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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 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	**08-2130269**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(310) 402-0600
(Registrant's telephone number, including area code)

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 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	[ ] (Do not check if a smaller reporting company)	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]

As of August 13, 2018, there were 11,342,532 shares of common stock outstanding.

FAT BRANDS INC.
QUARTERLY REPORT ON FORM 10-Q
July 1, 2018

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

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

	July 1, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Current assets		
Cash	$ 955	$ 32
Accounts receivable, net of allowance for doubtful accounts of $676 and $679, respectively	1,308	918
Trade notes receivable, net of allowance for doubtful accounts of $17	152	77
Other current assets	354	153
Total current assets	2,769	1,180
Trade notes receivable – noncurrent, net of allowance of $17 for doubtful accounts	244	346
Due from affiliates	8,967	7,963
Deferred income taxes	1,815	937
Goodwill	7,356	7,356
Other intangible assets, net	10,955	11,011
Other assets	371	7
Buffalo’s creative and advertising fund	-	436
Total assets	$ 32,477	$ 29,236
Liabilities and Stockholders’ Equity		
Liabilities		
Accounts payable	$ 2,404	$ 2,439
Deferred income	1,162	1,772
Accrued expenses	1,487	1,761
Accrued advertising	761	348
Dividend payable on common shares	1,352	-
Accrued interest payable to FCCG	-	405
Dividend payable on mandatorily redeemable preferred shares	53	-
Current portion of note payable to FCCG	950	-
Current portion of long-term debt	2,063	-
Total current liabilities	10,232	6,725
Deferred income - noncurrent	5,745	1,941
Mandatorily redeemable preferred shares	9,888	-
Deferred dividend payable on mandatorily redeemable preferred shares	25	-
Notes payable to FCCG	-	18,125
Buffalo’s creative and advertising fund-contra	-	436
Total liabilities	25,890	27,227
Commitments and contingencies (Note 13)		
Stockholders’ equity		
Common stock, $.0001 par value; 25,000,000 shares authorized; 11,184,767 and 10,000,000 shares issued and outstanding at July 1, 2018 and December 31, 2017, respectively	8,990	2,622
Accumulated deficit	(2,403)	(613)
Total stockholders’ equity	6,587	2,009
Total liabilities and stockholders’ equity	$ 32,477	$ 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 thirteen and twenty-six weeks ended July 1, 2018 (Unaudited)

	Thirteen Weeks	Twenty-Six Weeks
Revenue		
Royalties	$ 2,860	$ 5,432
Franchise fees	299	698
Store opening fees	105	105
Advertising fees	630	1,226
Management fees	14	32
Total revenue	3,908	7,493
General and administrative expenses		
Compensation and employee benefits	1,459	2,790
Travel and entertainment	203	327
Professional fees	348	558
Advertising expense	630	1,226
Other	441	824
Total general and administrative expenses	3,081	5,725
Income from operations	827	1,768
Non-operating income (expense)		
Interest expense, net	(222)	(436)
Interest expense related to mandatorily redeemable preferred shares	(78)	(78)
Depreciation and amortization	(40)	(73)
Other expense, net	(2)	(3)
Total non-operating expense	(342)	(590)
Income before taxes	485	1,178
Income tax expense	112	296
Net income	$ 373	$ 882
Basic income per common share	$ 0.04	$ 0.09
Basic weighted average shares outstanding	10,179	10,090
Diluted income per common share	$ 0.04	$ 0.09
Diluted weighted average shares outstanding	10,179	10,090
Cash dividends declared per common share	$ 0.12	$ 0.24

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 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	-	-	-	-	(2,672)	(2,672)
Net income	-	-	-	-	882	882
Dividends on common stock	-	-	(2,551)	(2,551)	-	(2,551)
Issuance of stock in lieu of director fees payable	41,772	-	330	330	-	330
Issuance of common stock in payment of related party note	989,395	-	7,272	7,272	-	7,272
Issuance of stock in lieu of dividend payable to FCCG	153,600	-	960	960	-	960
Issuance of warrants to purchase common stock	-	-	112	112	-	112
Share-based compensation	-	-	245	245	-	245
Balance at July 1, 2018	11,184,767	$ 1	$ 8,989	$ 8,990	$ (2,403)	$ 6,587

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 twenty-six weeks ended July 1, 2018 (Unaudited)

Cash flows from operating activities	
Net income	$ 882
Adjustments to reconcile net income to net cash provided by operations:	
Deferred income taxes	(66)
Recovery of bad debts	(8)
Depreciation and amortization	85
Share-based compensation	245
Change in:	
Accounts receivable	(264)
Trade notes receivable	27
Prepaid expenses	(201)
Accounts payables and accrued expense	(410)
Accrued advertising	(176)
Accrued interest payable	(405)
Deferred dividend on mandatorily redeemable shares	78
Deferred income	(290)
Total adjustments	(1,385)
Net cash used in operating activities	(503)
Cash flows from investing activities	
Investment in equipment	(88)
Net cash used in investing activities	(88)
Cash flows from financing activities	
Issuance of mandatorily redeemable preferred shares and associated warrants	8,000
Proceeds from borrowings, net of issuance costs	1,882
Repayments of loans from FCCG	(7,903)
Change i n due from affiliates	(218)
Dividends paid in cash	(240)
Deposit toward potential equity issue	(7)
Net cash provided by financing activities	1,514
Net increase in cash	923
Cash at beginning of period	32
Cash at end of period	$ 955
Supplemental disclosures of cash flow information:	
Cash paid for interest	$ 1,319
Cash paid for income taxes	$ 116
Supplemental disclosure of non-cash financing and investing activities:	
Assets acquired under capital leases and accrued expenses	$ 121
Dividends payable on common stock	$ 1,352
Dividends reinvested in common stock	$ 960
Note payable to FCCG converted to common and preferred stock	$ 9 ,272
Director fees converted to common stock	$ 330
Income taxes payable offset against amounts due from affiliates	$ 204

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 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.

The Company did not begin operations until October 20, 2017. As a result, prior year comparative results are not presented in the accompanying statement of operations and statement of cash flows.

At July 1, 2018, certain Company officers and directors controlled, directly or indirectly, 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 restaurant concepts around the world through its subsidiaries: Fatburger, Buffalo's and Ponderosa. 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.

Fatburger restaurants serve a variety of freshly made-to-order Fatburgers, Turkeyburgers, Chicken Sandwiches, Veggieburgers, French fries, onion rings, soft-drinks and milkshakes.

Buffalo's grants franchises for the operation of casual dining restaurants (Buffalo's Southwest Cafés) and quick service restaurants outlets (Buffalo's Express). These restaurants specialize in the sale of Buffalo-Style chicken wings, chicken tenders, burgers, ribs, wrap sandwiches, and salads.

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. Bonanza Steak & BBQ operates full service steakhouses with fresh farm-to-table salad bar, including a menu showcase of USDA flame-grilled steaks, house-smoked BBQ and contemporized interpretations of traditional American classics.

The Company also co-brands its franchise concepts. These co-branded restaurants sell products of multiple affiliated brands and share back-of-the-house facilities.

The Company operates on a 52-week calendar and its fiscal year ends on the Sunday closest to December 31. 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 will be a 52-week year

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries: Fatburger, Buffalo's and Ponderosa. 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 sold and 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.

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.

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 trademark, 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.

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.

Share-based compensation – The Company has a non-qualified 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 11 for more details on the Company's share-based compensation.

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.

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.

Earnings per share – The Company reports basic earnings 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. All outstanding stock options and warrants to purchase common stock were excluded from the computation of diluted net loss per share for the period presented because none of those instruments currently have exercise prices below the market price of the shares.

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 agreements for 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. 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 we have with our 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 $3,482,000 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 $810,000 related to this contract liability was also established on the date of adoption. These adjustments had the effect of increasing beginning accumulated deficit by approximately $2,672,000.

Adopting the new accounting standards for revenue affected several financial statement line items for the twenty-six weeks ended July 1, 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 July 1, 2018 (in thousands)

	Amounts As Reported		Amounts Under Previous Accounting Guidance	
Unaudited Consolidated Balance Sheet:				
Accounts receivable	$	1,308	$	1,231
Due from affiliates	$	8,967	$	8,493
Deferred income taxes	$	1,815	$	1,003
Buffalo's Creative and Advertising Fund	$	-	$	330
Buffalo's Creative and Advertising Fund - Contra	$	-	$	330
Accounts payable	$	2,404	$	2,081
Deferred income	$	6,907	$	3,790
Accrued expenses	$	1,487	$	1,476
Accrued advertising	$	761	$	545
Accumulated deficit	$	(2,403)	$	(97)

For the twenty-six weeks ended July 1, 2018 (in thousands except per share data)

	As Reported		Amounts Under Previous Accounting Guidance	
Unaudited Consolidated Statement of Operations:				
Franchise fees	$	698	$	331
Advertising fees	$	1,226	$	-
Advertising expense	$	1,226	$	-
Net income	$	882	$	516
Earnings per common share - basic	$	0.09	$	0.05
Earnings per common share - diluted	$	0.09	$	0.05

For the twenty-six weeks ended July 1, 2018 (in thousands)

	As Reported		Amounts Under Previous Accounting Guidance	
Unaudited Consolidated Statement of Cash Flows:				
Net income	$	882	$	516
Adjustments to reconcile net income to net cash provided by operating activities:				
Accounts receivable	$	(264)	$	(313)
Deferred income	$	(290)		77
Accounts payable and accrued expenses	$	(410)	$	(643)
Accrued advertising	$	(176)	$	197
Increase in due from affiliates	$	(218)	$	(530)

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.

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. We elected to early adopt this standard when performing our annual goodwill impairment test in 2017. The adoption of this ASU did not have a significant financial impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting. This standard provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This standard does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The amendments in this ASU are effective beginning January 1, 2018, with early adoption permitted. This ASU is to be applied prospectively on and after the effective date. We adopted this ASU during 2017. The adoption of this ASU did not have a significant financial impact on our 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. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

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.

NOTE 3. GOODWILL

Goodwill consists of the following (in thousands):

	July 1, 2018	December 31, 2017
Goodwill:		
Fatburger	$ 529	$ 529
Buffalo's	5,365	5,365
Ponderosa	1,462	1,462
Total goodwill	$ 7,356	$ 7,356

NOTE 4. OTHER INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

	July 1, 2018	December 31, 2017
Trademarks:		
Fatburger	$ 2,135	$ 2,135
Buffalo's	27	27
Ponderosa	7,230	7,230
Total trademarks	9,392	9,392
Franchise agreements:		
Ponderosa – cost	1,640	1,640
Ponderosa – accumulated amortization	(77)	(21)
Total franchise agreements	1,563	1,619
Total	$ 10,955	$ 11,011

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

Fiscal year:	
2018	$ 55
2019	110
2020	110
2021	110
2022	110
Thereafter	1,068
Total	$ 1,563

NOTE 5. DEFERRED INCOME

Deferred income is as follows:

	July 1, 2018	December 31, 2017
Deferred franchise fees	$ 6,122	$ 2,781
Deferred royalties	785	932
Total	$ 6,907	$ 3,713

NOTE 6. 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 $8,967,000 due from FCCG and its affiliates will be applied first to reduce excess income tax payment obligations to FCCG under the Tax Sharing Agreement.

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 $204,000 was offset against amounts due from FCCG as of July 1, 2018 (see Note 10).

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):

	July 1, 2018	December 31, 2017
Deferred tax assets (liabilities)		
Deferred income	$ 1,801	$ 882
Reserves and accruals	456	451
Intangibles	(416)	(372)
Deferred state income tax	(51)	(25)
Loss carryforward	25	1
Total	$ 1,815	$ 937

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

	Twenty-Six Weeks Ended July 1, 2018
Current	
Federal	$ 204
State	49
Foreign	109
	362
Deferred	
Federal	(46)
State	(20)
	(66)
Total income tax provision	$ 296

Income tax provision related to continuing operations differ from the amounts computed by applying the statutory income tax rate of 21% to pretax income as follows (in thousands):

	Twenty-Six Weeks Ended July 1, 2018
Tax provision at statutory rate	21%
State and local income taxes	2%
Other	2%
Total income tax provision	25%

As of July 1, 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 their contribution. Management evaluated the Company's overall tax positions and has determined that no provision for uncertain income tax positions is necessary as of July 1, 2018.

NOTE 7. SENIOR SECURED REDEEMABLE DEBENTURES

On April 27, 2018, the Company established a credit facility with TCA Global Credit Master Fund, LP, a Cayman Islands limited partnership ("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. 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 Company recognized interest expense of $63,000 for the thirteen and twenty-six weeks ended July 1, 2018.

The entire balance of the Debenture was paid in full on July 3, 2018 and the credit facility was terminated. As a result, the full amount of the Debentures was classified as a current liability on the accompanying financial statements.

NOTE 8. 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.

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 $412,000 and $864,000 for the thirteen and twenty-six weeks ended July 1, 2018, respectively.

NOTE 9. MANDATORILY REDEEMABLE 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 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 "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 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.

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) a warrant to purchase 125 shares of the Company's Common Stock (the "Warrants") 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.

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 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 at an exercise price of $8.00 per share; 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.

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.

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 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 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):

	Warrants (equity component)	Mandatorily Redeemable Preferred Stock (debt component)	Total
Subscription Agreement:			
Price per Unit	$ 108.75	$ 9,891.25	$ 10,000.00
Gross proceeds	$ 87	$ 7,913	$ 8,000
Issuance costs	-	-	-
Net proceeds	87	7,913	8,000
Exchange Shares:	25	1,975	2,000
Total proceeds	$ 112	$ 9,888	$ 10,000
Balance sheet impact at issuance:			
Long-term debt	$ -	$ 9,888	$ 9,888
Additional paid-in capital	$ 112	$ -	$ 112

The Company recorded interest expense relating to the Series A Preferred Stock of $78,000 during the thirteen and twenty-six weeks ending July 1, 2018.

NOTE 10. 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 $8,967,000 as of July 1, 2018. Beginning October 20, 2017, the receivable from FCCG bears interest at a rate of 10% per annum. During the thirteen and twenty-six weeks ended July 1, 2018, $248,000 and $481,000, respectively, of accrued interest income was added to the balance of the receivable from FCCG.

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 twenty-six week period ending July 1, 2018, the Company recognized payables to FCCG in the amount of $204,000 for use of FCCG’s net operating losses for tax purposes (See Note 6).

NOTE 11. STOCK BASED INCENTIVE PLANS

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.

During the twenty-six weeks ended July 1, 2018, the Company granted stock options to purchase 25,000 shares under the Plan to an employee, each with an exercise price equal to $12.00 per share and subject to a three-year vesting requirement, with one-third of the options vesting each year. Options that are not exercised will expire 10 years following the grant date.

The weighted average fair value of the non-qualified stock options granted during the twenty-six weeks ended July 1, 2018 and the assumptions used in the Black-Scholes valuation model to record the stock-based compensation are as follows:

	Including Non-Employee Options
Weighted average fair value per option granted	$ 2.17
Expected dividend yield	4.00%
Expected volatility	31.73%
Risk-free interest rate	1.60% - 2.63%
Expected term (in years)	5.75 – 9.31
Weighted average exercise price per share	$ 12.00

The Company’s stock option activity for the twenty-six weeks ended July 1, 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	9.3
Grants	25,000	$ 12.00	9.7
Forfeited	(5,000)	$ 12.00	-
Expired	-	$ -	-
Stock options outstanding at July 1, 2018	382,500	$ 12.00	9.4
Stock options exercisable at July 1, 2018	-		

The Company recognized share-based compensation expense in the amount of $120,000 and $245,000 during the thirteen and twenty-six weeks ended July 1, 2018, with a related tax benefit of approximately $32,000 and $66,000, respectively. There remains $495,000 of related share-based compensation relating to these non-vested grants, which will be recognized over the remaining vesting period, subject to future forfeitures.

