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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 29, 2019

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	**82-1302696**
(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) 319-1850
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, $0.0001 par value per share	**FAT**	**The NASDAQ Stock Market LLC**

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

None

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

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

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

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

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

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

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

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

The aggregate market value of voting common stock held by non-affiliated stockholders as of June 30, 2019 was approximately $8,038,655.

As of April 13, 2020, there were 11,876,659 shares of common stock outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein and certain statements contained in future filings by the Company with the SEC may not be based on historical facts and are "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts contained in this Form 10-K may be forward-looking statements. Statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, including, among others, statements regarding expected new franchisees, brands, store openings and future capital expenditures are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions.

Forward-looking statements are subject to significant business, economic and competitive risks, uncertainties and contingencies including, but not limited to, the impact of the current novel coronavirus pandemic ("COVID-19"), many of which are difficult to predict and beyond our control, which could cause our actual results to differ materially from the results expressed or implied in such forward-looking statements. These and other risks, uncertainties and contingencies are described in this Annual Report on Form 10-K, including under "Item 1A. Risk Factors", and the other reports that we file with the SEC from time to time.

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

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

PART I

ITEM 1. BUSINESS

Business Overview

FAT Brands Inc., formed in March 2017 as a wholly owned subsidiary of Fog Cutter Capital Group, Inc. ("FCCG"), is a leading multi-brand restaurant franchising company that develops, markets, and acquires predominantly fast casual restaurant concepts around the world. On October 20, 2017, we completed an initial public offering and issued additional shares of common stock representing 20 percent of our ownership (the "Offering"). As of December 29, 2019, FCCG continues to control a significant voting majority of the Company.

As a franchisor, we generally do not own or operate restaurant locations, but rather generate revenue by charging franchisees an initial franchise fee as well as ongoing royalties. This asset light franchisor model provides the opportunity for strong profit margins and an attractive free cash flow profile while minimizing restaurant operating company risk, such as long-term real estate commitments or capital investments. Our scalable management platform enables us to add new stores and restaurant concepts to our portfolio with minimal incremental corporate overhead cost, while taking advantage of significant corporate overhead synergies. The acquisition of additional brands and restaurant concepts as well as expansion of our existing brands are key elements of our growth strategy.

As of December 29, 2019, we were the owner and franchisor of the following restaurant brands:

Fatburger. Founded in Los Angeles, California in 1947, Fatburger (The Last Great Hamburger Stand) has, throughout its history, maintained its reputation as an iconic, all-American, Hollywood favorite hamburger restaurant serving a variety of freshly made-to-order, customizable, big, juicy, and tasty Fatburgers, Turkeyburgers, Chicken Sandwiches, Impossible™ Burgers, Veggieburgers, French fries, onion rings, soft-drinks and milkshakes. With a legacy spanning over 70 years, Fatburger's dedication to superior quality inspires robust loyalty amongst its customer base and has long appealed to American cultural and social leaders. We have counted many celebrities and athletes as past franchisees and customers, and we believe this prestige has been a principal driver of the brand's strong growth. Fatburger offers a premier dining experience, demonstrating the same dedication to serving gourmet, homemade, custom-built burgers as it has since 1947. As of December 29, 2019, there were 163 franchised and sub-franchised Fatburger locations across eight states and 18 countries.

Buffalo's Cafe. Established in Roswell, Georgia in 1985, Buffalo's Cafe (Where Everyone is Family) is a family-themed casual dining concept known for its chicken wings and 13 distinctive homemade wing sauces, burgers, wraps, steaks, salads and other classic American cuisine. Featuring a full bar and table service, Buffalo's Cafe offers a distinctive dining experience affording friends and family the flexibility to share an intimate dinner together or to casually watch sporting events while enjoying extensive menu offerings. Beginning in 2011, Buffalo's Express was developed and launched as a fast-casual, smaller footprint variant of Buffalo's Cafe offering a limited version of the full menu with an emphasis on chicken wings, wraps and salads. Current Buffalo's Express outlets are co-branded with Fatburger locations, providing our franchisees with complementary concepts that share kitchen space and result in a higher average unit volume (compared to stand-alone Fatburger locations). As of December 29, 2019, there were 17 franchised Buffalo's Cafe and 87 co-branded Fatburger / Buffalo's Express locations globally.

Ponderosa & Bonanza Steakhouse. Ponderosa Steakhouse, founded in 1965, and Bonanza Steakhouse, founded in 1963 (collectively, "Ponderosa"), offer the quintessential American steakhouse experience, for which there is strong and growing demand in international markets, particularly in Asia and the Middle East. Ponderosa and Bonanza Steakhouses offer guests a high-quality buffet and broad array of great tasting, affordably priced steak, chicken and seafood entrées. Buffets at Ponderosa and Bonanza Steakhouses feature a large variety of all you can eat salads, soups, appetizers, vegetables, breads, hot main courses and desserts. An additional variation of the brand, Bonanza Steak & BBQ, offers a full-service steakhouse with fresh farm-to-table salad bar and a menu showcase of USDA flame-grilled steaks and house-smoked BBQ, with contemporized interpretations of traditional American classics. As of December 29, 2019, there were 76 Ponderosa and 13 Bonanza restaurants operating under franchise and sub-franchise agreements in 16 states and five countries.

Hurricane Grill & Wings. Founded in Fort Pierce, Florida in 1995, Hurricane Grill & Wings is a tropical beach themed casual dining restaurant known for its fresh, jumbo, chicken wings, 35 signature sauces, burgers, bowls, tacos, salads and sides. Featuring a full bar and table service, Hurricane Grill & Wings' laid-back, casual, atmosphere affords family and friends the flexibility to enjoy dining experiences together regardless of the occasion. The acquisition of Hurricane Grill & Wings has been complementary to FAT Brands existing portfolio chicken wing brands, Buffalo's Cafe and Buffalo's Express. The Company acquired the Hurricane brand on July 3, 2018 and began consolidating Hurricane's financial results effective with that date. As of December 29, 2019, there were 51 franchised Hurricane Grill & Wings and 2 franchised Hurricane BTWs (Hurricane's fast-casual burgers, tacos & wings concept), across eight states.

Yalla Mediterranean. Founded in 2014, Yalla Mediterranean is a Los Angeles-based restaurant chain specializing in authentic, healthful, Mediterranean cuisine with an environmentally conscience and focus on sustainability. The word "yalla" which means "let's go" is embraced in every aspect of Yalla Mediterranean's culture and is a key component of our concept. Yalla Mediterranean offers a healthful Mediterranean menu of wraps, plates, and bowls in a fast-casual setting, with cuisine prepared fresh daily using, GMO-free, local ingredients for a menu that includes vegetarian, vegan, gluten-free and dairy-free options accommodating customers with a wide variety of dietary needs and preferences. The brand demonstrates its commitment to the environment by using responsibly sourced proteins and utensils, bowls and serving trays made from compostable materials. Each of Yalla's seven locations across California also feature on-tap selections of craft beers and fine wines. The Company completed the Yalla Mediterranean transaction on December 3, 2018 and began consolidating Yalla Mediterranean's financial results effective that date. As of December 29, 2019, we have converted two Yalla restaurants into franchised operations. We intend to sell the remaining existing Yalla locations to franchisees and expand the business through additional franchising.

Elevation Burger. Established in Northern Virginia in 2002, Elevation Burger is a fast-casual burger, fries, and shakes chain that provides its customers with healthier, "elevated" food options. Serving grass-fed beef, organic chicken, and French fries cooked using a proprietary olive oil-based frying method, Elevation maintains environmentally-friendly operating practices including responsible sourcing of ingredients, robust recycling programs intended to reduce carbon footprint, and store décor constructed of eco-friendly materials. The acquisition of Elevation Burger in June 2019 aligns with our corporate mission of providing fresh, authentic and tasty products to the customers of our franchisees and complements our existing burger brand, Fatburger. The Company acquired the Elevation Burger brand on June 19, 2019 and began consolidating Elevation Burger's financial results effective with that date. As of December 29, 2019, there were 45 franchised Elevation Burger locations across nine states and four countries.

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

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

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

Our franchisee base consisted of 195 franchisees as of December 29, 2019. Of these franchisees, 159 operate in North America and 46 own multiple restaurant locations. System wide, our franchisees operated 374 restaurants as of December 29, 2019 (304 of which were located in North America), with store level sales in excess of $390 million in 2019. As of December 29, 2019, we had a pipeline of over 200 new units which remain to be completed.

The FAT Brands Difference – Fresh. Authentic. Tasty.

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

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

Competitive Strengths

We believe that our competitive strengths include:

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

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

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

- *Experienced and Diverse Global Franchisee Network.* We have a new restaurant pipeline of over 200 locations across our brands. The acquisition of additional restaurant franchisors will also increase the number of restaurants operated by our existing franchisee network. Additionally, our franchise development team has built an attractive pipeline of new potential franchisees, with many experienced restaurant operators and new entrepreneurs eager to join the FAT Brands family.

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

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

Growth Strategy

The principal elements of our growth strategy include:

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

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

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

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

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

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

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

- *Enhance Footprint in Existing Markets through Current Franchisee Networks*. We had 195 franchisees who collectively operated more than 370 restaurants as of December 29, 2019. As noted, our existing and new franchisees have made new store commitments of over 200 locations across our brands, and we anticipate that our new and existing franchisees will open more than 30 new stores annually for at least the next four years. Beyond these existing commitments, we have found that many of our franchisees have grown their businesses over time, increasing the number of stores operated in their organizations and expanding their concept offerings across the FAT Brands portfolio of concepts.

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

Franchise Program – FAT Brands

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

Fatburger Franchise Agreements. For Fatburger locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store ($65,000 per store internationally) and a royalty fee of 2% to 6% of net sales on a 15-year term. For 2019, the average royalty rate was 4.7%. In addition, the franchisee must also pay an advertising fee of approximately 3% of net sales on local marketing and approximately 1% of net sales on international marketing.

Buffalo's Franchise Agreements. For Buffalo's Cafe and Buffalo's Express locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store and a royalty fee of 2.5% to 6% of gross sales on a 15-year term. For 2019, the average royalty rate was 3.8%. In addition, the Buffalo's Cafe franchisee agrees to pay an advertising fee of 2% of net sales on local marketing and 2% of net sales to the Buffalo's Cafe advertising fund. For Buffalo's Express locations, the franchisee pays approximately 1% of net sales on local store marketing and approximately 3% of net sales to the Buffalo's Express advertising fund.

Ponderosa / Bonanza Franchise Agreements. For Ponderosa locations, the current franchise agreement provides for an initial franchise fee of $40,000 per store and a royalty fee of 0.75% to 4% of net sales on a 15-year term. For 2019, the average royalty rate was 2.7%. In addition, currently franchisees are paying approximately 0.5% of net sales to a pooled advertising fund. For Bonanza locations, the current franchise agreement provides for an initial franchise fee of $40,000 per store and a royalty fee of 0.75% to 4% of net sales on a 15-year term. For 2019, the average royalty rate was 2.2% In addition, currently franchisees are paying approximately 0.5% of net sales to a pooled advertising fund.

Hurricane Franchise Agreements. For Hurricane locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store and a royalty fee of 6% of net sales on a 15-year term. For 2019, the average royalty rate was 4.2%. In addition, the franchisee must also pay an advertising fee of 2% of net sales to a pooled advertising fund.

Yalla Mediterranean Franchise Agreements. For franchised Yalla locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store and a royalty fee of 6% of net sales on a 15-year term. For 2019, the average royalty rate was 6%. In addition, the franchisee must also pay an advertising fee of 2% of net sales to a pooled advertising fund.

Elevation Burger Franchise Agreements. For franchised Elevation locations, the current franchise agreement provides for an initial franchise fee of $50,000 per store and a royalty fee of 6% of net sales on a 15-year term. For 2019, the average royalty rate was 5.6%. In addition, the franchisee must also pay an advertising fee of 1.5% of net sales to a pooled advertising fund.

Development Agreements. We use development agreements to facilitate the planned expansion of Fatburger and Buffalo's restaurants through single and multiple unit development. During 2019, many of our new Fatburger openings occurred as a result of existing development agreements. In addition, through our acquisition of Hurricane and Elevation, we acquired certain development agreements. Each development agreement gives a developer the exclusive right to construct, own and operate stores within a defined area. In exchange, the franchisee agrees to open a minimum number of stores in the area in a prescribed time period. Franchisees that enter into development agreements are required to pay a fee, which is credited against franchise fees due when the store is opened in the future. Franchisees may forfeit such fees and lose their rights to future development if they do not maintain the required schedule of openings.

Franchisee Support – FAT Brands

Marketing

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

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

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

Site Selection and Development.

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

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

Supply Chain Assistance

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

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

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

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

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

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

Field Consultant Assistance.

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

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

Training, Pre-Opening Assistance and Opening Support

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

Competition

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

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

Food Safety

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

Seasonality

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

Intellectual Property

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

Employees

As of December 29, 2019, our company, including our subsidiaries, employed approximately 58 people. We believe that we have good relations with our employees.

Government Regulation

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

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

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

Our Corporate Information

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

Available Information

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

ITEM 1A. RISK FACTORS

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

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

Risks Related to Our Business and Industry

The novel coronavirus (COVID-19) outbreak has disrupted and is expected to continue to disrupt our business, which could continue to materially affect our operations, financial condition and results of operations for an extended period of time.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and other countries. As a result, Company franchisees have temporarily closed some retail locations, reduced or modified store operating hours, adopted a "to-go" only operating model, or a combination these actions. These actions have reduced consumer traffic, all resulting in a negative impact to Company revenues. In addition, the COVID-19 pandemic may make it more difficult for our franchisees to staff restaurants and, in more severe cases, may cause a temporary inability to obtain supplies, increase commodity costs or cause full and partial closures of our affected restaurants for a prolonged period of time.

Our franchisees have temporarily shifted to a "to-go" only operating model at the majority of our Fatburger, Hurricane Grill & Wings, Buffalo's Café, and Elevation Burger restaurants in the United States, suspending sit-down dining and serving our guests through take-out, drive-thru and delivery. In addition, most of our Ponderosa, Bonanza, and Yalla stores have implemented temporary closures or modified hours. COVID-19 and the economic downturn caused by the pandemic may also materially adversely affect our ability to implement our growth plans, including closures of existing stores if our franchisees cannot continue operating, delays in opening new stores, and delays or inability to finance acquisitions of additional brands and restaurant concepts.

Furthermore, the fear of contracting viruses could cause employees or guests to avoid gathering in public places, which has had, and could further have, longer-term adverse effects on our restaurant guest traffic or the ability to adequately staff restaurants. We could also be adversely affected if government authorities impose longer-term restrictions on public gatherings such as reductions in restaurant capacity, operations of restaurants or mandatory closures. Even if such measures are not implemented and the COVID-19 virus does not spread significantly, the perceived risk of infection or health risk may adversely affect our business, liquidity, financial condition and results of operations.

