30, 2018 and for the period beginning March 21,2017 (inception) through December 31, 2017, which includes the consolidated operating results of Fatburger, Buffalo's and Ponderosa for the period from October 20, 2017 (acquisition) through December 31, 2017. Because 2017 consisted of only a partial year of operations, meaningful comparisons with the 2018 fiscal year cannot be made.

(In thousands)
For the Fiscal Years Ended

	December 30, 2018		December 31, 2017	
Statement of operations data:				
Revenues				
Royalties	$	12,097	$	2,023
Franchise fees		2,136		140
Store opening fees		352		-
Advertising fees		3,182		-
Other income		600		10
Total revenues		18,367		2,173
General and administrative expenses		14,131		2,123
Income from operations		4,236		50
Other expense, net		(6,309)		(256)
Loss before income tax (benefit) expense		(2,073)		(206)
Income tax (benefit) / expense		(275)		407
Net loss	$	(1,798)	$	(613)

Net Loss - Net loss for the 2018 fiscal year totaled $1,798,000 consisting of revenues of $18,367,000 less general and administrative expenses of $14,131,000; other expense of $6,309,000 and income tax benefit of $275,000. Net loss for the period from March 21, 2017 (inception) through December 31, 2017 (the "2017 Fiscal Year") totaled $613,000 consisting of revenues of $2,173,000 less general and administrative expenses of $2,123,000; other expense of $256,000 and income taxes of $407,000.

Revenues – Our revenues consist of royalty fees, franchise fees, store opening fees, restaurant sales and management fees. We had revenues of $18,367,000 for the 2018 fiscal year compared to $2,173,000 in the 2017 Fiscal Year.

In 2018, our royalty fee revenue totaled $12,097,000 compared to $2,023,000 in the 2017 Fiscal Year. Royalty fee revenue in 2018 included 26 weeks of royalty fee revenue related to Hurricane without comparable revenue in 2017, and a full year of royalty revenue attributed to Fatburger, Buffalo's and Ponderosa without comparable activity in the 2017 Fiscal Year.

In 2018, our franchise fee revenue totaled $2,136,000 compared to $140,000 in the 2017 Fiscal Year. This increase reflects the acquisition of Hurricane in July 2018 as well as the adoption of ASC 606 on January 1, 2018.

Pursuant to the adoption of ASC 606 on January 1, 2018, franchisee contributions to and subsequent expenditures for advertising are now record on the statement of operations. Prior to the adoption of ASC 606, we did not include these contributions and expenditures in our consolidated statements of operations. In 2018, advertising fee revenue totaled were $3,182,000, without comparable activity in the 2017 Fiscal Year.

Other income includes the income from the restaurant operations from Yalla as well as fees earned through the management of certain stores. In 2018, other income totaled $600,000, primarily due to the Yalla acquisition without comparable activity in 2017.

General and Administrative Expenses - General and administrative expenses consist primarily of compensation expense, advertising fee expense, professional fees expense and public company expense. For fiscal year ended December 31, 2018, our general and administrative expenses totaled $14,131,000 compared to $2,123,000 in the 2017 Fiscal Year.

In 2018, compensation expense totaled $5,884,000 compared to $1,337,000 in the 2017 Fiscal Year reflecting the shorter period of operations in the 2017 Fiscal Year.

Pursuant to the adoption of ASC 606 on January 1, 2018, franchisee contributions to and subsequent expenditures for advertising are now record on the statement of operations. Prior to the adoption of ASC 606, we did not include these contributions and expenditures in our consolidated statements of operations. In 2018, advertising expense totaled were $3,182,000, without comparable activity in the 2017 Fiscal Year.

In 2018, professional fees expense totaled $1,529,000 and public company expense totaled $1,108,000 compared to $117,000 and $273,000, respectively, in the 2017 Fiscal Year reflecting the shorter period of operations in the 2017 Fiscal Year.

Other Expense, net – Other expense, net for the 2018 fiscal year totaled $6,309,000 and consisted primarily of interest expense of $5,939,000, which was partially offset by interest income of $1,170,000, and acquisition and other non-operating costs of $1,164,000. Other expense for the 2017 Fiscal Year totaled $256,000 and consisted primarily of interest expense of $405,000 which was partially offset by interest income of $200,000.

Income tax (benefit) / expense – We recorded an income tax benefit of $275,000 for the 2018 fiscal year. We recorded a provision for income taxes of $407,000 for the 2017 Fiscal Year. On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJ Act") was enacted into law. The reduction in the corporate tax rate under the TCJ Act required a one-time revaluation of our deferred tax assets and liabilities to reflect their value at the lower corporate tax rate of 21%. As a result of the Tax Reform Act, we recorded a tax expense of $505,000 due to a remeasurement of deferred tax assets and liabilities in 2017.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund business operations, acquisitions, and expansion of franchised restaurant locations and for other general business purposes. In addition to our cash on hand, our primary sources of funds for liquidity during the fiscal ended December 30, 2018 consisted of cash provided by proceeds from the sale of mandatorily redeemable preferred stock and borrowings from long-term debt.

We are involved in a world-wide expansion of franchise locations, which will require significant liquidity, primarily from our franchisees. If real estate locations of sufficient quality cannot be located and either leased or purchased, the timing of restaurant openings may be delayed. Additionally, if we or our franchisees cannot obtain capital sufficient to fund this expansion, the timing of restaurant openings may be delayed.

We also plan to acquire additional restaurant concepts. These acquisitions typically require capital investments in excess of our normal cash on hand. We would expect that future acquisitions will necessitate financing with additional debt or equity transactions. If we are unable to obtain acceptable financing, our ability to acquire additional restaurant concepts may be negatively impacted.

Comparison of Cash Flows

Our cash balance was $653,000 as of December 30, 2018, compared to $32,000 as of December 31, 2017.

The following table summarize key components of our consolidated cash flows for the fiscal year ended December 30, 2018 and for the period beginning March 21, 2017 (inception) through December 31, 2017, which includes the consolidated operating results of Fatburger, Buffalo's and Ponderosa for the period from October 20, 2017 (acquisition) through December 31, 2017. Because 2017 consisted of only a partial year of operations, meaningful comparisons with the 2018 fiscal year cannot be made:

(In thousands)
For the Fiscal Years Ended

	December 30, 2018	**December 31, 2017**
Net cash provided by operating activities	$ 1,837	$ 1,499
Net cash used in investing activities	(7,743)	(10,522)
Net cash provided by financing activities	6,527	9,055
Increase in cash flows	$ 621	$ 32

Operating Activities

Net cash provided by operating activities increased $338,000 in 2018 compared to the 2017 Fiscal Year. There were variations in the components of the cash from operations between the two periods. Our net loss in 2018 was $1,798,000 compared to a net loss in the 2017 Fiscal Year of $613,000. The adjustments to reconcile these net losses to net cash provided were $3,635,000 in 2018 compared to $2,112,000 in the 2017 Fiscal Year. The primary components of the adjustments included:

- A deferred income tax benefit of $504,000 in 2018 compared to expense of $232,000 in the 2017 Fiscal Year;
- Shared based compensation expense of $439,000 in 2018 compared to $89,000 in the 2017 Fiscal Year;
- Accretion expense of the term loan, mandatorily redeemable preferred shares, and acquisition purchase price payable of $624,000 in 2018. There was no comparable activity in the 2017 Fiscal Year;
- An increase in accounts payable and accrued expenses of $2,226,000 in 2018 compared to $1,604,000 in the 2017 Fiscal Year;
- An increase in accrued interest payable of $2,232,000 in 2018 compared to $405,000 in the 2017 Fiscal Year, primarily due to the pre-payment penalties and additional principal related to the term loan;
- An increase in dividends payable of $619,000 in 2018 without comparable activity in the 2017 Fiscal Year; and
- A decrease in deferred income of $1,659,000 in 2018 compared to $50,000 in the 2017 Fiscal Year related to the acquisition of Hurricane and adjustments due to the adoption of ASC 606

Investing Activities

Net cash used in investing activities decreased by $2,779,000 in 2018 compared to 2017 based on the relative size of the cash portion of the purchase price of the Ponderosa and Bonanza acquisition in 2017 compared to the Hurricane and Yalla acquisition in 2018.

Financing Activities

Net cash provided by financing activities decreased by $2,528,000 in 2018 compared to 2017. During 2017, our net cash provided by financing activities included the net proceeds of our initial public offering offset by the repayment of certain related party loans. During 2018, our net cash provided by financing activities was comprised of net proceeds from the issuance of the mandatorily redeemable Series A Preferred shares and the term loan offset by the repayment of certain related party borrowings and the preferred capital investment in Homestyle Dining LLC.

Dividends

Our Board of Directors declared three cash dividends of $0.12 per share of common stock, each payable on April 16, 2018, July 16, 2018 and October 31, 2018.

On each dividend payment date, FCCG elected to reinvest all, or a significant portion of, its dividend from its common shares of the Company at the closing market price of the shares on the payment date. As a result:

- On April 16, 2018, the Company issued 153,600 shares of common stock to FCCG at a price of $6.25 per share in satisfaction of $960,000 dividend payable.
- On July 16, 2018, the Company issued 157,765 shares of common stock to FCCG at a price of $6.085 per share in satisfaction of $960,000 dividend payable.
- On October 31, 2018, the Company issued 176,877 shares of common stock to FCCG at a price of $6.31 per share in satisfaction of the $1,116,091 dividend payable.

Subsequent to fiscal 2018, the Company declared a stock dividend on February 7, 2019 equal to 2.13% on its common stock, representing the number of shares equal to $0.12 per share of common stock based on the closing price as of February 6, 2019. The stock dividend was paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019. The Company issued 245,376 shares of common stock at a per share price of $5.64 in satisfaction of the dividend. No fractional shares were issued, instead the Company paid stockholders cash totaling $1,670 for fractional interests based on the market value of the common stock on the record date.

The declaration and payment of future dividends, as well as the amount thereof, are subject to the discretion of our Board of Directors. The amount and size of any future dividends will depend upon our future results of operations, financial condition, capital levels, cash requirements and other factors. There can be no assurance that we will declare and pay dividends in future periods.

Term Loan

On July 3, 2018, the Company as borrower, and certain of the Company's direct and indirect subsidiaries and affiliates as guarantors, entered into a new Loan and Security Agreement (the "Loan Agreement") with FB Lending, LLC (the "Lender"). Pursuant to the Loan Agreement, the Company borrowed $16.0 million in a term loan ("Term Loan") from the Lender. The Company used a portion of the loan proceeds to fund (i) the cash payment of $8.0 million to the members of Hurricane and closing costs in connection with the acquisition of Hurricane, and (ii) to repay borrowings of $2.0 million plus interest and fees owing under the Company's existing loan facility with TCA Global Credit Master Fund, LP. The Company used the remaining proceeds for general working capital purposes.

The term loan under the Loan Agreement matures on June 30, 2020. Interest on the term loan accrues at an annual fixed rate of 15.0%. The Company may prepay all or a portion of the outstanding principal and accrued unpaid interest under the Loan Agreement at any time upon prior notice to the Lender, subject to a prepayment penalty of 10% in the first year and 5% in the second year of the term loan.

As of December 30, 2018, the total principal amount due under the Term Loan was $16,400,000. The Company recognized interest expense on the Term Loan of $3,301,000 for the fiscal year ended December 30, 2018 as well as $222,000 in accretion expense, related to warrants issued in conjunction with the Term Loan, and $217,000 for amortization of debt offering costs.

Subsequent to the end of the fiscal year, on January 29, 2019, the Company refinanced the Term Loan. The Company as borrower, and its subsidiaries and affiliates as guarantors, entered into a new Loan and Security Agreement (the "Loan and Security Agreement") with The Lion Fund, L.P. and The Lion Fund II, L.P. ("Lion"). Pursuant to the Loan and Security Agreement, the Company borrowed $20.0 million from Lion, and utilized the proceeds to repay the existing $16.0 million term loan from FB Lending, LLC plus accrued interest and fees, and provide additional general working capital to the Company.

The term loan under the Loan and Security Agreement matures on June 30, 2020. Interest on the term loan accrues at an annual fixed rate of 20.0% and is payable quarterly. The Company may prepay all or a portion of the outstanding principal and accrued unpaid interest under the Loan and Security Agreement at any time upon prior notice to Lion without penalty, other than a make-whole provision providing for a minimum of six months' interest.

Capital Expenditures

As of December 30, 2018, we do not have any material commitments for capital expenditures.

Critical Accounting Policies and Estimates

Royalties: In addition to franchise fee revenue, we collect a royalty calculated as a percentage of net sales from our franchisees. Royalties are recognized as revenue when the related sales are made by the franchisees. Royalties collected in advance of sales are classified as deferred income until earned.

Franchise Fees: Franchise fee revenue from the sale of individual franchises is recognized over the term of the individual franchise agreement. Unamortized non-refundable deposits collected in relation to the sale of franchises are recorded as deferred franchise fees.

The franchise fee may be adjusted at management's discretion or in a situation involving store transfers. Deposits are non-refundable upon acceptance of the franchise application. In the event a franchisee does not comply with their development timeline for opening franchise stores, the franchise rights may be terminated, and franchise fee revenue is recognized for non-refundable deposits.

Store opening fees: We recognize store opening fees of $45,000 and $60,000 for domestic and international stores, respectively, from the up-front fees collected from franchisees. The remaining balance of the up-front fees are then amortized as franchise fees over the life of the franchise agreement. If the fees collected are less than the respective store opening fee amounts, the full up-front fees are recognized at opening. The $45,000 and $60,000 are based on our out-of-pocket costs for each store opening and are primarily comprised of labor expenses associated with training, store design, and supply chain setup. International fees recognized are higher due to the additional cost of travel.

Advertising: We require advertising payments based on a percent of net sales from franchisees. We also receive, from time to time, payments from vendors that are to be used for advertising. Advertising funds collected are required to be spent for specific advertising purposes. Advertising revenue and associated expense is recorded on the statement of operations. Assets and liabilities associated with the related advertising fees are consolidated on the Company's balance sheet.

Goodwill and other intangible assets: Goodwill and other intangible assets with indefinite lives, such as trademarks, are not amortized but are reviewed for impairment annually, or more frequently if indicators arise. No impairment has been identified for the year ended December 30, 2018.

Income taxes: We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain.

We utilize a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon the ultimate settlement.

Share-based compensation: We have a stock option plan which provides for options to purchase shares of our common stock. For grants to employees and directors, we recognize an expense for the value of options granted at their fair value at the date of grant over the vesting period in which the options are earned. Cancellations or forfeitures are accounted for as they occur. Fair values are estimated using the Black-Scholes option-pricing model. For grants to non-employees for services, we revalue the options each reporting period while the services are being performed. The adjusted value of the options is recognized as an expense over the service period. See Note 14 in our consolidated financial statements for more details on our share-based compensation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers (Topic 606)* , requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective or retrospective with cumulative effect transition method. These standards are effective for our first quarter of 2018 and we adopted the standards using the modified retrospective method.

These standards require that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. The services we provide related to store openings contain separate and distinct performance obligations from the franchise right and thus those store opening fees will be recognized as revenue upon store opening. The balance of any upfront fees collected from franchisee not related to the store opening are amortized over the term of each respective franchise agreement. We previously recognized upfront franchise fees such as initial and renewal fees when the related services have been provided, which is when a store opens for initial fees and when renewal options become effective for renewal fees. These standards require any unamortized portion of fees received prior to adoption be presented in our consolidated balance sheet as a contract liability. Upon the adoption of this standard on January 1, 2018, we recorded a decrease to our retained earnings in the amount of $2,607,000 with a corresponding increase to deferred revenue in the amount of $3,400,000 and a $793,000 increase in the deferred tax asset.

The new standards impact the principal/agent determinations in these arrangements by superseding industry-specific guidance included in current GAAP. When we are the principal in these transactions, we will include the related contributions and expenditures within our consolidated statements of operations and cash flows. As a result of this change, we expect the increase in both total revenues and total costs and expenses, with no significant impact to net loss.

These standards will not impact the recognition of our sales-based royalties from franchisees, which is generally our largest source of revenue. We have implemented internal controls related to the recognition and presentation of the Company’s revenues under these new standards.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* . The new guidance is intended to reduce diversity in practice in how transactions are classified in the statement of cash flows. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard did not have a material impact on the company’s consolidated financial statements.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, requiring a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. This ASU is effective for interim and annual period beginning after December 15, 2018 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. The adoption of this standard will result in the Company recording Right of Use Assets and Lease Liabilities on its consolidated financial statements. The dollar amount of the Right of Use Assets is projected to be approximately equal to the amount of the Lease Liabilities. The adoption of this standard is not expected to have a significant effect on the amount of lease expense recognized by the Company.

In June 2018, the FASB issued ASU No.2018-07, Compensation- Stock Compensation (Topic 718). Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Prior to this update, Top 718 applied only to share-based transactions to employees. Consistent with the accounting requirements for employee share-based payment awards, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The amendments in the update are effective for public business entities form fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The adoption of this accounting standard is not expected to have a material effect on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements. This ASU makes amendments to multiple codification Topics. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently assessing the effect that this ASU will have on its financial position, results of operations, and disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." This ASU adds, modifies and removes several disclosure requirements relative to the three levels of inputs used to measure fair value in accordance with Topic 820, "Fair Value Measurement." This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently assessing the effect that this ASU will have on its financial position, results of operations, and disclosures.

Off-Balance Sheet Arrangements

As of December 30, 2018, we have no off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 15 of Part IV of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change of accountants or any disagreements with accountants on any matter of accounting principles or practices, or financial statement disclosure required to be reported under this item.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting also includes those policies and procedures that:

(a) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of the Audit Committee of the Board of Directors and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and those criteria, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective as of December 30, 2018.

Because we are an Emerging Growth Company, we are not required to include an attestation report by our independent registered public accounting firm regarding the effectiveness of our internal control over financial reporting in this annual report as of December 30, 2018.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. During the third quarter of 2018, the Company expanded its accounting and finance organization with the hiring of Rebecca D. Hershinger as its Chief Financing Officer.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Below is a list of the names and ages, as of December 30, 2018 of our directors and executive officers (the “named executive officers”), and a description of the business experience of each of them.

Name	Age	Position
Andrew A. Wiederhorn	52	President and Chief Executive Officer, Director
Rebecca D. Hershinger	45	Chief Financial Officer
Donald J. Berchtold	73	Executive Vice President and Chief Concept Officer
Ron Roe	41	Senior Vice President of Finance
Edward H. Rensi	74	Chairman of the Board of Directors
Marc L. Holtzman	58	Director
Squire Junger	68	Director
Silvia Kessel	73	Director
Jeff Lotman	57	Director
James Neuhauser	60	Director

Executive Officers and Directors

Andrew A. Wiederhorn has served as a director and President and Chief Executive Officer of FAT Brands Inc. since its formation. Mr. Wiederhorn has served as the Chairman of the board of directors and Chief Executive Officer of Fatburger North America, Inc. since 2006 and Buffalo’s Franchise Concepts, Inc. since 2011. He also served as the Chairman of the board of directors and Chief Executive Officer of Fog Cutter Capital Group Inc. since its formation in 1997. Mr. Wiederhorn previously founded and served as the Chairman of the board of directors and Chief Executive Officer of Wilshire Financial Services Group Inc. and Wilshire Credit Corporation. Mr. Wiederhorn received his B.S. degree in Business Administration from the University of Southern California in 1987, with an emphasis in Finance and Entrepreneurship. He previously served on the board of directors of Fabricated Metals, Inc., The Boy Scouts of America Cascade Pacific Council, The Boys and Girls Aid Society of Oregon, University of Southern California Associates, Citizens Crime Commission of Oregon, and Economic Development Council for the City of Beverly Hills Chamber of Commerce. Mr. Wiederhorn was featured as the Fatburger CEO on the CBS television program “Undercover Boss” in 2013. Mr. Wiederhorn was selected to our Board of Directors because of his role in our founding and long career in hospitality, and because he possesses particular knowledge and experience in strategic planning and leadership of complex organizations and hospitality businesses.