The Company does not have a specific policy regarding the source of shares to be delivered upon the exercise of stock options. As such, new shares may be issued or shares may be repurchased in the market. As of July 1, 2018, the Company did not expect to repurchase shares during the next fiscal year.

In addition to the stock options listed above, 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. 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. At the time of the Offering, the Common Stock Warrants were valued at approximately $124,000, using the Black-Scholes model and the following assumptions: market price of shares: $12.00; risk free interest rate: 0.99%; expected volatility: 31.73%; expected dividend yield: 4%; and expected term: 5 years.

- 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 9). 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. At the time of the Offering, the Subscription Warrants were valued at approximately $87,000, using the Black-Scholes model and the following assumptions: market price of shares: $7.24; risk free interest rate: 1.78%; expected volatility: 31.73%; expected dividend yield: 6.63%; and expected term: 5 years.

- 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 8 and 9). 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. At the time of the Exchange, the Exchange Warrants were valued at approximately $25,000, using the Black-Scholes model and the following assumptions: market price of shares: $7.51; risk free interest rate: 1.79%; expected volatility: 31.73%; expected dividend yield: 6.39%; and expected term: 5 years.

NOTE 12. DIVIDENDS ON COMMON STOCK

The Company's Board of Directors has declared the following quarterly dividends on common stock during the twenty-six weeks ending July 1, 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
				$ 2,551,517

On both dividend payment dates, FCCG elected to reinvest its dividend from its original 8,000,000 shares at the close of the IPO in newly issued 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 the $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 the $960,000 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 13. 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.

On June 7, 2018, Eric Rojany filed a complaint, personally and on behalf of all others similarly situated, 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. The complaint alleges 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 stated that he intends to certify the complaint as a class action and is seeking compensatory damages in an amount to be determined at trial. The Company and other defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

P&K Food Market, Inc. vs. Buffalo's Franchise Concepts, Inc., Fog Cutter Capital Group, Shaun Curtis, Andy Wiederhorn et al., Superior Court of California for the County of Los Angeles, Case No. 18STLC09534.

On July 13, 2018, P&K Food Market, Inc. ("P&K") filed a complaint against Buffalo's Franchise Concepts, Inc., Fog Cutter Capital Group, Shaun Curtis, and Andy Wiederhorn for Breach of Contract, Fraudulent Misrepresentation and Unlawful Offer and Sale of Franchise By Means of Untrue Statements or Omissions of Material Fact Under Cal. Corp. Code §§31201; 31202; 31300; and 31301. The case was filed in connection with the sale of an affiliate-owned "Buffalo's Café" restaurant located in Palmdale, California. The lawsuit seeks general damages, special damages, punitive damages, restitution, interest, costs and attorneys' fees and costs related to the alleged unlawful sale of the Palmdale restaurant. The franchisor and related parties intend to vigorously defend the allegations .

The Company is obligated to indemnify its officers and directors to the extent permitted by applicable law in connection with these actions, and have 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 relating to the Rojany matter. These proceedings are in their early stages and the Company is unable to predict the ultimate outcome of either matter. There can be no assurance that the defendants will be successful in defending against this action.

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.

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

NOTE 14. GEOGRAPHIC INFORMATION AND MAJOR FRANCHISEES

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

	Thirteen Weeks Ended July 1, 2018	Twenty-Six Weeks Ended July 1, 2018
United States	$ 2,895	$ 5,643
Other countries	1,013	1,850
Total revenues	$ 3,908	$ 7,493

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

During the thirteen and twenty-six weeks ended July 1, 2018, no individual franchisee accounted for more than 10% of the Company's revenues.

NOTE 15 – OPERATING SEGMENTS

Operating segments consist of (i) franchising operations conducted through Fatburger, (ii) franchising operations conducted through Buffalo's and (iii) franchising operations conducted through Ponderosa. Each segment operates with its own management and personnel, with additional centralized support from the Company. The actual cost of the support provided by the Company is allocated to each operating segment. The following is a summary of each of the operating segments for the twenty-six weeks ended July 1, 2018 (dollars in thousands):

	Fatburger	Buffalo's	Ponderosa	Combined
Revenues				
Royalties	$ 2,631	$ 666	$ 2,135	$ 5,432
Franchise fees	669	9	20	698
Store opening fees	105	-	-	105
Advertising fees	611	293	322	1,226
Management fees	32	-	-	32
Total revenues	4,048	968	2,477	7,493
Expenses				
General and administrative	2,307	700	1,963	4,970
Income from operations	1,741	268	514	2,523
Other income (expense)	152	305	(52)	405
Income before income tax expense	$ 1,893	$ 573	$ 462	$ 2,928

Reconciliation to consolidated net income (in thousands)

	Twenty-Six Weeks Ended July 1, 2018
Combined segment net income before taxes	$ 2,928
Corporate general and administrative expenses	(755)
Corporate other expense, net	(995)
Income tax expense	(296)
Net income	$ 882

NOTE 16 – SUBSEQUENT EVENTS

Acquisition of Hurricane Grill & Wings

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"). 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 (" **SEC** ") 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.

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.

Debt Facility

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 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 (See Note 7). The Company intends to use the remaining proceeds for additional acquisitions and general working capital purposes.

The new 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 to the Lender a warrant to purchase up to 499,000 shares of the Company's Common Stock at $7.35 per share (the "Lender Warrant").

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.

Restaurant Openings and Closures

Subsequent to July 1, 2018, franchisees have not opened or closed any additional franchise locations.

Dividend Payable

On July 16, 2018, FCCG elected to reinvest its dividend from its original 8,000,000 shares at the close of the IPO of $960,000 in newly issued common shares of the Company at $6.085 per share, the closing market price of the shares on that date. As a result, the Company issued 157,765 shares of common stock to FCCG in satisfaction of the 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. (See Note 12)

Litigation

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

On August 2, 2018, Daniel Alden and others filed a complaint, personally and on behalf of all others similarly situated, 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. The complaint alleges 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 stated that he intends to certify the complaint as a class action and is seeking compensatory damages in an amount to be determined at trial. 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 this action, 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 relating to this matter. These proceedings are in their early stages and the Company is unable to predict the ultimate outcome of either matter. There can be no assurance that the defendants will be successful in defending against this action.

FATBURGER NORTH AMERICA, INC.

Balance Sheets
July 1, 2018 and December 31, 2017

	July 1, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Current assets		
Cash	$ -	$ -
Accounts receivable, net	572,981	472,430
Other current assets	8,358	8,358
Total current assets	581,339	480,788
Due from affiliates	8,037,883	7,172,833
Deferred income taxes	1,780,669	1,037,728
Trademarks	2,134,800	2,134,800
Goodwill	529,400	529,400
Total assets	$ 13,064,091	$ 11,355,549
Liabilities and Stockholder's Equity		
Current liabilities		
Deferred income	$ 1,100,671	$ 1,732,249
Accounts payable	1,093,417	1,452,668
Accrued advertising	544,571	348,454
Accrued expenses	857,415	868,828
Total current liabilities	3,596,074	4,402,199
Deferred income – noncurrent	5,201,966	1,605,500
Total liabilities	8,798,040	6,007,699
Commitments and contingencies (Note 6)		
Stockholder's equity		
Common stock, $.01 par value, 1,000 shares authorized, issued and outstanding	10	10
Additional paid-in capital	5,664,705	5,664,705
Accumulated deficit	(1,398,664)	(316,865)
Total stockholder's equity	4,266,051	5,347,850
Total liabilities and stockholder's equity	$ 13,064,091	$ 11,355,549

The accompanying notes are integral part of these financial statements.

FATBURGER NORTH AMERICA, INC.

Statements of Income
For the Twenty-six weeks ended July 1, 2018 and June 25, 2017

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Royalties	$ 1,342,958	$ 1,221,728	$ 2,631,051	$ 2,375,195
Franchise fees	285,615	358,310	669,163	1,153,326
Store opening fees	104,747	-	104,747	-
Advertising fees	294,087	-	610,685	-
Management fees	15,000	15,000	32,500	30,000
Total revenues	2,042,407	1,595,038	4,048,146	3,558,521
General and administrative expenses				
General and administrative	858,929	715,245	1,696,089	1,295,459
Advertising expense	294,087	-	610,685	
Total general and administrative expenses	1,153,016	715,245	2,306,774	1,295,459
Income from operations	889,391	879,793	1,741,372	2,263,062
Non-operating income (expense)				
Interest income	84,742	-	163,699	-
Depreciation and amortization	(8,268)	-	(8,633)	-
Other	(2,394)	-	(2,979)	-
Total non-operating income (expense)	74,080	-	152,087	-
Income before taxes	963,471	879,793	1,893,459	2,263,062
Income tax expense	225,428	323,686	450,007	820,217
Net income	$ 738,043	$ 556,107	$ 1,443,452	$ 1,442,845
Net income per common share - Basic	$ 738.04	$ 556.11	$ 1,443.45	$ 1442.85
Shares used in computing net income per common share	1,000	1,000	1,000	1,000

The accompanying notes are integral part of these financial statements.

FATBURGER NORTH AMERICA, INC.

Statement of Stockholder's Equity
For the Twenty-Six Weeks Ended July 1, 2018

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2017	1,000	$ 10	$ 5,664,705	$ (316,865)	$ 5,347,850
Cumulative-effect adjustment from adoption of ASU 2014-09, Revenue from Contracts with Customers	-	-	-	(2,525,251)	(2,525,251)
Net income	-	-	-	1,443,452	1,443,452
Balance at July 1, 2018	1,000	$ 10	$ 5,664,705	$ (1,398,664)	4,266,051

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

FATBURGER NORTH AMERICA, INC.

Statements of Cash Flows
For the Twenty-Six Weeks Ended July 1, 2018 and June 25, 2017

	Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017
	(unaudited)	(unaudited)
Cash flows from operating activities		
Net income	$ 1,443,452	$ 1,442,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	-	297,700
Provision for bad debt expense	8,057	115,428
Depreciation expense	8,633	-
Changes in operating assets and liabilities:		
Accounts receivable	(108,608)	(197,028)
Other current assets	-	(6,933)
Accounts payable and accrued expenses	(370,664)	158,011
Accrued advertising	196,117	319,786
Deferred income taxes	(66,800)	-
Deferred income	(236,504)	(910,845)
Total adjustments	(569,769)	(223,881)
Net cash provided by operating activities	873,683	1,218,964
Cash flows from financing activities		
Dividends paid	-	(1,000,000)
Change in due from affiliates	(873,683)	(218,964)
Net cash used in financing activities	(873,683)	(1,218,964)
Net increase in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	$ -	$ -
Supplemental Disclosure of cash flow Information		
Cash paid for income taxes	$ 67,371	$ 4,807
Supplemental Disclosure of Noncash Investing and Financing Activities		
Income tax payable offset against amounts due from affiliates	$ 398,341	$ 499,445

The accompanying notes are integral part of these financial statements.

NOTE 1. NATURE OF BUSINESS

Fatburger North America, Inc., a Delaware corporation (referred to in these financial statements as the "Company"), was formed on March 28, 1990 and is a wholly-owned subsidiary of FAT Brands Inc. Prior to its transfer to FAT Brands Inc. on October 20, 2017, the Company was owned by Fog Cutter Capital Group Inc. ("FCCG"). FCCG owns the controlling interest in FAT Brands Inc. The Company was previously a subsidiary of Fatburger Holdings as the result of a stock purchase transaction in August 2001 and was transferred to FCCG on March 24, 2011.

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 FCCG.

As of July 1, 2018, there were 151 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, Panama, Japan, Malaysia, Qatar and Tunisia (the Franchisees).

NOTE 2. BASIS OF PRESENTATION

The accompanying interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included elsewhere herein.

The information provided in this report reflects all adjustments (consisting solely of normal, recurring items) that are, in the opinion of management, necessary to present fairly the financial position and the results of operations for the periods presented. Interim results are not necessarily indicative of results to be expected for a full year.

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. As of July 1, 2018 and December 31, 2017, allowance for doubtful accounts was $554,874 and $546,928, respectively.

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, Panama, Japan, Malaysia, Qatar 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 FCCG 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.

Revenue Recognition: 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 3% 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.

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 nonrefundable upon acceptance of the franchise application. In the event that franchisees default on their development timelines for opening franchise stores, the franchise rights are terminated and franchise fee revenue is recognized in the amount of the remaining non-refundable deposits.

During the twenty-six weeks ended July 1, 2018, six franchise locations were opened and seven were closed or otherwise left the franchise system. Of the opened location, three were in California and, one each in Canada, Japan and the Philippines. Of the closed locations, two each were closed in the UAE, Pakistan, California and one in China. During the twenty-six weeks ended June 25, 2017, eleven franchise locations were opened and fifteen were closed or otherwise left the franchise system. Of the new franchise locations, two each were opened in California, Canada and China and one each were in Qatar, Egypt, Pakistan, Panama and the UK. Of the closed franchise locations, two each were in Washington and Saudi Arabia and one each were in California, Hawaii, Indonesia, UAE, Oman, Egypt, Canada, India, Bahrain, Pakistan and Tunisia.

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.

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 of 1.95% of net sales from Fatburger restaurants located in the Los Angeles marketing area and up to 2.00% of net sales from stores located outside of the Los Angeles marketing area. International locations pay 0.20% to 2.00%. The Company also receives, from time to time, payments from vendors that are to be used for advertising. Advertising funds 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 advertising fees are consolidated on the Company's balance sheet.

Income Taxes: The Company accounts for income taxes using the asset and liability approach. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate.

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

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.

Segment information: The Company has 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 operating segment and one reportable segment.

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 by the contract. The agreements for 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. 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 we have with our 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 fees 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 $3,201,000 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 $676,000 related to this contract liability was also established on the date of adoption. These adjustments had the effect of increasing beginning retained deficit by approximately $2,525,000.

Adopting the new accounting standards for revenue affected several financial statement line items for the thirteen weeks ended July 1, 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 July 1, 2018

	Amounts As Reported		Amounts Under Previous Accounting Guidance	
Unaudited Balance Sheet:				
Deferred income taxes	$	1,780,669	$	1,104,528
Deferred income	$	6,302,637	$	3,438,994
R etained earnings (deficit)	$	(1,398,664)	$	788,838

For the twenty-six weeks ended July 1, 2018

	As Reported		Amounts Under Previous Accounting Guidance	
Unaudited Statement of Operations:				
Franchise fees	$	669,163	$	331,415
Advertising fees	$	610,685	$	-
Advertising expense	$	610,685	$	-
Net income	$	1,443,452	$	1,105,703
Earnings per common share - basic	$	1,443.45	$	1,105.70
Earnings per common share - diluted	$	1,443.45	$	1,105.70

For the twenty-six weeks ended July 1, 2018

	As Reported		Amounts Under Previous Accounting Guidance	
Unaudited Statement of Cash Flows:				
Net income	$	1,443,452	$	1,105,703
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred income	$	(236,504)	$	101,245

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 beginning after December 15, 2017 and the Company adopted the standard effective January 1, 2018. The adoption of this standard did not have a material impact on the Company's 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. The adoption of ASU 2016-02 is not expected to have a significant effect on the Company's financial statements.

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.

NOTE 3. DEFERRED INCOME

Deferred income is as follows:

	July 1, 2018	December 31, 2017
Deferred franchise fees	$ 5,525,230	$ 2,438,000
Deferred royalties	777,407	899,749
Total	$ 6,302,637	$ 3,337,749
Deferred income – current	$ 1,100,671	$ 1,732,249
Deferred income – noncurrent	5,201,966	1,605,500
Total	$ 6,302,637	$ 3,337,749

NOTE 4. INCOME TAXES

The Company files its Federal and most state income tax returns on a consolidated basis with FCCG. 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 FCCG determined by this calculation of $398,341 and $499,445 were offset against amounts due from affiliates as of July 1, 2018 and June 25, 2017, respectively (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:

	July 1, 2018	December 31, 2017
Current deferred tax assets (liabilities)		
Deferred franchise fees and royalties	$ 1,529,119	$ 778,827
Allowances and accruals	289,613	280,895
State tax accrual	(38,063)	(21,994)
Total	$ 1,780,669	$ 1,037,728

Components of the income tax provision are as follows:

	Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017
Current		
Federal	$ 398,341	$ 499,445
State	51,095	18,265
Foreign	67,371	4,807
	516,807	522,517
Deferred		
Federal	(60,843)	275,842
State	(5,957)	21,858
	(66,800)	297,700
Total income tax provision	$ 450,007	$ 820,217

Income tax provision related to continuing operations differ from the amounts computed by applying the statutory income tax rate of 21% and 34% to pretax loss as follows for the thirteen weeks ended July 1, 2018 and June 25, 2017, respectively:

	Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017
Statutory rate	21%	34%
State and local income taxes	2%	1%
Other	1%	1%
Effective tax rate	24%	36%

As of July 1, 2018, 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 July 1, 2018 and June 25, 2017.