While the disruption to our business from the COVID-19 pandemic is currently expected to be temporary, there is a great deal of uncertainty around the severity and duration of the disruption, and also the longer-term effects on our business and economic growth and consumer demand in the U.S. and worldwide. The effects of COVID-19 may materially adversely affect our business, results of operations, liquidity and ability to service our existing debt, particularly if these effects continue in place for a significant amount of time.

Health concerns arising from outbreaks of diseases, other than COVID-19, may have an adverse effect on our business.

In addition to the risks to our business of COVID-19 discussed above, our business could be materially and adversely affected by the outbreak of other widespread health epidemics or pandemics. The occurrence of such an outbreak of an epidemic illness, other than COVID-19, or other adverse public health developments could materially disrupt our business and operations. Such events could also significantly impact our industry and cause a temporary closure of restaurants, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

Furthermore, viruses other than COVID-19 may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect restaurant guest traffic or the ability to adequately staff franchised restaurants. We could also be adversely affected if jurisdictions in which our franchisees' restaurants operate impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Even if such measures are not implemented and a virus or other disease, other than COVID-19, does not spread significantly, the perceived risk of infection or health risk may affect our business.

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

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

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

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

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

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

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

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

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

- identification and availability of suitable restaurant locations with the appropriate size; visibility; traffic patterns; local residential neighborhood, retail and business attractions; and infrastructure that will drive high levels of customer traffic and sales per restaurant;
- competition with other restaurants and retail concepts for potential restaurant sites and anticipated commercial, residential and infrastructure development near new or potential restaurants;
- ability to negotiate acceptable lease arrangements;
- availability of financing and ability to negotiate acceptable financing terms;
- recruiting, hiring and training of qualified personnel;
- construction and development cost management;
- completing their construction activities on a timely basis;
- obtaining all necessary governmental licenses, permits and approvals and complying with local, state and federal laws and regulations to open, construct or remodel and operate our franchised restaurants;

- unforeseen engineering or environmental problems with the leased premises;
- avoiding the impact of adverse weather during the construction period; and
- other unanticipated increases in costs, delays or cost overruns.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Failure to recognize, respond to and effectively manage the accelerated impact of social media could adversely impact our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may engage in litigation with our franchisees.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Purchases at our franchisees' restaurants are generally discretionary for consumers and, therefore, our results of operations are susceptible to economic slowdowns and recessions. Our results of operations are dependent upon discretionary spending by consumers of our franchisees' restaurants, which may be affected by general economic conditions globally or in one or more of the markets we serve. Some of the factors that impact discretionary consumer spending include unemployment rates, fluctuations in the level of disposable income, the price of gasoline, stock market performance, changes in the level of consumer confidence, and long-term changes in consumer behavior related to social distancing behaviors resulting from COVID-19. These and other macroeconomic factors could have an adverse effect on sales at our franchisees' restaurants, which could lead to an adverse effect on our profitability or development plans and harm our financial condition and operating results.

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

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

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

- expropriation of private enterprises;
- increases in anti-American sentiment and the identification of our brands as American brands;
- political and economic instability; and
- other external factors.

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

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

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

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

We depend on key executive management.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Government orders regarding the response to health and other public safety concerns such as the various restrictions on business operations relating to the COVID-19 pandemic being experienced in 2020.
- The Americans with Disabilities Act in the U.S. and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.
- The U.S. Fair Labor Standards Act, which governs matters such as minimum wages, overtime and other working conditions, as well as family leave mandates and a variety of similar state laws that govern these and other employment law matters.
- Laws and regulations in government mandated health care benefits such as the Patient Protection and Affordable Care Act.
- Laws and regulations relating to nutritional content, nutritional labeling, product safety, product marketing and menu labeling.
- Laws relating to state and local licensing.
- Laws relating to the relationship between franchisors and franchisees.
- Laws and regulations relating to health, sanitation, food, workplace safety, child labor, including laws prohibiting the use of certain "hazardous equipment" by employees younger than the age of 18 years of age, and fire safety and prevention.
- Laws and regulations relating to union organizing rights and activities.
- Laws relating to information security, privacy, cashless payments, and consumer protection.
- Laws relating to currency conversion or exchange.
- Laws relating to international trade and sanctions.

- Tax laws and regulations.
- Antibribery and anticorruption laws.
- Environmental laws and regulations.
- Federal and state immigration laws and regulations in the U.S.

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

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

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

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

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

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

Conflict or terrorism could negatively affect our business.

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

Risks Related to Our Company and Our Organizational Structure

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

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

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

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

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

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

- net operating loss protective provisions, which require that any person wishing to become a "5% shareholder" (as defined in our certificate of incorporation) must first obtain a waiver from our board of directors, and any person that is already a "5% shareholder" of ours cannot make any additional purchases of our stock without a waiver from our board of directors;
- authorizing the issuance of "blank check" preferred stock that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;
- limiting the ability of stockholders to call special meetings or amend our bylaws;
- providing for a classified board of directors with staggered, three-year terms;
- requiring all stockholder actions to be taken at a meeting of our stockholders; and
- establishing advance notice and duration of ownership requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

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

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

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

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

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

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

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

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

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

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

While we have paid cash and stock dividends to holders of our Common Stock during fiscal 2018 and 2019, our board of directors may, in its sole discretion, decrease the amount or frequency of cash or stock dividends or discontinue the payment of dividends entirely. In addition, as a holding company, we will be dependent upon the ability of our operating subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay cash dividends to our stockholders. Our ability to pay cash dividends will be subject to our consolidated operating results, cash requirements and financial condition, the applicable provisions of Delaware law which may limit the amount of funds available for distribution to our stockholders, our compliance with covenants and financial ratios related to existing or future indebtedness, and our other agreements with third parties. In addition, each of the companies in the corporate chain must manage its assets, liabilities and working capital in order to meet all of its cash obligations, including the payment of dividends or distributions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters, including our principal administrative, sales and marketing, customer support, and research and development operations, are located in Beverly Hills, California, where we currently lease and occupy, pursuant to a lease, 2,915 square feet of space that expires on February 29, 2024 and 6,137 square feet of space that expires on September 30, 2025. Pursuant to the same lease, we will commence leasing an additional 6,161 square feet in mid-2020 that will expire on September 30, 2025.

Our administrative and culinary operations for Bonanza and Ponderosa are located in Plano, Texas, where we currently lease and occupy 1,775 square feet of space pursuant to a lease that expires on March 31, 2021. As part of the acquisition of Elevation Burger, the Company assumed a lease of 5,057 square feet of space in Falls Church, Virginia that expires on December 31, 2020. The Company subleases approximately 2,500 square feet of this lease to an unrelated third party.

As part of the Yalla transaction in December 2018, the Company assumed seven leases for properties in California being operated as Yalla Mediterranean restaurants but it is not a guarantor of the leases of the Yalla restaurants. As of December 29, 2019, two of the locations had been sold to franchisees and five of the leases continue to be consolidated in the Company's financial statements.

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

ITEM 3. LEGAL PROCEEDINGS

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

On June 7, 2018, FAT Brands, Inc., Andrew Wiederhorn, Ron Roe, James Neuhauser, Edward H. Rensi, Marc L. Holtzman, Squire Junger, Silvia Kessel, Jeff Lotman, Fog Cutter Capital Group Inc., and Tripoint Global Equities, LLC (collectively, the "Original Defendants") were named as defendants in a putative securities class action lawsuit entitled *Rojany v. FAT Brands, Inc.*, Case No. BC708539 (the "*Rojany* Case"), in the Superior Court of the State of California, County of Los Angeles. On July 31, 2018, the *Rojany* Case was designated as complex, pursuant to Rule 3.400 of the California Rules of Court, and assigned the matter to the Complex Litigation Program. On August 2, 2018, the Original Defendants were named defendants in a second putative class action lawsuit, *Alden v. FAT Brands*, Case No. BC716017 (the "*Alden* Case"), filed in the same court. On September 17, 2018, the *Rojany* and *Alden* Cases were consolidated under the *Rojany* Case number. On October 10, 2018, plaintiffs Eric Rojany, Daniel Alden, Christopher Hazelton-Harrington and Byron Marin ("Plaintiffs") filed a First Amended Consolidated Complaint against FAT Brands, Inc., Andrew Wiederhorn, Ron Roe, James Neuhauser, Edward H. Rensi, Fog Cutter Capital Group Inc., and Tripoint Global Equities, LLC (collectively, "Defendants"), thereby removing Marc L. Holtzman, Squire Junger, Silvia Kessel and Jeff Lotman as defendants. On November 13, 2018, Defendants filed a Demurrer to First Amended Consolidated Complaint. On January 25, 2019, the Court sustained Defendants' Demurrer to First Amended Consolidated Complaint with Leave to Amend in Part. Plaintiffs filed a Second Amended Consolidated Complaint on February 25, 2019. On March 27, 2019, Defendants filed a Demurrer to the Second Amended Consolidated Complaint. On July 31, 2019, the Court sustained Defendants' Demurrer to the Second Amended Complaint in Part, narrowing the scope of the case. Defendants filed their Answer to the Second Amended Consolidated Complaint on November 12, 2019. On January 29, 2020, Plaintiffs filed a Motion for Class Certification. Plaintiffs' Motion for Class Certification is fully briefed, and the hearing on Plaintiffs' Motion for Class Certification is set for April 23, 2020. Defendants dispute Plaintiffs' allegations and will continue to vigorously defend themselves in this litigation.

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

On August 24, 2018, the Original Defendants were named as defendants in a putative securities class action lawsuit entitled *Vignola v. FAT Brands, Inc.*, Case No. 2:18-cv-07469-PSG-PLA, in the United States District Court for the Central District of California. On October 23, 2018, Charles Jordan and David Kovacs (collectively, "Lead Plaintiffs") moved to be appointed lead plaintiffs, and the Court granted Lead Plaintiffs' motion on November 16, 2018. On January 15, 2019, Lead Plaintiffs filed a First Amended Class Action Complaint against the Original Defendants. The allegations and claims for relief asserted in *Vignola* are substantively identical to those asserted in the *Rojany* Case. Defendants filed a Motion to Dismiss First Amended Class Action Complaint, or, in the Alternative, to Stay the Action In Favor of a Prior Pending Action. On June 14, 2019, the Court denied Defendants' motion to stay but granted Defendants' motion to dismiss the First Amended Class Action Complaint, with Leave to Amend. Lead Plaintiffs filed a Second Amended Class Action Complaint on August 5, 2019. On September 9, 2019, Defendants' filed a Motion to Dismiss the Second Amended Class Action Complaint. On December 17, 2019, the Court granted Defendants' Motion to Dismiss the Second Amended Class Action Complaint in Part, Without Leave to Amend. The allegations remaining in *Vignola* are substantively identical to those remaining in the *Rojany* Case. Defendants filed their Answer to the Second Amended Class Action Complaint on January 14, 2020. On December 27, 2019, Lead Plaintiffs filed a Motion for Class Certification. By order entered March 16, 2020, the Court denied Lead Plaintiffs' Motion for Class Certification. By order entered April 1, 2020, the Court set various deadlines for the case, including a fact discovery cut-off of December 29, 2020, expert discovery cut-off of February 23, 2021 and trial date of March 30, 2021. Defendants dispute Lead Plaintiffs' allegations and will continue to vigorously defend themselves in this litigation.

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

The Company is involved in other claims and legal proceedings from time-to-time that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these actions will have a material adverse effect on its business, financial condition, results of operations, liquidity or capital resources.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Trading Market and Historical Prices

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

As of April 13, 2020, there were 22 shareholders of record for our Common Stock. The number of record holders does not include persons who held shares of our Common Stock in nominee or "street name" accounts through brokers.

The following table sets forth the high and low sales prices for our common stock as quoted on the NASDAQ as applicable, for the fiscal years ended December 29, 2019 and December 30, 2018, as adjusted for the February 28, 2019 stock dividend.

2019	High	Low
First quarter	$ 6.335	$ 4.406
Second quarter	$ 5.710	$ 3.860
Third quarter	$ 5.690	$ 3.510
Fourth quarter	$ 6.210	$ 4.337

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

Dividends

On February 7, 2019, we declared a stock dividend equal to 2.13% on our common stock, representing the number of shares equal to $0.12 per share of common stock based on the closing price as of February 6, 2019. The stock dividend was paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019. We issued 245,376 shares of common stock at a per share price of $5.64 in satisfaction of the stock dividend. No fractional shares were issued, instead we paid stockholders cash-in-lieu of shares. (See Note 18 in the accompanying audited consolidated financial statements). Unless otherwise noted, the common stock share and share price information presented in this Form 10-K for periods prior to February 28, 2019 have been adjusted retrospectively to reflect the impact of the stock dividend.

During the fiscal year ended December 30, 2018, we declared the following cash dividends on common stock, unadjusted for the February 28, 2019 stock dividend:

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

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

Equity Compensation Plan Information

The 2017 Omnibus Equity Incentive Plan (the "Plan") is a comprehensive incentive compensation plan under which the Company can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to, FAT Brands Inc. and its subsidiaries. The purpose of the Plan is to help attract, motivate and retain qualified personnel and thereby enhance stockholder value. The Plan provides a maximum of 1,021,250 shares available for grant, adjusted for the impact of the February 28, 2019 stock dividend. Unexercised options which lapse or are forfeited become available for grant.

As of December 29, 2019, under the Plan, we have granted options to purchase 778,328 shares of common stock to employees and 45,954 shares of common stock to non-employee consultants, adjusted for the February 28, 2019 stock dividend. As of December 29, 2019, options granted to employees to purchase 101,801 shares of common stock were cancelled, adjusted for the February 28, 2019 stock dividend. Each grant is subject to a three-year vesting requirement, with one-third of the options vesting each year.

The information presented in the table below is as of December 29, 2019, adjusted for the impact of the February 28, 2019 stock dividend.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	722,481	$ 8.45	298,769
Equity compensation plans not approved by security holders	-	-	-
Total	722,481	$ 8.45	298,769

Issuer Purchases of Equity Securities

We do not have a program in place to repurchase our own securities and as of December 29, 2019, we have not repurchased any of our equity securities.

Recent Sales of Unregistered Securities

In addition to those sales of unregistered securities we previously disclosed on reports that we filed with the SEC, we issued the following securities in transactions that were not registered under the Securities Act and were not previously disclosed on reports we filed with the SEC during the year ended December 29, 2019:

- On November 14, 2019, each of our non-employee board members elected to receive newly issued common stock in lieu of cash payments of director fees. The combined amount of the director fees payable was $90,000 and the shares were issued at a price of $5.49 per share, which represents the closing price of our stock on November 14, 2019. As a result, we issued 16,392 shares of our common stock to satisfy the director fees payable.