Rebecca D. Hershinger has served as our Chief Financial Officer and Corporate Secretary since August 16, 2018. Ms. Hershinger previously served as the Chief Financial Officer of Genius Brands International, Inc., a publicly traded global children’s media company that creates and licenses animated entertainment content, from April 2016 to April 2018. She also served as the Chief Financial Officer of Genius from October 2014 through June 2015 after consulting with the company beginning in March 2014. In 2012, she founded CFO Advisory Services Inc., an accounting and business advisory services firm, headquartered in Park City, UT. From 2008 through 2012, Ms. Hershinger was Chief Financial Officer and Vice President, Finance & Corporate Development for SpectrumDNA, Inc., a publicly traded, but currently inactive, social media marketing and application development company that had been located in Park City, UT. Ms. Hershinger was an independent financial consultant in San Francisco between 2007 and 2008. Ms. Hershinger was employed by Metro-Goldwyn-Mayer, Inc. in Los Angeles, California from 1999 to 2005, holding various positions ultimately rising to the level of Vice President, Finance & Corporate Development. Between 1995 and 1998, Ms. Hershinger worked as an analyst for JP Morgan Chase & Co. in Los Angeles and New York. Ms. Hershinger received her Bachelor of Science in Business Administration from Georgetown University, McDonough School of Business, in Washington, D.C. and a Masters in Business Administration from The Wharton School, University of Pennsylvania. She also completed studies at the International Finance & Comparative Business Policy Program at Oxford University, Oxford England.

Donald J. Berchtold currently serves as our Executive Vice President and Chief Concept Officer. Prior to February 20, 2018, Mr. Berchtold served as the President and Chief Operating Officer of Fatburger North America. Mr. Berchtold has also served as the President and Chief Operating Officer of FCCG since 2006 and in various other positions at FCCG prior to 2006. From 1991 to 1999, Mr. Berchtold served as Senior Vice President of Wilshire Financial Services Group Inc. and its sister company Wilshire Credit Corporation. Prior to 1990, Mr. Berchtold was the owner-operator of his own business that included a dinner house, catering company and other food service concepts, and was active in the Restaurants of Oregon Association. Mr. Berchtold holds a BSC degree in Finance and Marketing from the University of Santa Clara.

Ron Roe currently serves as our Senior Vice President of Finance. Prior to August 16, 2018, Mr. Roe served as our Chief Financial Officer since 2009 and served as our Vice President of Finance from 2007 to 2009. Prior to 2007, Mr. Roe was an acquisitions associate for FCCG. He began his career as an investment banking analyst with Piper Jaffray. Mr. Roe attended UC Berkeley, where he earned a Bachelor of Arts in Economics.

Edward H. Rensi has served on the board of directors of FAT Brands Inc. since its formation and became Chairman of the Board on October 20, 2017. Mr. Rensi is the retired president and chief executive officer of McDonald's USA. Prior to his retirement in 1997, Mr. Rensi devoted his entire professional career to McDonald's, joining the company in 1966 as a "grill man" and part-time manager trainee in Columbus, Ohio. He was promoted to restaurant manager within a year, and went on to hold nearly every position in the restaurant and field offices, including franchise service positions in Columbus, Ohio and Washington, D.C. In 1972, he was named Philadelphia district manager, and later became regional manager and regional vice president. In 1978, he transferred from the field to the company's home office in Oak Brook, Illinois, as vice president of Operations and Training, where he was responsible for personnel and product development. In 1980, he became executive vice president and chief operations officer, and was appointed senior executive vice president in 1982. Mr. Rensi was promoted to president and chief operating office of McDonald's USA in 1984. In 1991, he was named chief executive officer. As president and chief executive officer, his responsibilities included overseeing all domestic company-owned and franchisee operations, in addition to providing direction relative to sales, profits, operations and service standards, customer satisfaction, product development, personnel, and training. Mr. Rensi was directly responsible for management of McDonald's USA, which consisted of eight geographic zones and 40 regional offices. During his 13-year term as president, McDonald's experienced phenomenal growth. U.S. sales doubled to more than $16 billion, the number of the U.S. restaurants grew from nearly 6,600 to more than 12,000, and the number of U.S. franchisees grew from 1,600 to more than 2,700. Since his retirement, Mr. Rensi has held consulting positions. From January 2014 to July 2015, Mr. Rensi served as director and interim CEO of Famous Dave's of America, Inc. Mr. Rensi received his B.S. in Business Education from Ohio State University in Columbus, Ohio. Mr. Rensi was selected to our Board of Directors because of his long career in hospitality and restaurant franchising, and because he possesses particular knowledge and experience in strategic planning and leadership of complex organizations and hospitality businesses.

Marc L. Holtzman became a member of the board of directors of FAT Brands Inc. on October 20, 2017. Mr. Holtzman currently serves as a Chairman of The Bank of Kigali, Rwanda's largest financial institution, and a director of TeleTech (NASDAQ: TTEC), the world's leading provider of analytics-driven technology-enabled services. Following a successful transformation and sale in July 2017 of Kazkommertsbank (LSE: KKB:LI), Kazakhstan's largest bank, Mr. Holtzman recently stepped down as Chief Executive Officer, having joined as Chairman in March 2015. He previously served as Chairman of Meridian Capital HK, a Hong Kong private equity firm. From 2012 through 2015, he served on the Board of Directors of FTI Consulting, Inc., (NYSE:FCN) a global financial and strategic consulting firm, and Sistema, Russia's largest listed private company (London Stock Exchange). Between 2008 and 2012, Mr. Holtzman served as the executive vice chairman of Barclays Capital. From 2006 to 2008, he served as vice chairman of the investment banking division of ABN AMRO Bank. Between 1989 and 1998, Mr. Holtzman lived and worked in Eastern Europe and Russia, as co-founder and president of MeesPierson EurAmerica (a firm acquired by ABN AMRO) and as senior adviser to Salomon Brothers. Mr. Holtzman serves as a director of Sistema JSFC, (LONDON:SSA;GDR), a Russian listed investment company. Between 2003 and 2005, Mr. Holtzman was President of the University of Denver; and between 1999 and 2003 he served in the Cabinet of Governor Bill Owens as Colorado's First Secretary of Technology. Mr. Holtzman holds a B.A. degree in Economics from Lehigh University. Mr. Holtzman was selected to our Board of Directors because he brings financial experience and possesses particular knowledge and experience in strategic planning and leadership of complex organizations.

Squire Junger became a member of the board of directors of FAT Brands Inc. on October 20, 2017. Mr. Junger is a co-founder and a managing member of Insight Consulting LLC, a management consulting firm based in the Los Angeles area, providing advice in mergers and acquisitions, corporate divestitures, business integration diagnostics, real estate investment, acquisition, development and construction and litigation support services. Prior to co-founding Insight in 2003 he was a partner at Arthur Andersen LLP, which he joined in 1972. Mr. Junger co-developed and managed the west coast Transaction Advisory Services practice at Andersen, providing comprehensive merger and acquisition consulting services to both financial and strategic buyers and sellers. Mr. Junger is a certified public accountant in California, and received Bachelor of Science and M.B.A. degrees from Cornell University. Mr. Junger was selected to our Board of Directors because he brings substantial expertise in financial and strategic planning, mergers and acquisitions, and leadership of complex organizations.

Silvia Kessel became a member of the board of directors of FAT Brands Inc. on October 20, 2017. Ms. Kessel is Senior Vice President, Chief Financial Officer and Treasurer of Metromedia Company. Metromedia Company is a management and investment company founded by the late John W. Kluge, which manages and invests in a variety of industries, including medical research, restaurants and outdoor visual displays. Ms. Kessel has served in various executive positions at Metromedia Company and affiliated companies since 1984. Ms. Kessel has previously served as a director of LDDS Communications Inc. (and its successor) (1993-1996), Orion Pictures (1993-1997), AboveNet/Metromedia Fiber Network (1997-2001), Big City Radio (1997-2002), and Liquid Audio (1998-2002), and served on the Board of Governors and Competition Committee of Major League Soccer (1996-2001). Ms. Kessel attended the University of Miami and received an MBA in Finance from Columbia University. From 1981 to 1988, Ms. Kessel taught Finance at Pace University. Ms. Kessel was selected to our Board of Directors because she brings substantial expertise in finance, financial and strategic planning, complex transactions and leadership of complex organizations.

Jeff Lotman became a member of the board of directors of FAT Brands Inc. on October 20, 2017. Mr. Lotman is the Chief Executive Officer of Global Icons, LLC, a company which he founded in 1998. Global Icons is a premier brand licensing agency specializing in the development and extension of corporate brands and trademarks. Prior to launching Global Icons, Mr. Lotman was Chief Operating Officer for Keystone Foods, a multi-billion dollar manufacturing company that developed and supplied food products for companies such as McDonald's and Kraft. Mr. Lotman guided the international expansion of Keystone Foods and established manufacturing and distribution operations in over a dozen countries. Mr. Lotman has been a featured guest speaker at many leading industry events, including Entertainment Marketing Conference, Young Presidents' Organization, SPLICE, Licensing Show, Restaurant Industry Conference, LA Roadshow, UCLA and others. He has also been profiled numerous times, including in The New York Times, The Los Angeles Times, The Wall St. Journal, CNBC, and FOX. He is a distinguished member of the Licensing Industry Merchandisers' Association (LIMA) and the Licensing Executives Society (LES). Mr. Lotman received a B.A. degree in Business and Marketing from Curry College. Mr. Lotman was selected to our board of directors because he brings substantial expertise in retail marketing, branding and licensing opportunities for consumer brands.

James Neuhauser has served on the board of directors of FAT Brands Inc. since its formation. Mr. Neuhauser is a Senior Managing Director in the Private Capital Markets Group of Stifel Nicolas & Company. Mr. Neuhauser is also the Managing Member of Turtlerock Capital, LLC, a company that finances and invests in real estate development projects. He previously worked for FBR & Co. for more than 24 years, including positions as Chief Investment Officer, Head of Investment Banking and Head of the Real Estate and Financial Services groups in Investment Banking through October 2016. He also served as Head of FBR's Commitment Committee and was a member of the firm's Executive Committee. Prior to joining FBR, Mr. Neuhauser was a Senior Vice President of Trident Financial Corporation for seven years, where he specialized in managing stock offerings for mutual to stock conversions of thrift institutions. Before joining Trident, he worked in commercial banking with the Bank of New England. Mr. Neuhauser is a CFA charter holder and a member of the Society of Financial Analysts. He received a Bachelor of Arts from Brown University and an M.B.A. from the University of Michigan. Mr. Neuhauser was selected to our Board of Directors because he brings substantial expertise in financial and strategic planning, investment banking complex financial transactions, mergers and acquisitions, and leadership of complex organizations.

Family Relationships

Donald J. Berchtold is the former father-in-law of our Chief Executive Officer, Andrew A. Wiederhorn.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of Forms 3, 4 and 5 and amendments thereto furnished to us for the year ended December 30, 2018, our directors, officers, or beneficial owners of more than 10% of our common stock timely furnished reports on all Forms 3, 4 and 5, except that (i) FCCG filed four late Form 4s relating to six separate transactions; (ii) Marc L. Holtzman, Squire Junger, Silvia Kessel, Jeff Lotman, James Neuhauser, and Edward H. Rensi each filed three late Form 4s, each relating to one separate transaction; and (iii) Andrew A. Wiederhorn, Rebecca D. Hershinger, Donald J. Berchtold, and Ron Roe each filed one late Form 4, each relating to one separate transaction.

Code of Ethics

We have adopted a written code of business ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted a current copy of the code under the Corporate Governance section of our website at https://ir.fatbrands.com . In addition, we intend to post on our website all disclosures that are required by law or the NASDAQ listing standards concerning any amendments to, or waivers from, any provision of the code.

Board Committees

During 2018, our Board of Directors held four meetings.

The following table sets forth the three standing committees of our Board and the members of each committee and the number of meetings held by our Board of Directors and the committees during 2018:

Director	Board	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Edward H. Rensi	Chair	-	X	Chair
James Neuhauser	X	Chair	X	-
Marc L. Holtzman	X	-	Chair	X
Squire Junger	X	X	-	-
Silvia Kessel	X	X	-	-
Jeff Lotman	X	-	-	X
Andrew A. Wiederhorn	X	-	-	-
Meetings in 2018:	4	7	1	1

To assist it in carrying out its duties, the Board of Directors has delegated certain authority to an Audit Committee, a Compensation Committee and a Nominating and Governance Committee, the functions of which are described below.

Audit Committee

The Audit Committee is responsible for, among other matters:

- appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm;
- discussing with our independent registered public accounting firm their independence from management;
- reviewing with our independent registered public accounting firm the scope and results of their audit;
- approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm;

- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the SEC;
- reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls and compliance with legal and regulatory requirements; and
- establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters.

Our Audit Committee is comprised of Mr. Junger, Ms. Kessel and Mr. Neuhauser, with Mr. Neuhauser serving as the chair. Our board of directors has affirmatively determined that each member of the Audit Committee meets the definition of "independent director" for purposes of serving on an audit committee under Rule 10A-3 and NASDAQ rules. In addition, our board of directors has determined that both Ms. Kessel and Mr. Neuhauser qualify as an "audit committee financial expert," as such term is defined in Item 407(d)(5) of Regulation S-K.

The Board of Directors adopted a charter for the Audit Committee on October 19, 2017. A copy of the Audit Committee charter is available in the Corporate Governance section of our website at https://ir.fatbrands.com . The Audit Committee reviews and reassesses the adequacy of the charter on an annual basis.

Compensation Committee

Our compensation committee is comprised of Mr. Rensi, Mr. Neuhauser and Mr. Holtzman, with Mr. Holtzman serving as the chair. Our Compensation Committee's main functions are assisting our Board of Directors in discharging its responsibilities relating to the compensation of outside directors, the Chief Executive Officer and other executive officers, as well as administering any stock incentive plans we may adopt.

The Compensation Committee's responsibilities include the following:

- reviewing and recommending to our board of directors the compensation of our Chief Executive Officer and other executive officers and the outside directors;
- conducting a performance review of our Chief Executive Officer;
- administering the Company's incentive-compensation plans and equity-based plans as in effect or as adopted from time to time by the Board of Directors;
- approving any new equity compensation plan or material change to an existing plan where stockholder approval has not been obtained;
- reviewing our compensation policies; and
- if required, preparing the report of the Compensation Committee for inclusion in our annual proxy statement.

The Board of Directors has adopted a charter for the Compensation Committee on October 19, 2017. A copy of the Compensation Committee charter is available in the Corporate Governance section of our website at https://ir.fatbrands.com . The Compensation Committee reviews and reassesses the adequacy of the charter on an annual basis.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance committee is comprised of Mr. Holtzman, Mr. Lotman and Mr. Rensi, with Mr. Rensi serving as the chair.

The Nominating and Corporate Governance Committee's responsibilities include:

- identify qualified individuals to serve as members of the Company's board of directors;
- review the qualifications and performance of incumbent directors;
- review and consider candidates who may be suggested by any director or executive officer or by any stockholder of the Company;
- review considerations relating to board composition, including size of the board, term, and the criteria for membership on the board;

The Board of Directors has adopted a charter for the Nominating and Corporate Governance Committee on October 19, 2017. A copy of the Compensation Committee charter is available in the Corporate Governance section of our website at https://ir.fatbrands.com . The Nominating and Corporate Governance Committee reviews and reassesses the adequacy of the charter on an annual basis.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary(1)	Bonus	Stock Awards	Option Awards (2)	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Andrew A. Wiederhorn	2018	$ 400,000	-	-	19,962	-	-	-	419,962
Chief Executive Officer (3)	2017	251,147	-	-	3,621	-	-	-	254,768
Rebecca D. Hershinger	2018	105,769	10,417	-	4,124	-	-	-	120,310
Chief Financial Officer (4)	2017	-	-	-	-	-	-	-	-
Donald J. Berchtold,	2018	400,000	-	-	19,962	-	-	-	419,962
EVP – Chief Concept Officer (3)	2017	251,147	-	-	3,621	-	-	-	254,768
Ron Roe,	2018	300,000	-	-	19,962	-	-	-	319,962
Senior Vice President of Finance (3)(5)	2017	161,462	-	-	3,621	-	-	-	165,083

Explanatory Notes:

(1) Reflects the dollar amount recognized for financial statement reporting purposes for salary paid or accrued on behalf of the named executives for the full fiscal years ended December 30, 2018 and December 31, 2017, including amounts relating to predecessor entities Fatburger North America, Inc. and Buffalo's Franchise Concepts, Inc. prior to being contributed as subsidiaries of the Company.

(2) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 30, 2018 and December 31, 2017, in accordance with ASC 718 of awards pursuant to the Stock Option Plan. Assumptions used in the calculation of this amount for fiscal year ended December 30, 2018 are included in footnote 14 to the Company's audited consolidated financial statements for the fiscal year ended December 30, 2018, included in Part IV of this Annual Report on Form 10-K. During 2018 and 2017, Mr. Wiederhorn, Mr. Roe, and Mr. Berchtold were granted options to purchase 15,000 shares of common stock each year with an aggregate grant date fair value of $8,329 and $35,550, respectively. During 2018, Ms. Hershinger was granted options to purchase 25,000 and 15,000 shares of common stock each with an aggregate grant date fair value of $15,363 and $8,329, respectively.

(3) Salaries in 2017 for Mr. Wiederhorn, Mr. Roe and Mr. Berchtold include amounts relating to predecessor entities Fatburger North America, Inc. and Buffalo's Franchise Concepts, Inc. which were contributed to the Company by FCCG at the time of the initial public offering.

(4) Ms. Hershinger became our Chief Financial Officer effective August 16, 2018.

(5) Mr. Roe served as our Chief Financial Officer and a named executive until August 15, 2018. He currently serves as our Senior Vice President of Finance.

Executive Employment Agreements

There are no employment agreements between the Company and any of its employees.

OUTSTANDING EQUITY AWARDS AT FISCAL 2018 YEAR END

The following table summarizes the outstanding equity award holdings of our named executive officers as of December 30, 2018.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested($)
Andrew A. Wiederhorn, Chief Executive Officer	5,000	10,000	-	$ 12.00	10/19/2027	-	-	-	-
	-	15,000	-	$ 5.39	12/10/2028	-	-	-	-
Rebecca D. Hershinger, Chief Financial Officer	-	25,000	-	$ 8.00	7/30/2028	-	-	-	-
	-	15,000	-	$ 5.39	12/10/2028	-	-	-	-
Donald J. Berchtold, EVP – Chief Concept Officer	5,000	10,000	-	$ 12.00	10/19/2027	-	-	-	-
	-	15,000	-	$ 5.39	12/10/2028	-	-	-	-
Ron Roe Senior Vice President of Finance	5,000	10,000	-	$ 12.00	10/19/2027	-	-	-	-
	-	15,000	-	$ 5.39	12/10/2028	-	-	-	-

Explanatory Notes:

Option Exercises and Stock Vested

None of the named executives acquired shares of the Company's stock through exercise of options during the year ended December 30, 2018.

DIRECTOR COMPENSATION

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the board of directors. In setting director compensation, the Company considers the significant amount of time that our directors expend in fulfilling their duties to the Company as well as the skill-level required by the Company of members of the board of directors.

Effective October 20, 2017, we pay each non-employee director serving on our Board of Directors $40,000 in annual cash compensation, plus an annual equity award of 15,000 stock options or SAR's. To the extent that any non-employee director serves on one or more committees of our Board of Directors, we pay an additional $20,000 in cash compensation annually.

The terms of the equity award described above are set forth in the 2017 Omnibus Equity Incentive Plan (the "Plan"). The Plan is a comprehensive incentive compensation plan under which we can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to, FAT Brands and its subsidiaries. The Plan provides for a maximum of 1,000,000 shares available for grant. The Plan is administered by the Compensation Committee of the Board of Directors.

The non-employee director compensation policy (including the compensation described above) may be amended, modified or terminated by our Board of Directors at any time in its sole discretion.