NOTE 5. 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 $8,037,883 and $7,172,833 as of July 1, 2018 and December 31, 2017, respectively.

Effective in 2012, FCCG'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. FCCG also provided executive administration and accounting services for the Company.

Prior to becoming a subsidiary of FAT Brands, the Company reimbursed FCCG for these expenses in the approximate amounts of $730,373 for the twenty-six weeks ended June 25, 2017. Management reviewed the expenses recorded at FCCG 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 FCCG 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 twenty-six weeks ended July 1, 2018 and June 25, 2017, the Company recognized payables to FCCG in the amount of $398,341 and $499,445, respectively, for use of FCCG's net operating losses for tax purposes.

NOTE 6. COMMITMENTS AND CONTINGENCIES

The Company is involved in litigation in the normal course of business. The Company believes that the result of this 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:

	Thirteen Weeks ended		Twenty-Six Weeks ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
United States	$ 1,283,313	$ 849,891	$ 2,663,205	$ 1,701,613
Other countries	759,094	745,147	1,384,941	1,856,908
Total revenues	$ 2,042,407	$ 1,595,038	$ 4,048,146	$ 3,558,521

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

During the thirteen and twenty-six weeks ended July 1, 2018, no franchisee accounted for more than 10% of the Company's revenues. During the thirteen weeks ended June 25, 2017, two franchisees each accounted for more than the Company's revenues, with total revenues of $135,166 and $148,462. During the twenty-six weeks ended June 25, 2017, two franchisees each accounted for more than 10% of the Company's revenues, with total revenues of $497,494 and $369,105.

NOTE 8. SUBSEQUENT EVENTS

Restaurant Openings and Closures

Subsequent to July 1, 2018, Fatburger franchisees have not opened or closed any franchise locations.

Guaranty of Debt Facility

On July 3, 2018, FAT Brands Inc., the Company's parent, entered into a Guaranty Agreement (the "Guaranty") relating to a new Loan and Security Agreement (the "Loan Agreement") between FAT Brands Inc. and FB Lending, LLC (the "Lender"). Under the Guaranty, the Company, together with certain of the FAT Brands' direct and indirect subsidiaries and affiliates, guaranteed the obligations of FAT Brands Inc. under the ("Loan Agreement") and granted a lien on substantially all of its assets as security for its guaranty obligations.

Pursuant to the Loan Agreement, FAT Brands, Inc. borrowed $16.0 million in a term loan from the Lender. The new 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%. FAT Brands 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 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 obligations under the Loan Agreement and an increase in the interest rate by 5.0% per annum.

BUFFALO'S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Balance Sheets
July 1, 2018 and December 31, 2017

	July 1, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Current assets		
Cash	$ -	$ -
Accounts receivable, net	88,271	54,893
Other current assets	11	11
Total current assets	88,282	54,904
Due from affiliates	1,721,336	1,010,915
Deferred tax assets	132,401	72,887
Trademarks	27,000	27,000
Goodwill	5,365,100	5,365,100
Buffalo's Creative and Advertising Fund	-	435,514
Total assets	$ 7,334,119	$ 6,966,320
Current liabilities		
Accounts payable	$ 393,396	$ 181,665
Accrued expenses	148,725	120,599
Accrued advertising	75,391	-
Deferred income	25,876	39,889
Total current liabilities	643,388	342,153
Deferred income – noncurrent	350,489	212,924
Buffalo's Creative and Advertising Fund – contra	-	435,514
Total liabilities	993,877	990,591
Commitments and contingencies (Note 7)		
Stockholder's equity		
Common stock, $.001 par value, 50,000,000 shares authorized	-	-
Additional paid-in capital	5,938,217	5,938,217
Retained earnings	402,025	37,512
Total stockholder's equity	6,340,242	5,975,729
Total liabilities and stockholder's equity	$ 7,334,119	$ 6,966,320

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

BUFFALO'S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Statements of Operations
For the Thirteen and Twenty-Six Weeks Ended July 1, 2018 and June 25, 2017

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Royalties	$ 352,966	$ 303,786	$ 665,904	$ 612,057
Franchise fees	4,447	-	8,893	105,000
Advertising fees	153,310	-	292,800	-
Total revenues	510,723	303,786	967,597	717,057
Expenses				
General and administrative	192,462	176,613	407,116	316,349
Advertising expense	153,310	-	292,800	-
Total expenses	345,772	176,613	699,916	316,349
Income from operations	164,951	127,173	267,681	400,708
Other income	156,745	-	304,948	200
Income before taxes	321,696	127,173	572,629	400,908
Income tax expense	85,148	38,770	155,760	135,014
Net income	$ 236,548	$ 88,403	$ 416,869	$ 265,894

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

BUFFALO’S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Statement of Stockholder’s Equity
For the Twenty-Six Weeks ended July 1, 2018

	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance at December 31, 2017	-	$ 5,938,217	$ 37,512	$ 5,975,729
Cumulative-effect adjustment from adoption of ASU 2014-09, Revenue from Contracts with Customers	-	-	(52,356)	(52,356)
Net income	-	-	416,869	416,869
Balance at July 1, 2018	-	$ 5,938,217	$ 402,025	$ 6,340,242

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

BUFFALO'S FRANCHISE CONCEPTS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
For the Twenty-Six Weeks Ended July 1, 2018 and June 25, 2017

	Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017
	(unaudited)	(unaudited)
Cash flows from operating activities		
Net income	$ 416,869	$ 265,894
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Deferred income taxes	-	25,500
Depreciation expense	1,579	-
Changes in current operating assets and liabilities:		
Accounts receivable	50,524	(76,545)
Accounts payable and accrued expenses	(5,174)	19,714
Accrued advertising	(176,727)	-
Deferred income taxes	44,826	-
Deferred income	(33,144)	(99,250)
Total adjustments	(118,116)	(130,581)
Net cash flows provided by operating activities	298,753	135,313
Cash flows from financing activities		
Advances to affiliates	(298,753)	(35,313)
Dividend distribution	-	(100,000)
Net cash flows used in financing activities	(298,753)	(135,313)
Net decrease in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	$ -	$ -
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$ -	$ 1,000
Supplemental disclosure of noncash investing and financing Activities		
Income tax payable offset against amounts due from affiliates	$ 79,906	$ 108,514

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

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 of 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 of 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. (FCCG). On October 20, 2017, FCCG contributed 100% of the outstanding stock of the Nevada corporation to FAT Brands Inc. (FAT). FCCG is the controlling shareholder of FAT.

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

At July 1, 2018, there were 17 operating Buffalo's Southwest Cafés restaurants and 80 co-branded Buffalo's Express restaurants. At June 25, 2017, there were 19 operating Buffalo's Southwest Cafés restaurants and 68 co-branded Buffalo's Express restaurants.

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in with GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included elsewhere herein.

The information provided in this report reflects all adjustments (consisting solely of normal, recurring items) that are, in the opinion of management, necessary to present fairly the financial position and the results of operations for the periods presented. Interim results are not necessarily indicative of results to be expected for a full year.

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, (referred to collectively in these financial statements as the "Company"). All significant intercompany accounts have been eliminated in consolidation.

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. As of July 1, 2018 and December 31, 2017, allowance for doubtful accounts remained unchanged at $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, Pakistan, 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.

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

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. 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.

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 each of the twenty-six weeks ended July 1, 2018 and June 25, 2017 pursuant to the agreement were $24,250. As of July 1, 2018 and December 31, 2017, there remained deferred fees of $8,083 and $32,333, respectively, 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. Advertising funds 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 advertising funds are consolidated on the Company's balance sheet.

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 operating segment and one reportable segment.

Income Taxes: The Company accounts for income taxes using the asset and liability approach. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate.

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 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 by the contract. The agreements for 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. 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 we have with our 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 fees 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 decreasing retained earnings of $52,356 was established on the date of adoption resulting from an increase in deferred revenue of $156,696 for the franchise 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. An offsetting deferred tax asset of $104,340 related to this contract liability was also established on the date of adoption.

Adopting the new accounting standards for revenue affected several financial statement line items for the thirteen weeks ended July 1, 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 July 1, 2018

	Amounts As Reported	Amounts Under Previous Accounting Guidance
Unaudited Consolidated Balance Sheet:		
Accounts receivable	$ 88,271	$ 55,418
Deferred income taxes	$ 132,401	$ 28,061
Due from affiliates	$ 1,721,336	$ 1,423,728
Buffalo's Creative and Advertising Fund	$ -	$ 330,461
Buffalo's Creative and Advertising Fund-Contra	$ -	$ (330,461)
Accounts payable	$ 393,396	$ 149,382
Deferred income	$ 376,365	$ 210,776
Accrued expense	$ 148,725	$ 159,782
Accrued advertising	$ 75,391	$ -
Retained earnings	$ 402,025	$ 463,275

For the twenty-six weeks ended July 1, 2018

	As Reported	Amounts Under Previous Accounting Guidance
Unaudited Consolidated Statement of Operations:		
Franchise fees	$ 8,893	$ -
Advertising fees	$ 292,800	$ -
Advertising expense	$ 292,800	$ -
Net income	$ 416,869	$ 407,975

For the twenty-six weeks ended July 1, 2018 (in thousands)

	As Reported	Amounts Under Previous Accounting Guidance
Unaudited Consolidated Statement of Cash Flows:		
Net income	$ 416,869	$ 407,975
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	$ 50,524	$ (525)
Deferred income	$ (33,144)	$ (42,037)
Accounts payable and accrued expenses	$ (5,174)	$ (15,214)
Accrued advertising	$ (176,727)	$ -
Advances to affiliates	$ (298,753)	$ (412,813)

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 beginning after December 15, 2017 and the Company adopted the standard effective January 1, 2018. The adoption of this standard did not have a material impact on the Company's 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. The adoption of ASU 2016-02 is not expected to have a significant effect on the Company's consolidated financial statements.

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.

NOTE 3. DEFERRED INCOME

Deferred income is as follows:

	July 1, 2018	December 31, 2017
Deferred franchise fees	$ 368,282	$ 252,813
Deferred royalties	8,083	-
Total	$ 376,365	$ 252,813
Deferred income – current	$ 25,876	$ 39,889
Deferred income – noncurrent	350,489	212,924
Total	$ 376,365	$ 252,813

NOTE 4. 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 $1,721,336 and $1,010,915 as of July 1, 2018 and December 31, 2017, respectively. These advances are expected to be recovered through repayment for the use of FCCG's tax net operating losses, and to a lesser extent from proceeds generated by the affiliates operations and investments.

Effective in 2013, FCCG'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. FCCG 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 FCCG 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. These expenses were approximately $147,091 for the twenty-six weeks ended June 25, 2017 and were reimbursed to FCCG in cash. 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. This practice with FCCG was discontinued when the Company became a subsidiary of FAT Brands.

During the twenty-six weeks ended July 1, 2018 and June 25, 2017, the Company recorded obligations to FCCG in the amount of $79,906 and $108,514 for use of FCCG's net operating losses for tax purposes, respectively.

NOTE 5. INCOME TAXES

The Company files its Federal and most state income tax returns on a consolidated basis with FCCG. 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 FCCG determined by this calculation of $79,906 and $108,514 were offset against the balances due from affiliates as of July 1, 2018 and June 25, 2017, respectively.

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:

	July 1, 2018	December 31, 2017
Net deferred tax assets (liabilities)		
Deferred franchise fees and royalties	$ 133,216	$ 71,670
State income tax	(7,547)	(3,990)
Reserves and accruals	6,732	5,207
Total	$ 132,401	$ 72,887

Components of the income tax provision are as follows:

	Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017
Current		
Federal	$ 79,906	$ 108,514
State	31,028	-
Foreign	-	1,000
	110,934	109,514
Deferred		
Federal	32,026	25,500
State	12,800	-
	44,826	25,500
Total income tax expense	$ 155,760	$ 135,014

Income tax provision related to continuing operations differ from the amounts computed by applying the statutory income tax rate of 21% and 34% to pretax loss as follows for the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively:

	Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017
Statutory rate	21%	34%
State and local income taxes	6%	-%
Effective tax rate	27%	34%

As of July 1, 2018, 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 July 1, 2018 and June 25, 2017.

NOTE 6. 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.

The accompanying consolidated financial statements reflect the year-end balance of the advertising fund and the related advertising obligation, which were $435,514 at December 31, 2017. Effective January 1, 2018, the assets, liabilities, revenues and expenses of the advertising fund were fully consolidated with the Company. (See Note 2).

NOTE 7. COMMITMENTS AND CONTINGENCIES

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

NOTE 8. 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 twenty-six weeks ended July 1, 2018 and June 25, 2017.

NOTE 9. GEOGRAPHIC LOCATION AND MAJOR FRANCHISEES

R evenues by geographic area are as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
United States	$ 438,022	$ 253,141	$ 833,124	$ 503,949
Other countries	72,700	50,645	134,473	213,108
Total revenues	$ 510,722	$ 303,786	$ 967,597	$ 717,057

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

During the twenty-six weeks ended July 1, 2018, two franchisees each accounted for more than 10% of the Company's revenues, with total revenues of $229,637 and $210,895. During the thirteen weeks ended July 1, 2018, two franchisees each accounted for more than 10% of the Company's revenues, with total revenues of $128,340 and $117,784. During the twenty-six weeks ended June 25, 2017, three franchisees each accounted for more than 10% of the Company's revenues, with total revenues of $119,369, $109,735 and $146,387.

NOTE 10. SUBSEQUENT EVENTS

Restaurant Openings and Closures

Subsequent to July 1, 2018, Buffalo's franchisees have not opened or closed any franchise locations.

Guaranty of Debt Facility

On July 3, 2018, Fat Brands Inc., the Company's parent, entered into a Guaranty Agreement (the "Guaranty") relating to a new Loan and Security Agreement (the "Loan Agreement") between FAT Brands Inc. and FB Lending, LLC (the "Lender"). Under the Guaranty, the Company, together with certain of the FAT Brands' direct and indirect subsidiaries and affiliates, guaranteed the obligations of FAT Brands Inc. under the Loan Agreement and granted a lien on substantially all of its assets as security for its guaranty obligations.

Pursuant to the Loan Agreement, FAT Brands, Inc. borrowed $16.0 million in a term loan from the Lender. The new 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%. FAT Brands 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 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 obligations under the Loan Agreement and an increase in the interest rate by 5.0% per annum.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read together with our Consolidated Financial Statements and Notes thereto, which appear elsewhere herein.

Executive Overview

Business overview

FAT Brands Inc. is a 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. Since it requires relatively small investments in tangible assets, this 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 significant capital investments. Our scalable management platform enables us to add new franchise 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.

FAT Brands Inc. was formed on March 21, 2017 as a wholly-owned subsidiary of Fog Cutter Capital Group Inc. ("FCCG"). On October 19, 2017, we conducted a forward split of our common stock, par value $0.0001, which increased shares held by FCCG to 8,000,000 shares. On October 20, 2017, we completed our initial public offering and issued 2,000,000 additional shares of our common stock at an offering price of $12.00 per share, for an aggregate amount of $24,000,000 (the "Offering"). The net proceeds of the Offering were approximately $20,930,000 after deducting the selling agent fees of $1,853,000 and Offering expenses of $1,217,000. Our common stock trades on the Nasdaq Capital Market under the symbol "FAT."