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

ITEM 6. SELECTED FINANCIAL DATA.

Not required for smaller reporting companies.

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

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and other countries. As a result, Company franchisees have temporarily closed some retail locations, reduced or modified store operating hours, adopted a "to-go" only operating model, or a combination these actions. These actions have reduced consumer traffic, all resulting in a negative impact to Company revenues. While the disruption to our business from the COVID-19 pandemic is currently expected to be temporary, there is a great deal of uncertainty around the severity and duration of the disruption, and also the longer-term effects on our business and economic growth and consumer demand in the U.S. and worldwide. The effects of COVID-19 may materially adversely affect our business, results of operations, liquidity and ability to service our existing debt, particularly if these effects continue in place for a significant amount of time. As additional information becomes available regarding the potential impact and the duration of the negative financial effects of the current pandemic, the Company may determine that an impairment adjustment to the recorded value of trademarks, goodwill and other intangible assets may be necessary.

Executive Overview

Business overview

FAT Brands Inc., formed in March 2017 as a wholly owned subsidiary of Fog Cutter Capital Group, Inc. ("FCCG"), is a leading multi-brand restaurant franchising company that develops, markets, and acquires predominantly fast casual restaurant concepts around the world. On October 20, 2017, we completed an initial public offering and issued additional shares of common stock representing 20 percent of our ownership (the "Offering"). As of December 29, 2019, FCCG continues to control a significant voting majority of the Company.

As a franchisor, we generally do not own or operate restaurant locations, but rather generate revenue by charging franchisees an initial franchise fee as well as ongoing royalties. This asset light franchisor model provides the opportunity for strong profit margins and an attractive free cash flow profile while minimizing restaurant operating company risk, such as long-term real estate commitments or capital investments. Our scalable management platform enables us to add new stores and restaurant concepts to our portfolio with minimal incremental corporate overhead cost, while taking advantage of significant corporate overhead synergies. The acquisition of additional brands and restaurant concepts as well as expansion of our existing brands are key elements of our growth strategy.

As of December 29, 2019, the Company owns eight restaurant brands: Fatburger, Buffalo's Cafe, Buffalo's Express, Hurricane Grill & Wings, Ponderosa and Bonanza Steakhouses, Elevation Burger and Yalla Mediterranean, that have over 370 locations open.

Operating segments

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

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

Results of Operations

We operate on a 52-week or 53-week fiscal year ending on the last Sunday of the calendar year. In a 52-week fiscal year, each quarter contains 13 weeks of operations. In a 53-week fiscal year, each of the first, second and third quarters includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations, which may cause our revenue, expenses and other results of operations to be higher due to an additional week of operations. The 2019 and 2018 fiscal years were each 52-week years.

Results of Operations of FAT Brands Inc.

The following table summarize key components of our consolidated results of operations for the fiscal years ended December 29, 2019 and December 30, 2018. Certain account balances from the prior period have been reclassified to conform to current period presentation.

(In thousands)
For the Fiscal Years Ended

	December 29, 2019	December 30, 2018
Consolidated statement of operations data:		
Revenues		
Royalties	$ 14,895	$ 12,097
Franchise fees	3,433	2,136
Store opening fees	-	352
Advertising fees	4,111	3,182
Management fees and other income	66	67
Total revenues	22,505	17,834
Costs and expenses		
General and administrative expenses	11,472	10,349
Advertising expenses	4,111	3,182
Refranchising loss	219	67
Total costs and expenses	15,802	13,598
Income from operations	6,703	4,236
Other expense, net	(7,211)	(6,309)
Loss before income tax expense (benefit)	(508)	(2,073)
Income tax expense (benefit)	510	(275)
Net loss	$ (1,018)	$ (1,798)

Net Loss - Net loss for the fiscal year ended December 29, 2019 totaled $1,018,000 consisting of revenues of $22,505,000 less costs and expenses of $15,802,000, other expense of $7,211,000 and provision for income tax of $510,000. Net loss for the fiscal year ended December 30, 2018 totaled $1,798,000 consisting of revenues of $18,367,000 less costs and expenses of $14,131,000, other expense of $6,309,000 and income tax benefit of $275,000.

Revenues - Revenues consist of royalties, franchise fees, advertising fees and management fees and other income. We earned revenues of $22,505,000 for the fiscal year ended December 29, 2019 compared to $17,834,000 for the year ended December 30, 2018. The increase of $4,671,000 (26%) was primarily the result of an increase in royalties of $2,798,000, an increase in franchise and store opening fees of $945,000 and an increase in advertising revenue of $929,000. These increases were primarily generated as a result of the acquisition of Elevation Burger in 2019 and the full year operating results of Hurricane in 2019 compared to the partial year results following its acquisition in 2018.

Costs and Expenses – Costs and expenses consist primarily of general and administrative costs, advertising expense and refranchising losses. Our costs and expenses increased from $13,598,000 in the 2018 fiscal year to $15,802,000 in the comparable period of 2019.

For the fiscal year ended December 29, 2019, our general and administrative expenses totaled $11,472,000, compared to $10,349,000 for the fiscal year ended December 30, 2018. The 2019 expenses included compensation costs of $6,263,000; professional fees of $1,993,000; public company related costs of $1,219,000 and other expenses of $1,997,000. The $523,000 increase in our general and administrative costs during 2019 was primarily the result of increases in compensation expenses and professional fees. Compensation increased $379,000 (6%) during 2019 and professional fees increased $464,000, (36%).

During the fiscal year ended December 29, 2019, our refranchising efforts resulted in a net loss of $219,000, compared to a net loss of $67,000 during 2018. The refranchising loss consisted of gains on the sale of six restaurant locations to new franchisees in the amount of $1,795,000, plus net food sales of $5,697,000 less restaurant operating expenses of $7,711,000.

Advertising expenses totaled $4,111,000 during the fiscal year ended December 29, 2019, compared with $3,182,000 during the prior year period, representing an increase of $929,000 (29%). These expenses vary in relation to the advertising revenue recognized. The increase in 2019 is largely the result of the acquisition of Elevation Burger in 2019 and the full year operating results of Hurricane in 2019 compared to the partial year results following its acquisition in 2018.

Other Expense, net – Other expense, net for the fiscal year ended December 29, 2019 totaled $7,211,000 and consisted primarily of net interest expense of $6,530,000. Other expense for the fiscal year ended December 30, 2018 totaled $6,309,000 and consisted primarily of net interest expense of $4,770,000. An increase in total average debt outstanding and the costs related to refinancing resulted in the higher interest expense.

Provision for income taxes – We recorded a provision for income taxes of $501,000 for the fiscal year ended December 29, 2019 and an income tax benefit of $275,000 for the fiscal year ended December 30, 2018. These tax results were based on a net loss before taxes of $508,000 for 2019 compared to net loss before taxes of $2,073,000 for 2018. Non-deductible expenses, such as accrued and paid dividends on preferred stock, contributed to the higher tax expense for 2019 as a percentage of pre-tax loss.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund business operations, acquisitions, and expansion of franchised restaurant locations and for other general business purposes. In addition to our cash on hand, our primary sources of funds for liquidity during the fiscal year ended December 29, 2019 consisted of cash provided by our operations.

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.

As of December 29, 2019, we had cash of $25,000. Subsequent to December 29, 2019, on March 6, 2020, the Company completed a whole business securitization (the "Securitization") through the creation of a bankruptcy-remote issuing entity, FAT Brands Royalty I, LLC ("FAT Royalty") in which FAT Royalty issued new notes pursuant to an asset-backed securitization (the "Securitization Notes") and indenture (the "Indenture"). Net proceeds from the issuance of the Securitization Notes were $37,314,000, which consists of the combined face amount of $40,000,000, net of discounts of $246,000 and debt offering costs of $2,440,000 (See "*Liquidity"* in Note 1. Organization and Relationship in the accompanying audited consolidated financial statements). A portion of the proceeds from the Securitization was used to repay the remaining $26,771,000 in outstanding balance under the Loan and Security Agreement. The remaining proceeds from the Securitization will be used for working capital. We expect that the working capital from the Securitization combined with receipts collected from the limited operations of our franchisees due to COVID-19 and the disciplined management of the Company's operating expenses will be sufficient to meet our current liquidity needs.

Comparison of Cash Flows

Our cash balance was $25,000 as of December 29, 2019, compared to $653,000 as of December 30, 2018.

The following table summarize key components of our audited consolidated cash flows for the fiscal years ended December 29, 2019 and December 30, 2018:

(In thousands)
For the Fiscal Years Ended

	December 29, 2019	December 30, 2018
Net cash provided by operating activities	$ 3,071	$ 1,837
Net cash used in investing activities	(10,490)	(14,485)
Net cash provided by financing activities	6,791	13,269
(Decrease) increase in cash flows	$ (628)	$ 621

Operating Activities

Net cash provided by operating activities increased $1,234,000 in 2019 compared to 2018. There were variations in the components of the cash from operations between the two periods. Our net loss in 2019 was $1,018,000 compared to a net loss in 2018 of $1,798,000. The adjustments to reconcile these net losses to net cash provided were $4,089,000 compared to $3,635,000 in 2018. The primary components of the adjustments included:

- A positive adjustment to cash due to an increase in accounts payable and accrued expenses of $3,771,000 compared to $2,226,000 in 2018;
- A positive adjustment to cash due to accretion expense related to each of the following: (i) the term loan, (ii) the preferred shares, and (iii) the acquisition purchase price payables totaling $2,505,000 compared to $624,000 in 2018;
- A positive adjustment to cash due to an increase in dividends payable on preferred stock of $1,431,000 compared to $619,000 in 2018;
- A negative adjustment to cash due to a decrease in deferred income of $2,364,000 compared to $1,659,000 in 2018.
- A negative adjustment to cash due to the recorded gain on sale of refranchised restaurants in 2019 in the amount of $1,795,000 with no comparable activity in 2018.
- A negative adjustment to cash due to a decrease in accrued interest payable of $982,000 compared to an increase of $2,232,000 in 2018.

Investing Activities

Net cash used in investing activities decreased by $3,995,000 in 2019 compared to 2018 based primarily on the $5,263,000 difference in the amount of the cash portion of the purchase price of Elevation Burger in 2019 compared to the Hurricane and Yalla acquisitions in 2018. We also received cash proceeds from the sale of refranchised restaurants of $2,340,000 in 2019, with no comparable activity in 2018. These reductions in incremental cash used for investment purposes were partially offset by an increase in advances to affiliates in the amount of $3,711,000 during 2019 over the 2018 levels.

Financing Activities

Net cash from financing activities decreased by $6,478,000 in 2019 compared to 2018. Our repayments of borrowings were $5,873,000 higher in 2019 than in 2018. Our proceeds from the issuance of preferred stock was $6,877,000 lower during 2019 than in the prior year. These decreases in proceeds were partially offset during 2019 by an increase in proceeds from borrowings of $5,956,000 over new borrowings in 2018.

Dividends

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

During 2018, our Board of Directors declared three cash dividends of $0.12 per share of common stock (unadjusted for the February 28, 2019 stock dividend), each payable on April 16, 2018, July 16, 2018 and October 31, 2018.

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

- On April 16, 2018, the Company issued 156,864 shares of common stock to FCCG at a price of $6.12 per share in satisfaction of $960,000 dividend payable.
- On July 16, 2018, the Company issued 161,117 shares of common stock to FCCG at a price of $5.96 per share in satisfaction of $960,000 dividend payable.
- On October 31, 2018, the Company issued 180,635 shares of common stock to FCCG at a price of $6.18 per share in satisfaction of the $1,116,091 dividend payable.

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.

Loan and Security Agreement

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

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

In connection with the Loan and Security Agreement, we issued to Lion a warrant to purchase up to 1,167,404 shares of the Company's Common Stock at $0.01 per share (the "Lion Warrant"), exercisable only if the amounts outstanding under the Loan and Security Agreement were not repaid in full by June 30, 2020.

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

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

On June 19, 2019, we amended our existing loan facility with Lion. We entered into a First Amendment to the Loan and Security Agreement (the "First Amendment"), which amended the Loan and Security Agreement originally dated January 29, 2019. Pursuant to the First Amendment, we increased our borrowings by $3,500,000 in order to fund the Elevation Buyer Note in connection with the acquisition of Elevation, acquire other assets and pay fees and expenses of the transactions. The First Amendment also added the acquired Elevation-related entities as guarantors and loan parties.

We agreed to pay Lion an extension fee of $500,000 in the form of an increase in the principal amount loaned under the Loan and Security Agreement, and on July 24, 2019 entered into a second amendment to the Loan Agreement (the "Second Amendment") to reflect this increase. Under the Second Amendment, the parties also agreed to amend the Loan and Security Agreement to provide for a late fee of $400,000 payable if we failed to make any quarterly interest payments by the fifth business day after the end of each fiscal quarter beginning in the third quarter of 2019.

On March 9, 2020, we repaid the Loan and Security Agreement in full and the Lion Warrant was cancelled.

Capital Expenditures

As of December 29, 2019, we do not have any material commitments for capital expenditures.

Critical Accounting Policies and Estimates

Franchise Fees: The franchise arrangement is documented in the form of a franchise agreement. The franchise arrangement requires us to perform various activities to support the brand that do not directly transfer goods and services to the franchisee, but instead represent a single performance obligation, which is the transfer of the franchise license. The services provided by us are highly interrelated with the franchise license and are considered a single performance obligation. Franchise fee revenue from the sale of individual franchises is recognized over the term of the individual franchise agreement. Unamortized non-refundable deposits collected in relation to the sale of franchises are recorded as deferred franchise fees.

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

Store opening fees – Prior to September 29, 2019, the Company recognized store opening fees in the amount of $35,000 to $60,000 from the up-front fees collected from franchisees upon store opening. The amount of the fee was dependent on brand and location (domestic versus international stores). The remaining balance of the up-front fees were then amortized as franchise fees over the life of the franchise agreement. If the fees collected were less than the respective store opening fee amounts, the full up-front fees were recognized at store opening. The store opening fees were 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 were higher due to the additional cost of travel.