The following table sets forth a summary of the compensation we paid or accrued to our non-employee directors during 2018 and 2017:

Name	Year	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Edward H. Rensi (2)	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
	2017	$ 45,000	$ —	$ 3,621	$ —	$ —	$ —	$ 48,621
Marc L. Holtzman (2)	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
	2017	$ 15,000	$ —	$ 3,621	$ —	$ —	$ —	$ 18,621
Squire Junger (2)	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
	2017	$ 15,000	$ —	$ 3,621	$ —	$ —	$ —	$ 18,621
Silvia Kessel (2)	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
	2017	$ 15,000	$ —	$ 3,621	$ —	$ —	$ —	$ 18,621
Jeff Lotman (2)	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
	2017	$ 15,000	$ —	$ 3,621	$ —	$ —	$ —	$ 18,621
James Neuhauser (2)	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
	2017	$ 45,000	$ —	$ 3,621	$ —	$ —	$ —	$ 48,621

Explanatory Notes:

(1) Reflects the dollar amount of awards pursuant to the Plan recognized for financial statement reporting purposes for the fiscal years ended December 30, 2018 and December 31, 2017. Assumptions used in the calculation of this amount for fiscal year ended December 30, 2018 are included in footnote 14 to the Company's audited consolidated financial statements, included in Part IV of the Company's Annual Report on Form 10-K. During 2018 and 2017, each director was granted options to purchase 15,000 shares of common stock each year with an aggregate grant date fair value of $8,329 and $35,550, respectively.

(2) Mr. Rensi has served on the Board of Directors of the Company since its formation and became the Chairman of the Board on October 20, 2017. Mr. Neuhauser has served on the Board of Directors of the Company since its formation. Messrs. Holtzman, Junger, and Lotman and Ms. Kessel have served on the Board of Directors since October 20, 2017.

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

PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our Common Stock as of February 27, 2019:

- each person known by us to beneficially own more than 5% of our Common Stock;
- each of our directors;
- each of our named executive officers; and
- all of our executive officers and directors as a group.

The number of shares beneficially owned by each stockholder is determined under rules issued by the SEC and includes voting or investment power with respect to securities. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power. In computing the number of shares beneficially owned by an individual or entity and the percentage ownership of that person, shares of common stock subject to options, or other rights, including the redemption right described above, held by such person that are currently exercisable or will become exercisable within 60 days of the effective date of the disclosure, are considered outstanding, although these shares are not considered outstanding for purposes of computing the percentage ownership of any other person. Unless otherwise indicated, the address of all listed stockholders is c/o FAT Brands Inc., 9720 Wilshire Blvd., Suite 500, Beverly Hills, California 90212. Each of the stockholders listed has sole voting and investment power with respect to the shares beneficially owned by the stockholder unless noted otherwise, subject to community property laws where applicable.

As of February 27, 2019, there were 11,561,973 of our common shares issued and outstanding.

	Shares of Common Stock Beneficially Owned	
Name of beneficial owner	**Number**	**Percentage [3]**
5% Stockholders		
Fog Cutter Capital Group Inc.	9,496,387[1]	82.0%
Named Executive Officers and Directors		
Andrew A. Wiederhorn	5,000[2][3]	*
Rebecca D. Hershinger	0	*
Donald J. Berchtold	5,000[2][4]	*
Ron Roe	5,000[2][5]	*
Marc L. Holtzman	23,583[2]	*
Squire Junger	35,790[2][6]	*
Silvia Kessel	19,790[2]	*
Jeff Lotman	32,790[2]	*
James Neuhauser	46,588[2]	*
Edward H. Rensi	21,990[2][7]	*
All directors and executive officers as a group (ten persons)	195 ,531[8]	1.6%

[1] Includes warrants to purchase 18,750 shares of the Company's common stock.

[2] Includes vested options to purchase 5,000 shares of the Company's common stock. Does not include unvested options to purchase an additional 25,000 shares of the Company's common stock.

[3] Mr. Wiederhorn beneficially owns 43.1% of the outstanding common stock of FCCG, and disclaims beneficial ownership of the Company held by FCCG except to the extent of his pecuniary interest in FCCG.

[4] Mr. Berchtold and his spouse beneficially own 44,135 shares of common stock of FCCG and disclaim beneficial ownership of the Company held by FCCG except to the extent of their pecuniary interest in FCCG.

[5] Mr. Roe beneficially owns 75,000 shares of common stock of FCCG and disclaims beneficial ownership of the Company held by FCCG except to the extent of his pecuniary interest in FCCG.

[6] Mr. Junger and his spouse beneficially own 26,000 shares of common stock of FCCG and disclaim beneficial ownership of the Company held by FCCG except to the extent of their pecuniary interest in FCCG.

[7] Includes 402 shares owned by Mr. Rensi's spouse.

[8] Includes options to purchase 45,000 shares of the Company's common stock.

* Represents beneficial ownership of less than 1%.

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

Reportable Related Person Transactions

Since January 1, 2018, the Company has engaged in certain transactions with Fog Cutter Capital Group Inc., which is the 82.0% parent of the Company. Descriptions of such transactions are included under Notes 10, 11 and 12 to the consolidated financial statements of the Company included under Item 15 of this Form 10-K, which information is incorporated herein by this reference. Other than such transactions, since January 1, 2018, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

- in which the amount involved exceeds $120,000; and
- in which any director, executive officer, shareholder who beneficially owns 5% or more of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

Director Independence

The board has determined that each of the directors, except Mr. Wiederhorn, is independent within the meaning of the applicable rules and regulations of the Securities and Exchange Commission (“SEC”) and the director independence standards of The NASDAQ Stock Market, Inc. (“NASDAQ”), as currently in effect. Furthermore, the board has determined that each of the members of each of the committees of the board is “independent” under the applicable rules and regulations of the SEC and the director independence standards of NASDAQ applicable to each such committee, as currently in effect.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Hutchinson and Bloodgood LLP, Glendale, California, currently serves as our independent registered public accounting firm. The aggregate accounting fees for the years ended December 30, 2018 and December 31, 2017 are as follows (dollars in thousands):

	December 30, 2018	December 31, 2017
Audit fees	**$ 331**	**$ 205**
Audit related fees	**$ 174**	**$ 95**
Other fees	**$ 46**	**$ 7**

Audit Committee Pre-Approval Policies and Procedures. The Audit Committee reviews the independence of our independent registered public accounting firm on an annual basis and has determined that Hutchinson and Bloodgood LLP is independent. In addition, the Audit Committee pre-approves all work and fees that are performed by our independent registered public accounting firm.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

FAT Brands Inc.

Audited Financial Statements

Report of Independent Registered Public Accounting Firm F-1

Consolidated Balance Sheets as of December 30, 2018 and December 31, 2017 F-2

Consolidated Statements of Operations for the year ended December 30, 2018 and for the period beginning March 21,2017 (inception) and ending December 31, 2017 F-3

Consolidated Statements of Changes in Stockholders' Equity for the year ended December 30, 2018 and for the period beginning March 21, 2017 (inception) and ending December 31, 2017 F-4

Consolidated Statements of Cash Flows for the year ended December 30, 2018 and for the period beginning March 21, 2017 (inception) and ending December 31, 2017 F-5

Notes to Consolidated Financial Statements F-6

Fatburger North America, Inc.

Audited Interim Financial Statements

Report of Independent Registered Public Accounting Firm F-31

Balance Sheet as of October 19, 2017 F-32

Statement of Income for the period beginning December 26, 2016 and ending October 19, 2017 F-33

Statement of Changes in Stockholder's Equity for the period beginning December 26, 2016 and ending October 19, 2017 F-34

Statement of Cash Flows for the period beginning December 26, 2016 and ending October 19,2017 F-35

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Buffalo's Franchise Concepts, Inc.

Audited Interim Financial Statements

Report of Independent Registered Public Accounting Firm F-41

Consolidated Balance Sheet as of October 19, 2017 F-42

Consolidated Statement of Income for the period beginning December 26, 2016 and ending October 19, 2017 F-43

Consolidated Statement of Changes in Stockholder's Equity for the period beginning December 26, 2016 and ending October 19, 2017 F-44

Consolidated Statement of Cash Flows for the period beginning December 26, 2016 and ending October 19,2017 F-45

Notes to Consolidated Financial Statements F-46

(b) Exhibits - See Exhibit Index immediately following the signature pages.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
FAT Brands Inc.
Beverly Hills, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of FAT Brands Inc. (the "Company") and subsidiaries as of December 30, 2018 and December 31, 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 30, 2018 and the period March 21, 2017 (inception) through December 31, 2017, and the related notes to the financial statements (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the year ended December 30, 2018 and the period March 21, 2017 (inception) through December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue during the year ended December 30, 2018 due to the adoption of the Accounting Standards Codification 606, "Revenue from Contracts with Customers."

Basis for Opinion

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

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

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

Supplemental Information

The supplementary information contained in Schedule II (the Supplemental Information) has been subjected to audit procedures performed in conjunction with the audit of the Company's consolidated financial statements. The Supplemental Information is the responsibility of the Company's management. Our audit procedures included determining whether the Supplemental Information reconciles to the consolidated financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the Supplemental Information. In forming our opinion on the Supplemental Information, we evaluated whether the Supplemental Information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, the supplementary information contained in Schedule II is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

We, or a firm acquired by us in 2012, have continuously served as auditor for the two predecessors of the Company since 2007 and 2011, respectively.

/ s/ Hutchinson and Bloodgood LLP
Glendale, California
March 29, 2019

FAT BRANDS INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	December 30, 2018	December 31, 2017
	(Audited)	(Audited)
Assets		
Current assets		
Cash	$ 653	$ 32
Accounts receivable, net of allowance for doubtful accounts of $595 and $679, respectively	1,779	918
Trade notes receivable, net of allowance for doubtful accounts of $37 and $17, respectively	65	77
Other current assets	1,042	153
Total current assets	3,539	1,180
Notes receivable – noncurrent, net of allowance for doubtful accounts of $112 and $17, respectively	212	346
Due from affiliates	15,514	7,963
Deferred income taxes	2,236	937
Goodwill	10,391	7,356
Other intangible assets, net	23,289	11,011
Other assets	2,779	7
Buffalo’s creative and advertising fund	-	436
Total assets	$ 57,960	$ 29,236
Liabilities and Stockholders’ Equity		
Liabilities		
Accounts payable	$ 4,415	$ 2,439
Deferred income	1,076	1,772
Accrued expenses	3,705	1,761
Accrued advertising	369	348
Accrued interest payable	2,250	405
Dividend payable on mandatorily redeemable preferred shares	391	-
Term loan	15,400	-
Total current liabilities	27,606	6,725
Deferred income - noncurrent	6,621	1,941
Acquisition purchase price payable	3,497	-
Mandatorily redeemable preferred shares, net	14,191	-
Deferred dividend payable on mandatorily redeemable preferred shares	228	-
Notes payable to FCCG	-	18,125
Other liabilities	78	-
Buffalo’s creative and advertising fund-contra	-	436
Total liabilities	52,221	27,227
Commitments and contingencies (Note 17)		
Stockholders’ equity		
Common stock, $.0001 par value; 25,000,000 shares authorized; 11,546,589 and 10,000,000 shares issued and outstanding at December 30, 2018 and December 31, 2017, respectively	10,757	2,622
Accumulated deficit	(5,018)	(613)
Total stockholders’ equity	5,739	2,009
Total liabilities and stockholders’ equity	$ 57,960	$ 29,236

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

FAT BRANDS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)

For the Fiscal Year Ended December 30, 2018 and the Period beginning March 21, 2017 (inception) through December 31, 2017

	2018	2017
Revenue		
Royalties	$ 12,097	$ 2,023
Franchise fees	2,136	140
Store opening fees	352	-
Advertising fees	3,182	-
Other income	600	10
Total revenue	18,367	2,173
General and administrative expenses		
Compensation expense	5,884	1,337
Professional fees expense	1,529	117
Public company expense	1,108	273
Advertising expense	3,182	-
Other	2,428	396
Total general and administrative expenses	14,131	2,123
Income from operations	4,236	50
Other income (expense)		
Interest expense, net	(3,816)	(205)
Interest expense related to mandatorily redeemable preferred shares	(954)	-
		)
Depreciation and amortization	(358)	(23
Other expense, net	(1,181)	(28)
Total other expense, net	(6,309)	(256)
Loss before income tax (benefit) expense	(2,073)	(206)
Income tax (benefit) expense	(275)	407
Net loss	$ (1,798)	$ (613)
Basic and diluted loss per common share	$ (0.16)	$ (0.07)
Basic and diluted weighted average shares outstanding	10,970,814	8,686,008
Cash dividends declared per common share	$ 0.36	$ -

The accompanying notes are an integral part of these consolidated financial statements

FAT BRANDS INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(dollars in thousands, except share data)

	Common Stock					
	Shares	Par value	Additional paid-in capital	Total	Accumulated Deficit	Total
Balance at March 21, 2017 (inception)	100	$	$ -	$ -	$ -	$ -
Forward split of common stock	7,999,900	-	-	-	-	-
Issuance of shares	2,000,000	1	20,929	20,930	-	20,930
Distribution to FCCG in excess of historical cost basis of assets received	-	-	(18,397)	(18,397)	-	(18,397)
Net loss	-	-	-	-	(613)	(613)
Share-based compensation	-	-	89	89	-	89
Balance at December 31, 2017	10,000,000	1	2,621	2,622	(613)	2,009
Cumulative-effect adjustment from adoption of ASU 2014-09, Revenue from Contracts with Customers	-	-	-	-	(2,607)	(2,607)
Net loss	-	-	-	-	(1,798)	(1,798)
Dividends on common stock	-	-	(3,914)	(3,914)	-	(3,914)
Issuance of common stock in lieu of director fees payable	68,952	-	510	510	-	510
Issuance of common stock in payment of related party note	989,395	-	7,272	7,272	-	7,272
Issuance of common stock in lieu of dividends payable to FCCG	488,242	-	3,036	3,036	-	3,036
Issuance of warrants to purchase common stock	-	-	774	774	-	774
Stock offering costs	-	-	(150)	(150)		(150)
Issuance of warrants to placement agents	-	-	78	78	-	78
Value of common stock beneficial conversion feature of Series A-1 Preferred Stock	-	-	90	90	-	90
Share-based compensation	-	-	439	439	-	439
Balance at December 30, 2018	11,546,589	$ 1	$ 10,756	$ 10,757	$ (5,018)	$ 5,739

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

FAT BRANDS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

For the Fiscal Year Ended December 30, 2018 and the Period beginning March 21, 2017 (inception) through December 31, 2017

	2018	2017
Cash flows from operating activities		
Net loss	$ (1,798)	$ (613)
Adjustments to reconcile net loss to net cash provided by operations:		
Deferred income taxes	(504)	232
Depreciation and amortization	358	23
Share-based compensation	439	89
Accretion of term loan	583	-
Accretion of mandatorily redeemable preferred shares	34	-
Accretion of purchase price liability	7	-
Provision for bad debts	76	124
Change in:		
Accounts receivable	(301)	(221)
Trade notes receivable	58	8
Prepaid expenses	(242)	(145)
Other	(20)	-
Accounts payables and accrued expense	2,226	1,604
Accrued advertising	(271)	43
Accrued interest payable	2,232	405
Dividend payable on mandatorily redeemable preferred shares	619	-
Deferred income	(1,659)	(50)
Total adjustments	3,635	2,112
Net cash provided by operating activities	1,837	1,499
Cash flows from investing activities		
Payments made in connection with acquisitions, net	(7,595)	(10,515)
Additions to property and equipment	(148)	-
Other	-	(7)
Net cash used in investing activities	(7,743)	(10,522)
Cash flows from financing activities		
Proceeds from borrowings and associated warrants, net of issuance costs	17,066	-
Proceeds from issuance of common stock from initial public offering, net of issuance costs	-	20,930
Issuance of mandatorily redeemable preferred shares and associated warrants, net	7,984	-
Repayments of borrowings	(10,853)	(11,875)
Change in due from affiliates	(6,742)	-
Dividends paid in cash	(878)	-
Other	(50)	-
Net cash provided by financing activities	6,527	9,055
Net increase in cash	621	32
Cash at beginning of period	32	-
Cash at end of period	$ 653	$ 32
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,495	$ -
Cash paid for income taxes	$ 220	$ 17
Supplemental disclosure of non-cash financing and investing activities:		
Dividends reinvested in common stock	$ 3,036	$ -
Note payable issued in exchange for contributed subsidiaries	$ -	$ 30,000
Net non-cash assets received from FCCG	$ -	$ 11,568
Note payable to FCCG converted to common and preferred stock	$ 9,272	$ -
Director fees converted to common stock	$ 510	$ -
Income taxes payable offset against amounts due from affiliates	$ 195	$ 134

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND RELATIONSHIPS

FAT Brands Inc. (the “Company”) was formed on March 21, 2017 as a wholly-owned subsidiary of Fog Cutter Capital Group Inc. (“FCCG”). On October 20, 2017, the Company completed an initial public offering and issued additional shares of common stock representing 20 percent of its ownership (the “Offering”). The net proceeds of the Offering were approximately $20,930,000 after deducting the selling agent fees and offering expenses. The Company’s common stock trades on the Nasdaq Capital Market under the symbol “FAT.”

Concurrent with the Offering, two subsidiaries of FCCG, Fatburger North America, Inc. (“Fatburger”) and Buffalo’s Franchise Concepts, Inc. (“Buffalo’s”) were contributed to the Company by FCCG in exchange for a $30,000,000 note payable (the “Related Party Debt”). FCCG also contributed the newly acquired operating subsidiaries of Homestyle Dining LLC: Ponderosa Franchising Company, Bonanza Restaurant Company, Ponderosa International Development, Inc. and Puerto Rico Ponderosa, Inc. (collectively, “Ponderosa”). These subsidiaries conduct the worldwide franchising of the Ponderosa Steakhouse Restaurants and the Bonanza Steakhouse Restaurants. The Company provided $10,550,000 of the net proceeds from the Offering to FCCG to consummate the acquisition of Homestyle Dining LLC.

On July 3, 2018, the Company completed the acquisition of Hurricane AMT, LLC, a Florida limited liability company (“Hurricane”), for a purchase price of $12,500,000. Hurricane is the franchisor of Hurricane Grill & Wings and Hurricane BTW Restaurants.

On December 3, 2018, the Company acquired the intellectual property and restaurant operations of Yalla Mediterranean, LLC (the “Yalla Business”). Yalla Mediterranean, LLC has developed, designed, created and operates a fast-casual restaurant business under the brand name “Yalla Mediterranean” specializing in fresh and healthy Mediterranean menu items, with seven upscale fast food restaurants located in Northern and Southern California. The purchase price for the Yalla Business was valued at $3,490,000.

The Company did not begin operations until October 20, 2017. Consequently, the partial year results presented for 2017 in the accompanying consolidated statements of operations and statements of cash flows are for informational purposes and not intended to be comparative of the full-year consolidated results presented for fiscal 2018.

At December 30, 2018, FCCG controlled a significant voting majority of the Company.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – FAT Brands Inc. is a multi-brand franchising company specializing in fast casual and casual dining restaurant concepts around the world through its subsidiaries: Fatburger, Buffalo’s, Ponderosa, Hurricane and Yalla. Each subsidiary licenses the right to use its brand name and provides franchisees with operating procedures and methods of merchandising. Upon signing a franchise agreement, the franchisor is committed to provide training, some supervision and assistance, and access to operations manuals. As needed, the franchisor will also provide advice and written materials concerning techniques of managing and operating the restaurants.

The Company operates on a 52-week calendar and its fiscal year ends on the last Sunday of the calendar year. Consistent with the industry practice, the Company measures its stores’ performance based upon 7-day work weeks. Using the 52-week cycle ensures consistent weekly reporting for operations and ensures that each week has the same days, since certain days are more profitable than others. The use of this fiscal year means a 53 rd week is added to the fiscal year every 5 or 6 years. In a 52-week year, all four quarters are comprised of 13 weeks. In a 53-week year, one extra week is added to the fourth quarter. The year 2018 was a 52-week year and the year 2017 was a 53-week year.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries: Fatburger, Buffalo’s and Ponderosa. The accounts of Hurricane have been included since its acquisition by the Company on July 3, 2018. The accounts of the Yalla Business have been included since its acquisition on December 3, 2018. Intercompany accounts have been eliminated in consolidation.

Use of estimates in the preparation of the consolidated financial statements – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the determination of fair values of certain financial instruments for which there is no active market, the allocation of basis between assets acquired, sold or retained, and valuation allowances for notes receivable and accounts receivable. Estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement reclassification – Certain account balances from prior periods have been reclassified in these consolidated financial statements to conform to current period classifications.

Accounts receivable – Accounts receivable are recorded at the invoiced amount and are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance is based on historical collection data and current franchisee information. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Trade notes receivable – Trade notes receivable are created when an agreement to settle a delinquent franchisee receivable account is reached and the entire balance is not immediately paid. Generally, trade notes receivable include personal guarantees from the franchisee. The notes are made for the shortest time frame negotiable and will generally carry an interest rate of 6% to 7.5%. Reserve amounts on the notes are established based on the likelihood of collection.