Concurrent with the closing of the Offering, we completed the following transactions:

- FCCG contributed two of its operating subsidiaries, Fatburger North America Inc. and Buffalo's Franchise Concepts Inc., to us 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 us and FCCG.

- In March 2017, FCCG agreed to acquire Homestyle Dining LLC from Metromedia Company and its affiliate pursuant to a Membership Interest Purchase Agreement, as amended, which provided for a cash purchase price of $10,550,000 to be paid at closing. Effective October 20, 2017, we provided $10,550,000 of the net proceeds from the Offering to FCCG to consummate the acquisition of Homestyle Dining LLC. In exchange, we received full ownership in the Homestyle Dining operating subsidiaries: 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.

On November 14, 2017, we entered into a Membership Interest Purchase Agreement (the "Agreement") to purchase the membership interests of Hurricane AMT, LLC, a Florida limited liability corporation ("Hurricane"), for a purchase price of $12,500,000. Hurricane is the franchisor of Hurricane Grill & Wings and Hurricane BTW Restaurants. The original Hurricane Grill & Wings opened in Fort Pierce, Florida in 1995 and has expanded to over 58 restaurant locations in Alabama, Arizona, Colorado, Florida, Georgia, Kansas, New York, and Texas.

We completed the acquisition of Hurricane on July 3, 2018. 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").

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.

Fatburger and Buffalo's were historically under a cost-sharing and reimbursement arrangement with FCCG. After the transfer of these entities to our control, the cost-sharing and reimbursement arrangement with FCCG was terminated and all employees were moved to FAT Brands Inc. or our subsidiaries as appropriate. The historical financial statements are expected to be consistent with the new FAT Brands Inc. entity, in that reimbursement expense and direct employee costs both appear under general and administrative expenses and are expected to be materially the same amounts going forward.

Operating segments

As of July 1, 2018, we franchise the Fatburger, Buffalo's and Ponderosa /Bonanza restaurant concepts with 276 total locations across 24 domestic states and 19 countries. While our existing footprint covers 19 countries in which we have franchised restaurants open and operational as of July 1, 2018, our overall footprint (including development agreements for proposed stores in new markets and countries where our brands previously had a presence that we intend to resell to new franchisees) covers 21 countries. For each of our current restaurant brands and those that we will seek to acquire, the ability to expand the overall concept footprint, both domestically and internationally, is of critical importance and a primary acquisition evaluation criterion. We believe that our restaurant concepts have meaningful growth potential and appeal to a broad base of consumers globally.

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. However, each of our restaurant concepts is significant to our operations and is consistently evaluated individually. Therefore, management has determined that the Company has three operating and reportable segments.

Our operating segments are:

- The Fatburger Franchise Division which includes our worldwide operations of the Fatburger concept.
- The Buffalo's Franchise Division which includes our worldwide operations of the Buffalo's Café and Buffalo's Express concepts.
- The Ponderosa Franchise Division which includes our worldwide operations of the Bonanza and Ponderosa Steakhouse concepts.

With the recent acquisition of Hurricane, we will reevaluate the organization of our operating segments.

Key Performance Indicators

To evaluate the performance of our business, we utilize a variety of financial and performance measures, which are typically calculated on a system-wide basis. These key measures include new store openings and same-store sales growth in addition to the general income statement line items such as revenues, general and administrative expenses, income before income tax expense and net income.

New store openings - The number of new store openings reflects the number of franchised restaurant locations opened during a reporting period. The total number of new stores per year and the timing of stores openings has, and will continue to have, an impact on our results.

Same-store sales growth - S ame-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. Given our focused marketing efforts and public excitement surrounding each opening, new stores often experience an initial start-up period with considerably higher than average sales volumes, which subsequently decrease to stabilized levels after three to six months. Thus, we do not include stores in the comparable store base until they have been open for at least one full fiscal year. We expect that this trend will continue for the foreseeable future as we continue to open and expand into new markets.

Results of Operations

Results of Operations of FAT Brands Inc.

The following table summarizes key components of our consolidated results of operations for the thirteen and twenty-six weeks ended July 1, 2018. Because this is our initial full year of operation, comparative information is not available.

(In thousands)

	Thirteen Weeks Ended July 1, 2018	Twenty-Six Weeks Ended July 1, 2018
Statement of operations data:		
Revenues		
Royalties	$ 2,860	$ 5,432
Franchise fees	299	698
Store opening fees	105	105
Advertising fees	630	1,226
Management fee	14	32
Total revenues	3,908	7,493
General and administrative expenses	3,081	5,725
Income from operations	827	1,768
Other expense	(342)	(590)
Income before income tax expense	485	1,178
Income tax expense	112	296
Net income	$ 373	$ 882

For the Twenty-Six Weeks Ended July 1, 2018

Net Income - Net income for the twenty-six weeks ended July 1, 2018 totaled $882,000 consisting of revenues of $7,493,000 less general and administrative expenses of $5,725,000, other expense of $590,000 and income taxes of $296,000.

Revenues - Revenues consist of royalties, franchise fees, store opening fees, advertising fees and management fees. We had revenues of $7,493,000 for the twenty-six weeks ended July 1, 2018. Royalties totaled $5,432,000; Franchise fees totaled $698,000; Store opening fees totaled $105,000; Advertising fees totaled $1,226,000 and management fees were $32,000.

General and Administrative Expenses **-** General and administrative expenses consist primarily of compensation costs. For the twenty-six weeks ended July 1, 2018, our general and administrative expenses totaled $5,725,000 and included compensation costs of $2,790,000 and advertising expense of $1,226,000.

Other Expense – Other expense for the twenty-six weeks ended July 1, 2018 totaled $590,000 and consisted primarily of net interest expense of $514,000.

Income Tax Expense – We recorded a provision for income taxes of $296,000 for the twenty-six weeks ended July 1, 2018.

For the thirteen Weeks Ended July 1, 2018

Net Income **-** Net income for the thirteen weeks ended July 1, 2018 totaled $373,000 consisting of revenues of $3,908,000 less general and administrative expenses of $3,081,000, other expense of $342,000 and income taxes of $112,000.

Revenues **-** Revenues consist of royalties, franchise fees, store opening fees, advertising fees and management fees. We had revenues of $3,908,000 for the thirteen weeks ended July 1, 2018. Royalties totaled $2,860,000; Franchise fees totaled $299,000; Store opening fees totaled $105,000; Advertising fees totaled $630,000 and management fees were $14,000.

General and Administrative Expenses **-** General and administrative expenses consist primarily of compensation costs. For the thirteen weeks ended July 1, 2018, our general and administrative expenses totaled $3,081,000 and included compensation costs of $1,459,000 and advertising expense of $630,000.
Other Expense – Other expense for the thirteen weeks ended July 1, 2018 totaled $342,000 and consisted primarily of net interest expense of $300,000.

Income Tax Expense – We recorded a provision for income taxes of $112,000 for the thirteen weeks ended July 1, 2018.

Results of Segment Operations of Fatburger

Fatburger was historically under control of FCCG and is a predecessor of FAT Brands for financial reporting purposes. The following table summarize key components of the results of operations for our Fatburger segment for the periods indicated:

(In thousands)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Statement of operations data:				
Revenues				
Royalties	$ 1,343	$ 1,222	$ 2,631	$ 2,375
Franchise fees	285	359	669	1,154
Store opening fees	105	-	105	-
Advertising fees	295	-	611	-
Management fee	14	15	32	30
Total revenues	2,042	1,596	4,048	3,559
General and administrative expenses	1,153	716	2,307	1,296
Income from operations	889	880	1,741	2,263
Other income	74	-	152	-
Income before income tax expense	963	880	1,893	2,263
Income tax expense	225	324	450	820
Net income	$ 738	$ 556	$ 1,443	$ 1,443

The comparability of the 2018 results to the 2017 results is impacted by the adoption of Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606), which replaced most of the previously existing revenue recognition guidance in U.S. GAAP. These changes are explained in detail in the notes to the accompanying financial statements and in the discussion of critical accounting policies and estimates below.

For the Twenty-Six Weeks Ended July 1, 2018 Compared to the Twenty-Six Weeks Ended June 25, 2017

Net Income - Net income of Fatburger for the twenty-six weeks ended July 1, 2018 was relatively unchanged compared to the twenty-six weeks ended June 25, 2017. The changes in components of net income included higher royalties from sales growth in the amount of $256,000, an increase in other income of $152,000 and a reduction in the provision for income taxes of $370,000, partially offset by an increase in non-advertising related operating expenses of $400,000 and lower franchise and store opening fees of $380,000.

Revenues - Fatburger's revenues consist of royalties, franchise fees, store opening fees, advertising fees and management fees. Fatburger had revenues of $4,048,000 and $3,559,000 for the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively. The increase was comprised of an increase in recognized advertising fees of $611,000 during the 2018 period and an increase in royalties in the amount of $256,000. These increases were partially offset by decreases of $380,000 in recognized franchise fees during 2018. These variances were significantly affected by the adoption of Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606) on January 1, 2018. For more information on the effect of the change in accounting standard, see Note 2 in the accompanying financial statements for Fatburger.

General and Administrative Expenses - General and administrative expenses of Fatburger consist primarily of payroll, consulting fees and, prior to the Offering, an allocation of corporate overhead from FCCG. General and administrative expenses for the twenty-six weeks ended July 1, 2018 increased $1,011,000 or 78% to $2,307,000, as compared to $1,296,000 for the twenty-six weeks ended June 25, 2017. This was primarily the result of the recognition in 2018 of advertising fees in the amount of $611,000 from the adoption of ASU 2014-09 and increased compensation costs.

Other Income – Other income during the twenty-six weeks ended July 1, 2018 consisted primarily of net interest earned on intercompany receivables from FCCG in the amount of $164,000. The intercompany accounts began earning interest on October 20, 2017, so there was no comparable interest income for the twenty-six weeks ended June 25, 2017.

Income tax expense – Income tax expense decreased $370,000 or 45% during the twenty-six weeks ended July 1, 2018 compared to the prior year. The reduction in tax expense resulted from a combination of lower income before taxes and a lower tax rate. On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJ Act") was enacted into law and reduced the corporate tax rate from 34% to 21%.

New Store Openings - For the twenty-six weeks ended July 1, 2018, our Fatburger franchisees opened 6 stores as compared to 11 stores for the twenty-six weeks ended June 25, 2017.

Same-store Sales Growth - Same-store sales in our core domestic market (representing approximately 69% of revenues for 2017) grew by positive 9.5% for the twenty-six weeks ended July 1, 2018, compared to growth of 7.9% for the twenty-six weeks ended June 25, 2017. Overall Fatburger same-store sales, including international stores in their local currency were positive 8.9% for the twenty-six weeks ended July 1, 2018 and positive 0.5% for the twenty-six weeks ended June 25, 2017. The biggest factors for the increase in same store sales systemwide are increased sales from third-party delivery platforms, particularly in California, as well as launch of the Impossible Burger domestically. International same-store sales have also stabilized due to strengthening macroeconomic conditions in Canada from the increase in oil prices.

For the thirteen Weeks Ended July 1, 2018 Compared to the Thirteen Weeks Ended June 25, 2017

Net Income **-** Net income of Fatburger for the thirteen weeks ended July 1, 2018 increased by $182,000 or 33% to $738,000 compared to $556,000 for the thirteen weeks ended June 25, 2017. The increase was primarily attributable to higher royalties in the amount of $121,000, an increase in other income of $74,000 and a reduction for provision of income taxes of $99,000, partially offset by an increase in non-advertising related operating expenses of $142,000.

Revenues **-** Fatburger's revenues consist of royalties, franchise fees, store openings fees, advertising fees and management fees. Fatburger had revenues of $2,042,000 and $1,596,000 for the thirteen weeks ended July 1, 2018 and June 25, 2017, respectively. The increase was comprised of an increase in recognized advertising fees of $295,000 during the 2018 period and an increase in royalties in the amount of $121,000. These variances were significantly affected by the adoption of Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606) on January 1, 2018. For more information on the effect of the change in accounting standard, see Note 2 in the accompanying financial statements for Fatburger.

General and Administrative Expenses **-** General and administrative expenses of Fatburger consist primarily of payroll, consulting fees and, prior to the Offering, an allocation of corporate overhead from FCCG. General and administrative expenses for the thirteen weeks ended July 1, 2018 increased $437,000 or 61% to $1,153,000, as compared to $716,000 for the thirteen weeks ended June 25, 2017. This was primarily the result of the recognition in 2018 of advertising fees in the amount of $295,000 from the adoption of ASU 2014-09 and increased compensation costs.

Other Income – Other income during the thirteen weeks ended July 1, 2018 consisted primarily of net interest earned on intercompany receivables from FCCG in the amount of $85,000. The intercompany accounts began earning interest on October 20, 2017, so there was no comparable interest income for the thirteen weeks ended June 25, 2017.

Income tax expense – Income tax expense decreased $99,000 or 31% during the thirteen weeks ended July 1, 2018 compared to the prior year. The reduction in tax expense resulted from a lower tax rate. On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJ Act") was enacted into law and reduced the corporate tax rate from 34% to 21%.

New Store Openings **-** For the thirteen weeks ended July 1, 2018, our Fatburger franchisees opened 4 stores as compared to 5 stores for the thirteen weeks ended June 25, 2017.

Same-store Sales Growth **-** Same-store sales in our core domestic market (representing approximately 69% of revenues for 2017) grew by positive 8.9% for the thirteen weeks ended July 1, 2018, compared to growth of 2.3% for the thirteen weeks ended June 25, 2017. Overall Fatburger same-store sales, including international stores in their local currency were positive 9.5% for the thirteen weeks ended July 1, 2018 and negative 5.1% for the thirteen weeks ended June 25, 2017. The biggest factors for the increase in same store sales systemwide are increased sales from third-party delivery platforms, particularly in California, as well as launch of the Impossible Burger domestically. International same-store sales have also stabilized due to strengthening macroeconomic conditions in Canada from the increase in oil prices.

Results of Segment Operations of Buffalo's.

Buffalo's was historically under control of FCCG and is a predecessor of FAT Brands for financial reporting purposes.

The following table summarize key components of the results of operations for our Buffalo's segment for the periods indicated:

(In thousands)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Statement of operations data:				
Revenues				
Royalties	$ 353	$ 304	$ 666	$ 612
Franchise fees	4	-	9	105
Advertising fees	154	-	293	-
Total revenues	511	304	968	717
General and administrative expenses	346	177	700	316
Income from operations	165	127	268	401
Other income	157	-	305	-
Income before income tax expense	322	127	573	401
Income tax expense	85	39	156	135
Net income	$ 237	$ 88	$ 417	$ 266

The comparability of the 2018 results to the 2017 results is impacted by the adoption of Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606), which replaced most of the previously existing revenue recognition guidance in U.S. GAAP. These changes are explained in detail in the notes to the accompanying financial statements and in the discussion of critical accounting policies and estimates below.

For the Twenty-Six Weeks Ended July 1, 2018 as Compared to the Twenty-Six Weeks Ended June 25, 2017.

Net Income – Buffalo's net income for the twenty-six weeks ended July 1, 2018 increased to $417,000, compared to $266,000 for the twenty-six weeks ended June 25, 2017. A decrease in income from operations of $133,000 was offset by an increase in other income of $305,000.

Revenues – Buffalo's revenues consist of royalties, advertising fees and recognized franchise fees. Buffalo's had revenues of $968,000 and $717,000 for the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively. The increase in revenue of $251,000 or 35%, is primarily the result of the recognition of advertising fees beginning in 2018 in the amount of $293,000. This increase was partially reduced by lower recognized franchise fees in the amount of $96,000 during the twenty-six weeks ended July 1, 2018 compared with the twenty-six weeks ended June 25, 2017. These variances were significantly affected by the adoption of Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606) on January 1, 2018. For more information on the effect of the change in accounting standard, see Note 2 in the accompanying consolidated financial statements for Buffalo's.