During the fourth quarter of 2019, the Company performed a study of other public company restaurant franchisors' application of ASC 606 and determined that a preferred, alternative industry application exists in which the store opening fee portion of the franchise fees is amortized over the life of the franchise agreement rather than at milestones of standalone performance obligations in the franchise agreements. In order to provide financial reporting consistent with other franchise industry peers, the Company applied this preferred, alternative application of ASC 606 during the fourth quarter of 2019 on a prospective basis. As a result of the adoption of this preferred accounting treatment under ASC 606, the Company discontinued the recognition of store opening fees upon store opening and began accounting for the entire up-front deposit received from franchisees as described above in *Franchise Fees.* A cumulative adjustment to store opening fees and franchise fees was recorded in the fourth quarter of 2019 for store opening fees recognized during the first three quarters of 2019. (See "*Immaterial Adjustments Related to Prior Periods",* in Note 2 of the accompanying audited financial statements.)

Royalties: In addition to franchise fee revenue, we collect a royalty calculated as a percentage of net sales from our franchisees. Royalties range from 0.75% to 6% and 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.

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 audited consolidated statement of operations. Assets and liabilities associated with the related advertising fees are reflected in the Company's audited consolidated balance sheets.

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 as of December 29, 2019.

Assets classified as held for sale – Assets are classified as held for sale when we commit to a plan to sell the asset, the asset is available for immediate sale in its present condition and an active program to locate a buyer at a reasonable price has been initiated. The sale of these assets is generally expected to be completed within one year. The combined assets are valued at the lower of their carrying amount or fair value, net of costs to sell and included as current assets on the Company's audited consolidated balance sheet. Assets classified as held for sale are not depreciated. However, interest attributable to the liabilities associated with assets classified as held for sale and other expenses continue to be recorded as expenses in the Company's audited consolidated statement of operations.

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

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

Share-based compensation: We have a stock option plan which provides for options to purchase shares of our common stock. For grants to employees and directors, we recognize an expense for the value of options granted at their fair value at the date of grant over the vesting period in which the options are earned. Cancellations or forfeitures are accounted for as they occur. Fair values are estimated using the Black-Scholes option-pricing model. For grants to non-employees for services, we revalue the options each reporting period while the services are being performed. The adjusted value of the options is recognized as an expense over the service period. See Note 16 in our audited consolidated financial statements for more details on our share-based compensation.

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

Recently Adopted Accounting Standards

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Prior to this update, Topic 718 applied only to share-based transactions to employees. Consistent with the accounting requirements for employee share-based payment awards, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The Company adopted ASU 2018-07 as of December 31, 2018. The adoption of this accounting standard did not have a material effect on the Company's audited consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements. This ASU makes amendments to multiple codification Topics. The transition and effective date guidance are based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU. The Company adopted ASU 2018-09 as of December 31, 2018. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations, and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), requiring a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. This ASU is effective for interim and annual period beginning after December 15, 2018 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. The adoption of this standard as of December 31, 2018 resulted in the Company recording Right of Use Assets and Lease Liabilities on its audited consolidated financial statements in the amount of $4,313,000 and $4,225,000, respectively. The adoption of this standard did not have a significant effect on the amount of lease expense recognized by the Company.

Recently Issued Accounting Standards

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

The FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)*. The new guidance reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). For public companies, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The effects of this standard on the Company's financial position, results of operations or cash flows are not expected to be material.

Off-Balance Sheet Arrangements

As of December 29, 2019, we did not have any off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

On June 3, 2019, Hutchinson and Bloodgood LLP ("**Hutchinson**") the independent registered public accounting firm of FAT Brands Inc. (the "**Company**") resigned as the Company's independent auditor, effective as of such date. Hutchinson indicated to the Company that it intended to cease most audit and review work for publicly traded companies.

The Company confirms that the reports of Hutchinson for the fiscal years ended December 30, 2018, and December 31, 2017, did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. During the years ended December 30, 2018, and December 31, 2017, and up through the date of resignation, there were (i) no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between the Company and Hutchinson on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, that, if not resolved to the satisfaction of Hutchinson, would have caused Hutchinson to make reference to the subject matter of the disagreement in connection with its reports on the Company's consolidated financial statements for such years or periods, and (ii) no "reportable events" (as that term is defined in Item 304(a)(1)(v) of Regulation S-K). In connection with Hutchinson's notice of resignation, the Company, as it is required to do, provided Hutchinson with a copy of the above disclosures on Form 8-K and requested that Hutchinson provide the Company with a letter addressed to the SEC stating whether or not Hutchinson agrees with the disclosures. A copy of Hutchinson's letter, dated June 7, 2019, is filed as Exhibit 16.1 to the Current Report on Form 8-K filed on June 7, 2019 with the SEC.

On June 6, 2019, upon the recommendation of the Audit Committee of the Board of Directors, the Board of Directors of the Company engaged Squar Milner LLP ("**Squar Milner**") to serve as its independent registered public accounting firm for the fiscal year ended December 29, 2019. During the two fiscal years ended December 30, 2018, and December 31, 2017, and the subsequent interim period through the date of this filing, neither the Company nor anyone on its behalf consulted with Squar Milner regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

The Company authorized Hutchinson to respond fully to the inquiries of Squar Milner and did not place any limitations on either Hutchinson or Squar Milner concerning any inquiry of any matter related to the Company's financial reporting.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control Over Financial Reporting

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting also includes those policies and procedures that:

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

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

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

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

Under the supervision of the Audit Committee of the Board of Directors and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and those criteria, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective as of December 29, 2019.

Because we are an Emerging Growth Company, we are not required to include an attestation report by our independent registered public accounting firm regarding the effectiveness of our internal control over financial reporting in this annual report as of December 29, 2019.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 29, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On April 24, 2020, the Company entered into an Intercompany Revolving Credit Agreement (the "Intercompany Agreement") with Fog Cutter Capital Group, Inc. ("FCCG"), which is the 81.5% parent of the Company. The Company had previously extended credit to FCCG pursuant to a certain Intercompany Promissory Note (the "Original Note"), dated October 20, 2017, with an initial principal balance of $11,906,000. Subsequent to the issuance of the Original Note, the Company and certain of its direct and indirect subsidiaries made additional intercompany advances in the aggregate amount of $10,523,000. Pursuant to the Intercompany Agreement, the revolving credit facility bears interest at a rate of 10% per annum, has a five-year term with no prepayment penalties, and has a maximum capacity of $35,000,000. All additional borrowings under the Intercompany Agreement are subject to the approval of the Company's Board of Directors, in advance, on a quarterly basis and may be subject to other conditions as set forth by the Company. The initial balance under the Intercompany Agreement totaled $21,067,000, which reflects the balance of the Original Note, borrowings subsequent to the Original Note, accrued and unpaid interest income, and other adjustments through December 29, 2019.

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the complete copy of the Intercompany Agreement, which is attached hereto as Exhibit 10.11 and incorporated herein by this reference.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Below is a list of the names and ages, as of December 29, 2019 of our directors and executive officers (the "named executive officers"), and a description of the business experience of each of them.

Name	Age	Position
Andrew A. Wiederhorn	53	President and Chief Executive Officer, Director
Rebecca D. Hershinger	46	Chief Financial Officer
Donald J. Berchtold	74	Executive Vice President and Chief Concept Officer
Ron Roe	42	Senior Vice President of Finance
Edward H. Rensi	75	Chairman of the Board of Directors
Marc L. Holtzman	59	Director
Squire Junger	69	Director
Silvia Kessel	74	Director
Jeff Lotman	58	Director
James Neuhauser	60	Director

Executive Officers and Directors

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

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

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

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

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

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

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

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

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

On February 4, 2020, Mr. Lotman resigned from the Board of Directors of the Company. Mr. Lotman informed the Company that he resigned for personal reasons and to pursue other business opportunities, and not as a result of a disagreement with any Company operations, policies or practices.

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

Family Relationships

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

Delinquent Section 16(a) Reports

Based solely on a review of Forms 3, 4 and 5 and amendments thereto furnished to us for the year ended December 29, 2019, our directors, officers, or beneficial owners of more than 10% of our common stock timely furnished reports on all Forms 3, 4 and 5, except that (i) Marc L. Holtzman filed two late Form 4s, one with one transaction and one with two transactions; (ii) Squire Junger filed three late Form 4s, one with one transaction and two with two transactions; (iii) Silvia Kessel filed two late Form 4s, one with one transaction and one with two transactions, (iv) Jeff Lotman filed three late Form 4s, two with one transaction and one with two transactions; (v)James Neuhauser filed 2 late Form 4s, one with one transaction and one with two transactions; (vi) Ed Rensi filed three late Form 4s two with one transaction and one with two transactions; and Andy Wiederhorn filed one late Form 4 with two transactions.

Code of Ethics

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

Board Committees

During 2019, our Board of Directors held four meetings. Each director attended at least 75% of the aggregate number of meetings of the board of directors and meetings of the committees of the board of directors on which he or she serves, except Jeff Lotman who attended 60% of the meetings of the board of directors and meetings of committees of the board of directors on which he serves.

The following table sets forth the three standing committees of our Board and the members of each committee and the number of meetings held by our Board of Directors and the committees during 2019:

Director	Board	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Edward H. Rensi	Chair	-	X	Chair
James Neuhauser	X	Chair	X	-
Marc L. Holtzman	X	-	Chair	X
Squire Junger	X	X	-	-
Silvia Kessel	X	X	-	-
Jeff Lotman	X	-	-	X
Andrew A. Wiederhorn	X	-	-	-
Meetings in 2019:	4	6	1	1

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

Audit Committee

The Audit Committee is responsible for, among other matters:

- appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm;
- discussing with our independent registered public accounting firm their independence from management;
- reviewing with our independent registered public accounting firm the scope and results of their audit;
- approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the SEC;
- reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls and compliance with legal and regulatory requirements; and
- establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters.

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

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

Compensation Committee

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

The Compensation Committee's responsibilities include the following:

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

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

Nominating and Corporate Governance Committee

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

The Nominating and Corporate Governance Committee's responsibilities include:

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

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

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary(1)	Bonus	Stock Awards	Option Awards (2)	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Andrew A. Wiederhorn	2019	$ 400,000	$ -	$ -	$ 13,863	$ -	$ -	$ -	$ 413,863
Chief Executive Officer	2018	$ 400,000	$ -	$ -	$ 19,962	$ -	$ -	$ -	$ 419,962
Rebecca D. Hershinger	2019	$ 256,731	$ 21,635	$ -	$ 12,230	$ -	$ -	$ -	$ 290,596
Chief Financial Officer (3)	2018	$ 105,769	$ 10,417	$ -	$ 4,124	$ -	$ -	$ -	$ 120,310
Donald J. Berchtold,	2019	$ 400,000	$ -	$ -	$ 13,863	$ -	$ -	$ -	$ 413,863
EVP – Chief Concept Officer	2018	$ 400,000	$ -	$ -	$ 19,962	$ -	$ -	$ -	$ 419,962
Ron Roe,	2019	$ 300,000	$ -	$ -	$ 13,863	$ -	$ -	$ -	$ 313,863
Senior Vice President of Finance (4)	2018	$ 300,000	$ -	$ -	$ 19,962	$ -	$ -	$ -	$ 319,962

Explanatory Notes:

(1) Reflects the dollar amount recognized for financial statement reporting purposes for salary paid or accrued on behalf of the named executives for the fiscal years ended December 29, 2019 and December 30, 2018.

(2) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 29, 2019 and December 30, 2018, in accordance with ASC 718 of awards pursuant to the Stock Option Plan. Assumptions used in the calculation of this amount for fiscal year ended December 29, 2019 are included in footnote 16 to the Company's audited consolidated financial statements for the fiscal year ended December 29, 2019, included in Part IV of this Annual Report on Form 10-K. During 2018, Mr. Wiederhorn, Mr. Roe, and Mr. Berchtold were each granted options to purchase 15,318 shares of common stock with an aggregate grant date fair value of $8,329, respectively. During 2018, Ms. Hershinger was granted options to purchase 40,849 shares of common stock with an aggregate grant date fair value of $23,692. During 2017, Mr. Wiederhorn, Mr. Roe, and Mr. Berchtold were each granted options to purchase 15,318 shares of common stock with an aggregate grant date fair value of $35,550, respectively.

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

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

Executive Employment Agreements

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

OUTSTANDING EQUITY AWARDS AT FISCAL 2019 YEAR END

The following table summarizes the outstanding equity award holdings of our named executive officers as of December 29, 2019, as adjusted for the February 28, 2019 stock dividend.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested($)
Andrew A. Wiederhorn, Chief Executive Officer	10,212	5,106	-	$ 11.75	10/19/2027	-	-	-	-
	5,106	10,212	-	$ 5.28	12/10/2028	-	-	-	-
Rebecca D. Hershinger, Chief Financial Officer	8,510	17,021	-	$ 7.83	7/30/2028	-	-	-	-
	5,106	10,212	-	$ 5.28	12/10/2028	-	-	-	-
Donald J. Berchtold, EVP – Chief Concept Officer	10,212	5,106	-	$ 11.75	10/19/2027	-	-	-	-
	5,106	10,212	-	$ 5.28	12/10/2028	-	-	-	-
Ron Roe	10,212	5,106	-	$ 11.75	10/19/2027	-	-	-	-
Senior Vice President of Finance	5,106	10,212	-	$ 5.28	12/10/2028	-	-	-	-

Explanatory Notes:

Option Exercises and Stock Vested

None of the named executives acquired shares of the Company’s stock through exercise of options during the year ended December 29, 2019.

DIRECTOR COMPENSATION

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

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

The terms of the equity award described above are set forth in the 2017 Omnibus Equity Incentive Plan (the "Plan"). The Plan is a comprehensive incentive compensation plan under which we can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to, FAT Brands and its subsidiaries. The Plan provides for a maximum of 1,021,250 shares available for grant., as adjusted for the impact of the February 28, 2019 stock dividend. The Plan is administered by the Compensation Committee of the Board of Directors.

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

The following table sets forth a summary of the compensation we paid or accrued to our non-employee directors during 2019 and 2018:

Name	Year	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Edward H. Rensi (2)	2019	$ 60,000	$ —	$ 14,827	$ —	$ —	$ —	$ 74,827
	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
Marc L. Holtzman (2)	2019	$ 60,000	$ —	$ 14,827	$ —	$ —	$ —	$ 74,827
	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
Squire Junger (2)	2019	$ 60,000	$ —	$ 14,827	$ —	$ —	$ —	$ 74,827
	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
Silvia Kessel (2)	2019	$ 60,000	$ —	$ 14,827	$ —	$ —	$ —	$ 74,827
	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
Jeff Lotman (2)	2019	$ 60,000	$ —	$ 14,827	$ —	$ —	$ —	$ 74,827
	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962
James Neuhauser (2)	2019	$ 60,000	$ —	$ 14,827	$ —	$ —	$ —	$ 74,827
	2018	$ 60,000	$ —	$ 19,962	$ —	$ —	$ —	$ 79,962

Explanatory Notes:

(1) Reflects the dollar amount of awards pursuant to the Plan recognized for financial statement reporting purposes for the fiscal years ended December 29, 2019 and December 30, 2018. Assumptions used in the calculation of this amount for fiscal year ended December 29, 2019 are included in footnote 16 to the Company's audited consolidated financial statements, included in Part IV of the Company's Annual Report on Form 10-K. During 2019, 2018, and 2017, each director was granted options to purchase 15,306 shares of common stock each year with an aggregate grant date fair value of $5,998, $8,329, and $35,550, respectively.