Goodwill and other intangible assets – Intangible assets are stated at the estimated fair value at the date of acquisition and include goodwill, trademarks, and franchise agreements. Goodwill and other intangible assets with indefinite lives, such as trademarks, are not amortized but are reviewed for impairment annually or more frequently if indicators arise. All other intangible assets are amortized over their estimated weighted average useful lives, which range from nine to twenty-five years. Management assesses potential impairments to intangible assets at least annually, or when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of the acquired businesses, market conditions and other factors.

Income taxes – Effective October 20, 2017, the Company entered into a Tax Sharing Agreement with FCCG that provides that FCCG will, to the extent permitted by applicable law, file consolidated federal, California and Oregon (and possibly other jurisdictions where revenue is generated, at FCCG's election) income tax returns with the Company and its subsidiaries. The Company will pay FCCG the amount that its tax liability would have been had it filed a separate return. As such, the Company accounts for income taxes as if it filed separately from FCCG.

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain.

A two-step approach is utilized to recognize and measure uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon the ultimate settlement.

Franchise fees and royalty revenue – Franchise fee revenue from the sale of individual franchises is recognized over the term of the individual franchise agreement. Unamortized non-refundable deposits collected in relation to the sale of franchises are recorded as deferred franchise fees. In addition to franchise fee revenue, the Company collects a royalty ranging from 0.75% to 6% of gross sales from restaurants operated by franchisees. Royalties are recorded as revenue as the related sales are made by the franchisees. Any royalties received prior to the related sales are deferred and recognized when earned. Costs relating to continuing franchise support are expensed as incurred.

Store opening fees – The Company recognizes store opening fees of $45,000 and $60,000 for domestic and international stores, respectively, from the up-front fees collected from franchisees. The remaining balance of the up-front fees are then amortized as franchise fees over the life of the franchise agreement. If the fees collected are less than the respective store opening fee amounts, the full up-front fees are recognized at opening. The $45,000 and $60,000 are based on out-of-pocket costs to the Company for each store opening and are primarily comprised of labor expenses associated with training, store design, and supply chain setup. International fees recognized are higher due to the additional cost of travel.

Advertising – The Company requires advertising payments from franchisees based on a percent of net sales. The Company also receives, from time to time, payments from vendors that are to be used for advertising. Advertising funds collected are required to be spent for specific advertising purposes. Advertising revenue and associated expense is recorded on the statement of operations. Assets and liabilities associated with the related advertising fees are consolidated on the Company's balance sheet.

Share-based compensation – The Company has a stock option plan which provides for options to purchase shares of the Company's common stock. Options issued under the plan may have a variety of terms as determined by the Board of Directors including the option term, the exercise price and the vesting period. Options granted to employees and directors are valued at the date of grant and recognized as an expense over the vesting period in which the options are earned. Cancellations or forfeitures are accounted for as they occur. Stock options issued to non-employees as compensation for services are accounted for based upon the estimated fair value of the stock option. The Company recognizes this expense over the period in which the services are provided. Management utilizes the Black-Scholes option-pricing model to determine the fair value of the stock options issued by the Company. See Note 14 for more details on the Company's share-based compensation.

Earnings per share – The Company reports basic earnings or loss per share in accordance with FASB ASC 260, "Earnings Per Share". Basic earnings per share is computed using the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed using the weighted average number of common shares outstanding plus the effect of dilutive securities during the reporting period. Any potentially dilutive securities that have an anti-dilutive impact on the per share calculation are excluded. During periods in which the Company reports a net loss, diluted weighted average shares outstanding are equal to basic weighted average shares outstanding because the effect of all potentially dilutive securities would be anti-dilutive.

Subsequent to December 30, 2018, the Company declared a stock dividend on February 7, 2019 and issued 245,376 shares of common stock in satisfaction of the dividend (See Note 20). Earnings per share for 2018 and 2017 have been adjusted retrospectively to reflect the impact of the stock dividend.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts With Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP. These standards became effective for the Company on January 1, 2018.

These standards require that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied as specified in the contract. The services we provide related to store openings contain separate and distinct performance obligations from the franchise right and thus those store opening fees will be recognized as revenue upon store opening. The balance of any upfront fees collected from franchisee not related to the store opening are amortized over the term of each respective franchise agreement. Previously, we recognized upfront franchise fees such as initial and renewal fees when the related services have been provided, which is when a store opened for initial fees and when renewal options became effective for renewal fees. These standards require any unamortized portion of fees received prior to adoption be presented in the consolidated balance sheet as a contract liability.

The new standards also had an impact on transactions previously not included in the Company's revenues and expenses such as franchisee contributions to and subsequent expenditures from advertising arrangements with franchisees. The Company did not previously include these contributions and expenditures in its consolidated statements of operations or cash flows. Under the new standards, the Company will recognize advertising fees and the related expense in its consolidated statements of operations or cash flows. The Company will also consolidate the assets and liabilities related to advertising funds on its balance sheet.

These standards will not impact the recognition of our sales-based royalties from franchisees, which is generally our largest source of revenue. We have implemented internal controls related to the recognition and presentation of the Company's revenues under these new standards.

The Company adopted ASU 2014-09 on January 1, 2018 using the modified retrospective method, in which the cumulative effect of applying the standard would be recognized at the date of initial application. An adjustment to increase deferred revenue in the amount of $3,400,000 was established on the date of adoption relating to fees received through December 31, 2017 that would have been deferred and recognized over the term of each respective franchise store agreement if the new guidance had been applied in the past. A deferred tax asset of $793,000 related to this contract liability was also established on the date of adoption. These adjustments had the net effect of increasing beginning accumulated deficit by approximately $2,607,000.

Adopting the new accounting standards for revenue affected several financial statement line items for the fiscal year ended December 30, 2018. The following tables provide the affected amounts as reported in these Unaudited Consolidated Financial Statements compared with what they would have been if the previous accounting guidance had remained in effect.

As of December 30, 2018 (in thousands)

	Amounts As Reported	Amounts Under Previous Accounting Guidance
Unaudited Consolidated Balance Sheet:		
Cash	$ 653	$ 501
Accounts receivable	$ 1,779	$ 1,406
Other current assets	$ 1,042	$ 1,038
Due from affiliates	$ 15,514	$ 15,144
Deferred income taxes	$ 2,236	$ 1,440
Buffalo's Creative and Advertising Fund	$ -	$ 428
Buffalo's Creative and Advertising Fund - Contra	$ -	$ (428)
Accounts payable	$ 4,415	$ 3,984
Deferred income	$ 7,697	$ 4,644
Accrued expenses	$ 3,705	$ 3,487
Accrued advertising	$ 369	$ 463
Accumulated deficit	$ (5,018)	$ (3,092)

For the fiscal year ended December 30, 2018 (in thousands except per share data)

	Amounts As Reported	Amounts Under Previous Accounting Guidance
Unaudited Consolidated Statement of Operations:		
Franchise fees and store opening fees	$ 2,488	$ 1,809
Advertising fees	$ 3,182	$ -
Advertising expense	$ (3,182)	$ -
Net loss	$ (1,798)	$ (2,478)
Earnings per common share - basic	$ (0.16)	$ (0.23)
Earnings per common share - diluted	$ (0.16)	$ (0.23)

For the fiscal year ended December 30, 2018 (in thousands)

	Amounts As Reported	Amounts Under Previous Accounting Guidance
Unaudited Consolidated Statement of Cash Flows:		
Net loss	$ (1,798)	$ (2,478)
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	$ (301)	$ (488)
Deferred income	$ (1,659)	$ 931
Accounts payable and accrued expenses	$ 2,226	$ 3,258
Accrued advertising	$ (271)	$ 115
Change in due from affiliates	$ (6,742)	$ (7,181)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how transactions are classified in the statement of cash flows. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), requiring a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. This ASU is effective for interim and annual period beginning after December 15, 2018 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. The adoption of this standard will result in the Company recording Right of Use Assets and Lease Liabilities on its consolidated financial statements. The dollar amount of the Right of Use Assets is projected to be approximately equal to the amount of the Lease Liabilities. The adoption of this standard is not expected to have a significant effect on the amount of lease expense recognized by the Company.

In June 2018, the FASB issued ASU No.2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Prior to this update, Topic 718 applied only to share-based transactions to employees. Consistent with the accounting requirements for employee share-based payment awards, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The amendments in the update are effective for public business entities form fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The adoption of this accounting standard is not expected to have a material effect on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements. This ASU makes amendments to multiple codification Topics. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently assessing the effect that this ASU will have on its financial position, results of operations, and disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." This ASU adds, modifies and removes several disclosure requirements relative to the three levels of inputs used to measure fair value in accordance with Topic 820, "Fair Value Measurement." This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently assessing the effect that this ASU will have on its financial position, results of operations, and disclosures.

NOTE 3. ACQUISITIONS

Hurricane AMT, LLC

On July 3, 2018, the Company completed the acquisition of Hurricane AMT, LLC, a Florida limited liability company ("Hurricane"), for a purchase price of $12,500,000. Hurricane is the franchisor of Hurricane Grill & Wings and Hurricane BTW Restaurants. The purchase price of $12,500,000 was delivered through the payment of $8,000,000 in cash and the issuance to the Sellers of $4,500,000 of equity units of the Company valued at $10,000 per unit, or a total of 450 units. Each unit consists of (i) 100 shares of the Company's newly designated Series A-1 Fixed Rate Cumulative Preferred Stock (the "Series A-1 Preferred Stock") and (ii) a warrant to purchase 125 shares of the Company's Common Stock at $8.00 per share (the "Hurricane Warrants").

Holders of Series A-1 Preferred Stock will be entitled to receive cumulative dividends on the $100.00 per share stated liquidation preference of the Series A-1 Preferred Stock, in the amount of cash dividends at a rate of 6.0% per year. Upon (i) the five-year anniversary of the initial issuance date (July 3, 2023), or (ii) the earlier liquidation, dissolution or winding-up of the Company (the "Series A-1 Mandatory Redemption Date"), the holders of Series A-1 Preferred Stock will be entitled to cash redemption of their shares in an amount equal to $100.00 per share plus any accrued and unpaid dividends. In addition, prior to the Series A-1 Mandatory Redemption Date, the Company may optionally redeem the Series A-1 Preferred Stock, in whole or in part, at par plus any accrued and unpaid dividends.

Holders of Series A-1 Preferred Stock may also optionally cause the Company to redeem all or any portion of their shares of Series A-1 Preferred Stock beginning any time after the two-year anniversary of the initial issuance date for an amount equal to $100.00 per share plus any accrued and unpaid dividends, which amount may be settled in cash or Common Stock of the Company, at the option of the holder. If a holder elects to receive Common Stock, shares will be issued as payment for redemption at the rate of $12.00 per share of Common Stock.

Fees and expenses related to the Hurricane acquisition totaled approximately $206,000 consisting primarily of professional fees, all of which are classified as other expenses in the accompanying consolidated statement of operations. These fees and expenses were funded through cash on hand and proceeds from borrowings. The allocation of consideration to the net tangible and intangible assets acquired is presented in the table below (in thousands):

Cash	$	358
Accounts receivable		352
Other assets		883
Intangible assets		11,020
Goodwill		2,772
Accounts payable and accrued expenses		(643)
Deferred franchise fees		(1,885)
Other liabilities		(357)
Total net identifiable assets	$	12,500

The following table provides information regarding the revenue and earnings of Hurricane included in the accompanying consolidated financial statements since July 3, 2018 (in thousands):

		Hurricane
Revenues		
Royalties	$	1,589
Franchise fees		22
Advertising fees		868
Other income		7
Total revenues		2,486
Expenses		
General and administrative		2,164
Income from operations		322
Other expense		(217)
Income before income tax expense		105
Income tax benefit		(1)
Net income	$	106

The following unaudited pro forma information presents the revenue and earnings of Hurricane as if it had been acquired on January 1, 2018 (the beginning of the Company's fiscal year) through December 30, 2018 (in thousands):

		Pro Forma Hurricane
Revenues		
Royalties	$	3,282
Franchise fees		54
Advertising fees		1,751
Other income		7
Total revenues		5,094
Expenses		
General and administrative		5,282
Loss from operations		(188)
Other expense		(347)
Loss before income tax benefit		(535)
Income tax benefit		(150)
Net loss	$	(385)

The unaudited pro forma income statement reflects actual results of Hurricane for the fiscal year ended December 30, 2018 with the following adjustments:

Revenue – The unaudited pro forma income statement presents franchise fee revenue and advertising revenue in accordance with ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). As a non-public company, Hurricane was not required to adopt ASU 2014-09 until its 2019 fiscal year. However, had the acquisition occurred on January 1, 2018, Hurricane would have adopted ASU 2014-09 on that date.

Selling, general and administrative expenses – Prior to the acquisition, Hurricane incurred costs associated with a closed, company owned restaurant. These expenses have been eliminated in the pro forma adjustments since the acquisition did not include the company owned restaurant.

The pro forma adjustments also include advertising expenses in accordance with ASU 2014-09.

Interest expense, net – The pro forma interest expense has been adjusted to exclude actual Hurricane interest expense incurred prior to the acquisition. All interest-bearing liabilities were paid off at the Acquisition date.

Depreciation and amortization – The pro forma adjustments include the amortization of the intangible asset relating to acquired franchise agreements over their average remaining term of 13 years.

Income tax benefit – The tax benefit of the pro forma net loss is calculated using an effective tax rate of 28%. Upon acquisition, Hurricane became subject to the Tax Sharing Agreement with FCCG.

Had the Company owned Hurricane as of January 1, 2018, the unaudited pro forma consolidated net loss of the Company would have been a loss of approximately $2,983,000 instead of a loss of $1,798,000. This pro forma loss includes the additional financing carrying costs (net of tax benefits) in the amount of 694,000 that would have been incurred by FAT Brands had the acquisition been consummated as of January 1, 2018.

Yalla Mediterranean

On December 3, 2018, the Company entered into an Intellectual Property Purchase Agreement and License (the “IP Agreement”), and Master Transaction Agreement (the “Master Agreement”) with Yalla Mediterranean, LLC (“Yalla Med”), under which the Company agreed to acquire the intellectual property of the restaurant business of Yalla Mediterranean, LLC (the “Yalla Business”) and to acquire in the future seven restaurants currently owned by Yalla Med. Yalla Med owns and operates a fast-casual restaurant business under the brand name “Yalla Mediterranean,” specializing in fresh and healthy Mediterranean menu items, with seven upscale fast casual restaurants located in Northern and Southern California.

The Company, through a subsidiary, acquired the intellectual property used in connection with the Yalla Business pursuant to the IP Agreement. Under the terms of the IP Agreement, the purchase price for the intellectual property will be paid in the form of an earn-out, calculated as the greater of $1,500,000 or 400% of Yalla Income, all as described in the IP Agreement. The seller can require the Company to pay the purchase price in up to two installments during the ten-year period following the acquisition. At the time of the acquisition, the purchase price recorded for the intellectual property was $1,790,000.

Additionally, pursuant to the Master Agreement, the Company agreed to acquire the assets, agreements and other properties of each of the seven existing Yalla Mediterranean restaurants during a marketing period specified in the Master Agreement (the “Marketing Period”). The purchase price will be the greater of $1,000,000 or the sum of (i) the first $1,750,000 of gross sale proceeds received from the sale of the Yalla Mediterranean restaurants to franchisee/purchasers, plus (ii) the amount, if any, by which fifty percent (50%) of the net proceeds (after taking into consideration operating income or loss and transaction costs and expenses) from the sale of the Yalla Mediterranean restaurants exceeds $1,750,000. At the time of the acquisition, the purchase price recorded for the net tangible assets relating to the seven existing Yalla Mediterranean restaurants was $1,700,000.

The Company also entered into a Management Agreement under which its subsidiary will manage the operations of the seven Yalla Mediterranean restaurants and market them for sale to franchisees during the Marketing Period. Once a franchisee/purchaser has been identified, Yalla Med will transfer legal ownership of the specific restaurant to the Company’s subsidiary, which will then transfer the restaurant to the ultimate franchisee/purchaser who will own and operate the location. During the term of the Management Agreement, the Company’s subsidiary is responsible for operating expenses and has the right to receive operating income from the restaurants.

Based on the structure of the transactions outlined in the Master Agreement, the IP Agreement, and the Management Agreement, the Company has accounted for the transactions as a business combination under ASC 805.

The allocation of the total consideration recognized of $3,490,000 to the net tangible and intangible assets acquired in the Yalla Business is presented in the table below (in thousands):

Cash	$	82
Accounts receivable		77
Inventory		95
Other assets		90
Property and equipment		2,521
Intangible assets		1,530
Goodwill		262
Accounts payable and accrued expenses		(1,167)
Total net identifiable assets	$	3,490

NOTE 4. TRADE NOTES RECEIVABLE

Trade notes receivable are created when the settlement of a delinquent franchisee receivable account is reached, and the entire balance is not immediately paid. Trade notes receivable generally include personal guarantees from the franchisee. The notes are made for the shortest time frame negotiable and will generally carry an interest rate of 6% to 7.5%. Reserve amounts, on the notes, are established based on the likelihood of collection. As of December 30, 2018, these trade notes receivable totaled $277,000, which was net of reserves of $149,000.

NOTE 5. GOODWILL

Goodwill consists of the following (in thousands):

		December 30, 2018		December 31, 2017
Goodwill:				
Fatburger	$	529	$	529
Buffalo’s		5,365		5,365
Hurricane		2,772		-
Ponderosa		1,462		1,462
Yalla		263		-
Total goodwill	$	10,391	$	7,356

NOTE 6. OTHER INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

		December 30, 2018		December 31, 2017
Trademarks:				
Fatburger	$	2,135	$	2,135
Buffalo’s		27		27
Hurricane		6,840		-
Ponderosa		7,230		7,230
Yalla		1,530		-
Total trademarks		17,762		9,392
Franchise agreements:				
Hurricane – cost		4,180		-
Hurricane – accumulated amortization		(161)		-
Ponderosa – cost		1,640		1,640
Ponderosa – accumulated amortization		(132)		(21)
Total franchise agreements		5,527		1,619
Total	$	23,289	$	11,011

The expected future amortization of the Company’s capitalized franchise agreements is as follows (in thousands):

Fiscal year:		
2019	$	432
2020		432
2021		432
2022		432
2023		432
Thereafter		3,367
Total	$	5,527

NOTE 7. DEFERRED INCOME

Deferred income is as follows (in thousands):

	December 30, 2018		December 31, 2017	
Deferred franchise fees	$	6,711	$	2,781
Deferred royalties		653		932
Deferred advertising revenue		333		-
Total	$	7,697	$	3,713

NOTE 8. INCOME TAXES

Effective October 20, 2017, the Company entered into a Tax Sharing Agreement with FCCG that provides that FCCG will, to the extent permitted by applicable law, file consolidated federal, California and Oregon (and possibly other jurisdictions where revenue is generated, at FCCG’s election) income tax returns with the Company and its subsidiaries. The Company will pay FCCG the amount that its current tax liability would have been had it filed a separate return. To the extent the Company’s required payment exceeds its share of the actual combined income tax liability (which may occur, for example, due to the application of FCCG’s net operating loss carryforwards), the Company will be permitted, in the discretion of a committee of its board of directors comprised solely of directors not affiliated with or having an interest in FCCG, to pay such excess to FCCG by issuing an equivalent amount of its common stock in lieu of cash, valued at the fair market value at the time of the payment. An inter-company receivable of approximately $15,514,000 due from FCCG and its affiliates will be applied first to reduce excess income tax payment obligations to FCCG under the Tax Sharing Agreement.

As of December 30, 2018, FCCG had a federal net operating loss carryforward (the “NOL”) of approximately $88,913,000, which may be used to offset future consolidated taxable income. The NOL expires if not used within twenty years of origination. The following schedule reflects the timing and amount of the NOL that is subject to potential expiration if unused by the end of the indicated fiscal year (in thousands):

Fiscal year:		
2019	$	12,654
2020		25,045
2021		2,844
2022		46
2023		76
Thereafter		48,248
Total	$	88,913

For financial reporting purposes, the Company has recorded a tax provision calculated as if the Company files its tax returns on a stand-alone basis. The amount payable to FCCG determined by this calculation of $195,000 was offset against amounts due from FCCG as of December 30, 2018 (See Note 12).