General and Administrative Expenses – General and administrative expenses for the twenty-six weeks ended July 1, 2018 increased by $384,000 or 122% to $700,000 as compared to $316,000 for the twenty-six weeks ended June 25, 2017. This was primarily the result of the recognition in 2018 of advertising expenses in the amount of $293,000 from the adoption of ASU 2014-09.

Other Income – Other income, consisting of interest income on loans to affiliates, totaled $305,000 for the twenty-six weeks ended July 1, 2018. Interest began accruing on these loans in October 2017. As a result, there was no comparable income during the twenty-six weeks ended June 25, 2017.

Income tax expense – We recorded a provision for income taxes of $156,000 for twenty-six weeks ended July 1, 2018, compared to an expense for the prior year period of $135,000. The $21,000 decrease is primarily the result of a reduction in the corporate tax rate which became effective on December 22, 2017 under the Tax Cuts and Jobs Act (the "TCJ Act").

New Store Openings – There were no new stores opened by our Buffalo's Cafe franchisees during the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively.

Same-store Sales Growth – Same-store sales for Buffalo's Cafe were 5.0% for the twenty-six weeks ended July 1, 2018 and negative 0.4% for the twenty-six weeks ended June 25, 2017. The increase in same-store sales for the twenty-six weeks ended July 1, 2018 was primarily attributable to the reopening of one restaurant which has average unit volumes averaging twice the amount of the other stores.

For the Thirteen weeks ended July 1, 2018 as Compared to the Thirteen weeks ended June 25, 2017.

Net Income – Buffalo's net income for the thirteen weeks ended July 1, 2018 increased to $237,000, compared to $88,000 for the thirteen weeks ended June 25, 2017. An increase in income from operations of $38,000 and an increase in other income of $157,000 was offset by an increase in in income tax expense of $46,000.

Revenues – Buffalo's revenues consist of royalties, advertising fees and recognized franchise fees. Buffalo's had revenues of $511,000 and $304,000 for the thirteen weeks ended July 1, 2018 and June 25, 2017, respectively. The increase in revenue of $207,000 or 68%, is primarily the result of the recognition of advertising fees beginning in 2018 in the amount of $154,000 and an increase in royalties of $49,000. These variances were significantly affected by the adoption of Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers (Topic 606) on January 1, 2018. For more information on the effect of the change in accounting standard, see Note 2 in the accompanying consolidated financial statements for Buffalo's.

General and Administrative Expenses – General and administrative expenses for the thirteen weeks ended July 1, 2018 increased by $169,000 or 95% to $346,000 as compared to $177,000 for the thirteen weeks ended June 25, 2017. This was primarily the result of the recognition in 2018 of advertising expenses in the amount of $154,000 from the adoption of ASU 2014-09.

Other Income – Other income, consisting of interest income on loans to affiliates, totaled $157,000 for the thirteen weeks ended July 1, 2018. Interest began accruing on these loans in October 2017. As a result, there was no comparable income during the thirteen weeks ended June 25, 2017.

Income tax expense – We recorded a provision for income taxes of $85,000 for thirteen weeks ended July 1, 2018, compared to an expense for the prior year period of $39,000. The $46,000 increase was partially offset by a reduction in the corporate tax rate which became effective on December 22, 2017 under the Tax Cuts and Jobs Act (the "TCJ Act").

New Store Openings – There were no new stores opened by our Buffalo's Cafe franchisees during the thirteen weeks ended July 1, 2018 and June 25, 2017, respectively.

Same-store Sales Growth – Same-store sales for Buffalo's Cafe were 10.2% for the thirteen weeks ended July 1, 2018 and negative 3.9% for the thirteen weeks ended June 25, 2017. The increase in same-store sales for the twenty-six weeks ended July 1, 2018 was primarily attributable to the reopening of one restaurant which has average unit volumes averaging twice the amount of the other stores.

Results of Segment Operations of Ponderosa

We were not affiliated with the Ponderosa entities until they became our wholly-owned subsidiaries on October 20, 2017. Accordingly, only the financial results of Ponderosa which occurred subsequent to FCCG's contribution are presented. Comparison information for periods prior to our ownership are not presented.

The following table summarizes key components of the results of operations of our Ponderosa segment for the periods indicated:

(In thousands)

	Thirteen Weeks Ended July 1, 2018	Twenty-Six Weeks Ended July 1, 2018
Statement of operations data:		
Revenues		
Royalties	$ 1,164	$ 2,135
Franchise fees	9	20
Advertising fees	182	322
Total revenues	1,355	2,477
General and administrative expenses	1,051	1,963
Income from operations	304	514
Other expense	(29)	(52)
Income before income tax expense	275	462
Income tax expense	28	49
Net income	$ 247	$ 413

For the Twenty-Six Weeks Ended July 1, 2018

Net Income - Net income of Ponderosa for the twenty-six weeks ended July 1, 2018 was $413,000.

Revenues - Ponderosa's revenues consist of royalties, advertising fees and franchise fees. Ponderosa had revenues of $2,477,000 for the twenty-six weeks ended July 1, 2018, including royalties of $2,135,000 and advertising fees of $322,000.

General and Administrative Expense - General and administrative expense of Ponderosa consists primarily of payroll costs and advertising expense. General and administrative expenses for the twenty-six weeks ended July 1, 2018 totaled $1,963,000 of which $1,300,000 was payroll related and $322,000 was for advertising.

New Store Openings - There were no new stores opened by our Ponderosa franchisees during the twenty-six weeks ended July 1, 2018 .

Same-store Sales Growth – Domestic same-store sales for Ponderosa were negative 2.3% for the twenty-six weeks ended July 1, 2018. Overall systemwide same-store sales were positive 0.9% for the twenty-six weeks ended July 1, 2018.

For the Thirteen Weeks Ended July 1, 2018

Net Income - Net income of Ponderosa for the thirteen weeks ended July 1, 2018 was $247,000.

Revenues - Ponderosa's revenues consist of royalties, advertising fees and franchise fees. Ponderosa had revenues of $1,355,000 for the thirteen weeks ended July 1, 2018, including royalties of $1,164,000 and advertising fees of $182,000.

General and Administrative Expense - General and administrative expense of Ponderosa consists primarily of payroll costs and advertising expense. General and administrative expenses for the thirteen weeks ended July 1, 2018 totaled $1,051,000 of which $694,000 was payroll related and $182,000 was for advertising.

New Store Openings - There were no new stores opened by our Ponderosa franchisees during the thirteen weeks ended July 1, 2018 .

Same-store Sales Growth – Domestic same-store sales for Ponderosa were negative 2.2% for the thirteen weeks ended July 1, 2018. Overall systemwide same-store sales were positive 0.9% for the thirteen weeks ended July 1, 2018.

Changes in Financial Condition

Overview

Our assets, liabilities and stockholders' equity as of July 1, 2018 can be summarized as follows:

		(dollars in thousands)
Total assets	$	32,477
Total liabilities	$	25,890
Total stockholders' equity	$	6,587

The significant components of our balance sheet are as follows:

Cash

Our cash balance was $955,000 as of July 1, 2018. Significant sources and uses of cash during the twenty-six weeks ended July 1, 2018 included:

- Cash used in operating activities was $503,000, primarily for paying down accounts payable and accrued expenses.
- Proceeds from the issuance of mandatorily redeemable preferred stock and associated warrants totaled $8,000,000.
- Net proceeds from the issuance of long-term debt totaled $1,882,000.
- We used $7,903,000 to partially repay the Related Party Debt to FCCG.

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. As of July 1, 2018, our accounts receivable totaled $1,308,000 which was net of $675,000 in reserves.

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. 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 July 1, 2018, notes receivable totaled $396,000, which is net of reserves of $34,000.

Due from Affiliates

We had open accounts with affiliated entities under the common control of FCCG resulting in net amounts due to us of $8,967,000 as of July 1, 2018. Effective October 20, 2017, the advances began to earn interest at a rate of 10% per annum. These advances are expected to be recovered from credits for the use of FCCG's tax net operating losses and from repayments by the affiliates from proceeds generated by their operations and investments.

Goodwill and Net Intangible Assets

		July 1, 2018
		(dollars in thousands)
Goodwill – Fatburger acquisition	$	529
Goodwill – Buffalo's acquisition		5,365
Goodwill – Ponderosa acquisition		1,462
Total goodwill	$	7,356
Net intangible assets – Fatburger		2,135
Net intangible assets – Buffalo's		27
Net intangible assets – Ponderosa		8,793
Total net intangible assets	$	10,955

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities totaled $3,891,000 at July 1, 2018 and consisted of the following:

	July 1, 2018
	(dollars in thousands)
Accounts payable	$ 2,404
Accrued wages and payroll taxes	275
Gift certificate liability	94
Other accrued expenses	1,118
Total accounts payable and accrued liabilities	$ 3,891

Deferred Income

Our deferred income relating to the collection of unearned franchise fees and royalties was $6,907,000 at July 1, 2018. When we adopted ASU 2014-09 on January 1, 2018, we made an adjustment increasing deferred income by $3,482,000 representing franchise fees collected as of December 31, 2017 for franchise agreements with remaining terms. The deferred income will be recognized as income over the term of the individual related franchise agreements.

Note Payable to FCCG

Concurrent with the Offering, FCCG contributed Fatburger and Buffalo's to us 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 contribution was consummated pursuant to a Contribution Agreement between us 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, we entered into the Note Exchange Agreement under which we agreed with FCCG to exchange $9,272,053 of the remaining balance of our outstanding Related Party Debt for shares of our capital stock and warrants in the following amounts:

- $2,000,000 of the Related Party Debt balance was exchanged for 20,000 shares of our Series A Fixed Rate Cumulative Preferred Stock at $100 per share and warrants to purchase 25,000 shares of our 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 our Common Stock, representing an exchange price of $7.35 per share, which was the closing trading price of our Common Stock on June 26, 2018.

Following the exchange, the remaining balance on the Related Party Debt was $950,000.

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.

Deferred Income Taxes

We 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 us and our subsidiaries. We will pay to FCCG the amount that our tax liability would have been had we filed a separate return. To the extent our required payment exceeds our share of the actual combined income tax liability (which may occur, for example, due to the application of FCCG's net operating loss carryforwards), we will be permitted, in the discretion of a committee of our board of directors comprised solely of directors not affiliated with or interested in FCCG, to pay such excess to FCCG by issuing an equivalent amount of our common stock in lieu of cash, valued at the fair market value at the time of such payment. In addition, our inter-company receivable of approximately $8,967,000 due from FCCG and its affiliates will be applied first to reduce such excess income tax payment obligation to FCCG under the Tax Sharing Agreement.

We account for income taxes as if we filed separately from FCCG. We have determined that it is more likely than not that certain tax benefits will be available to shelter future tax liabilities and have recorded a deferred tax asset of $1,815,000.

Dividends Payable on Common Stock

Our Board of Directors has declared the following quarterly dividends on common stock during the twenty-six weeks ending July 1, 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
				$ 2,551,517

On both dividend payment dates, FCCG elected to reinvest its dividend from its original 8,000,000 shares at the close of the IPO in our newly issued common shares at the closing market price of the shares on the payment date. As a result, on April 16, 2018, we issued 153,600 shares of common stock to FCCG at a price of $6.25 per share in satisfaction of the $960,000 dividend payable. On July 16, 2018, we issued 157,765 shares of common stock to FCCG at a price of $6.085 per share in satisfaction of the $960,000 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.

All other shareholders of record received cash dividends on the respective payment dates. As of July 1, 2018, the balance of our dividends payable on common stock was $1,352,000.

Accrued Advertising

Accrued advertising represents fees collected from franchisees and vendors which are required to be spent on marketing and advertising activities. As of July 1, 2018, accrued advertising totaled $761,000.

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 thirteen weeks ended July 1, 2018 consisted of cash provided by proceeds from the sale of common stock.

Franchising operations are our major source of ongoing liquidity and we expect these sources, including the sale of franchises, to generate adequate cash flow to meet our liquidity needs for the next fiscal year.

At July 1, 2018, we had total liabilities of $25,890,000. Our consolidated indebtedness consisted of a note payable to TCA of $2,000,000; the note payable to FCCG of $950,000; mandatorily redeemable preferred shares of $9,998,000; as well as $12,942,000 of other liabilities.

Franchise expansion

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.

Dividends

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

Critical Accounting Policies and Estimates

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.

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.

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 thirteen weeks ended July 1, 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 non-qualified 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 9 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.

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 upfront fees we receive 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 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 $2,672,000 with a corresponding increase to deferred revenue in the amount of $3,482,000 and a $810,000 increase in the deferred tax asset.

These standards also have an impact on transactions which previously were not included in our revenues and expenses such as franchisee contributions to and subsequent expenditures for advertising that we are now required to consolidate. We did not previously include these contributions and expenditures in our consolidated statements of operations or cash flows. 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 income.

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.

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. We elected to early adopt this standard when performing our annual goodwill impairment test in 2017. The adoption of this ASU did not have a significant financial impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting. This standard provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This standard does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The amendments in this ASU are effective beginning January 1, 2018, with early adoption permitted. This ASU is to be applied prospectively on and after the effective date. We adopted this ASU during 2017. The adoption of this ASU did not have a significant financial impact on our 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 is not expected to have a material impact on the company's consolidated financial statements.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Required.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities and Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of July 1, 2018, have concluded that our disclosure controls and procedures were effective and designed to ensure that material information relating to us and our combined subsidiaries is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

We do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedures are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. We considered these limitations during the development of its disclosure controls and procedures and will continually reevaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

Changes in internal control over financial reporting

There were no significant changes in our internal control over financial reporting in connection with an evaluation that occurred during the thirteen weeks ended July 1, 2018 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. 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.

On June 7, 2018, Eric Rojany filed a complaint, personally and on behalf of all others similarly situated, 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. The complaint alleges 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 plaintiff stated that he intends to certify the complaint as a class action and is seeking compensatory damages in an amount to be determined at trial. The Company and other defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

P&K Food Market, Inc. vs. Buffalo's Franchise Concepts, Inc., Fog Cutter Capital Group, Shaun Curtis, Andy Wiederhorn et al., Superior Court of California for the County of Los Angeles, Case No. 18STLC09534.

On July 13, 2018, P&K Food Market, Inc. ("P&K") filed a complaint against Buffalo's Franchise Concepts, Inc., Fog Cutter Capital Group, Shaun Curtis, and Andy Wiederhorn for Breach of Contract, Fraudulent Misrepresentation and Unlawful Offer and Sale of Franchise By Means of Untrue Statements or Omissions of Material Fact Under Cal. Corp. Code §§31201; 31202; 31300; and 31301. The case was filed in connection with the sale of an affiliate-owned "Buffalo's Café" restaurant located in Palmdale, California. The lawsuit seeks general damages, special damages, punitive damages, restitution, interest, costs and attorneys' fees and costs related to the alleged unlawful sale of the Palmdale restaurant. The franchisor and related parties intend to vigorously defend the allegations.

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

On August 2, 2018, Daniel Alden and others filed a complaint, personally and on behalf of all others similarly situated, 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. The complaint alleges 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 stated that he intends to certify the complaint as a class action and is seeking compensatory damages in an amount to be determined at trial. The Company and other defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

We are obligated to indemnify our officers and directors to the extent permitted by applicable law in connection with this action, and have insurance for such individuals, to the extent of the limits of the applicable insurance policies and subject to potential reservations of rights. We are also obligated to indemnify Tripoint Global Equities, LLC relating to the Rojany and Alden matters. These proceedings are in their early stages and we are unable to predict the ultimate outcome of these matters. There can be no assurance that we will be successful in defending against these actions and, if unsuccessful, we may be subject to significant damages that could have a material adverse effect on our business, financial condition and operating results. Even if we are successful, defending against these actions will likely be, expensive, time consuming and may divert management's attention from other business concerns and harm our business.

We are involved in other claims and legal proceedings from time-to-time that arise in the ordinary course of business.