(2) Mr. Rensi has served on the Board of Directors of the Company since its formation and became the Chairman of the Board on October 20, 2017. Mr. Neuhauser has served on the Board of Directors of the Company since its formation. Messrs. Holtzman, Junger, and Lotman and Ms. Kessel have served on the Board of Directors since October 20, 2017. Mr. Lotman resigned from his position on the Board of Directors on February 4, 2020. As of the date of Mr. Lotman's resignation, 30,636 of his unvested options expired, and 15,318 of his vested options will expire on May 4, 2020, unless previously exercised.

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

PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our Common Stock as of February 28, 2020:

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

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

As of February 28, 2020, there were 11,876,659 of our common shares issued and outstanding.

	Shares of Common Stock Beneficially Owned	
Name of beneficial owner	**Number**	**Percentage[3]**
5% Stockholders		
Fog Cutter Capital Group Inc.	9,698,436(1)	81.5%
Named Executive Officers and Directors		
Andrew A. Wiederhorn	28,318(2)(3)	*
Rebecca D. Hershinger	13,616[4]	*
Donald J. Berchtold	15,318(5)(6)	*
Ron Roe	15,318(5)(7)	*
Marc L. Holtzman	46,338(8)	*
Squire Junger	73,074(8)(9)	*
Silvia Kessel	44,864(8)(10)	*
Edward H. Rensi	44,301(8)	*
James Neuhauser	83,232(8)	*
All directors and executive officers as a group (ten persons)	364,379(11)	3.0%

(1) Includes warrants to purchase 19,148 shares of the Company's common stock.
(2) Includes vested options to purchase 15,318 shares of the Company's common stock. Does not include unvested options to purchase an additional 15,318 shares of the Company's common stock. Includes exercisable warrants to purchase 12,000 shares of the Company's common stock.
(3) Mr. Wiederhorn beneficially owns 30.4% of the outstanding common stock of FCCG and disclaims beneficial ownership of the Company held by FCCG except to the extent of his pecuniary interest in FCCG.
(4) Includes vested options to purchase 13,616 shares of the Company's common stock. Does not include unvested options to purchase an additional 27,233 shares of the Company's common stock.
(5) Includes vested options to purchase 15,318 shares of the Company's common stock. Does not include unvested options to purchase an additional 15,318 shares of the Company's common stock.
(6) Mr. Berchtold and his spouse beneficially own 119,135 shares of common stock of FCCG and disclaim beneficial ownership of the Company held by FCCG except to the extent of their pecuniary interest in FCCG.
(7) Mr. Roe beneficially owns 75,000 shares of common stock of FCCG and disclaims beneficial ownership of the Company held by FCCG except to the extent of his pecuniary interest in FCCG.
(8) Includes vested options to purchase 15,318 shares of the Company's common stock. Does not include unvested options to purchase an additional 30,636 shares of the Company's common stock.
(9) Includes exercisable warrants to purchase 3,000 shares of the Company's common stock. Mr. Junger beneficially owns 25,000 shares of common stock of FCCG and disclaims beneficial ownership of the Company held by FCCG except to the extent of their pecuniary interest in FCCG. Mr. Junger's spouse beneficially owns 1,000 shares of common stock of FCCG and disclaims beneficial ownership of the Company held by FCCG except to the extent of their pecuniary interest in FCCG.
(10) Includes exercisable warrants to purchase 2,400 shares of the Company's common stock.
(11) Includes vested options to purchase 136,160 shares of the Company's common stock and exercisable warrants to purchase 19,800 shares of the Company's common stock.

* Represents beneficial ownership of less than 1%.

On October 3 and October 4, 2019, the Company completed the initial closing of its continuous public offering (the "Series B Preferred Offering") of up to $30,000,000 of units (the "Series B Units") at $25.00 per Series B Unit, with each Series B Unit comprised of one share of 8.25% Series B Cumulative Preferred Stock ("Series B Preferred Stock") and 0.60 warrants (the "Series B Warrants") to purchase common stock at $8.50 per share, exercisable for five years. At the initial closing of the Preferred Offering, the Company completed the sale of 43,080 Series B Units for gross proceeds of $1,077,000.

In aggregate, certain officers and directors of the Company acquired 33,000 Series B Units for $825,000 comprised of 33,000 shares of Series B Preferred Stock and 19,800 Series B Warrants to purchase 19,800 shares of the Company's Common Stock at $8.50 per share (See Note 14 of the accompanying audited financial statements).

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

Reportable Related Person Transactions

Since December 31, 2018, the Company has engaged in certain transactions with Fog Cutter Capital Group Inc., which is the 81.5% parent of the Company. Descriptions of such transactions are included under Notes 12, 13, 14 and 22 to the audited consolidated financial statements of the Company included under Item 15 of this Form 10-K, which information is incorporated herein by this reference. Other than such transactions, since December 31, 2018, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

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

Director Independence

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Squar Milner LLP, Los Angeles, California, currently serves as our independent registered public accounting firm. For the fiscal year ending December 30, 2018, Hutchinson and Bloodgood LLP, Glendale, California, served as our independent registered public accounting firm. The aggregate accounting fees for the years ended December 29, 2019 and December 30, 2018 are as follows (dollars in thousands):

	December 29, 2019	December 30, 2018
Audit fees	$ 244	$ 331
Audit related fees	$ 55	$ 174
Other fees	$ 39	$ 46

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

FAT Brands Inc.

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

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of FAT Brands, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of FAT Brands, Inc. and subsidiaries (the Company) as of December 29, 2019, the related consolidated statements of operations, stockholders' equity and cash flows, for the year then ended, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 due to the adoption of Accounting Standards Codification 842, *Leases.*

Basis for Opinion

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

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

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

/s/ Squar Milner LLP

We have served as the Company's auditor since 2019.

Los Angeles, California
April 27, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Consolidated Financial Statements

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

Change in Accounting Principle

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

Basis for Opinion

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

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

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

/s/Hutchinson and Bloodgood LLP

We, or a firm acquired by us in 2012, had continuously served as auditor for the two predecessors of the Company since 2007 and from 2011 to 2018, respectively.

Glendale, California
March 29, 2019

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

	December 29, 2019	December 30, 2018
Assets		
Current assets		
Cash	$ 25	$ 653
Accounts receivable, net of allowance for doubtful accounts of $116 and $595, respectively	4,144	1,779
Trade notes receivable, net of allowance for doubtful accounts of $37 and $37, respectively	262	65
Assets classified as held for sale	5,128	-
Other current assets	929	1,042
Total current assets	10,488	3,539
Notes receivable – noncurrent, net of allowance for doubtful accounts of $86 and $112, respectively	1,802	212
Due from affiliates	25,967	15,514
Deferred income taxes	2,032	2,236
Operating lease right of use assets	860	-
Goodwill	10,912	10,391
Other intangible assets, net	29,734	23,289
Other assets	755	2,779
Total assets	$ 82,550	$ 57,960
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities		
Accounts payable	$ 7,183	$ 4,415
Deferred income, current portion	895	1,076
Accrued expenses	6,013	3,705
Accrued advertising	762	369
Accrued interest payable	1,268	2,250
Dividend payable on preferred shares (includes amounts due to related parties of $165 and $42 as of December 29, 2019 and December 30, 2018, respectively)	1,422	391
Liabilities related to assets classified as held for sale	3,325	-
Current portion of operating lease liability	241	-
Current portion of long-term debt	24,502	15,400
Total current liabilities	45,611	27,606
Deferred income – noncurrent	5,247	6,621
Acquisition purchase price payable	4,504	3,497
Preferred shares, net	15,327	14,191
Deferred dividend payable on preferred shares (includes amounts due to related parties of $60 and $39 as of December 29, 2019 and December 30, 2018, respectively)	628	228
Operating lease liability, net of current portion	639	-
Long-term debt, net of current portion	5,216	-
Other liabilities	-	78
Total liabilities	77,172	52,221
Commitments and contingencies (Note 19)		
Stockholders' equity		
Common stock, $.0001 par value; 25,000,000 shares authorized; 11,860,299 and 11,546,589 shares issued and outstanding at December 29, 2019 and December 30, 2018, respectively	11,414	10,757
Accumulated deficit	(6,036)	(5,018)
Total stockholders' equity	5,378	5,739
Total liabilities and stockholders' equity	$ 82,550	$ 57,960

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

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

For the Fiscal Years Ended December 29, 2019 and December 30, 2018

	2019	2018
Revenue		
Royalties	$ 14,895	$ 12,097
Franchise fees	3,433	2,136
Store opening fees	-	352
Advertising fees	4,111	3,182
Other income	66	67
Total revenue	22,505	17,834
Costs and expenses		
General and administrative expense	11,472	10,349
Advertising expense	4,111	3,182
Refranchising loss	219	67
Total costs and expenses	15,802	13,598
Income from operations	6,703	4,236
Other expense		
Interest expense, net of interest income of $2,128 and $1,125 due from affiliates during the fiscal years ended December 29, 2019 and December 30, 2018, respectively	(4,757)	(3,816)
Interest expense related to preferred shares	(1,773)	(954)
Other expense, net	(681)	(1,539)
Total other expense, net	(7,211)	(6,309)
Loss before income tax expense (benefit)	(508)	(2,073)
Income tax expense (benefit)	510	(275)
Net loss	$ (1,018)	$ (1,798)
Basic and diluted loss per common share	$ (0.09)	$ (0.16)
Basic and diluted weighted average shares outstanding	11,823,455	10,970,814
Cash dividends declared per common share	$ 0.00	$ 0.36

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

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

For the Fiscal Year Ended December 29, 2019

	Common Stock					
	Shares	Par value	Additional paid-in capital	Total	Accumulated Deficit	Total
Balance at December 30, 2018	11,546,589	$ 1	$ 10,756	$ 10,757	$ (5,018)	$ 5,739
Net loss					(1,018)	(1,018)
Common stock dividend	245,376	-	-	-	-	-
Cash paid in lieu of fractional shares	-	-	(2)	(2)	-	(2)
Issuance of warrants to purchase common stock	-	-	21	21	-	21
Issuance of warrants to placement agents	-	-	16	16	-	16
Issuance of common stock in lieu of director fees payable	68,334	-	360	360	-	360
Share-based compensation	-	-	262	262	-	262
Balance at December 29, 2019	11,860,299	$ 1	$ 11,413	$ 11,414	$ (6,036)	$ 5,378

For the Fiscal Year Ended December 30, 2018

	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 ASC 606, Revenue from Contracts with Customers	-	-	-	-	(2,607)	(2,607)
Net loss	-	-	-	-	(1,798)	(1,798)
Cash dividends on common stock	-	-	(3,914)	(3,914)	-	(3,914)
Issuance of common stock in lieu of director fees payable	68,952	-	510	510	-	510
Issuance of common stock in payment of related party note	989,395	-	7,272	7,272	-	7,272
Issuance of common stock in lieu of dividends payable to FCCG	488,242	-	3,036	3,036	-	3,036
Issuance of warrants to purchase common stock	-	-	774	774	-	774
Stock offering costs	-	-	(150)	(150)		(150)
Issuance of warrants to placement agents	-	-	78	78	-	78
Value of common stock beneficial conversion feature of Series A-1 Preferred Stock	-	-	90	90	-	90
Share-based compensation	-	-	439	439	-	439
Balance at December 30, 2018	11,546,589	$ 1	$ 10,756	$ 10,757	$ (5,018)	$ 5,739

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

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

For the Fiscal Years Ended December 29, 2019 and December 30, 2018

	2019	2018
Cash flows from operating activities		
Net loss	$ (1,018)	$ (1,798)
Adjustments to reconcile net loss to net cash provided by operations:		
Deferred income taxes	204	(504)
Depreciation and amortization	785	358
Share-based compensation	262	439
Change in operating right of use assets	683	-
Gain on sale of refranchised restaurants	(1,795)	-
Accretion of loan fees and interest	1,883	583
Accretion of preferred shares	65	34
Accretion of purchase price liability	557	7
Provision for bad debts	77	76
Change in:		
Accounts receivable	(723)	(301)
Trade notes receivable	83	58
Prepaid expenses	118	(242)
Other	(169)	(20)
Accounts payables and accrued expense	3,771	2,226
Accrued advertising	203	(271)
Accrued interest payable	(982)	2,232
Dividend payable on preferred shares	1,431	619
Deferred income	(2,364)	(1,659)
Total adjustments	4,089	3,635
Net cash provided by operating activities	3,071	1,837
Cash flows from investing activities		
Change in due from affiliates	(10,453)	(6,742)
Payments made in connection with acquisitions, net	(2,332)	(7,595)
Proceeds from sale of refranchised restaurants	2,340	-
Purchases of property and equipment	(45)	(148)
Net cash used in investing activities	(10,490)	(14,485)
Cash flows from financing activities		
Proceeds from borrowings and associated warrants, net of issuance costs	23,022	17,066
Repayments of borrowings	(16,726)	(10,853)
Issuance of preferred shares and associated warrants, net	1,107	7,984
Change in operating lease liabilities	(530)	-
Dividends paid in cash	(2)	(878)
Other	(80)	(50)
Net cash provided by financing activities	6,791	13,269
Net (decrease) increase in cash	(628)	621
Cash at beginning of year	653	32
Cash at end of year	$ 25	$ 653
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 5,989	$ 2,495
Cash paid for income taxes	$ 244	$ 220
Supplemental disclosure of non-cash financing and investing activities:		
Dividends reinvested in common stock	$ -	$ 3,036
Note payable to FCCG converted to common and preferred stock	$ -	$ 9,272
Director fees converted to common stock	$ 360	$ 510
Income taxes payable (receivable) offset against amounts due from affiliates	$ 51	$ (195)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND RELATIONSHIPS

Organization and Nature of Business

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." As of December 29, 2019, FCCG continues to control a significant voting majority of the Company.

The Company is a multi-brand franchisor specializing in fast casual and casual dining restaurant concepts around the world. As of December 29, 2019, the Company owns and franchises eight restaurant brands through various wholly owned subsidiaries: Fatburger, Buffalo's Cafe, Buffalo's Express, Hurricane Grill & Wings, Ponderosa Steakhouses, Bonanza Steakhouses, Yalla Mediterranean and Elevation Burger. Combined, these brands have over 370 locations open and more than 200 under development.