Deferred taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for calculating taxes payable on a stand-alone basis. Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 30, 2018	December 31, 2017
Deferred tax assets (liabilities)		
Deferred income	$ 1,779	$ 882
Reserves and accruals	346	451
Intangibles	(532)	(372)
Deferred state income tax	(72)	(25)
Tax credits	126	-
Share-based compensation	131	-
Interest expense	439	-
Other	19	1
Total	$ 2,236	$ 937

Components of the income tax (benefit) expense are as follows (in thousands):

	Fiscal Year Ended December 30, 2018	Fiscal Year Ended December 31, 2017
Current		
Federal	$ (79)	$ 134
State	88	24
Foreign	220	17
	229	175
Deferred		
Federal	(381)	320
State	(123)	(88)
	(504)	232
Total income tax (benefit) expense	$ (275)	$ 407

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJ Act") was enacted into law. One major provision of the TCJ Act was the reduction of the corporate tax rate from 34% to 21%, effective January 1, 2018. Income tax provision related to continuing operations differ from the amounts computed by applying the statutory income tax rate to pretax income as follows (in thousands):

	Fiscal Year Ended December 30, 2018	Fiscal Year Ended December 31, 2017
Tax benefit at statutory rate	$ (435)	$ (70)
State and local income taxes	(27)	(41)
Foreign taxes	216	-
Tax credits	(203)	-
Dividends on mandatorily redeemable preferred stock	200	-
Tax law changes	-	505
Other	(26)	13
Total income tax (benefit) expense	$ (275)	$ 407

As of December 30, 2018, the Company's subsidiaries' annual tax filings for the prior three years are open for audit by Federal and for the prior four years for state tax agencies. The Company is the beneficiary of indemnification agreements from the prior owners of the subsidiaries for tax liabilities related to periods prior to its ownership of the subsidiaries. Management evaluated the Company's overall tax positions and has determined that no provision for uncertain income tax positions is necessary as of December 30, 2018.

NOTE 9. DEBT

Senior Secured Redeemable Debentures

On April 27, 2018, the Company established a credit facility with TCA Global Credit Master Fund, LP (“TCA”). The Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with TCA, pursuant to which TCA agreed to lend the Company up to $5,000,000 through the purchase of Senior Secured Redeemable Debentures issued by the Company (the “Debentures”).

A total of $2,000,000 was funded by TCA in connection with the initial closing on April 27, 2018, and the Company issued to TCA an initial Debenture with a face amount of $2,000,000, maturing on October 27, 2019 and bearing interest at the rate of 15% per annum. The Company had the right to prepay the Debentures, in whole or in part, at any time prior to maturity without penalty. The Debentures required interest only payments during the first four months, followed by fully amortizing payments for the balance of the term. The Company paid a commitment fee of 2% of issued Debentures for the facility and agreed to pay an investment banking fee of $170,000 upon maturity of the Debentures. The Company used the net proceeds for working capital purposes and repayment of other indebtedness.

The amounts borrowed under the Purchase Agreement were guaranteed by the Company’s operating subsidiaries and by FCCG, pursuant to a Guaranty Agreement in favor of TCA. The Company’s obligations under the Debentures were also secured by a Security Agreement, granting TCA a security interest in substantially all of its assets. In addition, FCCG’s obligations under the Guaranty Agreement were secured by a pledge in favor of TCA of certain shares of common stock that Fog Cutter holds in the Company. During the term of the Purchase Agreement, the Company was prohibited from incurring additional indebtedness, with customary exceptions for ordinary course financing arrangements and subordinated indebtedness.

The entire balance of the Debenture was paid in full on July 3, 2018, and the credit facility was terminated.

The Company recognized interest expense of $62,000 for the fiscal year ended December 30, 2018. Additionally, the Company recognized debt offering costs of $143,000 and the investment banking fee of $170,000.

Term Loan

On July 3, 2018, the Company as borrower, and certain of the Company’s direct and indirect subsidiaries and affiliates as guarantors, entered into a new Loan and Security Agreement (the “Loan Agreement”) with FB Lending, LLC (the “Lender”). Pursuant to the Loan Agreement, the Company borrowed $16.0 million in a term loan (“Term Loan”) from the Lender. The Company used a portion of the loan proceeds to fund (i) the cash payment of $8.0 million to the members of Hurricane and closing costs in connection with the acquisition of Hurricane, and (ii) to repay borrowings of $2.0 million plus interest and fees owing under the Company’s existing loan facility with TCA Global Credit Master Fund, LP. The Company used the remaining proceeds for general working capital purposes.

The term loan under the Loan Agreement matures on June 30, 2020. Interest on the term loan accrues at an annual fixed rate of 15.0%. The Company may prepay all or a portion of the outstanding principal and accrued unpaid interest under the Loan Agreement at any time upon prior notice to the Lender, subject to a prepayment penalty of 10% in the first year and 5% in the second year of the term loan. The Company is required to prepay all or a portion of the outstanding principal and accrued unpaid interest under the Loan Agreement in connection with certain dispositions of assets, extraordinary receipts, issuances of additional debt or equity, or a change of control of the Company. In connection with the Loan Agreement, the Company also issued warrants to purchase up to 499,000 shares of the Company’s Common Stock at $7.35 per share to the Lender (the “Lender Warrant”). Warrants were also issued to certain loan placement agents to purchase 65,306 shares of the Company’s common stock at $7.35 per share (the “Placement Agent Warrants”). (See Note 15)

As security for its obligations under the Loan Agreement, the Company granted a lien on substantially all of its assets to the Lender. In addition, certain of the Company's direct and indirect subsidiaries and affiliates entered into a Guaranty (the "Guaranty") in favor of the Lender, pursuant to which they guaranteed the obligations of the Company under the Loan Agreement and granted as security for their guaranty obligations a lien on substantially all of their assets.

The Loan Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company's ability to, among other things, incur other indebtedness, grant liens, merge or consolidate, dispose of assets, pay dividends or make distributions, in each case subject to customary exceptions. The Loan Agreement also includes customary events of default that include, among other things, non-payment, inaccuracy of representations and warranties, covenant breaches, events that result in a material adverse effect (as defined in the Loan Agreement), cross default to other material indebtedness, bankruptcy, insolvency and material judgments. The occurrence and continuance of an event of default could result in the acceleration of the Company's obligations under the Loan Agreement and an increase in the interest rate by 5.0% per annum.

On the issuance date, the Company allocated the proceeds between Term Loan and the Lender Warrant based on the relative fair values of each. The aggregate values assigned upon issuance of each component were as follows (in thousands):

	Warrants (equity component)	Term Loan (debt component)	Total
Gross proceeds	$ 571	$ 15,429	$ 16,000
Issuance costs	-	868	868
Net proceeds	$ 571	$ 14,561	$ 15,132
Balance sheet impact at issuance:			
Long-term debt, net of discount and offering costs	$ -	$ 14,561	$ 14,561
Additional paid-in capital	$ 571	$ 78	$ 649

As of December 30, 2018, the total principal amount due under the Term Loan was $16,400,000. As of the same date, the net carrying value of the Term Loan $15,400,000, which includes an unaccreted debt discount of $349,000 associated with the warrants and unamortized debt offering costs of $651,000. The Term Loan was repaid in full on January 29, 2019 and is categorized as "Term loan" in the accompanying financial statements.

The Company recognized interest expense on the Term Loan of $3,301,000 for the fiscal year ended December 30, 2018, which includes $400,000 of additional principal and $1,360,000 of prepayment penalties, $222,000 in accretion expense and $217,000 for amortization of debt offering costs.

NOTE 10. NOTE PAYABLE TO FCCG

Effective October 20, 2017, FCCG contributed two of its operating subsidiaries, Fatburger and Buffalo's, to the Company in exchange for an unsecured promissory note with a principal balance of $30,000,000, bearing interest at a rate of 10.0% per annum, and maturing in five years (the "Related Party Debt"). The contribution was consummated pursuant to a Contribution Agreement between the Company and FCCG. Approximately $19,778,000 of the note payable to FCCG was subsequently repaid, reducing the balance to $10,222,000 at June 26, 2018. On June 27, 2018, the Company entered into the Note Exchange Agreement, as amended, under which it agreed with FCCG to exchange $9,272,053 of the remaining balance of the Company's outstanding Related Party Debt for shares of capital stock of the Company in the following amounts:

- $2,000,000 of the Related Party Debt balance was exchanged for 20,000 shares of Series A Fixed Rate Cumulative Preferred Stock of the Company at $100 per share and warrants to purchase 25,000 of the Company's common stock with an exercise price of $8.00 per share; and

- A portion of the remaining Related Party Debt balance of $7,272,053 was exchanged for 989,395 shares of Common Stock of the Company, representing an exchange price of $7.35 per share, which was the closing trading price of the Common Stock on June 26, 2018.

Following the exchange, the remaining balance of the Related Party Debt was $950,000. As of December 30, 2018, the Related Party Debt had been repaid in full.

The transactions described above were exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D of the Securities Act and in reliance on similar exemptions under applicable state laws.

The Company recognized interest expense on the note payable to FCCG of $888,000 for the fiscal year ended December 30, 2018 and $405,000 for the fiscal year ended December 31, 2017, respectively.

NOTE 11. MANDATORILY REDEEMABLE PREFERRED STOCK

Series A Fixed Rate Cumulative Preferred Stock

On June 8, 2018, the Company filed a Certificate of Designation of Rights and Preferences of Series A Fixed Rate Cumulative Preferred Stock ("Series A Preferred Stock") with the Secretary of State of the State of Delaware (the "Certificate of Designation"), designating a total of 100,000 shares of Series A Preferred Stock. The Certificate of Designation contains the following terms pertaining to the Series A Preferred Stock:

Dividends - Holders of Series A Preferred Stock will be entitled to receive cumulative dividends on the $100.00 per share stated liquidation preference of the Series A Preferred Stock, in the amount of (i) cash dividends at a rate of 9.9% per year, plus (ii) deferred dividends equal to 4.0% per year, payable on the Mandatory Redemption Date (defined below).

Voting Rights - As long as any shares of Series A Preferred Stock are outstanding and remain unredeemed, the Company may not, without the majority vote of the Series A Preferred Stock, (a) alter or change adversely the rights, preferences or voting power given to the Series A Preferred Stock, (b) enter into any merger, consolidation or share exchange that adversely affects the rights, preferences or voting power of the Series A Preferred Stock, (c) authorize or increase any other series or class of stock that has rights senior to the Series A Preferred Stock, or (d) waive or amend the dividend restrictions in Sections 3(d) or 3(e) of the Certificate of Designation. The Series A Preferred Stock will not have any other voting rights, except as may be provided under applicable law.

Liquidation and Redemption - Upon (i) the five-year anniversary of the initial issuance date (June 8, 2023), or (ii) the earlier liquidation, dissolution or winding-up of the Company (the "Series A Mandatory Redemption Date"), the holders of Series A Preferred Stock will be entitled to cash redemption of their shares in an amount equal to $100.00 per share plus any accrued and unpaid dividends.

In addition, prior to the Series A Mandatory Redemption Date, the Company may optionally redeem the Series A Preferred Stock, in whole or in part, at the following redemption prices per share, plus any accrued and unpaid dividends:

(i) On or prior to June 30, 2021: $115.00 per share.

(ii) After June 30, 2021 and on or prior to June 30, 2022: $110.00 per share.

(iii) After June 30, 2022: $100.00 per share.

Holders of Series A Preferred Stock may also optionally cause the Company to redeem all or any portion of their shares of Series A Preferred Stock beginning any time after the two-year anniversary of the initial issuance date for an amount equal to $100.00 per share plus any accrued and unpaid dividends, which amount may be settled in cash or Common Stock of the Company, at the option of the holder. If a holder elects to receive Common Stock, the shares will be issued based on the 20-day volume weighted average price of the Common Stock immediately preceding the date of the holder's redemption notice.

As of December 30, 2018, there were 100,000 shares of Series A Preferred stock outstanding, issued in the following two transactions:

(i) On June 7, 2018, the Company entered into a Subscription Agreement for the issuance and sale (the "Offering") of 800 units (the "Units"), with each Unit consisting of (i) 100 shares of the Company's newly designated Series A Fixed Rate Cumulative Preferred Stock (the "Series A Preferred Stock") and (ii) warrants (the "Series A Warrants") to purchase 125 shares of the Company's Common Stock at $8.00 per share. The sales price of each Unit was $10,000, resulting in gross proceeds to the Company from the initial closing of $8,000,000 and the issuance of 80,000 shares of Series A Preferred Stock and Series A Warrants to purchase 100,000 shares of common stock (the "Subscription Warrants").

(ii) On June 27, 2018, the Company entered into a Note Exchange Agreement, as amended, under which it agreed with FCCG to exchange all but $950,000 of the remaining balance of the Company's outstanding Promissory Note issued to the FCCG on October 20, 2017, in the original principal amount of $30,000,000 (the "Note"). At the time, the Note had an estimated outstanding balance of principal plus accrued interest of $10,222,000 (the "Note Balance"). On June 27, 2018, $9,272,053 of the Note Balance was exchanged for shares of capital stock of the Company and warrants in the following amounts (the "Exchange Shares"):

- $2,000,000 of the Note Balance was exchanged for 200 Units consisting of 20,000 shares of Series A Fixed Rate Cumulative Preferred Stock of the Company at $100 per share and Series A Warrants to purchase 25,000 of the Company's common stock at an exercise price of $8.00 per share (the "Exchange Warrants"); and

- $7,272,053 of the Note Balance was exchanged for 989,395 shares of Common Stock of the Company, representing an exchange price of $7.35 per share, which was the closing trading price of the Common Stock on June 26, 2018.

The Company classified the Series A Preferred Stock as long-term debt because it contains an unconditional obligation requiring the Company to redeem the instruments at $100.00 per share on the Mandatory Redemption Date. The Series A Warrants have been recorded as additional paid-in capital. On the issuance date, the Company allocated the proceeds between the Series A Preferred Stock and the Series A Warrants based on the relative fair values of each. The aggregate values assigned upon issuance of each component were as follows (amounts in thousands, except price per unit):

	Series A Warrants (equity component)	Mandatorily Redeemable Series A Preferred Stock (debt component)	Total
Subscription Agreement:			
Gross proceeds	$ 87	$ 7,913	$ 8,000
Issuance costs	-	15	15
Net proceeds	87	7,898	7,985
Exchange Shares:	25	1,975	2,000
Total proceeds	$ 112	$ 9,873	$ 9,985
Subscription price per unit	$ 108.75	$ 9,891.25	$ 10,000
Balance sheet impact at issuance:			
Long-term debt, net of debt discount and offering costs	$ -	$ 9,873	$ 9,873
Additional paid-in capital	$ 112	$ -	$ 112

As of December 30, 2018, the net Series A Preferred Stock balance was $9,888,000 including an unaccreted debt discount of $99,000 associated with the warrants and unamortized debt offering costs of $14,000.

The Company recognized interest expense on the Series A Preferred Stock of $785,000 for the fiscal year ended December 30, 2018. Also, the Company recognized accretion expense on the Series A Preferred Stock of $13,000 for the fiscal year ended December 30, 2018, as well as $2,000 for the amortization of debt offering costs.

Each of these stock issuances was exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”) pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D of the Securities Act and in reliance on similar exemptions under applicable state laws. Each of the investors in the Offering represented that it is an accredited investor within the meaning of Rule 501(a) of Regulation D and was acquiring the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The securities were offered without any general solicitation by the Company or its representatives.

Series A-1 Fixed Rate Cumulative Preferred Stock

On July 3, 2018, the Company filed with the Secretary of State of the State of Delaware a Certificate of Designation of Rights and Preferences of Series A-1 Fixed Rate Cumulative Preferred Stock (the “Series A-1 Certificate of Designation”), designating a total of 200,000 shares of Series A-1 Fixed Rate Cumulative Preferred Stock (the “Series A-1 Preferred Stock”). As of December 30, 2018, there were 45,000 shares of Series A-1 Preferred Stock issued and outstanding. The Series A-1 Certificate of Designation contains the following terms pertaining to the Series A-1 Preferred Stock:

Dividends . Holders of Series A-1 Preferred Stock will be entitled to receive cumulative dividends on the $100.00 per share stated liquidation preference of the Series A-1 Preferred Stock, in the amount of cash dividends at a rate of 6.0% per year.

Voting Rights . As long as any shares of Series A-1 Preferred Stock are outstanding and remain unredeemed, the Company may not, without the majority vote of the Series A-1 Preferred Stock, (a) materially and adversely alter or change the rights, preferences or voting power given to the Series A-1 Preferred Stock, (b) enter into any merger, consolidation or share exchange that materially and adversely affects the rights, preferences or voting power of the Series A-1 Preferred Stock, or (c) waive or amend the dividend restrictions in Sections 3(d) or 3(e) of the Certificate of Designation. The Series A-1 Preferred Stock will not have any other voting rights, except as may be provided under applicable law.

Liquidation and Redemption. Upon (i) the five-year anniversary of the initial issuance date (July 3, 2023), or (ii) the earlier liquidation, dissolution or winding-up of the Company (the “Series A-1 Mandatory Redemption Date”), the holders of Series A-1 Preferred Stock will be entitled to cash redemption of their shares in an amount equal to $100.00 per share plus any accrued and unpaid dividends. In addition, prior to the Mandatory Redemption Date, the Company may optionally redeem the Series A-1 Preferred Stock, in whole or in part, at par plus any accrued and unpaid dividends.

Holders of Series A-1 Preferred Stock may also optionally cause the Company to redeem all or any portion of their shares of Series A-1 Preferred Stock beginning any time after the two-year anniversary of the initial issuance date for an amount equal to $100.00 per share plus any accrued and unpaid dividends, which amount may be settled in cash or Common Stock of the Company, at the option of the holder. If a holder elects to receive Common Stock, shares will be issued as payment for redemption at the rate of $12.00 per share of Common Stock.

As of December 30, 2018, there were 45,000 shares of Series A-1 Preferred Stock outstanding, issued in connection with the acquisition of Hurricane. On July 3, 2018, in connection with the acquisition of Hurricane, the Company agreed to issue $4,500,000 of equity units of the Company valued at $10,000 per unit, or a total of 450 units. Each unit consists of (i) 100 shares of the Company's newly designated Series A-1 Preferred Stock and (ii) a warrant to purchase 125 shares of the Company's Common Stock at $8.00 per share (the "Hurricane Warrants"). The Company also entered into a Registration Rights Agreement with the Sellers under which the Company agreed to prepare and file a registration statement with the Securities and Exchange Commission to register for resale the Series A-1 Preferred Stock and shares of Common Stock issuable upon exercise of the Hurricane Warrants and upon conversion of the Series A-1 Preferred Stock.

The Company classified the Series A-1 Preferred Stock as long-term debt because it contains an unconditional obligation requiring the Company to redeem the instruments at $100.00 per share on the Series A-1 Mandatory Redemption Date. The associated Hurricane Warrants have been recorded as additional paid-in capital. On the issuance date, the Company allocated the proceeds between the Series A-1 Preferred Stock and the Hurricane Warrants based on the relative fair values of each. In addition, because the effective conversion price of the Series A-1 Preferred Stock is lower than the contractual conversion price, the Company also recorded a beneficial conversion feature to additional paid in capital. The aggregate values assigned upon issuance of each component were as follows (amounts in thousands, except price per unit):

	Conversion Feature (equity component)	Hurricane Warrants (equity component)	Mandatorily Redeemable Series A-1 Preferred Stock (debt component)	Total
Hurricane Acquisition:				
Gross proceeds	$ 90	$ 91	$ 4,319	$ 4,500
Issuance costs	-	-	35	35
Net proceeds	$ 90	$ 91	$ 4,284	$ 4,465
Subscription price per unit	$ 201.07	$ 201.07	$ 9,597.86	$ 10,000.00
Balance sheet impact at issuance:				
Long-term debt, net of debt discount and offering costs	$ -	$ -	$ 4,284	$ 4,284
Additional paid-in capital	$ 90	$ 91	$ -	$ 181

As of December 30, 2018, the net Series A-1 Preferred Stock balance was $4,303,000 including an unaccreted debt discount of $166,000 associated with the warrants and beneficial conversion feature and unamortized debt offering costs of $31,000.