We do not believe that the ultimate resolution of these actions will have a material adverse effect on our business, financial condition, results of operations, liquidity or capital resources. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1A. RISK FACTORS

You should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report, which could materially affect our business, financial condition, cash flows or future results. Except as set forth below, there have been no material changes in our risk factors included in our Annual Report. The risks described in our Annual Report are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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 and August 2, 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 plaintiff stated that he intends to certify the complaint as a class action and is seeking compensatory damages in an amount to be determined at trial.

The Company and other defendants dispute the allegations of the lawsuit 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 16, 2018, FCCG elected to reinvest its dividend receivable from us of $960,000 for newly issued common shares of the Company at $6.25 per share, the

closing market price of the shares on that date. As a result, the Company issued 153,600 shares of common stock to FCCG in satisfaction of the dividend payable.

On April 27, 2018, the Company issued to TCA Global Credit Master Fund, LP a Senior Secured Redeemable Debenture with an initial principal amount of $2,000,000, which was repaid on July 3, 2018 .

On July 16, 2018, FCCG elected to reinvest its dividend receivable from us of $960,000 for newly issued common shares of the Company at $6.085 per share, the closing market price of the shares on that date. As a result, the Company issued 157,765 shares of common stock to FCCG in satisfaction of the dividend payable.

On June 15, 2018, each of our 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 $330,000 and the shares were issued at a price of $7.90 per share, which represents the closing price of our stock on June 14, 2018. As a result, we issued 41,772 shares of our common stock to satisfy the director fees payable.

On June 7, 2018, we 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 our newly designated Series A Fixed Rate Cumulative Preferred Stock (the “Series A Preferred Stock”) and (ii) a warrant to purchase 125 shares of the Company’s Common Stock (the “Warrants”) at $8.00 per share. The sales price of each Unit was $10,000, resulting in gross proceeds to us from the initial closing of $8,000,000.

On June 27, 2018, we entered into a Note Exchange Agreement under which we agreed with FCCG to exchange $9,272,053 of the remaining balance of the Company’s outstanding Promissory Note issued to 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”).

Under the Note Exchange Agreement, the Note Balance was exchanged for shares of our capital stock and warrants in the following amounts:

- $2,000,000 of the Note Balance was exchanged for 20,000 shares of Series A Fixed Rate Cumulative Preferred Stock of the Company, and Warrants to purchase 25,000 shares of common stock at $8 per share, exercisable for a period of five years from the issue date; 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.

Following the exchange, the balance of the Note was $950,000.

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 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

The Note Exchange Agreement entered into on June 27, 2018 between us and FCCG (See Part 2 - Item 2) originally anticipated that the entire remaining Note balance owed to FCCG would be exchanged for our capital stock and warrants. The Note Exchange Agreement was subsequently amended to limit the transaction to repay $9,272,000 of the Note, leaving a balance due of $950,000.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated By Reference to			Filed Herewith
		Form	Exhibit	Filing Date	
3.1	Certificate of Designation of Rights and Preferences of Series A Fixed Rate Cumulative Preferred Stock	8-K	3.1	06/13/2018	
4.1	Warrant to Purchase Common Stock (Trojan Investments, LLC)				X
4.2	Warrant to Purchase Common Stock (Fog Cutter Capital Group, Inc.)				X
10.1	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	
10.2	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	
10.3	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	
10.4	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	
10.5	Subscription Agreement, dated June 7, 2018, with Trojan Investments, LLC	8-K	10.1	06/13/2018	
10.6	Registration Rights Agreement, dated June 7, 2018, with Trojan Investments, LLC	8-K	10.2	06/13/2018	
10.7	Investor Rights and Voting Agreement, dated June 7, 2018, with Trojan Investments, LLC	8-K	10.3	06/13/2018	
10.8	Note Exchange Agreement, dated June 27, 2018, by and between the Company and Fog Cutter Capital Group, Inc.				X
10.8.1	Amendment to Note Exchange Agreement, dated August 14, 2018				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)

SIGNATURES

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

FAT BRANDS INC.

August 15, 2018	By *\/s/ Andrew A. Wiederhorn* Andrew A. Wiederhorn President and Chief Executive Officer *(Principal Executive Officer)*
August 15, 2018	By */s/ Ron Roe* Ron Roe Chief Financial Officer *(Principal Financial and Accounting Officer)*

Exhibit 4-1

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS WHICH, IN THE OPINION OF COUNSEL FOR THE ISSUER, IS AVAILABLE.

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND VOTING SET FORTH IN AN INVESTOR RIGHTS AND VOTING AGREEMENT, DATED AS OF THE DATE HEREOF, BY AND AMONG THE COMPANY, CERTAIN STOCKHOLDERS OF THE COMPANY AND THE ORIGINAL HOLDER HEREOF. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS WARRANT MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF THIS WARRANT AND SUCH INVESTOR RIGHTS AND VOTING AGREEMENT.

FAT BRANDS INC.

WARRANT AGREEMENT
(Common Stock)

Warrant No. A-1

This Warrant Agreement (this " Warrant ") is dated as of June 7, 2018 (the " Issue Date ") and entered into by and between FAT Brands Inc., a company organized under the laws of State of Delaware (the " Company "), and the undersigned (together with its successors and assigns, the " Warrant Holder ").

WHEREAS, the Company and the Warrant Holder have entered into that certain Subscription Agreement (the " Subscription Agreement "), pursuant to which the Warrant Holder, together with the other Subscribers, agreed to purchase certain Units of the Company, including the Warrants evidenced by this Warrant; and

WHEREAS, all of the terms and conditions of such Subscription Agreement are incorporated herein by this reference, and all capitalized terms not separately defined in this Warrant, shall have the same meanings as defined in the Subscription Agreement.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Warrant, and for other good and valuable consideration, the parties agree as follows:

1. Grant of Warrant . This Warrant entitles the Warrant Holder, upon the terms and subject to the conditions set forth herein, to purchase from the Company up to One Hundred Thousand (100,000) shares of Common Stock (subject to adjustment as provided in Section 6, the "Warrant Shares").

2. Term and Termination of Warrant . The Warrant shall be exercisable at any time or times beginning on the Issue Date and ending on the five (5) year anniversary of the Issue Date, at which time this Warrant shall terminate.

3. Exercise of the Warrant .

(a) Exercise Price . For the purposes of this Warrant, the exercise price shall be $8.00 per share of Common Stock (the " Exercise Price "), subject to adjustment as provided in Section 6.

(b) Exercise and Payment . The purchase rights represented by the Warrant may be exercised in round lots only by the Warrant Holder, in whole or in part, by the surrender of the Warrant (together with a duly executed notice of exercise in the form attached hereto as Exhibit A (the " Exercise Notice ") at the principal office of the Company and by the payment to the Company by check or wire transfer of immediately available funds of an amount equal to (i) the number of shares of Common Stock being purchased upon exercise of the Warrant multiplied by (ii) the Exercise Price (the " Warrant Price ").

(c) Cashless Exercise . If at any time after the date hereof, there is no effective registration or offering statement effective or qualified in connection with, or no current prospectus or offering circular available for, the public resale of the Warrant Shares by the Warrant Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a "cashless exercise" by instructing the Company to issue Warrant Shares then issuable upon exercise of all or any part of this Warrant on a net basis such that, without payment of any cash consideration or other immediately available funds, the Warrant Holder shall surrender this Warrant in exchange for the number of Warrant Shares as is computed using the following formula $X = Y(A - B) \div A$:

Where:

X = the number of Warrant Shares to be issued to the Warrant Holder.

Y = the total number of Warrant Shares for which the Holder has elected to exercise this Warrant

A = the Fair Market Value of one Warrant Share as of the applicable Exercise Date.

B = the Exercise Price in effect under this Warrant as of the applicable Exercise Date.

For purposes of this Warrant, " **Fair Market Value** " of a Warrant Share shall mean the arithmetic average of the last trade price of the Common Stock (as reported by Bloomberg Financial Markets) for the five (5) consecutive days on which the Nasdaq Stock Market is open for trading, ending on the date immediately preceding the Exercise Date, on the principal trading market on which the Common Stock is quoted or listed for trading. If the Fair Market Value cannot be calculated on a particular date on the foregoing basis, the Fair Market Value shall be determined in good faith by the Board of Directors of the Company. All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(d) Warrant Shares . Subject to the other provisions of this Warrant, on or before the fifth (5th) day following the date on which the Company has received an Exercise Notice, so long as the Warrant Holder delivers the Warrant Price, the Company shall issue and deliver to the Warrant Holder or, at the Warrant Holder's instruction pursuant to the Exercise Notice, the Warrant Holder's agent or designee, in each case, sent by reputable overnight courier to the address as specified in the applicable Exercise Notice, a certificate, registered in the Company's share register in the name of the Warrant Holder or its designee (as indicated in the applicable Exercise Notice), for the number of shares of Common Stock to which the Warrant Holder is entitled pursuant to such exercise. The Company shall be responsible for all fees and expenses of the Transfer Agent and all fees and expenses with respect to the issuance of shares of Common Stock via DTC, if available. Upon delivery of an Exercise Notice, the Warrant Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date such Warrant Shares are credited to the Warrant Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Shares (as the case may be). If this Warrant is submitted in connection with any exercise pursuant to this Section 3 and the number of Warrant Shares represented by this Warrant submitted for exercise is for a greater number of Warrant Shares than the number of Warrant Shares being acquired upon an exercise, then, at the request of the Warrant Holder, the Company shall as soon as practicable and in no event later than three (3) business days after any exercise and at its own expense, issue and deliver to the Warrant Holder (or its designee) a new Warrant (in accordance with Section 9(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of Warrant Shares to be issued shall be rounded up to the nearest whole number.

(e) Legends. The Warrant Shares to be acquired by the Warrant Holder pursuant hereto, may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration or offering statement under the Securities Act, or (ii) the Company or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions and from an attorney who regularly practices securities law) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration. Except as otherwise provided in this Warrant (and subject to the removal provisions set forth below), until such time as the Warrant Shares issuable upon exercise of the Warrant have been registered under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for Warrant Shares that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

> THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

The legend set forth above shall be removed and the Company shall issue to the Warrant Holder a new certificate therefor free of any transfer legend if (i) the Company shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Securities may be made without registration under the Act and the shares are so sold or transferred, or (ii) such security is registered for sale by the Warrant Holder under an effective registration statement filed under the Act.

In addition, the Warrant Shares shall bear a legend substantially in the following form during such time that the Warrant Shares are subject to the Investor Rights and Voting Agreement of even date hereof:

> THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND VOTING SET FORTH IN AN INVESTOR RIGHTS AND VOTING AGREEMENT, DATED AS OF JUNE [●], 2018, BY AND AMONG THE COMPANY, CERTAIN STOCKHOLDERS OF THE COMPANY AND THE ORIGINAL HOLDER HEREOF, A COPY OF WHICH IS AVAILABLE UPON REQUEST FROM THE COMPANY. THE SECURITIES REPRESENTED HEREBY MAY NOT BE VOTED, TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHER DISPOSED OF, EXCEPT IN COMPLIANCE WITH SUCH INVESTOR RIGHTS AND VOTING AGREEMENT.

(f) Limitation on Exercise. Notwithstanding anything contained herein, this Warrant shall not be exercisable to the extent that (A) the aggregate shares of Common Stock issued by the Company to holders of Preferred Stock upon conversion pursuant to Section 5(b)(i) of the Certificate, plus (B) the aggregate shares of Common Stock issued or issuable by the Company pursuant to the exercise of warrants issued by the Company under the Subscription Agreement or Registration Rights Agreement would exceed 19.99% of all shares of Common Stock issued and outstanding on the Issue Date, subject to pro rata adjustment in connection with any stock splits, stock dividends, or similar changes to the Company's capitalization occurring after the Issue Date (the "20% Cap"), unless the Company receives stockholder approval to exceed the 20% Cap. The Holder shall have the right to receive cash payments from the Company for all shares of Common Stock that this Section 3(f) renders the Company incapable of issuing to such Holder ("Deficiency Shares") at a price equal to the value determined by the Black-Scholes pricing model for such portion of the Warrants which would otherwise be exercisable for Deficiency Shares. If applicable, the restrictions and redemption obligations set forth in this Section 3(f) shall cease to apply if (1) the Company obtains stockholder approval to issue Common Stock in excess of the 20% Cap pursuant to the rules and regulations of The Nasdaq Stock Market (or such other principal trading market on which the Common Stock is quoted or listed for trading), or (2) the Company provides the Holder with irrevocable written notice, based upon the written advice of its counsel, that any such issuance of Common Stock is not subject to the 20% Cap pursuant to the rules and regulations of The Nasdaq Stock Market LLC. The Company will use its best efforts promptly to obtain either the stockholder approval or the irrevocable notice described in the preceding sentence and to provide the Holder with a copy of same. Without limiting the foregoing, in the event at any time the number of Registrable Securities then issued or issuable upon full exercise of the Warrant is 85% of the 20% Cap (assuming full exercise without regard to any beneficial ownership limitations set forth therein), then the Company shall within 60 days hold a stockholder meeting and solicit the aforementioned stockholder approval by soliciting proxies in favor of issuing Common Stock in excess of the 20% Cap and will use its best efforts to have all affiliates of the Company which own or control shares of Common Stock to vote their shares in favor of such resolution.

(g) Delivery of Cash in Lieu of Warrant Shares . If the Warrant Holder delivers an Exercise Notice and Warrant Price, the Company may, in lieu of delivering all of the Warrant Shares upon such exercise, instead deliver less than the requested number of Warrant Shares (the " Withheld Shares ") plus an amount of cash that is equal to the Fair Market Value of the Warrant Shares that would be deliverable to the Holder had the Holder elected a "cashless exercise" under Section 3(c) for the number of Withheld Shares. Such cash payment shall be made within twenty (20) business days of the Exercise Notice.

4. Stock Fully Paid; Reservation of Warrant Shares.

(a) Stock Fully Paid. All of the Warrant Shares issuable upon the exercise of the Warrant will, upon issuance and receipt of the Warrant Price for such Warrant Shares, be duly authorized, validly issued, fully paid and nonassessable, and will be free and clear of all taxes, liens, encumbrances and charges with respect to the issue.

(b) Reservation. For so long as any of the Warrants are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of effecting the exercise of the Warrants, 100% of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all Warrants then outstanding (the " Required Reserve Amount ").

(c) Insufficient Authorized Shares. If at any time the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Warrants at least a number of shares of Common Stock equal to the Required Reserve Amount (an " Authorized Share Failure "), then the Company shall use its reasonable best efforts immediately to take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Warrants then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than sixty (60) days after the occurrence of such Authorized Share Failure, the Company shall use its reasonable best efforts to either (x) obtain the written consent of its stockholders for the approval of an increase in the number of authorized shares of Common Stock or (y) hold a special meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock; provided, that if the Company is then subject to review of any such related documents by the Securities and Exchange Commission, the time frame above shall be extended by an additional thirty (30) days. In connection with such meeting, the Company shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock, to cause its Board of Directors to recommend to the stockholders that they approve such proposal and to cause its management to vote in favor of such proposal.

5. Rights of the Warrant Holder. The Warrant Holder shall have no voting rights as a stockholder or rights to dividends or other distributions with respect to Warrant Shares subject to this Warrant until payment in full of the Warrant Price for Warrant Shares being issued.

6. Adjustment of Exercise Price and Number of Warrant Shares. In order to prevent dilution of the purchase rights granted under this Warrant, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 6 (in each case, after taking into consideration any prior adjustments pursuant to this Section 6).

(a) Stock Dividend, Subdivision or Combination. If the Company shall, at any time or from time to time after the Original Issue Date, (i) pay a dividend or make any other distribution upon the Common Stock or any other capital stock of the Company payable in shares of Common Stock, or (ii) subdivide (by any stock split, recapitalization or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to any such dividend, distribution or subdivision shall be proportionately reduced and the number of Warrant Shares issuable upon exercise of this Warrant shall be proportionately increased. If the Company at any time combines (by combination, reverse stock split or otherwise) its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares issuable upon exercise of this Warrant shall be proportionately decreased. Any adjustment under this Section 6(a) shall become effective at the close of business on the date the dividend, subdivision or combination becomes effective.