Liquidity

The Company recognized income from operations of $6,703,000 and $4,236,000 during the fiscal years ended December 29, 2019 and December 30, 2018, respectively. Net cash provided by operating activities totaled $3,070,000 and $1,837,000 for the fiscal years ended December 29, 2019 and December 30, 2018, respectively. Despite the profitability of the brands and their operations, the Company recognized net losses of $1,018,000 and $1,798,000 during fiscal years ended December 29, 2019 and December 30, 2018, respectively. These net losses were primarily due to (i) higher net interest expense during 2019 as compared to the prior year related to higher debt balances related to its Loan and Security Agreement (See Note 11) and (ii) higher net interest expense during 2019 compared to the prior year related to Series A Fixed Rate Cumulative Preferred Stock and Series A-1 Fixed Rate Cumulative Preferred Stock being outstanding for a full year in 2019 compared to a partial year in 2018 (See Note 13).

Subsequent to December 29, 2019, on March 6, 2020, the Company completed a whole business securitization (the "Securitization") through the creation of a bankruptcy-remote issuing entity, FAT Brands Royalty I, LLC ("FAT Royalty") in which FAT Royalty issued new notes pursuant to an asset-backed securitization (the "Securitization Notes") and indenture (the "Indenture"). Net proceeds from the issuance of the Securitization Notes were $37,314,000, which consists of the combined face amount of $40,000,000, net of discounts of $246,000 and debt offering costs of $2,440,000 (See Note 22). A portion of the proceeds from the Securitization was used to repay the remaining $26,771,000 in outstanding balance under the Loan and Security Agreement. The remaining proceeds from the Securitization will be used for working capital.

Further, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and other countries. As a result, Company franchisees have temporarily closed some retail locations, reduced or modified store operating hours, adopted a "to-go" only operating model, or a combination of these actions. These actions have reduced consumer traffic, all resulting in a negative impact to Company revenues. While the disruption is currently expected to be temporary, there is uncertainty around the duration and long-term changes in consumer behavior related to social distancing resulting from COVID-19 and the ultimate impact on our franchisees.

While the Company expects COVID-19 to negatively impact its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. However, the Company believes that the working capital from the Securitization combined with receipts collected from the limited operations of its franchisees, and disciplined management of the Company' operating expenses will be sufficient for the twelve months of operations following the issuance of this Form 10-K.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Nature of operations –Each franchising subsidiary licenses the right to use its brand name and provides franchisees with operating procedures and methods of merchandising. Upon signing a franchise agreement, the franchisor is committed to provide training, some supervision and assistance, and access to operations manuals. As needed, the franchisor will also provide advice and written materials concerning techniques of managing and operating the restaurants.

The Company operates on a 52-week calendar and its fiscal year ends on the last Sunday of the calendar year. Consistent with the industry practice, the Company measures its stores' performance based upon 7-day work weeks. Using the 52-week cycle ensures consistent weekly reporting for operations and ensures that each week has the same days, since certain days are more profitable than others. The use of this fiscal year means a 53rd 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. Both 2019 and 2018 were 52-week years.

Principles of consolidation – The accompanying audited consolidated financial statements include the accounts of the Company and its subsidiaries. The accounts of Hurricane have been included since its acquisition by the Company on July 3, 2018. The accounts of Yalla Mediterranean have been included since its acquisition on December 3, 2018. The operations of Elevation Burger have been included since its acquisition on June 19, 2019. Intercompany accounts have been eliminated in consolidation.

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

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

Credit and Depository Risks – Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. Management reviews each of its customer's financial conditions prior to entry into a franchise or other agreement and believes that it has adequately provided for any exposure to potential credit losses. As of December 29, 2019, accounts receivable, net of allowance for doubtful accounts totaled $4,144,000 with two customers each representing 20% of that amount. As of December 30, 2018, the Company did not have any customer concentrations of accounts receivable, net of allowance for doubtful account exceeding 10%.

The Company maintains cash deposits in national financial institutions. From time to time the balances for these accounts exceed the Federal Deposit Insurance Corporation's ("FDIC") insured amount. Balances on interest bearing deposits at banks in the United States are insured by the FDIC up to $250,000 per account. As of December 29, 2019, the Company had no accounts with a combined uninsured balance. As of December 30, 2018, the Company had three accounts with a combined uninsured balance of $170,000.

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 is reached to settle a delinquent franchisee receivable account 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.

Assets classified as held for sale – Assets are classified as held for sale when the Company commits to a plan to sell the asset, the asset is available for immediate sale in its present condition and an active program to locate a buyer at a reasonable price has been initiated. The sale of these assets is generally expected to be completed within one year. The combined assets are valued at the lower of their carrying amount or fair value, net of costs to sell and included as current assets on the Company's audited consolidated balance sheet. Assets classified as held for sale are not depreciated. However, interest attributable to the liabilities associated with assets classified as held for sale and other related expenses are recorded as expenses in the Company's consolidated statement of operations.

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

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

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

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

Franchise Fees: The franchise arrangement is documented in the form of a franchise agreement. The franchise arrangement requires the Company to perform various activities to support the brand that do not directly transfer goods and services to the franchisee, but instead represent a single performance obligation, which is the transfer of the franchise license. The services provided by the Company are highly interrelated with the franchise license and are considered a single performance obligation. Franchise fee revenue from the sale of individual franchises is recognized over the term of the individual franchise agreement. Unamortized non-refundable deposits collected in relation to the sale of franchises are recorded as deferred franchise fees.

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

Store opening fees – Prior to September 29, 2019, the Company recognized store opening fees in the amount of $35,000 to $60,000 from the up-front fees collected from franchisees upon store opening. The amount of the fee was dependent on brand and location (domestic versus international stores). The remaining balance of the up-front fees were then amortized as franchise fees over the life of the franchise agreement. If the fees collected were less than the respective store opening fee amounts, the full up-front fees were recognized at store opening. The store opening fees were 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 were higher due to the additional cost of travel.

During the fourth quarter of 2019, the Company performed a study of other public company restaurant franchisors' application of ASC 606 and determined that a preferred, alternative industry application exists in which the store opening fee portion of the franchise fees is amortized over the life of the franchise agreement rather than at milestones of standalone performance obligations in the franchise agreements. In order to provide financial reporting consistent with other franchise industry peers, the Company applied this preferred, alternative application of ASC 606 during the fourth quarter of 2019 on a prospective basis. As a result of the adoption of this preferred accounting treatment under ASC 606, the Company discontinued the recognition of store opening fees upon store opening and began accounting for the entire up-front deposit received from franchisees as described above in *Franchise Fees*. A cumulative adjustment to store opening fees and franchise fees was recorded in the fourth quarter of 2019 for store opening fees recognized during the first three quarters of 2019. (See "*Immaterial Adjustments Related to Prior Periods",* below.)

Royalties: In addition to franchise fee revenue, we collect a royalty calculated as a percentage of net sales from our franchisees. Royalties range from 0.75% to 6% and 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.

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 Company's audited consolidated statement of operations. Assets and liabilities associated with the related advertising fees are reflected in the Company's audited consolidated balance sheet.

Share-based compensation – The Company has a stock option plan which provides for options to purchase shares of the Company's common stock. Options issued under the plan may have a variety of terms as determined by the Board of Directors including the option term, the exercise price and the vesting period. Options granted to employees and directors are valued at the date of grant and recognized as an expense over the vesting period in which the options are earned. Cancellations or forfeitures are accounted for as they occur. Stock options issued to non-employees as compensation for services are accounted for based upon the estimated fair value of the stock option. The Company recognizes this expense over the period in which the services are provided. Management utilizes the Black-Scholes option-pricing model to determine the fair value of the stock options issued by the Company. See Note 16 for more details on the Company's share-based compensation.

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

The Company declared a stock dividend on February 7, 2019 and issued 245,376 shares of common stock in satisfaction of the stock dividend (See Note 18). Unless otherwise noted, earnings per share and other share-based information for 2019 and 2018 have been adjusted retrospectively to reflect the impact of the stock dividend.

Immaterial Adjustments Related to Prior Periods

During the fourth quarter of 2019, the Company identified two immaterial potential adjustments to its previously issued financial statements. These potential adjustments are (1) its assessment of the Series A-1 Fixed Rate Cumulative Preferred Stock and (2) its treatment of the store opening component of its franchise fees under ASC 606.

Based on its assessment of the Series A-1 Fixed Rate Cumulative Preferred Stock, the Company determined that an error occurred in the analysis of the rights that the holders of the Series A-1 Fixed Rate Cumulative Preferred Stock have with respect to the conversion of the securities into shares of the Company's common stock. In our reassessment, the conversion rights did not represent a beneficial conversion feature as we had initially concluded at the time of issuance.

The Company originally adopted ASC 606 on January 1, 2018. During the fourth quarter of 2019, the Company performed a study of other public company restaurant franchisors' application of ASC 606 and determined that a preferred, alternative industry application exists in which the store opening fee portion of the franchise fees is amortized over the life of the franchise agreement rather than at milestones of standalone performance obligations in the franchise agreements. In order to provide financial reporting consistent with other franchise industry peers, the Company applied this preferred, alternative application of ASC 606 during the fourth quarter of 2019 on a prospective basis.

In accordance with SEC Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in ASC 250 ("ASC 250"), Presentation of Financial Statements, and SAB 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Consolidated Statements of Income, Balance Sheets, Shareholders Equity and Cash Flows, also codified in ASC 250, management assessed the materiality of (1) the error in its treatment of the beneficial conversion feature related to the Series A-1 Fixed Rate Cumulative Preferred Stock and (2) the adoption of the preferential accounting treatment under ASC 606. Based on such analysis of quantitative and qualitative factors, the Company has determined that neither the error nor the adoption of the preferential accounting treatment under ASC 606, in aggregate or individually, were material to any of the reporting periods affected, and no amendments to previously filed 10-Q or 10-K reports with the SEC are required.

Recently Adopted Accounting Standards

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Prior to this update, Topic 718 applied only to share-based transactions to employees. Consistent with the accounting requirements for employee share-based payment awards, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The Company adopted ASU 2018-07 as of December 31, 2018. The adoption of this accounting standard did not have a material effect on the Company's audited consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements.* This ASU makes amendments to multiple codification Topics. The transition and effective date guidance are based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU. The Company adopted ASU 2018-09 as of December 31, 2018. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations, and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. This ASU is effective for interim and annual periods 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 Company adopted ASU 2016-02 using the modified retrospective approach, using a date of initial application of December 31, 2018. The Company also elected the package of practical expedients permitted under the standard, which allowed the company to carry forward historical lease classifications. The adoption of this standard as of December 31, 2018 resulted in the Company recording Operating Lease Right of Use Assets and Operating Lease Liabilities on its audited consolidated financial statements as of that date in the amount of $4,313,000 and $4,225,000, respectively. The adoption of this guidance did not have a significant effect on the amount of lease expense recognized by the Company.

Adopting the new accounting standard for leases affected various financial statement line items for the fiscal year ended December 29, 2019. The following table provides the affected amounts as reported in these audited consolidated financial statements compared with what they would have been if the previous accounting guidance had remained in effect.

As of December 29, 2019 (in thousands)

	Amounts As Reported	Amounts Under Previous Accounting Guidance
Audited Consolidated Balance Sheet:		
Operating lease right of use assets	$ 860	$ -
Operating lease right of use assets classified as held for sale	3,216	-
Total operating lease right of use assets	$ 4,076	$ -
Operating lease liabilities	$ 880	$ -
Operating lease liabilities associated with operating lease right of use assets classified as held for sale	3,326	-
Total operating lease liabilities	$ 4,206	$ -

Recently Issued Accounting Standards

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

The FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40).* The new guidance reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). For public companies, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The effects of this standard on the Company's financial position, results of operations or cash flows are not expected to be material.

The FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes:* This standard removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. It also adds guidance in certain areas, including the recognition of franchise taxes, recognition of deferred taxes for tax goodwill, allocation of taxes to members of a consolidated group, computation of annual effective tax rates related to enacted changes in tax laws, and minor improvements related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public companies, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of ASU 2019-12 on our audited consolidated financial statements and related disclosures.

NOTE 3. ACQUISITIONS

Acquisition of Elevation Burger

On June 19, 2019, the Company completed the acquisition of EB Franchises, LLC, a Virginia limited liability company, and its related companies (collectively, "Elevation Burger") for a purchase price of up to $10,050,000. Elevation Burger is the franchisor of Elevation Burger restaurants, with 44 locations in the U.S. and internationally.

The purchase price consists of $50,000 in cash, a contingent warrant to purchase 46,875 shares of the Company's common stock at an exercise price of $8.00 per share (the "Elevation Warrant"), and the issuance to the Seller of a convertible subordinated promissory note (the "Elevation Note") with a principal amount of $7,509,816, bearing interest at 6.0% per year and maturing in July 2026. The Elevation Warrant is only exercisable in the event that the Company merges with FCCG. The Seller Note is convertible under certain circumstances into shares of the Company's common stock at $12.00 per share. In connection with the purchase, the Company also loaned $2,300,000 in cash to the Seller under a subordinated promissory note (the "Elevation Buyer Note") bearing interest at 6.0% per year and maturing in August 2026. The balance owing to the Company under the Elevation Buyer Note may be used by the Company to offset amounts owing to the Seller under the Elevation Note under certain circumstances. In addition, the Seller will be entitled to receive earn-out payments of up to $2,500,000 if Elevation Burger realizes royalty fee revenue in excess of certain amounts. As of the date of the acquisition, the fair market value of this contingent consideration totaled $531,000. As of December 29, 2019, the contingent purchase price payable totaled $633,000 which includes the accretion of interest expense at an effective interest rate of 18%.

The purchase documents contain customary representations and warranties of the Seller and provides that the Seller will, subject to certain limitations, indemnify the Company against claims and losses incurred or suffered by the Company as a result of, among other things, any inaccuracy of any representation or warranty of the Seller contained in the purchase documents.

The preliminary assessment of the fair value of the net assets and liabilities acquired by the Company for the acquisition of Elevation Burger was estimated at $7,193,000. The allocation of the consideration to the preliminary valuation of net tangible and intangible assets acquired is presented in the table below (in thousands):

Cash	$	10
Other assets		558
Intangible assets		7,140
Goodwill		521
Current liabilities		(91)
Deferred franchise fees		(758)
Other liabilities		(187)
Total net identifiable assets	$	7,193

The assessment of fair value is preliminary and is based on information that was available to management and through the end of the fiscal year. If additional information becomes available to management related to assets acquired or liabilities assumed subsequent to this preliminary assessment of fair value but not later than one year after the date of the acquisition, measurement period adjustments will be recorded in the period in which they are determined, as if they had been completed at the acquisition date.