The Company recognized interest expense on the Series A-1 Preferred Stock of $135,000 for the fiscal year ended December 30, 2018. Also, the Company recognized accretion expense on the Series A-1 Preferred Stock of $15,000, as well as $4,000 for the amortization of debt offering costs.

Each of these stock issuances was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D of the Securities Act and in reliance on similar exemptions under applicable state laws. Each of the investors in the Offering represented that it is an accredited investor within the meaning of Rule 501(a) of Regulation D and was acquiring the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The securities were offered without any general solicitation by the Company or its representatives.

NOTE 12. RELATED PARTY TRANSACTIONS

The Company had open accounts with affiliated entities under the common control of FCCG resulting in net amounts due to the Company of $15,514,000 as of December 30, 2018. Beginning October 20, 2017, the receivable from FCCG bears interest at a rate of 10% per annum. During the fiscal year ended December 30, 2018, $1,125,000 of accrued interest income was added to the balance of the receivable from FCCG.

The balance of Due From Affiliates includes a preferred capital investment in Homestyle Dining LLC, a Delaware limited liability corporation ("HSD") in the amount of $4.0 million made effective July 5, 2018 (the "Preferred Interest"). FCCG owns all of the common interests in HSD.

The holder of the Preferred Interest is entitled to a 15% priority return on the outstanding balance of the investment (the "Preferred Return"). Any available cash flows from HSD on a quarterly basis are to be distributed to pay the accrued Preferred Return and repay the Preferred Interest until fully retired.

On or before the five-year anniversary of the investment, the Preferred Interest is to be fully repaid, together with all previously accrued but unpaid Preferred Return. FCCG has unconditionally guaranteed repayment of the Preferred Interest in the event HSD fails to do so.

Prior to the Offering, the Company's operations were insignificant other than structuring the Offering. During this time, FCCG provided executive administration and accounting services for the Company. The Company reimbursed FCCG for out-of-pocket costs associated with these services, but there was no allocation of FCCG's overhead costs. Effective with the Offering, the Company assumed all direct and indirect administrative functions relating to its business.

During the fiscal year ended December 30, 2018, the Company recognized payables to FCCG in the amount of $195,000 for use of FCCG's net operating losses for tax purposes (See Note 8).

NOTE 13. SHAREHOLDERS' EQUITY

As of December 30, 2018 and December 31, 2017, the total number of authorized shares of common stock was 25,000,000, and there were 11,546,589 and 10,000,000 shares of common stock outstanding, respectively.

Below are the changes to the Company's common stock during the fiscal year ended December 30, 2018:

- On April 16, 2018, the Company issued 153,600 shares of common stock at a value of $6.25 per share to FCCG in lieu of cash for payment of common stock dividends (See Note 16).

- On June 15, 2018, the Company issued a total of 41,772 shares of common stock at a value of $7.90 per share to the non-employee members of the board of directors as consideration for accrued directors' fees.

- One June 27, 2018, the Company and FCCG agreed to exchange $7,272,053 of an outstanding promissory note due to FCCG from the Company for 989,395 shares of Common Stock at a value of $7.35 per share. (See Note 10).

- On July 16, 2018, the Company issued 157,765, shares of common stock at a value of $6.085 per share to FCCG in lieu of cash for payment of common stock dividends (See Note 16).

- On September 20, 2018, the Company issued a total of 10,482 shares of common stock at a value of $8.59 per share to the non-employee members of the board of directors as consideration for accrued directors' fees.

- On October 31, 2018, the Company issued 176,877, shares of common stock at a value of $6.31 per share to FCCG in lieu of cash for payment of common stock dividends (See Note 16).

- On December 10, 2018, the Company issued a total of 16,698 shares of common stock at a value of $5.39 per share to the non-employee members of the board of directors as consideration for accrued directors' fees.

NOTE 14. SHARE-BASED COMPENSATION

Effective September 30, 2017, the Company adopted the 2017 Omnibus Equity Incentive Plan (the "Plan"). The Plan is a comprehensive incentive compensation plan under which the Company can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to, FAT Brands Inc. and its subsidiaries. The Plan provides a maximum of 1,000,000 shares available for grant.

All of the stock options issued by the Company to date have included a vesting period of three years, with one-third of each grant vesting annually. The Company's stock option activity for the fiscal year ended December 30, 2018 can be summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Stock options outstanding at December 31, 2017	362,500	$ 12.00	8.8
Grants	335,000	$ 6.08	9.9
Forfeited	(30,000)	$ 12.00	9.1
Expired	-	$ -	-
Stock options outstanding at December 30, 2018	667,500	$ 9.03	9.3
Stock options exercisable at December 30, 2018	119,173	$ 12.00	8.8

The assumptions used in the Black-Scholes valuation model to record the stock-based compensation are as follows:

	Including Non-Employee Options
Expected dividend yield	4.00% - 8.91%
Expected volatility	30.23% - 31.73%
Risk-free interest rate	1.60% - 2.85%
Expected term (in years)	5.50 – 5.75

The Company recognized share-based compensation expense in the amount of $439,000 during the fiscal year ended December 30, 2018. There remains $433,000 of related share-based compensation expense relating to these non-vested grants, which will be recognized over the remaining vesting period, subject to future forfeitures.

NOTE 15. WARRANTS

From the Offering through December 30, 2018, the Company has issued the following outstanding warrants to purchase shares of its common stock:

- Warrants issued on October 20, 2017 to purchase 80,000 shares of the Company's stock granted to the selling agent in the Company's initial public offering (the "Common Stock Warrants"). The Common Stock Warrants are exercisable commencing April 20, 2018 through October 20, 2022. The exercise price for the Common Stock Warrants is $15 per share, and the Common Stock Warrants are valued at $124,000. The Common Stock Warrants provide that upon exercise, the Company may elect to redeem the Common Stock Warrants in cash by paying the difference between the applicable exercise price and the then-current fair market value of the common stock.

- Warrants issued on June 7, 2018 to purchase 100,000 shares of the Company's common stock at $8.00 per share (the "Subscription Warrants"). The Subscription Warrants were issued as part of the Subscription Agreement (see Note 11). The Subscription Warrants are valued at $87,000. The Subscription Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on June 27, 2018 to purchase 25,000 shares of the Company's common stock at $8.00 per share (the "Exchange Warrants"). The Exchange Warrants were issued as part of the Exchange (See Notes 10 and 11). The Exchange Warrants are valued at $25,000. The Exchange Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on July 3, 2018 to purchase 56,250 shares of the Company's common stock at $8.00 per share (the "Hurricane Warrants"). The Hurricane Warrants were issued as part of the acquisition of Hurricane (See Notes 3 and 11). The Hurricane Warrants are valued at $58,000. The Hurricane Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on July 3, 2018 to purchase 499,000 shares of the Company's common stock at $7.35 per share (the "Lender Warrant"). The Lender Warrant was issued as part of the $16 million credit facility with FB Lending, LLC (See Note 9). The Lender Warrant is valued at $592,000. The Lender Warrant may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on July 3, 2018 to purchase 65,306 shares of the Company's common stock at $7.35 per share (the "Placement Agent Warrants"). The Placement Agent Warrants were issued to the placement agents of the $16 million credit facility with FB Lending, LLC (See Note 9). The Placement Agent Warrants are valued at $78,000. The Placement Agent Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

The Company's warrant activity for the fiscal year ended December 30, 2018 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Warrants outstanding at December 31, 2017	80,000	$ 15.00	3.81
Grants	745,556	$ 7.51	4.50
Exercised	-	$ -	-
Forfeited	-	$ -	-
Expired	-	$ -	-
Warrants outstanding at December 30, 2018	825,556	$ 8.23	4.43
Warrants exercisable at December 30, 2018	825,556	$ 8.23	4.43

The weighted average fair value of the warrants granted from the Offering through December 30, 2018 and the assumptions used in the Black-Scholes valuation model are as follows:

	Warrants
Expected dividend yield	4.00% - 6.63%
Expected volatility	31.73%
Risk-free interest rate	0.99% - 1.91%
Expected term (in years)	5.00

NOTE 16. DIVIDENDS ON COMMON STOCK

The Company's Board of Directors has declared the following quarterly dividends on common stock during the fiscal year ended December 30, 2018:

Declaration Date	Record Date	Payment Date	Dividend per Share	Amount of Dividend
February 8, 2018	March 30, 2018	April 16, 2018	$ 0.12	$ 1,200,000
June 27, 2018	July 6, 2018	July 16, 2018	$ 0.12	1,351,517
October 8, 2018	October 18, 2018	October 31, 2018	$ 0.12	1,362,362
				$ 3,913,879

Subsequent to fiscal 2018, the Company declared a stock dividend on February 7, 2019 equal to 2.13% on its common stock, representing the number of shares equal to $0.12 per share of common stock based on the closing price as of February 6, 2019. The stock dividend was paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019. The Company issued 245,376 shares of common stock at a per share price of $5.64 in satisfaction of the dividend. No fractional shares were issued, instead the Company paid stockholders cash-in-lieu of shares.

On each dividend payment date, FCCG elected to reinvest all, or a significant portion of, its dividend from its common shares of the Company at the closing market price of the shares on the payment date. As a result, on April 16, 2018, the Company issued 153,600 shares of common stock to FCCG at a price of $6.25 per share in satisfaction of $960,000 dividend payable. On July 16, 2018, the Company issued 157,765 shares of common stock to FCCG at a price of $6.085 per share in satisfaction of $960,000 dividend payable. On October 31, 2018, the Company issued 176,877 shares of common stock to FCCG at a price of $6.31 per share in satisfaction of the $1,116,091 dividend payable.

The issuance of these shares to FCCG was exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act and Rule 506 promulgated under Regulation D under the Securities Act as transactions by an issuer not involving a public offering. FCCG acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Litigation

***Eric Rojany, et al. v. FAT Brands Inc., et al.* , Superior Court of California for the County of Los Angeles, Case No. BC708539, and *Daniel Alden, et al. v. FAT Brands Inc., et al.* , Superior Court of California for the County of Los Angeles, Case No. BC716017.**

On June 7, 2018, plaintiff Eric Rojany, a putative investor in the Company, filed a putative class action lawsuit against the Company, Andrew Wiederhorn, Ron Roe, Fog Cutter Capital Group, Inc., Tripoint Global Equities, LLC and members of the Company's board of directors, entitled *Rojany v. FAT Brands Inc.* , in the Superior Court of California for the County of Los Angeles, Case No. BC708539. The complaint asserted claims under Sections 12(a)(2) and 15 of the Securities Act of 1933, alleging that the defendants were responsible for false and misleading statements and omitted material facts in connection with the Company's initial public offering, which resulted in declines in the price of the Company's common stock. Plaintiff alleged that he intended to certify the complaint as a class action and sought compensatory damages in an amount to be determined at trial. On August 2, 2018, plaintiff Daniel Alden, another putative investor in the Company, filed a second putative class action lawsuit against the same defendants, entitled *Alden v. FAT Brands, Inc.* , in the same court, Case No. BC716017. On September 17, 2018, *Rojany* and *Alden* were consolidated under the *Rojany* case caption and number. On October 10, 2018, plaintiffs Eric Rojany, Daniel Alden, Christopher Hazelton-Harrington and Byron Marin filed a First Amended Consolidated Complaint ("FAC") against the Company, Andrew Wiederhorn, Ron Roe, James Neuhauser, Edward H. Rensi, Fog Cutter Capital Group Inc. and Tripoint Global Equities, LLC (collectively, "Defendants"), thereby removing Marc L. Holtzman, Squire Junger, Silvia Kessel and Jeff Lotman as defendants. The FAC asserted the same claims as asserted in the original complaint. On November 13, 2018, Defendants filed a demurrer to the FAC. On January 25, 2019, the Court sustained Defendants' demurrer to the FAC, with leave to amend in part. On February 25, 2019, Plaintiffs filed a Second Amended Consolidated Complaint ("SAC") against Defendants. On March 27, 2019, Defendants filed a demurrer to the SAC. A stay of discovery in the action remains in effect pending resolution of Defendants' demurrer to the SAC.

The Company and other defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

***Adam Vignola, et al. v. FAT Brands Inc., et al.* , United States District Court for the Central District of California, Case No. 2:18-cv-07469.**

On August 24, 2018, plaintiff Adam Vignola, a putative investor in the Company, filed a putative class action lawsuit against the Company, Andrew Wiederhorn, Ron Roe, Fog Cutter Capital Group, Inc., Tripoint Global Equities, LLC and members of the Company's board of directors, entitled *Vignola v. FAT Brands Inc.* , in the United States District Court for the Central District of California, Case No. 2:18-cv-07469. The complaint asserted claims under Sections 12(a)(2) and 15 of the Securities Act of 1933, alleging that the defendants are responsible for false and misleading statements and omitted material facts in connection with the Company's initial public offering, which resulted in declines in the price of the Company's common stock. The plaintiff alleged that he intended to certify the complaint as a class action and is seeking compensatory damages in an amount to be determined at trial. On October 23, 2018, Charles Jordan and David Kovacs (collectively, "Lead Plaintiffs") moved to be appointed lead plaintiffs, and the Court granted Lead Plaintiffs' motion on November 16, 2018. On January 15, 2019, Lead Plaintiffs filed a First Amended Class Action Complaint against the Defendants, thereby removing Marc L. Holtzman, Squire Junger, Silvia Kessel and Jeff Lotman as defendants. The allegations and claims for relief asserted in *Vignola* are substantively identical to those asserted in the FAC filed in *Rojany* . On March 18, 2019, Defendants filed a motion to dismiss the FAC or, in the alterative, to stay the action in favor of *Rojany* . The hearing on Defendants' motion is scheduled for June 17, 2019. All discovery and other proceedings in this action are currently stayed by operation of the Private Securities Litigation Reform Act of 1995.

The Company and other defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

The Company is obligated to indemnify its officers and directors to the extent permitted by applicable law in connection with the above actions, and has insurance for such individuals, to the extent of the limits of the applicable insurance policies and subject to potential reservations of rights. The Company is also obligated to indemnify Tripoint Global Equities, LLC under certain conditions relating to the *Rojany* and *Vignola* . These proceedings are in their early stages and the Company is unable to predict the ultimate outcome of these matters. There can be no assurance that the defendants will be successful in defending against these actions.

The Company is involved in other claims and legal proceedings from time-to-time 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 its business, financial condition, results of operations, liquidity or capital resources.

Operating Leases

The Company leases corporate headquarters located in Beverly Hills, California comprising 5,478 square feet of space, pursuant to a lease that expires on April 30, 2020. The Company also leases 1,775 square feet of space in Plano, TX for our administrative and culinary operations for Bonanza and Ponderosa pursuant to a lease that expires on March 31, 2021.

Our subsidiary, Yalla Acquisition, LLC, leases seven properties in California being operated as Yalla Mediterranean restaurants. It is our intention to identify franchisees who will operate these restaurants and assume the related lease liabilities.

The Company believes that all existing facilities are in good operating condition and adequate to meet current and foreseeable needs.

NOTE 18. GEOGRAPHIC INFORMATION AND MAJOR FRANCHISEES

R evenues by geographic area are as follows (in thousands):

	Fiscal Year Ended December 30, 2018	Fiscal Year Ended December 31, 2017
United States	$ 14,023	$ 1,681
Other countries	4,344	492
Total revenues	$ 18,367	$ 2,173

Revenues are shown based on the geographic location of our licensee restaurants. All our assets are located in the United States.

During the fiscal years ended December 30, 2018 and December 31, 2017, no individual franchisee accounted for more than 10% of the Company's revenues.

NOTE 19. OPERATING SEGMENTS

With minor exceptions, the Company's operations are comprised exclusively of franchising a growing portfolio of restaurant brands. This growth strategy is centered on expanding the footprint of existing brands and acquiring new brands through a centralized management organization which provides substantially all executive leadership, marketing, training and accounting services. While there are variations in the brands, the nature of the Company's business is fairly consistent across its portfolio. Consequently, management assesses the progress of the Company's operations as a whole, rather than by brand or location which become more significant as the number of brands has increased.

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. The CODM reviews financial performance and allocates resources at an overall level on a recurring basis. Therefore, management has determined that the Company has one operating and reportable segment.

NOTE 20. SUBSEQUENT EVENTS

Pursuant to FASB ASC 855, Management has evaluated all events and transactions that occurred from December 30, 2018 through the date of issuance of these financial statements. During this period, the Company did not have any significant subsequent events, except as disclosed below:

Loan Agreement

On January 29, 2019, the Company refinanced its existing lending facility with FB Lending, LLC (See Note 9). The Company as borrower, and its subsidiaries and affiliates as guarantors, entered into a new Loan and Security Agreement (the "Loan and Security Agreement") with The Lion Fund, L.P. and The Lion Fund II, L.P. ("Lion"). Pursuant to the Loan and Security Agreement, the Company borrowed $20.0 million from Lion, and utilized the proceeds to repay the existing $16.0 million term loan from FB Lending, LLC plus accrued interest and fees, and provide additional general working capital to the Company.

The term loan under the Loan and Security Agreement matures on June 30, 2020. Interest on the term loan accrues at an annual fixed rate of 20.0% and is payable quarterly. The Company may prepay all or a portion of the outstanding principal and accrued unpaid interest under the Loan and Security Agreement at any time upon prior notice to Lion without penalty, other than a make-whole provision providing for a minimum of six months' interest. The Company is required to prepay all or a portion of the outstanding principal and accrued unpaid interest under the Loan and Security Agreement in connection with certain dispositions of assets, extraordinary receipts, issuances of additional debt or equity, or a change of control of the Company.

In connection with the Loan and Security Agreement, the Company issued to Lion a warrant to purchase up to 1,143,112 shares of the Company's Common Stock at $0.01 per share (the "Lion Warrant"), exercisable only if the amounts outstanding under the Loan and Security Agreement are not repaid in full prior to October 1, 2019. If the Loan and Security Agreement is repaid in full prior to October 1, 2019, the Lion Warrant will terminate in its entirety.

As security for its obligations under the Loan Agreement, the Company granted a lien on substantially all of its assets to Lion. In addition, certain of the Company's direct and indirect subsidiaries and affiliates entered into a Guaranty (the " **Guaranty** ") in favor of Lion, pursuant to which they guaranteed the obligations of the Company under the Loan and Security Agreement and granted as security for their guaranty obligations a lien on substantially all of their assets.

The Loan and Security Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company's ability to, among other things, incur other indebtedness, grant liens, merge or consolidate, dispose of assets, pay dividends or make distributions, in each case subject to customary exceptions. The Loan and Security Agreement also includes customary events of default that include, among other things, non-payment, inaccuracy of representations and warranties, covenant breaches, events that result in a material adverse effect (as defined in the Loan and Security Agreement), cross default to other material indebtedness, bankruptcy, insolvency and material judgments. The occurrence and continuance of an event of default could result in the acceleration of the Company's obligations under the Loan and Security Agreement and an increase in the interest rate by 5.0% per annum.

Dividend Payable

On February 7, 2019, the Company declared a stock dividend equal to 2.13% on its common stock, representing the number of shares equal to $0.12 per share of common stock based on the closing price as of February 6, 2019. The stock dividend was paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019. The Company issued 245,376 shares of common stock at a per share price of $5.64 in satisfaction of the dividend. No fractional shares were issued, instead the Company paid stockholders cash-in-lieu of shares.

Share Issuance

On February 22, 2019, the Company issued a total of 15,384 shares of common stock at a value of $5.85 per share to the non-employee members of the board of directors as consideration for accrued directors' fees.

FAT BRANDS INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

FOR THE FISCAL YEAR ENDED DECEMBER 30, 2018

	Dollars in thousands			
	Balance at Beginning of Period	**Charged to Costs and Expenses**	**Deductions/ Recoveries**	**Balance at End of Period**
Allowance for:				
Trade notes and accounts receivable	$ 713	$ 89	$ (58)	$ 744

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholder and Board of Directors
Fatburger North America Inc.
Beverly Hills, California

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Fatburger North America, Inc. (the "Company") as of October 19, 2017, and the related statements of income, stockholder's equity, and cash flows for the period December 26, 2016 through October 19, 2017, and the related notes to the financial statements (collectively, the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 19, 2017, and the results of its operations and its cash flows for the period December 26, 2016 through October 19, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Hutchinson and Bloodgood LLP

We, or a firm acquired by us in 2012, have continuously served as auditor for the Company since 2007.