(b) Reorganization, Reclassification, Consolidation or Merger . In the event of any (i) capital reorganization of the Company, (ii) reclassification of the stock of the Company (other than a change in par value or from par value to no par value or from no par value to par value or as a result of a stock dividend or subdivision, split-up or combination of shares), (iii) consolidation or merger of the Company with or into another Person, (iv) sale of all or substantially all of the Company's assets to another Person or (v) other similar transaction, in each case which entitles the holders of Common Stock to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, each Warrant shall, immediately after such reorganization, reclassification, consolidation, merger, sale or similar transaction, remain outstanding and shall thereafter, in lieu of or in addition to (as the case may be) the number of Warrant Shares then exercisable under this Warrant, be exercisable for the kind and number of shares of stock or other securities or assets of the Company or of the successor Person resulting from such transaction to which the Warrant Holder would have been entitled upon such reorganization, reclassification, consolidation, merger, sale or similar transaction if the Warrant Holder had exercised this Warrant in full immediately prior to the time of such reorganization, reclassification, consolidation, merger, sale or similar transaction and acquired the applicable number of Warrant Shares then issuable hereunder as a result of such exercise (without taking into account any limitations or restrictions on the exercisability of this Warrant); and, in such case, appropriate adjustment shall be made with respect to the Warrant Holder's rights under this Warrant to insure that the provisions of this Section 6 hereof shall thereafter be applicable, as nearly as possible, to this Warrant in relation to any shares of stock, securities or assets thereafter acquirable upon exercise of this Warrant (including, in the case of any consolidation, merger, sale or similar transaction in which the successor or purchasing Person is other than the Company, an immediate adjustment in the Exercise Price to the value per share for the Common Stock reflected by the terms of such consolidation, merger, sale or similar transaction, and a corresponding immediate adjustment to the number of Warrant Shares acquirable upon exercise of this Warrant without regard to any limitations or restrictions on exercise, if the value so reflected is less than the Exercise Price in effect immediately prior to such consolidation, merger, sale or similar transaction). The provisions of this Section 6(b) shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales or similar transactions. The Company shall not effect any such reorganization, reclassification, consolidation, merger, sale or similar transaction unless, prior to the consummation thereof, the successor Person (if other than the Company) resulting from such reorganization, reclassification, consolidation, merger, sale or similar transaction, shall assume, by written instrument substantially similar in form and substance to this Warrant and satisfactory to the Warrant Holder, the obligation to deliver to the Warrant Holder such shares of stock, securities or assets which, in accordance with the foregoing provisions, such Warrant Holder shall be entitled to receive upon exercise of this Warrant.

(c) Certificate as to Adjustment .

(i) As promptly as reasonably practicable following any adjustment of the Exercise Price, but in any event not later ten (10) days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer setting forth in reasonable detail such adjustment and the facts upon which it is based and certifying the calculation thereof.

(ii) As promptly as reasonably practicable following the receipt by the Company of a written request by the Warrant Holder, but in any event not later than ten (10) thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer certifying the Exercise Price then in effect and the number of Warrant Shares or the amount, if any, of other shares of stock, securities or assets then issuable upon exercise of the Warrant.

(iii) All calculations under this Section 6 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. No adjustment shall be made to the Exercise Price unless such adjustment would require a change of at least 1% in the Exercise Price. Any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment or in connection with any exercise of the Warrant. For purposes of this Section 6, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of the Company) issued and outstanding.

7. Representations and Warranties . The representations and warranties of the Warrant Holder set forth in the Subscription Agreement shall be true and correct as of the Issue Date and are incorporated by reference herein.

8. Noncircumvention . The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Warrant Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

9. Reissuance Of Warrants .

(a) Transfer of Warrant . If this Warrant is to be transferred, the Warrant Holder shall surrender this Warrant to the Company, together with an opinion of counsel in form and substance satisfactory to the Company from an attorney regularly engaged in the practice of securities law, whereupon the Company will forthwith issue and deliver upon the order of the Warrant Holder a new Warrant (in accordance with Section 9(d)), registered as the Warrant Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Warrant Holder and, if less than the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 9(d)) to the Warrant Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) Lost, Stolen or Mutilated Warrant . Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification and payment of any required bond undertaking by the Warrant Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Warrant Holder a new Warrant (in accordance with Section 9(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) Exchangeable for Multiple Warrants . This Warrant is exchangeable, upon the surrender hereof by the Warrant Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 9(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Warrant Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) Issuance of New Warrants . Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 9(a) or Section 9(c), the Warrant Shares designated by the Warrant Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

10. Amendment And Waiver . Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of a majority the Warrant Holders.

11. Transfer. This Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company.

12. Severability. If any provision of this Warrant is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Warrant so long as this Warrant as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

13. Choice of Law and Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Subscription Agreement.

14. Notices. Any notice, request or other document required or permitted to be given or delivered to the Warrant Holder by the Company shall be delivered in accordance with the notice provisions of the Subscription Agreement.

[signatures on following page]

IN WITNESS WHEREOF, the undersigned hereby execute this Warrant Agreement as of the day and year first above written.

COMPANY

FAT BRANDS INC.

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

Warrant Holder

Print Name: Trojan Investments, LLC

By: /s/ Kenneth J. Anderson
Name: Kenneth J. Anderson
Title: Manager

EXHIBIT A

NOTICE OF EXERCISE

The undersigned holder hereby exercises the right to purchase _________________ shares of Common Stock (“ **Warrant Shares** ”) of FAT Brands Inc., a Delaware corporation (the “ **Company** ”), evidenced by the attached Warrant No. [ ] (the “ **Warrant** ”). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. _____ ***Check if Applicable*** . The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to purchase ________ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefore at the price per share provided by such Warrant in cash or by certified or official bank check or by wired funds in the amount of $_______.

2. _____ ***Check if Applicable*** . The undersigned, pursuant to the provisions set forth in the within Warrant, hereby elects to exercise the cashless exercise provisions of the within warrant with respect to ________ shares of Common Stock covered by such Warrant, and requests that the Company issue to the undersigned an aggregate of _______ Warrant Shares based on the application of the formula set forth in Section 3(c) of such Warrant.

Date: _______________ __, ______

____
Name of Registered Holder

By: ___________________________________
Name:
Title:

Exhibit 4-2

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS WHICH, IN THE OPINION OF COUNSEL FOR THE ISSUER, IS AVAILABLE.

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND VOTING SET FORTH IN AN INVESTOR RIGHTS AND VOTING AGREEMENT, DATED AS OF THE DATE HEREOF, BY AND AMONG THE COMPANY, CERTAIN STOCKHOLDERS OF THE COMPANY AND THE ORIGINAL HOLDER HEREOF. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS WARRANT MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF THIS WARRANT AND SUCH INVESTOR RIGHTS AND VOTING AGREEMENT.

FAT BRANDS INC.

WARRANT AGREEMENT
(Common Stock)

Warrant No. A-2

This Warrant Agreement (this " Warrant ") is dated as of June 27, 2018 (the " Issue Date ") and entered into by and between FAT Brands Inc., a company organized under the laws of State of Delaware (the " Company "), and the undersigned (together with its successors and assigns, the " Warrant Holder ").

WHEREAS, the Company and the Warrant Holder have entered into that certain Subscription Agreement (the " Subscription Agreement "), pursuant to which the Warrant Holder, together with the other Subscribers, agreed to purchase certain Units of the Company, including the Warrants evidenced by this Warrant; and

WHEREAS, all of the terms and conditions of such Subscription Agreement are incorporated herein by this reference, and all capitalized terms not separately defined in this Warrant, shall have the same meanings as defined in the Subscription Agreement.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Warrant, and for other good and valuable consideration, the parties agree as follows:

1. **Grant of Warrant** . This Warrant entitles the Warrant Holder, upon the terms and subject to the conditions set forth herein, to purchase from the Company up to **Twenty-Five Thousand (25,000)** shares of Common Stock (subject to adjustment as provided in Section 6, the " Warrant Shares ").

2. **Term and Termination of Warrant** . The Warrant shall be exercisable at any time or times beginning on the Issue Date and ending on the five (5) year anniversary of the Issue Date, at which time this Warrant shall terminate.

3. **Exercise of the Warrant** .

(a) Exercise Price . For the purposes of this Warrant, the exercise price shall be $8.00 per share of Common Stock (the " Exercise Price "), subject to adjustment as provided in Section 6.

(b) Exercise and Payment . The purchase rights represented by the Warrant may be exercised in round lots only by the Warrant Holder, in whole or in part, by the surrender of the Warrant (together with a duly executed notice of exercise in the form attached hereto as Exhibit A (the " Exercise Notice ") at the principal office of the Company and by the payment to the Company by check or wire transfer of immediately available funds of an amount equal to (i) the number of shares of Common Stock being purchased upon exercise of the Warrant multiplied by (ii) the Exercise Price (the " Warrant Price ").

(c) Cashless Exercise . If at any time after the date hereof, there is no effective registration or offering statement effective or qualified in connection with, or no current prospectus or offering circular available for, the public resale of the Warrant Shares by the Warrant Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a "cashless exercise" by instructing the Company to issue Warrant Shares then issuable upon exercise of all or any part of this Warrant on a net basis such that, without payment of any cash consideration or other immediately available funds, the Warrant Holder shall surrender this Warrant in exchange for the number of Warrant Shares as is computed using the following formula $X = Y(A - B) \div A$:

Where:

X = the number of Warrant Shares to be issued to the Warrant Holder.

Y = the total number of Warrant Shares for which the Holder has elected to exercise this Warrant

A = the Fair Market Value of one Warrant Share as of the applicable Exercise Date.

B = the Exercise Price in effect under this Warrant as of the applicable Exercise Date.

For purposes of this Warrant, " **Fair Market Value** " of a Warrant Share shall mean the arithmetic average of the last trade price of the Common Stock (as reported by Bloomberg Financial Markets) for the five (5) consecutive days on which the Nasdaq Stock Market is open for trading, ending on the date immediately preceding the Exercise Date, on the principal trading market on which the Common Stock is quoted or listed for trading. If the Fair Market Value cannot be calculated on a particular date on the foregoing basis, the Fair Market Value shall be determined in good faith by the Board of Directors of the Company. All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(d) Warrant Shares . Subject to the other provisions of this Warrant, on or before the fifth (5th) day following the date on which the Company has received an Exercise Notice, so long as the Warrant Holder delivers the Warrant Price, the Company shall issue and deliver to the Warrant Holder or, at the Warrant Holder's instruction pursuant to the Exercise Notice, the Warrant Holder's agent or designee, in each case, sent by reputable overnight courier to the address as specified in the applicable Exercise Notice, a certificate, registered in the Company's share register in the name of the Warrant Holder or its designee (as indicated in the applicable Exercise Notice), for the number of shares of Common Stock to which the Warrant Holder is entitled pursuant to such exercise. The Company shall be responsible for all fees and expenses of the Transfer Agent and all fees and expenses with respect to the issuance of shares of Common Stock via DTC, if available. Upon delivery of an Exercise Notice, the Warrant Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date such Warrant Shares are credited to the Warrant Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Shares (as the case may be). If this Warrant is submitted in connection with any exercise pursuant to this Section 3 and the number of Warrant Shares represented by this Warrant submitted for exercise is for a greater number of Warrant Shares than the number of Warrant Shares being acquired upon an exercise, then, at the request of the Warrant Holder, the Company shall as soon as practicable and in no event later than three (3) business days after any exercise and at its own expense, issue and deliver to the Warrant Holder (or its designee) a new Warrant (in accordance with Section 9(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of Warrant Shares to be issued shall be rounded up to the nearest whole number.

(e) Legends. The Warrant Shares to be acquired by the Warrant Holder pursuant hereto, may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration or offering statement under the Securities Act, or (ii) the Company or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions and from an attorney who regularly practices securities law) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration. Except as otherwise provided in this Warrant (and subject to the removal provisions set forth below), until such time as the Warrant Shares issuable upon exercise of the Warrant have been registered under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for Warrant Shares that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

> THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

The legend set forth above shall be removed and the Company shall issue to the Warrant Holder a new certificate therefor free of any transfer legend if (i) the Company shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Securities may be made without registration under the Act and the shares are so sold or transferred, or (ii) such security is registered for sale by the Warrant Holder under an effective registration statement filed under the Act.

In addition, the Warrant Shares shall bear a legend substantially in the following form during such time that the Warrant Shares are subject to the Investor Rights and Voting Agreement of even date hereof:

> THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND VOTING SET FORTH IN AN INVESTOR RIGHTS AND VOTING AGREEMENT, DATED AS OF JUNE [●], 2018, BY AND AMONG THE COMPANY, CERTAIN STOCKHOLDERS OF THE COMPANY AND THE ORIGINAL HOLDER HEREOF, A COPY OF WHICH IS AVAILABLE UPON REQUEST FROM THE COMPANY. THE SECURITIES REPRESENTED HEREBY MAY NOT BE VOTED, TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHER DISPOSED OF, EXCEPT IN COMPLIANCE WITH SUCH INVESTOR RIGHTS AND VOTING AGREEMENT.

(f) Limitation on Exercise. Notwithstanding anything contained herein, this Warrant shall not be exercisable to the extent that (A) the aggregate shares of Common Stock issued by the Company to holders of Preferred Stock upon conversion pursuant to Section 5(b)(i) of the Certificate, plus (B) the aggregate shares of Common Stock issued or issuable by the Company pursuant to the exercise of warrants issued by the Company under the Subscription Agreement or Registration Rights Agreement would exceed 19.99% of all shares of Common Stock issued and outstanding on the Issue Date, subject to pro rata adjustment in connection with any stock splits, stock dividends, or similar changes to the Company's capitalization occurring after the Issue Date (the "20% Cap"), unless the Company receives stockholder approval to exceed the 20% Cap. The Holder shall have the right to receive cash payments from the Company for all shares of Common Stock that this Section 3(f) renders the Company incapable of issuing to such Holder ("Deficiency Shares") at a price equal to the value determined by the Black-Scholes pricing model for such portion of the Warrants which would otherwise be exercisable for Deficiency Shares. If applicable, the restrictions and redemption obligations set forth in this Section 3(f) shall cease to apply if (1) the Company obtains stockholder approval to issue Common Stock in excess of the 20% Cap pursuant to the rules and regulations of The Nasdaq Stock Market (or such other principal trading market on which the Common Stock is quoted or listed for trading), or (2) the Company provides the Holder with irrevocable written notice, based upon the written advice of its counsel, that any such issuance of Common Stock is not subject to the 20% Cap pursuant to the rules and regulations of The Nasdaq Stock Market LLC. The Company will use its best efforts promptly to obtain either the stockholder approval or the irrevocable notice described in the preceding sentence and to provide the Holder with a copy of same. Without limiting the foregoing, in the event at any time the number of Registrable Securities then issued or issuable upon full exercise of the Warrant is 85% of the 20% Cap (assuming full exercise without regard to any beneficial ownership limitations set forth therein), then the Company shall within 60 days hold a stockholder meeting and solicit the aforementioned stockholder approval by soliciting proxies in favor of issuing Common Stock in excess of the 20% Cap and will use its best efforts to have all affiliates of the Company which own or control shares of Common Stock to vote their shares in favor of such resolution.

(g) Delivery of Cash in Lieu of Warrant Shares. If the Warrant Holder delivers an Exercise Notice and Warrant Price, the Company may, in lieu of delivering all of the Warrant Shares upon such exercise, instead deliver less than the requested number of Warrant Shares (the "Withheld Shares") plus an amount of cash that is equal to the Fair Market Value of the Warrant Shares that would be deliverable to the Holder had the Holder elected a "cashless exercise" under Section 3(c) for the number of Withheld Shares. Such cash payment shall be made within twenty (20) business days of the Exercise Notice.