Yalla Mediterranean Transactions

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

The Company, through a subsidiary, acquired the intellectual property used in connection with the Yalla Business pursuant to the IP Agreement. Under the terms of the IP Agreement, the purchase price for the intellectual property will be paid in the form of an earn-out, calculated as the greater of $1,500,000 or 400% of Yalla Income, which includes gross franchise royalties as well as other items, as defined in the IP Agreement. The seller can require the Company to pay the purchase price in up to two installments during the ten-year period following the acquisition. At the time of the acquisition, the purchase price recorded for the intellectual property was $1,790,000. As of December 29, 2019, the purchase price payable totaled $2,154,000 which includes the accretion of interest expense at an effective interest rate of 19%.

Additionally, pursuant to the Master Agreement, the Company agreed to acquire the assets, agreements and other properties of each of the seven existing Yalla Mediterranean restaurants during a marketing period specified in the Master Agreement (the "Marketing Period"). The purchase price will be the greater of $1,000,000 or the sum of (i) the first $1,750,000 of gross sale proceeds received from the sale of the Yalla Mediterranean restaurants to franchisee/purchasers, plus (ii) the amount, if any, by which fifty percent (50%) of the net proceeds (after taking into consideration operating income or loss and transaction costs and expenses) from the sale of the Yalla Mediterranean restaurants exceeds $1,750,000. At the time of the acquisition, the purchase price recorded for the net tangible assets relating to the seven existing Yalla Mediterranean restaurants was $1,700,000. As of December 29, 2019, the purchase price payable totaled $1,718,000 which includes the accretion of interest expense at an effective interest rate of 5.4%.

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

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

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

Cash	$	82
Accounts receivable		77
Inventory		95
Other assets		90
Property and equipment		2,521
Intangible assets		1,530
Goodwill		263
Accounts payable and accrued expenses		(1,168)
Total net identifiable assets	$	3,490

Acquisition of Hurricane AMT, LLC

On July 3, 2018, the Company completed the acquisition of Hurricane AMT, LLC, a Florida limited liability company ("Hurricane"), for a purchase price of $12,500,000. Hurricane is the franchisor of Hurricane Grill & Wings and Hurricane BTW Restaurants. The purchase price of $12,500,000 was delivered through the payment of $8,000,000 in cash and the issuance to the Sellers of $4,500,000 of equity units of the Company valued at $10,000 per unit, or a total of 450 units. Each unit consists of (i) 100 shares of the Company's newly designated Series A-1 Fixed Rate Cumulative Preferred Stock (the "Series A-1 Preferred Stock") and (ii) a warrant to purchase 127 shares of the Company's Common Stock at $7.83 per share (the "Hurricane Warrants").

The allocation of consideration to the net tangible and intangible assets acquired is presented in the table below (in thousands):

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

NOTE 4. REFRANCHISING

As part of its ongoing franchising efforts, the Company may, from time to time, make opportunistic acquisitions of operating restaurants in order to convert them to franchise locations or acquire existing franchise locations to resell to another franchisee across all of its brands.

During the first quarter of 2019, the Company met all of the criteria requiring that certain assets used in the operation of certain restaurants be classified as held for sale. As a result, the following assets have been classified as held for sale on the accompanying audited consolidated balance sheet as of December 29, 2019 (in thousands):

		December 29, 2019
Property, plant and equipment	$	1,912
Operating lease right of use assets		3,216
Total	$	5,128

Operating lease liabilities related to the assets classified as held for sale in the amount of $3,326,000, have been classified as current liabilities on the accompanying audited consolidated balance sheet as of December 29, 2019.

During the year ended December 29, 2019, the operating restaurants incurred restaurant costs and expenses, net of revenue of $2,014,000, compared to $67,000 in the prior period. In addition, the refranchising of these opportunistic acquisitions of operating restaurants for conversion to franchise locations and the acquisition of existing franchise locations to resell to another franchisee resulted in the gains on the six store sales of $1,795,000 during the fiscal year ended December 29, 2019 with no comparable activity in 2018: The following table highlights the results of the Company's refranchising program during 2019 (in thousands):

	Fiscal year ended December 29, 2019
Restaurant costs and expenses, net of revenue	$ (2,014)
Gain on store sales	1,795
Refranchising loss	$ (219)

During the fiscal year ended December 29, 2019, a franchisee had entered into an agreement with the Company by which it agreed to sell two existing franchised locations to the Company for its refranchising program. Additionally, during the fiscal year, the Company had completed transactions to sell the two locations to new owners. Subsequent to December 29, 2019, as a result of COVID-19, the locations acquired from the existing franchisee became unavailable. The Company is evaluating the impact of the event and determining which existing operating restaurants will be used as a replacement for the new owners (See Note 22).

NOTE 5. NOTES RECEIVABLE

Notes receivable consist of trade notes receivable and the Elevation Buyer Note.

Trade notes receivable are created when a settlement is reached relating to a delinquent franchisee account and the entire balance is not immediately paid. Trade notes receivable generally include personal guarantees from the franchisee. The notes are made for the shortest time frame negotiable and will generally carry an interest rate of 6% to 7.5%. Reserve amounts, on the notes, are established based on the likelihood of collection. As of December 29, 2019, these trade notes receivable totaled $250,000, which was net of reserves of $123,000. As of December 30, 2018, these trade notes receivable totaled $277,000, which was net of reserves of $149,000.

The Elevation Buyer Note was funded in connection with the purchase of Elevation Burger (See Note 3). The Company loaned $2,300,000 in cash to the Seller under a subordinated promissory note bearing interest at 6.0% per year and maturing in August 2026. This Note is subordinated in right of payment to all indebtedness of the Seller arising under any agreement or instrument to which the Seller or any of its affiliates is a party that evidences indebtedness for borrowed money that is senior in right of payment to the Elevation Buyer Note, whether existing on the effective date of the Elevation Buyer Note or arising thereafter. The balance owing to the Company under the Elevation Buyer Note may be used by the Company to offset amounts owing to the Seller under the Elevation Note under certain circumstances. As part of the total consideration for the Elevation acquisition, the Elevation Buyer Note was recorded at a carrying value of $1,903,000, which was net of a discount of $397,000. As of December 29, 2019, the balance of the Elevation Note was $1,814,000, which was net of a discount of $352,000. During the fiscal year ended December 29, 2019, the Company recognized $114,000 in interest income, with no comparable activity in 2018.

NOTE 6. GOODWILL

Goodwill consists of the following (in thousands):

	December 29, 2019	December 30, 2018
Goodwill:		
Fatburger	$ 529	$ 529
Buffalo's	5,365	5,365
Hurricane	2,772	2,772
Ponderosa	1,462	1,462
Yalla	263	263
Elevation Burger	521	-
Total goodwill	$ 10,912	$ 10,391

NOTE 7. OTHER INTANGIBLE ASSETS

Other intangible assets consist of trademarks and franchise agreements that were classified as identifiable intangible assets at the time of the brands' acquisition by the Company or by FCCG prior to FCCG's contribution of the brands to the Company at the time of the initial public offering (in thousands):

	December 29, 2019	December 30, 2018
Trademarks:		
Fatburger	$ 2,135	$ 2,135
Buffalo's	27	27
Hurricane	6,840	6,840
Ponderosa	7,230	7,230
Yalla	1,530	1,530
Elevation Burger	4,690	-
Total trademarks	22,452	17,762
Franchise agreements:		
Hurricane – cost	4,180	4,180
Hurricane – accumulated amortization	(482)	(161)
Ponderosa – cost	1,640	1,640
Ponderosa – accumulated amortization	(243)	(132)
Elevation Burger – cost	2,450	-
Elevation Burger – accumulated amortization	(263)	-
Total franchise agreements	7,282	5,527
Total Other Intangible Assets	$ 29,734	$ 23,289

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

Fiscal year:	
2020	$ 932
2021	932
2022	932
2023	932
2024	932
Thereafter	2,622
Total	$ 7,282

NOTE 8. DEFERRED INCOME

Deferred income is as follows (in thousands):

	December 29, 2019	December 30, 2018
Deferred franchise fees	$ 5,417	$ 6,711
Deferred royalties	422	653
Deferred advertising revenue	303	333
Total	$ 6,142	$ 7,697

NOTE 9. 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 $25,967,000 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 $51,000 was offset against amounts due from FCCG as of December 29, 2019. For the year ended December 30, 2018, the tax calculation resulted in an increase in the amount owed to the Company by FCCG in the amount of $195,000. (See Note 14.)

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

	December 29, 2019	December 30, 2018
Deferred tax assets (liabilities)		
Deferred income	$ 1,353	$ 1,779
Reserves and accruals	208	346
Intangibles	(614)	(532)
Deferred state income tax	(91)	(72)
Tax credits	244	126
Share-based compensation	192	131
Interest expense	-	439
Fixed assets	(137)	-
Net operating loss carryforwards	894	43
Other	(17)	(24)
Total	$ 2,032	$ 2,236

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

	Fiscal Year Ended December 29, 2019	Fiscal Year Ended December 30, 2018
Current		
Federal	$ 29	$ (79)
State	34	88
Foreign	244	220
	307	229
Deferred		
Federal	291	(381)
State	(88)	(123)
	203	(504)
Total income tax expense (benefit)	$ 510	$ (275)

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

	Fiscal Year Ended December 29, 2019	Fiscal Year Ended December 30, 2018
Tax benefit at statutory rate	$ (107)	$ (435)
State and local income taxes	(43)	(27)
Foreign taxes	244	216
Tax credits	(24)	(203)
Dividends on preferred stock	372	200
Meals and entertainment	42	6
Other	26	(32)
Total income tax expense (benefit)	$ 510	$ (275)

As of December 29, 2019, the Company's subsidiaries' annual tax filings for the prior three years are open for audit by Federal and for the prior four years for state tax agencies. The Company is the beneficiary of indemnification agreements from the prior owners of the subsidiaries for tax liabilities related to periods prior to its ownership of the subsidiaries. Management evaluated the Company's overall tax positions and has determined that no provision for uncertain income tax positions is necessary as of December 29, 2019.

NOTE 10. LEASES

The Company has recorded nine operating leases for corporate offices and for certain restaurant properties that are in the process of being refranchised. The Company is not a guarantor to the leases for the restaurant locations. The leases have remaining lease terms ranging from four months to 7.5 years. Five of the leases also have options to extend the term for 5 to 10 years. The Company recognized lease expense of $1,441,000 and $304,000 for the fiscal years ended December 29, 2019 and December 30, 2018, respectively. The weighted average remaining lease term of the operating leases (not including optional lease extensions) at December 29, 2019 was 5.8 years.

Operating lease right of use assets and operating lease liabilities relating to the operating leases are as follows (in thousands):

	December 29, 2019	December 30, 2018
Right of use assets	$ 4,076	$ -
Lease liabilities	$ 4,206	$ -

The operating lease right of use assets and operating lease liabilities include obligations relating to the optional term extensions available on the five restaurant leases based on management's intention to exercise the options. The weighted average discount rate used to calculate the carrying value of the right of use assets and lease liabilities was 15.9% as this was consistent with our incremental borrowing rate.

The contractual future maturities of the Company's operating lease liabilities as of December 29, 2019, including anticipated lease extensions, are as follows (in thousands):

Fiscal year:	
2020	$ 1,109
2021	870
2022	898
2023	924
2024	684
Thereafter	4,882
Total lease payments	9,367
Less imputed interest	5,161
Total	$ 4,206

Supplemental cash flow information for the fiscal year ended December 29, 2019 related to leases is as follows (in thousands):

Cash paid for amounts included in the measurement of operating lease liabilities:		
Operating cash flows from operating leases	$	1,080
Operating lease right of use assets obtained in exchange for new lease obligations:		
Operating lease liabilities	$	856

NOTE 11. DEBT

Senior Secured Redeemable Debentures

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

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

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

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

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

Term Loan

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

In connection with the Loan Agreement, the Company also issued warrants to purchase up to 509,604 shares of the Company's Common Stock at $7.20 per share to the Lender (the "Lender Warrant"). Warrants were also issued to certain loan placement agents to purchase 66,691 shares of the Company's common stock at $7.20 per share (the "Placement Agent Warrants") (See Note 17).

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 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.

On January 29, 2019, the Company refinanced the FB Lending term loan. The payoff amount was $18,095,000 which included principal in the amount of $16,400,000 and accrued interest and prepayment fees of $1,695,000. During the year ended December 29, 2019, the Company recorded interest expense of $1,337,000, primarily relating to the charge off of unaccreted debt discount of $349,000 and unamortized debt offering costs of $651,000. The Company recognized interest expense on the Term Loan of $3,301,000 for the fiscal year ended December 30, 2018, which includes $400,000 of extension fees, $1,360,000 of prepayment penalties, $222,000 in accretion expense and $217,000 for amortization of debt offering costs.

The Lender Warrant will remain outstanding until it is exercised or expires (See Note 17).

Loan and Security Agreement

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

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

In connection with the Loan and Security Agreement, the Company issued to Lion a warrant to purchase up to 1,167,404 shares of the Company's Common Stock at $0.01 per share (the "Lion Warrant"), exercisable only if the amounts outstanding under the Loan and Security Agreement were not repaid in full prior to October 1, 2019. If the Loan and Security Agreement was repaid in full prior to October 1, 2019, the Lion Warrant would be terminated in its entirety.

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

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

On the issuance date, the Company evaluated the allocation of the proceeds between the Loan and Security Agreement and the Lion Warrant based on the relative fair values of each. Since the Lion Warrant only was to become effective if the amounts outstanding under the Loan and Security Agreement were not repaid in full prior to October 1, 2019, no value was assigned to it as of the grant date. The Company intended to refinance the debt prior to the beginning of the exercise period of the Lion Warrant.

On June 19, 2019, the Company amended its existing loan facility with Lion. The Company entered into a First Amendment to Loan and Security Agreement (the "First Amendment"), which amended the Loan and Security Agreement originally dated January 29, 2019. Pursuant to the First Amendment, the Company increased its borrowings by $3,500,000 in order to fund the Elevation Buyer Note in connection with the acquisition of Elevation, acquire other assets and pay fees and expenses of the transactions. The First Amendment also added the acquired Elevation-related entities as guarantors and loan parties.

On July 24, 2019, the Company entered into a first amendment to the Lion Warrant, which extended the date on which the Lion Warrant was initially exercisable from October 1, 2019 to June 30, 2020, which coincided with the maturity date of the loans made under the Loan Agreement. The Lender Warrant was only exercisable if the amounts outstanding under the Loan Agreement were not repaid in full prior to the Exercise Date.