Glendale, California
April 2, 2018

FATBURGER NORTH AMERICA, INC.
Balance Sheet
October 19, 2017

ASSETS		
Current assets		
Cash	$	-
Accounts receivable, net of allowance for doubtful accounts of $463,506		350,320
Other current assets		8,358
Total current assets		358,678
Due from affiliates		7,087,473
Trademarks		2,134,800
Goodwill		529,400
Deferred income taxes		1,592,694
Total assets	$	11,703,045
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Deferred income	$	1,892,397
Accounts payable		1,447,741
Accrued expenses		882,828
Accrued advertising		334,864
Total current liabilities		4,557,830
Deferred income – noncurrent		1,480,500
Total liabilities		6,038,330
Commitments and contingencies (Note 6)		
Stockholder's equity		
Common stock, $.01 par value, 1,000 shares authorized, issued and outstanding		10
Additional paid-in capital		3,500,000
Retained earnings		2,164,705
Total stockholder's equity		5,664,715
Total liabilities and stockholder's equity	$	11,703,045

The accompanying notes are integral part of these financial statements.

FATBURGER NORTH AMERICA, INC.

Statement of Income
For the interim period from December 26, 2016 through October 19, 2017

Revenues		
Royalties	$	3,797,297
Franchise fees		1,731,659
Management fees		51,115
Total revenues		5,580,071
Expenses		
General and administrative		1,929,551
Total expenses		1,929,551
Income from operations		3,650,520
Other income		211,471
Income before income tax expense		3,861,991
Income tax expense		1,344,247
Net income	$	2,517,744
Net income per common share - Basic	$	2,517.74
Shares used in computing net income per common share		1,000

The accompanying notes are integral part of these financial statements.

FATBURGER NORTH AMERICA, INC.

Statement of Stockholder’s Equity
For the interim period from December 26, 2016 through October 19, 2017

	Common Stock		Additional Paid-In	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 25, 2016	1,000	$ 10	$ 3,500,000	$ 4,326,961	$ 7,826,971
Net income	-	-	-	2,517,744	2,517,744
Dividends paid	-	-	-	(4,680,000)	(4,680,000)
Balance at October 19, 2017	1,000	$ 10	$ 3,500,000	$ 2,164,705	$ 5,664,715

The accompanying notes are integral part of these financial statements.

FATBURGER NORTH AMERICA, INC.

Statement of Cash Flows
For the interim period from December 26, 2016 through October 19, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$	2,517,744
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes		2,172
Provision for bad debt expense		182,465
Changes in operating assets and liabilities:		
Accounts receivable		(124,130)
Accounts payable		377,188
Accrued expenses		(254,700)
Accrued advertising		485,864
Deferred income		(780,871)
Total adjustments		(112,012)
Net cash provided by operating activities		2,405,732
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid		(4,680,000)
Change in due from affiliates		2,274,268
Net cash used in financing activities		(2,405,732)
Net increase in cash		-
Cash, beginning of year		-
Cash, end of year	$	-
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	$	-
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Income tax payable offset against amounts due from affiliates	$	1,338,681

The accompanying notes are integral part of these financial statements.

FATBURGER NORTH AMERICA, INC.

Notes to Financial Statements
For the interim period from December 26, 2016 through October 19, 2017 (the " **Interim Period** ")

NOTE 1. NATURE OF BUSINESS

Fatburger North America, Inc. (the Company), a Delaware corporation, was formed on March 28, 1990 and is a wholly-owned subsidiary of Fog Cutter Capital Group Inc. (the Parent). Prior to its transfer to the Parent on March 24, 2011, the Company was owned by Fatburger Holdings, Inc. (Holdings) as the result of a stock purchase transaction in August 2001.

Subsequent to the date of these financial statements, on October 20, 2017, the Parent contributed the Company to FAT Brands, Inc. as a wholly owned subsidiary. The Parent owns majority control of FAT Brands Inc. These financial statements have been produced to reflect the interim period beginning December 26, 2016 and ending on the date prior to the contribution to Fat Brands Inc.

The Company franchises and licenses the right to use the Fatburger name, operating procedures and method of merchandising to franchisees. Upon signing a franchise agreement, the Company is committed to provide training, some supervision and assistance, and access to Operations Manuals. As needed, the Company will also provide advice and written materials concerning techniques of managing and operating the restaurants. The franchises are operated under the name "Fatburger." Each franchise agreement term is typically for 15 years with two additional 10-year options available. Additionally, the Company conducts a multi-market advertising campaign to enhance the corporate name and image, which is funded through advertising revenues received from its franchisees and to a lesser extent, other restaurant locations owned and operated by subsidiaries of the Parent.

As of October 19, 2017, there were 153 franchise restaurant locations operated by third parties in Arizona, California, Colorado, Nevada, Washington, Canada, China, UAE, the UK, Kuwait, Saudi Arabia, Egypt, Iraq, Pakistan, Philippines, Indonesia, Malaysia, Qatar, Panama and Tunisia (the Franchisees).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year End: The Company operates on a 52-week calendar and its fiscal year ends on the last Sunday closest to December 31. Consistent with the industry, the Company measures its stores' performance based upon 7-day work weeks. Using the 52-week cycle ensures consistent weekly reporting for operations and ensures that each week has the same days, since certain days are more profitable than others. The use of this fiscal year method means a 53 rd week is added to the fiscal year every 5 or 6 years. The accompanying financial statements reflect the Company's interim period beginning December 26, 2016 and ending on October 19, 2017, the date prior to the contribution to Fat Brands Inc.

Accounts Receivable: Accounts receivable consist primarily of royalty and advertising fees from franchisees reduced by reserves for the estimated amount deemed uncollectible due to bad debts.

Credit and Depository Risks: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company's customer base consists of franchisees located in Arizona, California, Colorado, Nevada, Washington, Canada, China, UAE, the UK, Kuwait, Saudi Arabia, Egypt, Iraq, Pakistan, Philippines, Indonesia, Malaysia, Qatar, Panama and Tunisia. Management reviews each of its customer's financial conditions prior to signing a franchise agreement and believes that it has adequately provided for any exposure to potential credit losses.

The Company maintains cash deposits in national financial institutions. The Company has not experienced any losses in such accounts and believes its cash balances are not exposed to significant risk of loss.

Compensated Absences: Employees of the Parent who provide reimbursed services to the Company earn vested rights to compensation for unused vacation time. Accordingly, the Company accrues the amount of vacation compensation that employees have earned but not yet taken at the end of each fiscal year.

Goodwill and Other Intangible Assets: Goodwill and other intangible assets with indefinite lives, such as trademarks, are not amortized but are reviewed for impairment annually, or more frequently if indicators arise. No impairment has been identified for the Interim Period ended October 19, 2017 and prior.

Revenue Recognition: Franchise fee revenue from sales of individual franchises is recognized upon completion of training and the actual opening of a location. Typically, franchise fees are $50,000 for each domestic location and are collected 50% upon signing a deposit agreement and 50% at the signing of a lease and related franchise agreement. International franchise fees are typically $65,000 for each location and are payable 100% upon signing a deposit agreement. The franchise fee may be adjusted at management's discretion or in situations involving store transfers. Deposits are non-refundable upon acceptance of the franchise application. These deposits are recorded as deferred income – current and noncurrent based upon the expected franchise restaurant openings dates. In situations where franchisees have not complied with their development timelines for opening franchise stores, the franchise rights are terminated and franchise fee revenue is recognized for non-refundable deposits.

During the Interim Period ended October 19, 2017, fifteen franchise locations were opened and twenty were closed or otherwise left the franchise system. Of the new franchise locations, four were in Canada, three were in the United States, three were in China, and one in each of Qatar, the UK, Egypt, Pakistan and Panama. Of the closed locations, three were in Canada, three were in California, two were in Washington, two were in Bahrain, two were in Saudi Arabia, and one in each of Hawaii, Pakistan, Fiji, China, Indonesia, India, Oman and Egypt.

In addition to franchise fee revenue, the Company collects a royalty of 3% to 6% of net sales from its franchisees. Royalties are recognized as revenue as the related sales are made by the franchisees. Royalties collected in advance are classified as deferred income until earned.

Segment information: The Company owns international and domestic licensed operations. Our chief operating decision maker ("CODM") is our Chief Executive Officer; our CODM reviews financial performance and allocates resources at an overall level on a recurring basis. Therefore, management has determined that the Company has one reportable operating segment and one reportable segment.

Advertising: The Company requires advertising payments of 1.95% of net sales from Fatburger restaurants located in the Los Angeles marketing area and up to 0.95% of net sales from stores located outside of the Los Angeles marketing area. International locations pay 0.20% to 0.95%. The Company also receives, from time to time, payments from vendors that are to be used for advertising. Since advertising funds collected are required to be spent for specific advertising purposes, no revenue or expense is recorded for advertising funds.

Cumulative advertising expenditures in excess of collections are recorded as current assets and will be reimbursed by future advertising payments from franchises and other Fatburger affiliates.

Income Taxes: The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain.

A two-step approach is used to recognize and measure uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon the ultimate settlement.

Income Per Common Share : Income per share data was computed using the weighted-average number of shares outstanding during each reporting period.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Recently Issued Accounting Standards: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. These standards are effective for the Company in our first quarter of 2018 and will be adopted using the modified retrospective method.

These standards require that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. The services provided by the Company related to upfront fees received from franchisees such as initial or renewal fees do not currently contain separate and distinct performance obligations from the franchise right and thus those upfront fees will be recognized as revenue over the term of each respective franchise agreement. We currently recognize upfront franchise fees such as initial and renewal fees when the related services have been provided, which is when a store opens for initial fees and when renewal options become effective for renewal fees. These standards require any unamortized portion of fees received prior to adoption be presented in the balance sheet as a contract liability. The Company is evaluating the effect the adoption of these standards will have on future financial statements.

These standards will also have an impact on transactions currently not included in the Company's revenues and expenses such as franchisee contributions to and subsequent expenditures from advertising cooperatives that we are required to consolidate and other cost reimbursement arrangements we have with our franchisees. We do not currently include these contributions and expenditures in our Consolidated Statements of Income or Cash Flows. The new standards will impact the principal/agent determinations in these arrangements by superseding industry-specific guidance included in current GAAP. When we are the principal in these transactions we will include the related contributions and expenditures within our statements of income and cash flows. As a result of this change, we expect the increase in both total revenues and total costs and expenses, with no significant impact to net income.

These standards will not impact the recognition of our sales-based royalty fees from franchisees, which is generally our largest source of revenue. We are currently implementing internal controls related to the recognition and presentation of the Company's revenues under these new standards.

In February 2016, the FASB issued ASU 2016-02, Leases, requiring a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. This ASU is effective for interim and annual period beginning after December 15, 2018 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company does not currently have any leases that will have an impact on the financial statements or disclosures as a result of the adoption of this ASU.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how transactions are classified in the statement of cash flows. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment, which simplifies the accounting for goodwill impairment. This ASU removes Step 2 of the goodwill impairment test, which requires hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The new guidance also requires disclosure of the amount of goodwill at reporting units with zero or negative carrying amounts. ASU 2017-04 is effective for the Company beginning January 1, 2020. The Company elected to early adopt this standard when performing its annual goodwill impairment test in 2017. The adoption of this ASU did not have a significant financial impact on the Company's financial statements.

NOTE 3. DEFERRED INCOME

Deferred income is as follows:

		October 19, 2017
Deferred franchise fees	$	2,366,267
Deferred royalties		1,006,630
Total	$	3,372,897

NOTE 4. INCOME TAXES

The Company files its Federal and most state income tax returns on a consolidated basis with the Parent. For financial reporting purposes, the Company has recorded a tax provision calculated as if the Company files all of its tax returns on a stand-alone basis. The taxes payable to the Parent determined by this calculation of $1,338,681 was offset against amounts due from affiliates as of October 19, 2017 (see Note 5). Deferred taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for calculating taxes payable on a stand-alone basis. Significant components of the Company's deferred tax assets are as follows:

		October 19, 2017
Current deferred tax assets (liabilities)		
Deferred revenue	$	1,187,260
Reserves and accruals		423,967
Deferred state income tax		(18,533)
Total	$	1,592,694

Components of the income tax provision (benefit) are as follows:

		Interim Period Ended October 19, 2017
Current		
Federal	$	976,631
State		36,262
Foreign		38,851
		1,051,744
Deferred		
Federal		282,365
State		10,138
		292,503
Total income tax provision	$	1,344,247

The income tax provision related to continuing operations differ from amounts computed by applying the statutory income tax rate of 34% to pretax income is as follows:

	October 19, 2017
Tax provision at statutory rate	$ 1,313,078
State and local income taxes	31,169
Total income tax provision	$ 1,344,247

As of October 19, 2017, the Company's annual tax filings for the prior three years are open for audit by Federal and for the prior four years for state tax agencies. Management evaluated the Company's overall tax positions and has determined that no provision for uncertain income tax positions is necessary as of October 19, 2017.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company had open accounts with affiliated entities under the common control of the Parent resulting in net amounts due to the Company of $7,087,473 as of October 19, 2017. These advances are expected to be recovered from credits for the use of the Parents' tax net operating losses, and to the lesser extent, from repayment by the affiliates from proceeds generated by their operations and investments.

During the Interim Period ended October 19, 2017, the receivable from affiliates was reduced in the amount of $2,274,268.

Effective in 2012, the Parent's operations were structured in such a way that significant direct and indirect administrative functions were provided to the Company. These services include operational personnel to sell franchise rights, assist with training franchisees and assisting franchises with opening restaurants. The Parent also provides executive administration and accounting services for the Company.

The Company reimbursed the Parent for these expenses in the approximate amounts of $1,097,132 for the Interim Period ended October 19, 2017. Management reviewed the expenses recorded at the Parent and identified the common expenses that shall be allocated to the subsidiaries. These expenses were allocated based on an estimate of management's time spent on the activities of the Parent and its subsidiaries, and further allocated among the subsidiaries pro rata based on each subsidiary's respective revenues as a percentage of overall revenues of the subsidiaries. The Company believes that the allocation of expenses is not materially different from what it would have been if the Company was a stand-alone entity.

During the Interim Period ended October 19, 2017, the Company recognized payables to the Parent in the amount of $1,338,681 for use of the Parent's net operating losses for tax purposes.

During the Interim Period ended October 19, 2017, the Company declared and paid dividends in the amount of $ 4,680,000 to the Parent.

NOTE 6. COMMITMENTS AND CONTINGENCIES

Litigation

Periodically, the Company is involved in litigation in the normal course of business. The Company believes that the result of any potential litigation will not have a material adverse effect on the Company's financial condition.

NOTE 7. GEOGRAPHIC INFORMATION AND MAJOR FRANCHISEES

R evenues by geographic area are as follows (dollars in thousands):

	Interim Period Ended October 19, 2017
United States	$ 2,855,347
Other countries	2,724,724
Total revenues	$ 5,580,071

Revenues are shown based on the geographic location of our licensees. All of our assets are located in the United States.

During the interim period ended October 19, 2017, there were no franchisees which accounted for more than 10% of the Company's revenues.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholder and Board of Directors
Buffalo's Franchise Concepts, Inc. and Subsidiary
Beverly Hills, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Buffalo's Franchise Concepts, Inc. (the "Company") and subsidiary as of October 19, 2017, and the related statements of income, stockholder's equity, and cash flows for the period December 26, 2016 through October 19, 2017, and the related notes to the financial statements (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of October 19, 2017, and the results of their operations and their cash flows for the period December 26, 2016 through October 19, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/ s/ Hutchinson and Bloodgood LLP

We, or a firm acquired by us in 2012, have continuously served as auditor for the Company since 2011.

Glendale, California
April 2, 2018

BUFFALO'S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Balance Sheet
October 19, 2017

ASSETS		
Current assets		
Cash	$	35,335
Accounts receivable, net of allowance for doubtful accounts of $15,616		31,753
Other current assets		11
Total current assets		67,099
Due from affiliates		904,197
Trademarks		27,000
Goodwill		5,365,100
Deferred tax assets		104,011
Buffalo's creative and advertising fund		397,995
Total assets	$	6,865,402
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	$	182,682
Accrued expenses		81,570
Deferred income		116,958
Total current liabilities		381,210
Deferred income – noncurrent		147,980
Buffalo's creative and advertising fund - contra		397,995
Total liabilities		927,185
Commitments and contingencies (Notes 6 and 7)		
Stockholder's equity		
Common stock, $.001 par value, 50,000,000 shares authorized		—
Additional paid-in capital		5,138,946
Retained earnings		799,271
Total stockholder's equity		5,938,217
Total liabilities and stockholder's equity	$	6,865,402

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

BUFFALO’S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Statement of Operations
For the interim period from December 26, 2016 through October 19, 2017

Revenues		
Royalties	$	992,855
Franchise fees		529,944
Total revenues		1,522,799
Expenses		
General and administrative		568,167
Total expenses		568,167
Income from operations		954,632
Other income		-
Income before taxes		954,632
Income tax expense		353,330
Net income	$	601,302

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

BUFFALO'S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Statements of Stockholder's Equity
For the interim period from December 26, 2016 through October 19, 2017

	Additional Paid-In Capital	Retained Earnings	Total
Balance, December 25, 2016	$ 5,138,946	$ 1,847,969	$ 6,986,915
Net income	—	601,302	601,302
Dividend distribution	—	(1,650,000)	(1,650,000)
Balance, October 19, 2017	$ 5,138,946	$ 799,271	$ 5,938,217

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

BUFFALO’S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows
For the interim period from December 26, 2016 through October 19, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$	601,302
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Provision for bad debt expense		15,616
Deferred income taxes		146,033
Changes in current operating assets and liabilities:		
Accounts receivable		6,145
Other current assets		-
Accounts payable		85,298
Accrued expenses		(6,086)
Deferred income		(551,319)
Total adjustments		(304,313)
Net cash flows provided by operating activities		296,989
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in advances to affiliates		1,388,346
Dividend distribution		(1,650,000)
Net cash flows used in financing activities		(261,654)
Net increase in cash		35,335
Cash, beginning of year		—
Cash, end of year	$	35,335
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	$	-
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Income tax payable offset against amounts due from affiliates	$	187,702

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

BUFFALO’S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
For the interim period from December 26, 2016 through October 19, 2017 (the “ **Interim Period** ”)

NOTE 1. NATURE OF BUSINESS

Buffalo’s Franchise Concepts, Inc. is a Nevada corporation formed in June 2006. On December 8, 2006, the Nevada corporation acquired all the issued and outstanding common stock of Buffalo’s Franchise Concepts, Inc., a Georgia corporation (BFCI-GA), which became a wholly-owned subsidiary. On November 28, 2011, all the issued and outstanding stock of the Nevada corporation was acquired by Fog Cap Development LLC (Fog Cap), a wholly-owned subsidiary of Fog Cutter Capital Group Inc. (the “Parent”).

Subsequent to the date of these financial statements, on October 20, 2017, the Parent contributed the Company to FAT Brands, Inc. as a wholly-owned subsidiary. The Parent owns majority control FAT Brands Inc. These financial statements have been produced to reflect the interim period beginning December 26, 2017 and ending on the date prior to the contribution to FAT Brands.

Buffalo’s Franchise Concepts, Inc., through its wholly-owned subsidiary, grants store franchise and development agreements for the operation of casual dining restaurants (Buffalo’s Southwest Cafés) and quick service restaurants outlets (Buffalo’s Express). The restaurants specialize in the sale of Buffalo-Style chicken wings, chicken tenders, burgers, ribs, wrap sandwiches, and salads. Franchisees are licensed to use the Company’s trade name, service marks, trademarks, logos, and unique methods of food preparation and presentation.

In 2012, the Parent began co-branding its Buffalo’s Express restaurants with Fatburger restaurants, the Parent’s other fast casual brand. These co-branded restaurants sell products of both brands and share back-of-the-house facilities.

At October 19, 2017, there were 18 operating Buffalo’s Southwest Cafés restaurants and 72 co-branded Buffalo’s Express restaurants. All these restaurants were franchise locations except for one Buffalo’s Southwest Café restaurant which was owned by an affiliate.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Buffalo’s Franchise Concepts, Inc. and its wholly-owned subsidiary, Buffalo’s Franchise Concepts, Inc., a Georgia corporation, (collectively, the Company). All significant intercompany accounts have been eliminated in consolidation.