4. Stock Fully Paid; Reservation of Warrant Shares.

(a) Stock Fully Paid. All of the Warrant Shares issuable upon the exercise of the Warrant will, upon issuance and receipt of the Warrant Price for such Warrant Shares, be duly authorized, validly issued, fully paid and nonassessable, and will be free and clear of all taxes, liens, encumbrances and charges with respect to the issue.

(b) Reservation. For so long as any of the Warrants are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of effecting the exercise of the Warrants, 100% of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all Warrants then outstanding (the "Required Reserve Amount").

(c) Insufficient Authorized Shares. If at any time the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Warrants at least a number of shares of Common Stock equal to the Required Reserve Amount (an "Authorized Share Failure"), then the Company shall use its reasonable best efforts immediately to take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Warrants then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than sixty (60) days after the occurrence of such Authorized Share Failure, the Company shall use its reasonable best efforts to either (x) obtain the written consent of its stockholders for the approval of an increase in the number of authorized shares of Common Stock or (y) hold a special meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock; provided, that if the Company is then subject to review of any such related documents by the Securities and Exchange Commission, the time frame above shall be extended by an additional thirty (30) days. In connection with such meeting, the Company shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock, to cause its Board of Directors to recommend to the stockholders that they approve such proposal and to cause its management to vote in favor of such proposal.

5. Rights of the Warrant Holder . The Warrant Holder shall have no voting rights as a stockholder or rights to dividends or other distributions with respect to Warrant Shares subject to this Warrant until payment in full of the Warrant Price for Warrant Shares being issued.

6. Adjustment of Exercise Price and Number of Warrant Shares . In order to prevent dilution of the purchase rights granted under this Warrant, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 6 (in each case, after taking into consideration any prior adjustments pursuant to this Section 6).

(a) Stock Dividend, Subdivision or Combination. If the Company shall, at any time or from time to time after the Original Issue Date, (i) pay a dividend or make any other distribution upon the Common Stock or any other capital stock of the Company payable in shares of Common Stock, or (ii) subdivide (by any stock split, recapitalization or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to any such dividend, distribution or subdivision shall be proportionately reduced and the number of Warrant Shares issuable upon exercise of this Warrant shall be proportionately increased. If the Company at any time combines (by combination, reverse stock split or otherwise) its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares issuable upon exercise of this Warrant shall be proportionately decreased. Any adjustment under this Section 6(a) shall become effective at the close of business on the date the dividend, subdivision or combination becomes effective.

(b) Reorganization, Reclassification, Consolidation or Merger . In the event of any (i) capital reorganization of the Company, (ii) reclassification of the stock of the Company (other than a change in par value or from par value to no par value or from no par value to par value or as a result of a stock dividend or subdivision, split-up or combination of shares), (iii) consolidation or merger of the Company with or into another Person, (iv) sale of all or substantially all of the Company's assets to another Person or (v) other similar transaction, in each case which entitles the holders of Common Stock to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, each Warrant shall, immediately after such reorganization, reclassification, consolidation, merger, sale or similar transaction, remain outstanding and shall thereafter, in lieu of or in addition to (as the case may be) the number of Warrant Shares then exercisable under this Warrant, be exercisable for the kind and number of shares of stock or other securities or assets of the Company or of the successor Person resulting from such transaction to which the Warrant Holder would have been entitled upon such reorganization, reclassification, consolidation, merger, sale or similar transaction if the Warrant Holder had exercised this Warrant in full immediately prior to the time of such reorganization, reclassification, consolidation, merger, sale or similar transaction and acquired the applicable number of Warrant Shares then issuable hereunder as a result of such exercise (without taking into account any limitations or restrictions on the exercisability of this Warrant); and, in such case, appropriate adjustment shall be made with respect to the Warrant Holder's rights under this Warrant to insure that the provisions of this Section 6 hereof shall thereafter be applicable, as nearly as possible, to this Warrant in relation to any shares of stock, securities or assets thereafter acquirable upon exercise of this Warrant (including, in the case of any consolidation, merger, sale or similar transaction in which the successor or purchasing Person is other than the Company, an immediate adjustment in the Exercise Price to the value per share for the Common Stock reflected by the terms of such consolidation, merger, sale or similar transaction, and a corresponding immediate adjustment to the number of Warrant Shares acquirable upon exercise of this Warrant without regard to any limitations or restrictions on exercise, if the value so reflected is less than the Exercise Price in effect immediately prior to such consolidation, merger, sale or similar transaction). The provisions of this Section 6(b) shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales or similar transactions. The Company shall not effect any such reorganization, reclassification, consolidation, merger, sale or similar transaction unless, prior to the consummation thereof, the successor Person (if other than the Company) resulting from such reorganization, reclassification, consolidation, merger, sale or similar transaction, shall assume, by written instrument substantially similar in form and substance to this Warrant and satisfactory to the Warrant Holder, the obligation to deliver to the Warrant Holder such shares of stock, securities or assets which, in accordance with the foregoing provisions, such Warrant Holder shall be entitled to receive upon exercise of this Warrant.

(c) Certificate as to Adjustment .

(i) As promptly as reasonably practicable following any adjustment of the Exercise Price, but in any event not later ten (10) days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer setting forth in reasonable detail such adjustment and the facts upon which it is based and certifying the calculation thereof.

(ii) As promptly as reasonably practicable following the receipt by the Company of a written request by the Warrant Holder, but in any event not later than ten (10) thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer certifying the Exercise Price then in effect and the number of Warrant Shares or the amount, if any, of other shares of stock, securities or assets then issuable upon exercise of the Warrant.

(iii) All calculations under this Section 6 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. No adjustment shall be made to the Exercise Price unless such adjustment would require a change of at least 1% in the Exercise Price. Any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment or in connection with any exercise of the Warrant. For purposes of this Section 6, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of the Company) issued and outstanding.

7. **Representations and Warranties** . The representations and warranties of the Warrant Holder set forth in the Subscription Agreement shall be true and correct as of the Issue Date and are incorporated by reference herein.

8. **Noncircumvention** . The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Warrant Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

9. **Reissuance Of Warrants** .

(a) Transfer of Warrant. If this Warrant is to be transferred, the Warrant Holder shall surrender this Warrant to the Company, together with an opinion of counsel in form and substance satisfactory to the Company from an attorney regularly engaged in the practice of securities law, whereupon the Company will forthwith issue and deliver upon the order of the Warrant Holder a new Warrant (in accordance with Section 9(d)), registered as the Warrant Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Warrant Holder and, if less than the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 9(d)) to the Warrant Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification and payment of any required bond undertaking by the Warrant Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Warrant Holder a new Warrant (in accordance with Section 9(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Warrant Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 9(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Warrant Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 9(a) or Section 9(c), the Warrant Shares designated by the Warrant Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

10. **Amendment And Waiver**. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of a majority the Warrant Holders.

11. **Transfer**. This Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company.

12. **Severability**. If any provision of this Warrant is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Warrant so long as this Warrant as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

13. **Choice of Law and Jurisdiction** . All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Subscription Agreement.

14. **Notices** . Any notice, request or other document required or permitted to be given or delivered to the Warrant Holder by the Company shall be delivered in accordance with the notice provisions of the Subscription Agreement.

[signatures on following page]

IN WITNESS WHEREOF, the undersigned hereby execute this Warrant Agreement as of the day and year first above written.

COMPANY

FAT BRANDS INC.

By: */s/ Ron Roe*
Name: Ron Roe
Title: Chief Financial Officer

Warrant Holder

Print Name: Fog Cutter Capital Group, Inc.

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

EXHIBIT A

NOTICE OF EXERCISE

The undersigned holder hereby exercises the right to purchase _________________ shares of Common Stock (" **Warrant Shares** ") of FAT Brands Inc., a Delaware corporation (the " **Company** "), evidenced by the attached Warrant No. [ ] (the " **Warrant** "). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. _____ ***Check if Applicable*** . The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to purchase ________ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefore at the price per share provided by such Warrant in cash or by certified or official bank check or by wired funds in the amount of $_______.

2. _____ ***Check if Applicable*** . The undersigned, pursuant to the provisions set forth in the within Warrant, hereby elects to exercise the cashless exercise provisions of the within warrant with respect to ________ shares of Common Stock covered by such Warrant, and requests that the Company issue to the undersigned an aggregate of _______ Warrant Shares based on the application of the formula set forth in Section 3(c) of such Warrant.

Date: _______________ __, ______

____
Name of Registered Holder

By: ______________________________________
Name:
Title:

Exhibit 10.8

FAT BRANDS INC.

NOTE EXCHANGE AGREEMENT

This Note Exchange Agreement (the " Agreement "), dated as of June 27, 2018 (the " Effective Date "), is entered into by and between FAT Brands Inc., a Delaware corporation (the " Company "), and Fog Cutter Capital Group, Inc., a Maryland corporation (the " Holder ").

Whereas , on or about October 20, 2017, the Company issued a Promissory Note to the Holder with an initial principal amount of $30,000,000 (the " Note "), which has an estimated outstanding balance of principal plus accrued interest as of the Effective Date equal to $9,844,411 (the " Note Balance "); and

Whereas , the parties desire that the Holder exchange all of the Note Balance into shares of Common Stock and Series A Fixed Rate Cumulative Preferred Stock of the Company.

Now, Therefore , in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Exchange of Note Balance .

(a) The Holder agree that as of the Effective Date, the Note Balance shall be exchanged for the following shares of capital stock of the Company as follows (the " Exchange Shares "):

(i) $2,000,000 of the Note Balance shall be exchanged as the purchase price for a subscription to 20,000 shares of Series A Fixed Rate Cumulative Preferred Stock of the Company; and

(ii) The remaining Note Balance of $7,844,411 shall be exchanged for 1,067,266 shares of Common Stock of the Company, representing an exchange price of $7.35 per share, which the Company has determined is equal to or greater than the market value of the Common Stock on the date hereof determined pursuant to the applicable provisions of the Nasdaq Marketplace Rules.

(b) On the Exchange Date, the Note shall be cancelled, and the Company shall have no further obligations to pay any money or issue any securities to the Holder or otherwise in respect of the Note. The Holder acknowledge and agree that no interest is payable under any of the Note.

(c) Subject to the approval or non-objection, if required, by The Nasdaq Stock Market LLC of the transactions contemplated under this Agreement, promptly following the Exchange Date the Company will issue and deliver to the Holder certificates evidencing the Exchange Shares, and the Holder shall deliver the original Note for cancellation to the Company.

(d) As soon as practicable but no later than ten (10) days following the release of the Company's quarterly financial statements for the quarter ending July 1, 2018, the Company will re-confirm the amount of the Note Balance as of the Effective Date. If the final computation of the Note Balance as of the Effective Date is greater or lesser than the Note Balance, the parties will true up the actual number of Exchange Shares issued to Holder based on the revised amount of the Note Balance.

2. Holder Representations . The Holder represents and warrants to the Company as follows:

(a) The Exchange Shares being acquired by the Holder are being acquired for the Holder's own account and for the purpose of investment and not with a view to, or in connection with, the resale, transfer or other distribution thereof, nor with any present intention of reselling, transferring or distributing the Exchange Shares. Any sale, transfer or other disposition of any of the Exchange Shares by the Holder will be made only if such securities are registered under the Securities Act of 1933, as amended (the " Securities Act "), or the sale is made in compliance with an exemption under the Securities Act, or the rules thereunder, and any applicable state securities laws.

(b) The Holder is an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act.

(c) No portion of the Note being exchanged has been sold, transferred, assigned, encumbered or otherwise conveyed, and the Holder is the record and beneficial owner of all such Note, free and clear of all liens, security interests and encumbrances of any type or kind placed thereon.

(d) The execution and delivery of this Agreement constitute the valid and binding obligation of the Holder, enforceable against the Holder in accordance with its terms.

(e) The Holder acknowledges that the exchange of its Note may involve tax consequences, and that neither the Company nor its legal counsel or advisors have provided any tax advice or information to the Holder. The Holder acknowledges that it must retain his own professional advisors to evaluate the tax and other consequences of exchanging the Note into Exchange Shares.

3. Miscellaneous.

(a) Amendments . This Agreement may not be amended or waived, except by a writing signed the Company and Holder.

(b) Governing Law . This Agreement is and shall be governed by and enforced in accordance with the laws of the State of Delaware, excluding its choice of law rules.

(c) Successors and Assigns . The provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors, assigns, heirs, executors and administrators and other legal representatives.

(d) Counterparts . This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which shall constitute one agreement. This Agreement shall become effective upon delivery to each party of an executed counterpart or the earlier delivery to each party of original, photocopied, or electronically transmitted signature pages that together (but need not individually) bear the signatures of all other parties.

(e) Further Assurances . Each party shall execute and deliver such documents and take such action, as may reasonably be considered within the scope of such party's obligations hereunder, necessary to effectuate the transactions contemplated by this Agreement.

IN WITNESS WHEREOF , the parties hereto have executed this Note Exchange Agreement as of the date first written above.

FAT BRANDS INC.

By: */s/ Ron Roe*
Name: Ron Roe
Title: Chief Financial Officer

FOG CUTTER CAPITAL GROUP, INC.

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

Exhibit 10.8.1

FAT BRANDS INC.

AMENDMENT TO NOTE EXCHANGE AGREEMENT

This Amendment to Note Exchange Agreement (the " Amendment "), dated as of August 14, 2018, is entered into by and between FAT Brands Inc., a Delaware corporation (the " Company "), and Fog Cutter Capital Group, Inc., a Maryland corporation (the " Holder "), and amends the original Note Exchange Agreement, dated June 27, 2018, between the parties (the " Agreement "). Capitalized terms used and not otherwise defined herein shall have the meanings given thereto in the Agreement.

WHEREAS, the parties desire to amend the Agreement as provided herein.

Now, Therefore , in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby amend the Agreement as follows, effective as of the Effective Date:

1. Section 1(a)(ii) of the Agreement is amended and restated to read, in its entirety, as follows:

> "A portion of the Note Balance in the amount of $7,272,053 shall be exchanged for 989,395 shares of Common Stock of the Company, representing an exchange price of $7.35 per share, which the Company has determined is equal to or greater than the market value of the Common Stock on the date hereof determined pursuant to the applicable provisions of the Nasdaq Marketplace Rules."

2. Each of Section 1(b) and Section 1(d) of the Agreement is deleted in its entirety.

3. Except as expressly amended hereby, all provisions of the Agreement shall remain in full force and effect and shall be binding upon the parties; provided , however , that in the event of any conflicts or inconsistencies between the provisions of the Agreement and the provisions of this Amendment, the provisions of this Amendment shall govern and be deemed controlling.

4. This Amendment may be executed by the parties hereto in separate counterparts, each of which shall be deemed to be the original but all of which together shall constitute one and the same Amendment, provided that all of the parties hereto shall have executed a counterpart to this Amendment. This Amendment may be executed through delivery of duly executed signature pages by facsimile or electronic mail.

5. Each party shall execute and deliver such documents and take such action, as may reasonably be considered within the scope of such party's obligations hereunder, necessary to effectuate the transactions contemplated by this Amendment.

IN WITNESS WHEREOF , the parties hereto have executed this Amendment as of the date first written above.

FAT BRANDS INC.

By: */s/ Ron Roe*
Name: Ron Roe
Title: Chief Financial Officer

FOG CUTTER CAPITAL GROUP, INC.

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

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Andrew A. Wiederhorn, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 cont rol over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer(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: August 15, 2018

/s/ Andrew A. Wiederhorn
Andrew A. Wiederhorn
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Ron Roe, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The registrant's other certifying officer(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: August 15, 2018

/s/ Ron Roe

Ron Roe
Chief Financial Officer
(Principal Financial and Accounting 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 his capacity as an officer of FAT Brands Inc., that, to his knowledge, the Quarterly Report of FAT Brands Inc. on Form 10-Q for the period ended July 1, 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.

August 15, 2018

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

August 15, 2018

By */s/ Ron Roe*
Ron Roe
Vice President and 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.