Accounts Receivable: Accounts receivable consist of royalty fees from franchisees reduced by reserves for the estimated amount deemed uncollectible due to bad debts. As of October 19, 2017, the accounts receivable was net of an allowance for doubtful accounts in the amount of $15,616.

Credit and Depository Risks: The Company maintains its cash accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes its cash balances are not exposed to significant risk of loss.

The Company’s customer base consists of franchisees located in Georgia, Texas, California, Canada, the UK, Qatar, Saudi Arabia, Tunisia, Malaysia, Panama, and the Philippines. Management reviews each of its customer’s financial conditions prior to signing a franchise agreement and believes that it has adequately provided for any exposure to potential credit losses.

Fiscal Year End: The Company operates on a 52-week calendar year. The fiscal year ends on the Sunday closest to December 31. Consistent with the industry, Buffalo measures its stores' performance based upon 7 day work weeks. Using the 52-week cycle ensures consistent weekly reporting for operations and ensures that each week has the same days, since certain days are more profitable than others. The use of this fiscal year method means a 53 rd week is added to the fiscal year every 5 or 6 years. The accompanying consolidated financial statements reflect the Company's interim period beginning December 26, 2016 and ending on October 19, 2017, the date prior to the contribution to FAT Brands.

Goodwill and Other Intangible Assets: Goodwill and other intangible assets with indefinite lives, such as trademarks, are not amortized but are reviewed for impairment annually or more frequently if indicators arise. Intangible assets that are not deemed to have indefinite lives are amortized over their useful lives and are also reviewed for impairment annually or more frequently if indications arise. No impairment has been identified as of October 19, 2017.

Franchise rights are amortized over the remaining lives of the agreements at the date of acquisition. All franchise rights were fully amortized prior to the Interim Period.

Revenue Recognition: The Company recognizes revenues from franchise sales upon commencement of operations by a franchisee. Franchise fee revenue from sales of individual franchises is recognized upon completion of training and the actual opening of a location. Typically, franchise fees are $50,000 for each domestic location and are collected 50% upon signing a deposit agreement and 50% at the signing of a lease and related franchise agreement. International franchise fees are typically $65,000 for each location and are payable 100% upon signing a deposit agreement. The Company typically charges a $25,000 co-brand conversion fee.

The franchise fee may be adjusted at management's discretion or in a situation involving store transfers. Deposits are non-refundable upon acceptance of the franchise application. These deposits are recorded as deferred income – current and noncurrent based upon the expected franchise restaurant opening dates. In situations where franchisees have not complied with their development timelines for opening franchise stores, the franchise rights are terminated and franchise fee revenue is recognized for non-refundable deposits.

In addition to franchise fee revenue, the Company collects a royalty calculated as a percentage of net sales from its franchisees. Royalties are recognized as revenue when the related sales are made by the franchisees.

During 2008 and 2009, the Company received a total of $500,000 from a franchisee of three restaurants in exchange for an exclusive area agreement for ten counties in the state of Georgia and reduced service fees for the franchisee's restaurants for a ten-year period. The franchisee is required to open four new franchise restaurants in the exclusive territory during the ten-year term of the agreement. The deferred fee is being amortized into income ratably over the ten-year term. Service fee revenues recognized in the Interim Period pursuant to the agreement totaled $36,375. As of October 19, 2017, there remained deferred fees of $32,333 relating to the exclusive area agreement.

Advertising: The Company generally requires advertising payments of 2.0% of net sales from Buffalo's Southwest Café restaurants. Co-branded restaurants generally pay 0.20% to 1.95%. The Company also receives, from time to time, payments from vendors that are to be used for advertising. Since the Company acts in a fiduciary role to collect and disburse these advertising funds, no revenue or expense is recorded.

Advertising funds are segregated from other Company assets and the balance of the Buffalo's Creative and Advertising Fund is recorded as an asset by the Company with the offsetting advertising obligation recorded as a liability, Buffalo's Creative and Advertising Fund – Contra.

Income Taxes: The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain.

A two-step approach is used to recognize and measure uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon the ultimate settlement.

Estimates: The preparation of financial statements in accordance with GAAP requires the use of estimates in determining assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

Recently Issued Accounting Standards: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. These standards are effective for the Company in our first quarter of 2018 and will be adopted using the modified retrospective method.

These standards require that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. The services provided by the Company related to upfront fees received from franchisees such as initial or renewal fees do not currently contain separate and distinct performance obligations from the franchise right and thus those upfront fees will be recognized as revenue over the term of each respective franchise agreement. We currently recognize upfront franchise fees such as initial and renewal fees when the related services have been provided, which is when a store opens for initial fees and when renewal options become effective for renewal fees. These standards require any unamortized portion of fees received prior to adoption be presented in the consolidated balance sheet as a contract liability. The Company is evaluating the effect the adoption of these standards will have on the future financial statements.

These standards will also have an impact on transactions currently not included in the Company's revenues and expenses such as franchisee contributions to and subsequent expenditures from advertising cooperatives that we are required to consolidate and other cost reimbursement arrangements we have with our franchisees. We do not currently include these contributions and expenditures in our consolidated statements of income or cash flows. The new standards will impact the principal/agent determinations in these arrangements by superseding industry-specific guidance included in current GAAP. When we are the principal in these transactions we will include the related contributions and expenditures within our consolidated statements of income and cash flows. As a result of this change, we expect the increase in both total revenues and total costs and expenses, with no significant impact to Net Income. The assets and liabilities held by advertising cooperatives, which have historically been reported as Buffalo's Creative and Advertising Fund is recorded as an asset by the Company with the offsetting advertising obligation recorded as a liability, Buffalo's Creative and Advertising Fund – Contra, respectively, will be included within the respective balance sheet caption to which the assets and liabilities relate.

These standards will not impact the recognition of our sales-based royalty fees from franchisees, which is generally our largest source of revenue. We are currently implementing internal controls related to the recognition and presentation of the Company's revenues under these new standards.

In February 2016, the FASB issued ASU 2016-02, Leases, requiring a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. This ASU is effective for interim and annual period beginning after December 15, 2018 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company does not currently have any leases that will have an impact on the consolidated financial statements or disclosures as a result of the adoption of this ASU.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how transactions are classified in the statement of cash flows. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment, which simplifies the accounting for goodwill impairment. This ASU removes Step 2 of the goodwill impairment test, which requires hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The new guidance also requires disclosure of the amount of goodwill at reporting units with zero or negative carrying amounts. ASU 2017-04 is effective for the Company beginning January 1, 2020. The Company elected to early adopt this standard when performing its annual goodwill impairment test in 2017. The adoption of this ASU did not have a significant financial impact on the Company's financial statements.

NOTE 3. RELATED PARTY TRANSACTIONS

The Company has made cumulative net advances to affiliated entities under the common control of the Parent in the amount of $904,197 as of October 19, 2017. These advances are expected to be recovered through repayment for the use of the Parent's tax net operating losses and from proceeds generated by the affiliates' operations and investments.

Effective in 2013, the Parent's operations were structured in such a way that significant direct and indirect administrative functions were provided to the Company. These services include operational personnel to sell franchise rights, assist with training franchisees and assisting franchisees with opening restaurants. The Parent also provides executive administration and accounting services for the Company. Expenses are allocated based on an estimate of management's time spent on the activities of the Parent and its subsidiaries, and further allocated among the subsidiaries pro rata based on each subsidiary's respective revenues as a percentage of overall revenues of the subsidiaries. The Company believes that the allocation of expenses is not materially different from what it would have been if the Company was a stand-alone entity. These expenses were $236,108 for the 2017 Interim Period and were reimbursed to the Parent in cash.

During the Interim Period, the Company recorded obligations to the Parent in the amount of $187,702 for use of the Parent's net operating losses for tax purposes.

During the Interim Period, the Company declared and paid dividends in the amount of $1,650,000.

NOTE 4. INCOME TAXES

The Company files its Federal and most state income tax returns on a consolidated basis with the Parent. For financial reporting purposes, the Company calculates its tax provision as if the Company files its tax returns on a stand-alone basis. The taxes payable to the Parent determined by this calculation of $187,702 were offset against the balances due from affiliates as of October 19, 2017.

Deferred taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for calculating taxes payable on a stand-alone basis.

Significant components of the Company's net deferred tax assets are as follows:

		October 19, 2017
Net deferred tax assets (liabilities)		
Deferred revenue	$	102,028
Reserves and accruals		6,285
Deferred state income tax		(4,302)
Total	$	104,011

Components of the income tax provision are as follows for the years ended:

		October 19, 2017
Current		
Federal	$	136,048
State		19,594
		155,642
Deferred		
Federal		173,718
State		23,969
		197,687
Total income tax expense	$	353,329

Income tax provision (benefit) related to continuing operations differ from the amounts computed by applying the statutory income tax rate of 34% to pretax loss as follows:

		October 19, 2017
Tax provision at statutory rate	$	324,574
State taxes		28,755
Total income tax provision	$	353,329

As of October 19, 2017, the Company's annual tax filings for the prior three years are open for audit by Federal and for the prior four years for state tax agencies. Management evaluated the Company's overall tax positions and has determined that no provision for uncertain income tax positions is necessary as of October 19, 2017.

NOTE 5. BUFFALO'S CREATIVE AND ADVERTISING FUND

Under the terms of its franchise agreements, the Company collects fees for creative development and advertising from its franchisees based on percentages of sales as outlined in franchise agreements. The Company is to oversee all advertising and promotional programs and is to have sole discretion over expenditures from the fund.

During the Interim Period, the Company collected advertising fees and vender contributions of $430,098. Advertising expenditures for the same period totaled $222,159. The accompanying consolidated financial statements reflect the year-end balance of the advertising fund and the related advertising obligation, which was approximately $397,995 as of October 19, 2017.

NOTE 6. COMMITMENTS AND CONTINGENCIES

Litigation: Periodically, the Company is involved in litigation in the normal course of business. The Company believes that the result of any potential litigation will not have a material adverse effect on the Company's financial condition.

NOTE 7. RETIREMENT PLAN

The Company has a profit sharing plan (the Plan) with a 401(k) feature covering substantially all employees. There were no contributions made by the Company under the Plan for the Interim Period.

NOTE 8. GEOGRAPHIC LOCATION AND MAJOR FRANCHISEES

R evenues by geographic area are as follows:

		Interim Period Ended October 19, 2017
United States	$	849,139
Other countries		673,660
Total revenues	$	1,522,799

Revenues are shown based on the geographic location of our licensees. All our assets are located in the United States.

During the 2017 Interim Period, four franchisees each accounted for more than 10% of the Company's revenues, with total revenues of $197,429, $176,428, $230,757 and $325,000.

ITEM 16. FORM 10-K SUMMARY

NOT APPLICABLE.

SIGNATURES

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

FAT BRANDS INC.

By: */s/ Andrew A. Wiederhorn*
Andrew A. Wiederhorn
Chief Executive Officer

The undersigned directors and officers of FAT Brands Inc. do hereby constitute and appoint Andrew A. Wiederhorn and Rebecca D. Hershinger, and each of them, with full power of substitution and resubstitution, as their true and lawful attorneys and agents, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorney and agent, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments (including post-effective amendments) hereto, and we do hereby ratify and confirm all that said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

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

DATE	NAME AND TITLE
March 29, 2019	*/s/ Andrew A. Wiederhorn* Andrew A. Wiederhorn Chief Executive Officer and Director (Principal Executive Officer)
March 29, 2019	*/s/ Rebecca D. Hershinger* Rebecca D. Hershinger Chief Financial Officer (Principal Financial and Accounting Officer)
March 29, 2019	*/s/ Edward Rensi* Edward Rensi, Chairman of the Board
March 29, 2019	*/s/ Marc L. Holtzman* Marc L. Holtzman, Director
March 29, 2019	*/s/ Squire Junger* Squire Junger, Director
March 29, 2019	*/s/ Silvia Kessel* Silvia Kessel, Director
March 29, 2019	*/s/ Jeff Lotman* Jeff Lotman, Director
March 29, 2019	*/s/ James Neuhauser* James Neuhauser, Director

EXHIBITS

Exhibit Number	Description	Incorporated By Reference to			Filed Herewith
		Form	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Company, effective October 19, 2017.	10-Q	3.1	12/04/2017	
3.2	Bylaws of the Company, effective May 21, 2017	1-A	3.2	09/27/2017	
3.3	Certificate of Designation of Rights and Preferences of Series A Fixed Rate Cumulative Preferred Stock	8-K	3.1	06/13/2018	
3.4	Certificate of Designation of Rights and Preferences of Series A-1 Fixed Rate Cumulative Preferred Stock	8-K	3.1	07/10/2018	
3.5	Certificate of Amendment of Certificate of Designation of Series A Fixed Rate Cumulative Preferred Stock	8-K	3.1	02/28/2019	
3.6	Certificate of Amendment of Certificate of Designation of Series A-1 Fixed Rate Cumulative Preferred Stock	8-K	3.2	02/28/2019	
4.1	Warrant to Purchase Common Stock, dated October 20, 2017, issued to Tripoint Global Equities, LLC.	10-Q	4.1	12/04/2017	
4.2	Warrant to Purchase Common Stock, dated June 7, 2018, issued to Trojan Investments, LLC	10-Q	4.1	08/15/2018	
4.3	Warrant to Purchase Common Stock, dated June 27, 2018, issued to Fog Cutter Capital Group, Inc.	10-Q	4.2	08/15/2018	
4.4	Form of Warrants to Purchase Common Stock, dated July 3, 2018, issued to sellers of Hurricane AMT, LLC	8-K	4.1	07/10/2018	
4.5	Warrant to Purchase Common Stock, dated July 3, 2018, issued to FB Lending, LLC	8-K	4.2	07/10/2018	
4.6	Warrant to Purchase Common Stock, dated January 29, 2019, issued to The Lion Fund, L.P. and The Lion Fund II, L.P.	8-K	4.1	02/04/2019	
10.1	Contribution Agreement, dated October 20, 2017, between the Company and Fog Cutter Capital Group Inc.	10-Q	10.1	12/04/2017	
10.2	Tax Sharing Agreement, dated October 20, 2017, between the Company and Fog Cutter Capital Group Inc.	10-Q	10.2	12/04/2017	
10.3	Voting Agreement, dated October 20, 2017, between the Company and Fog Cutter Capital Group Inc.	10-Q	10.3	12/04/2017	
10.4	Form of Indemnification Agreement, dated October 20, 2017, between the Company and each director and executive officer.	1-A	6.3	09/06/2017	
10.5	2017 Omnibus Equity Incentive Plan	1-A	6.1	09/27/2017	
10.6	Office Lease, dated November 10, 2016, by and among Duesenberg Investment Company, LLC, Fatburger North America, Inc., Fog Cutter Capital Group Inc., and Fatburger Corporation	1-A	6.2	09/06/2017	
10.7	Securities Purchase Agreement, dated as of April 27, 2018, by and between the Company and TCA Global Credit Master Fund, LP	8-K	10.1	05/03/2018	
10.8	Senior Secured Redeemable Debenture, dated as of April 27, 2018, issued by the Company to TCA Global Credit Master Fund, LP	8-K	10.2	05/03/2018	
10.9	Guaranty Agreement, dated April 27, 2018, by and among Fog Cutter Capital Group, Inc., Fatburger North America Inc., Buffalo's Franchise Concepts Inc., Ponderosa Franchising Company, and Bonanza Restaurant Company, in favor of TCA Global Credit Master Fund, LP	8-K	10.3	05/03/2018	
10.10	Security Agreement, dated April 27, 2018, by and between the Company and TCA Global Credit Master Fund, LP	8-K	10.4	05/03/2018	
10.11	Registration Rights Agreement, dated June 7, 2018, with Trojan Investments, LLC	8-K	10.2	06/13/2018	
10.12	Investor Rights and Voting Agreement, dated June 7, 2018, with Trojan Investments, LLC	8-K	10.3	06/13/2018	
10.13	Amended and Restated Membership Interest Purchase Agreement (Hurricane AMT, LLC), dated July 2, 2018, by and among the Company, Gama Group LLC, Salient Point Trust, Satovsky Enterprises, LLC, Mapes Holdings LLC and Martin O'Dowd.	8-K	2.1	07/10/2018	
10.14	Form of Registration Rights Agreement, dated July 3, 2018, by and between the Company and the Sellers under the Amended and Restated Membership Interest Purchase Agreement	8-K	10.1	07/10/2018	
10.15	Loan and Security Agreement, dated July 3, 2018, by and among the Company, Fatburger North America, Inc., Ponderosa Franchising Company LLC, Bonanza Restaurant Company LLC, Ponderosa International Development, Inc., Puerto Rico Ponderosa, Inc., Buffalo's Franchise Concepts, Inc., Buffalo's Franchise Concepts Inc., Fatburger Corporation and Homestyle Dining, LLC, and FB Lending, LLC	8-K	10.2	07/10/2018	

10.16	Guaranty, dated July 3, 2018, by and among Fatburger North America, Inc., Ponderosa Franchising Company LLC, Bonanza Restaurant Company LLC, Ponderosa International Development, Inc., Puerto Rico Ponderosa, Inc., Buffalo's Franchise Concepts, Inc., Buffalo's Franchise Concepts Inc., Fatburger Corporation and Homestyle Dining, LLC, in favor of FB Lending, LLC	8-K	10.3	07/10/2018	
10.17	Note Exchange Agreement, dated June 27, 2018	10-Q	10.8	8/15/2018	
10.17.1	Amendment to Note Exchange Agreement, dated August 14, 2018	10-Q	10.8.1	8/15/2018	
10.18	Intellectual Property Purchase Agreement and License, dated as of November 30, 2018, by and among the Company, Yalla Mediterranean, LLC, and Yalla Mediterranean Franchising Company, LLC.	8-K	2.1	12/10/2018	
10.19	Master Transaction Agreement, dated as of November 30, 2018, by and among the Company, Yalla Mediterranean, LLC, and VPC SBIC, LP.	8-K	2.2	12/10/2018	
10.20	Loan and Security Agreement, dated January 29, 2019, by and among the Company, the Guarantors named therein, and The Lion Fund, L.P. and The Lion Fund II, L.P., as Lenders	8-K	10.1	02/04/2019	
10.21	Guaranty, dated January 29, 2019, by and among Fatburger North America, Inc., Ponderosa Franchising Company LLC, Bonanza Restaurant Company LLC, Ponderosa International Development, Inc., Puerto Rico Ponderosa, Inc., Buffalo's Franchise Concepts, Inc., Hurricane AMT, LLC, Fatburger Corporation and Homestyle Dining, LLC, in favor of The Lion Fund, L.P. and The Lion Fund II, L.P., as Lenders	8-K	10.2	02/04/2019	
21.1	Significant Subsidiaries				X
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document				X (Furnished)
101.SCH	XBRL Taxonomy Extension Schema Document				X (Furnished)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X (Furnished)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X (Furnished)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X (Furnished)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X (Furnished)

EXHIBIT 21.1

Significant Subsidiaries

Name of Subsidiary

Fatburger North America, Inc.
Buffalo's Franchise Concepts, Inc.
Ponderosa Franchising Company
Bonanza Restaurant Company
Ponderosa International Development, Inc.
Puerto Rico Ponderosa, Inc.
Hurricane AMT, LLC
Yalla Mediterranean Franchising Company, LLC
Yalla Acquisition, LLC

EXHIBIT 31.1

CERTIFICATION

I, Andrew A. Wiederhorn, Chief Executive Officer of FAT Brands Inc. certify that:

1. I have reviewed this Annual Report on Form 10-K of FAT Brands Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 29, 2019

/s/ Andrew A. Wiederhorn
Andrew A. Wiederhorn
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Rebecca D. Hershinger, Chief Financial Officer of FAT Brands Inc. certify that:

1. I have reviewed this Annual Report on Form 10-K of FAT Brands Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 29, 2019

/s/ Rebecca D. Hershinger

Rebecca D. Hershinger
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in their capacity as an officer of FAT Brands Inc., that, to their knowledge, the Annual Report of FAT Brands Inc. on Form 10-K for the period ended December 30, 2018 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the company.

March 29, 2019

By *_/s/ Andrew A. Wiederhorn_*
Andrew A. Wiederhorn
President and Chief Executive Officer
(Principal Executive Officer)

March 29, 2019

By *_/s/ Rebecca D. Hershinger_*
Rebecca D. Hershinger
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to FAT Brands Inc. and will be retained by FAT Brands Inc. and furnished to the Securities and Exchange Commission or its staff upon request.