The Company agreed to pay the Lenders an extension fee of $500,000 in the form of an increase in the principal amount loaned under the Loan and Security Agreement, and on July 24, 2019 entered into a second amendment to the Loan Agreement (the "Second Amendment") to reflect this increase. Under the Second Amendment, the parties also agreed to amend the Loan and Security Agreement to provide for a late fee of $400,000 payable if the Company failed to make any quarterly interest payment by the fifth business day after the end of each fiscal quarter.

As of December 29, 2019, the total principal amount due under the Loan and Security Agreement was $24,000,000 and the net carrying value of obligation under the Loan and Security Agreement was $23,849,000, which is net of unamortized debt offering costs of $151,000.

The Company recognized interest expense on the Loan and Security Agreement of $4,881,000 for the fiscal year ended December 29, 2019, which includes $227,000 for amortization of debt offering costs and a $500,000 loan extension fee, with no comparable activity in 2018. The effective interest rate for the facility under the Loan and Security Agreement during 2019 was 23.9%.

The Company repaid the Loan and Security Agreement in full on March 9, 2020 (See Note 22).

Elevation Note

On June 19, 2019, the Company completed the acquisition of Elevation Burger. A portion of the purchase price included the issuance to the Seller of a convertible subordinated promissory note (the "Elevation Note") with a principal amount of $7,509,816, bearing interest at 6.0% per year and maturing in July 2026. The Elevation Note is convertible under certain circumstances into shares of the Company's common stock at $12.00 per share. In connection with the valuation of the acquisition of Elevation Burger, the Elevation Note was recorded on the financial statements of the Company at $6,185,000, which is net of a loan discount of $1,295,000 and debt offering costs of $30,000. As of December 29, 2019, the carrying value of the Elevation Note was $5,847,000 which is net of the loan discount of $1,149,000 and debt offering costs of $66,000. The Company recognized interest expense relating to the Elevation Note during the year ended December 29, 2019 in the amount of $383,000, which included amortization of the loan discount of $146,000 and amortization of $5,000 in debt offering costs, with no comparable activity is 2018. The effective interest rate for the Elevation Note during 2019 was 12.5%.

The Company is required to make fully amortizing payments of $110,000 per month during the term of the Elevation Note. The Elevation Note is a general unsecured obligation of Company and is subordinated in right of payment to all indebtedness of the Company arising under any agreement or instrument to which Company or any of its Affiliates is a party that evidences indebtedness for borrowed money that is senior in right of payment. FCCG has guaranteed payment of the Elevation Note.

NOTE 12. 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 1,010,420 shares of Common Stock of the Company, representing an exchange price of $7.20 per share, which was the closing trading price of the Common Stock on June 26, 2018.

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

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

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

NOTE 13. PREFERRED STOCK

Series B Cumulative Preferred Stock

On October 3 and October 4, 2019, the Company completed the initial closing of its continuous public offering (the "Series B Preferred Offering") of up to $30,000,000 of units (the "Series B Units") at $25.00 per Series B Unit, with each Series B Unit comprised of one share of 8.25% Series B Cumulative Preferred Stock ("Series B Preferred Stock") and 0.60 warrants (the "Series B Warrants") to purchase common stock at $8.50 per share, exercisable for five years.

The offering includes up to 1,200,000 shares of Series B Preferred Stock and Series B Warrants initially exercisable to purchase up to an aggregate of 720,000 shares of our common stock. The shares of Series B Preferred Stock and Series B Warrants will be issued separately but can only be purchased together in the Series B Preferred Offering. Each Warrant will be immediately exercisable and will expire on the five-year anniversary of the date of issuance.

The Company will pay cumulative dividends on the Series B Preferred Stock from and including the date of original issuance in the amount of $2.0625 per share each year, which is equivalent to 8.25% of the $25.00 liquidation preference per share. Dividends on the Series B Preferred Stock will be payable quarterly in arrears based on the Company's fiscal quarters.

The Company may not redeem the Series B Preferred Stock before the first anniversary of the initial issuance date. After the first anniversary of the initial issuance date the Company has the option to redeem the Series B Preferred Stock, in whole or in part, for cash plus any accrued and unpaid dividends to the date of redemption at the following redemption price per share:

- After the first anniversary and on or prior to the second anniversary at $27.50 per share
- After the second anniversary and on or prior to the third anniversary at $26.125 per share
- After the third anniversary at $25.00 per share

The Series B Preferred Stock will mature on the five-year anniversary of the initial issuance date or the earlier liquidation, dissolution or winding-up of the Company. Upon maturity, the holders of Series B Preferred Stock will be entitled to receive cash redemption of their shares in an amount equal to $25.00 per share plus any accrued and unpaid dividends.

Holders of Series B Preferred Stock have the option to cause the Company to redeem all or any portion of their Series B Preferred Stock following the first anniversary of the initial issuance date for cash at the following redemption prices per share, plus any accrued and unpaid dividends:

- After the first anniversary and on or prior to the second anniversary at $22.00 per share
- After the second anniversary and on or prior to the third anniversary at $22.50 per share
- After the third anniversary and on or prior to the fourth anniversary at $23.00 per share
- After the fourth anniversary at $25.00 per share

The rights of holders of Series B Preferred Stock to receive their liquidation preference also will be subject to the proportionate rights of our Series A Fixed Rate Cumulative Preferred Stock and any other class or series of our capital stock ranking in parity with the Series B Preferred Stock as to liquidation.

As of December 29, 2019, there were 57,140 shares of Series B Preferred Stock outstanding.

The Company classified the Series B Preferred Stock as long-term debt because it contains an unconditional obligation requiring the Company to redeem the instruments at the maturity date or upon the election of the holders as described above in cash. The associated Series B Warrants have been recorded as additional paid-in capital. On the issuance date, the Company allocated the proceeds between the Series B Preferred Stock and the Series B Warrants based on the relative fair values of each. The aggregate values assigned upon issuance of each component were as follows (amounts in thousands, except price per unit):

	Series B Warrants (equity component)	Series B Preferred Stock (debt component)	Total
Series B Preferred Offering:			
Gross proceeds	$ 21	$ 1,407	$ 1,428
Issuance costs	-	(360)	(360)
Net proceeds	$ 21	$ 1,047	$ 1,068
Subscription price per unit	$ 0.37	$ 24.63	$ 25.00
Consolidated balance sheet impact at issuance:			
Long-term debt, net of debt discount and offering costs	$ -	$ 1,047	$ 1,047
Additional paid-in capital	$ 21	$ -	$ 21

As of December 29, 2019, the net Series B Preferred Stock balance was $1,071,000 including an unaccreted debt discount of $15,000 and unamortized debt offering costs of $342,000.

The Company recognized interest expense on the Series B Preferred Stock of $47,000 for the fiscal year ended December 29, 2019, which includes accretion expense of the debt discount of $6,000 and amortization of debt offering costs of $17,000.

The effective interest rate for the Series B Preferred Stock for 2019 was 19.8%.

Series A Fixed Rate Cumulative Preferred Stock

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

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

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

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

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

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

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

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

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

As of December 29, 2019, there were 100,000 shares of Series A Preferred stock outstanding, issued in the following two transactions:

(i) On June 7, 2018, the Company entered into a Subscription Agreement for the issuance and sale (the "Offering") of 800 units (the "Units"), with each Unit consisting of (i) 100 shares of the Company's newly designated Series A Fixed Rate Cumulative Preferred Stock (the "Series A Preferred Stock") and (ii) warrants (the "Series A Warrants") to purchase 127 shares of the Company's Common Stock at $7.83 per share. The sales price of each Unit was $10,000, resulting in gross proceeds to the Company from the initial closing of $8,000,000 and the issuance of 80,000 shares of Series A Preferred Stock and Series A Warrants to purchase 102,125 shares of common stock (the "Subscription Warrants").

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

- $2,000,000 of the Note Balance was exchanged for 200 Units consisting of 20,000 shares of Series A Fixed Rate Cumulative Preferred Stock of the Company at $100 per share and Series A Warrants to purchase 25,530 of the Company's common stock at an exercise price of $7.83 per share (the "Exchange Warrants"); and

- $7,272,053 of the Note Balance was exchanged for 1,010,420 shares of Common Stock of the Company, representing an exchange price of $7.20 per share, which was the closing trading price of the Common Stock on June 26, 2018.

The Company classifies the Series A Preferred Stock as long-term debt because it contains an obligation to issue a variable number of common shares for a fixed monetary amount. As of December 29, 2019, the net Series A Preferred Stock balance was $9,913,000 including an unaccreted debt discount of $76,000 and unamortized debt offering costs of $11,000.

The Company recognized interest expense on the Series A Preferred Stock of $1,415,000 for the fiscal year ended December 29, 2019, which includes accretion expense of $22,000 and $3,000 for the amortization of debt offering costs. For the fiscal year ended December 30, 2018, the Company recognized interest expense on the Series A Preferred Stock of $785,000 which includes accretion expense of $13,000 and $2,000 for the amortization of debt offering costs.

The effective interest rate for the Series A Preferred Stock for 2019 was 14.3%.

Series A-1 Fixed Rate Cumulative Preferred Stock

On July 3, 2018, the Company filed with the Secretary of State of the State of Delaware a Certificate of Designation of Rights and Preferences of Series A-1 Fixed Rate Cumulative Preferred Stock (the "Series A-1 Certificate of Designation"), designating a total of 200,000 shares of Series A-1 Fixed Rate Cumulative Preferred Stock (the "Series A-1 Preferred Stock"). As of December 29, 2019, there were 45,000 shares of Series A-1 Preferred Stock issued and outstanding. The Series A-1 Certificate of Designation contains the following terms pertaining to the Series A-1 Preferred Stock:

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

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

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

Holders of Series A-1 Preferred Stock may also optionally cause the Company to redeem all or any portion of their shares of Series A-1 Preferred Stock beginning any time after the two-year anniversary of the initial issuance date for an amount equal to $100.00 per share plus any accrued and unpaid dividends, which amount may be settled in cash or Common Stock of the Company, at the option of the holder. If a holder elects to receive Common Stock, shares will be issued as payment for redemption at the rate of $11.75 per share of Common Stock.

As of December 29, 2019, there were 45,000 shares of Series A-1 Preferred Stock outstanding.

The Company classifies the Series A-1 Preferred Stock as long-term debt because it contains an obligation to issue a variable number of common shares for a fixed monetary amount.

As of December 29, 2019, the net Series A-1 Preferred Stock balance was $4,343,000 including an unaccreted debt discount of $133,000 and unamortized debt offering costs of $24,000.

The Company recognized interest expense on the Series A-1 Preferred Stock of $309,000 for the fiscal year ended December 29, 2019, which included recognized accretion expense of $32,000 and $7,000 for the amortization of debt offering costs. The Company recognized interest expense on the Series A-1 Preferred Stock of $135,000 for the fiscal year ended December 30, 2018 which included accretion expense on the Series A-1 Preferred Stock of $15,000 and $4,000 for the amortization of debt offering costs.

The effective interest rate for the Series A-1 Preferred Stock for 2019 was 7.2%.

The issuance of the Series A Preferred Stock and Series A-1 Preferred Stock was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D of the Securities Act and in reliance on similar exemptions under applicable state laws. Each of the investors in the Offering represented that it is an accredited investor within the meaning of Rule 501(a) of Regulation D and was acquiring the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The securities were offered without any general solicitation by the Company or its representatives.

NOTE 14. 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 $25,967,000 as of December 29, 2019 compared to $15,514,000 as of December 30, 2018. The receivable from FCCG bears interest at a rate of 10% per annum. During the fiscal years ended December 29, 2019 and December 30, 2018, the Company recorded accrued interest income on the balance of the receivable due from FCCG of $1,528,000 and $825,000, respectively.

The net balance due from affiliates includes a preferred capital investment in Homestyle Dining LLC, a Delaware limited liability corporation ("HSD") in the amount of $4.0 million made effective July 5, 2018 (the "Preferred Interest"). FCCG owns all of the common interests in HSD. The holder of the Preferred Interest is entitled to a 15% priority return on the outstanding balance of the investment (the "Preferred Return"). During the fiscal years ended December 29, 2019 and December 30, 2018, the Company recorded accrued interest income of $600,000 and $300,000, respectively. Any available cash flows from HSD on a quarterly basis are to be distributed to pay the accrued Preferred Return and repay the Preferred Interest until fully retired. On or before the five-year anniversary of the investment, the Preferred Interest is to be fully repaid, together with all previously accrued but unpaid Preferred Return. FCCG has unconditionally guaranteed repayment of the Preferred Interest in the event HSD fails to do so.

During the fiscal year ended December 29, 2019, the Company recorded a payable to FCCG in the amount of $51,000 under the Tax Sharing Agreement, which was offset against the intercompany receivable. During the fiscal year ended December 30, 2018, the Company recorded a receivable due from FCCG in the amount of $195,000 relating to the Tax Sharing Agreement. (See Note 9).

Subsequent to December 29, 2019, on April 24, 2020, the Company entered into an Intercompany Revolving Credit Agreement with FCCG ("Intercompany Agreement"). The Company had previously extended credit to FCCG pursuant to a certain Intercompany Promissory Note (the "Original Note"), dated October 20, 2017, with an initial principal balance of $11,906,000. Subsequent to the issuance of the Original Note, the Company and certain of its direct or indirect subsidiaries made additional intercompany advances in the aggregate amount of $10,523,000. Pursuant to the Intercompany Agreement, the revolving credit facility bears interest at a rate of 10% per annum, has a five-year term with no prepayment penalties, and has a maximum capacity of $35,000,000. All additional borrowings under the Intercompany Agreement are subject to the approval of the Board of Directors, in advance, on a quarterly basis and may be subject to other conditions as set forth by the Company. The initial balance under the Intercompany Agreement totaled $21,067,000 including the balance of the Original Note, borrowings subsequent to the Original Note, accrued and unpaid interest income, and other adjustments through December 29, 2019. (See Note 22).

On October 3 and October 4, 2019, the Company completed the initial closing of its continuous public offering (the "Series B Preferred Offering") of up to $30,000,000 of units (the "Series B Units") at $25.00 per Series B Unit, with each Series B Unit comprised of one share of 8.25% Series B Cumulative Preferred Stock ("Series B Preferred Stock") and 0.60 warrants (the "Series B Warrants") to purchase common stock at $8.50 per share, exercisable for five years. At the initial closing of the Preferred Offering, the Company completed the sale of 43,080 Series B Units for gross proceeds of $1,077,000. The following reportable related persons participated in the initial closing of the Company's Preferred Offering:

- Andrew Wiederhorn, the Company's Chief Executive Officer, acquired 20,000 Series B Units for $500,000 comprised of 20,000 shares of Series B Preferred Stock and 12,000 Series B Warrants to purchase 12,000 shares of the Company's Common Stock at $8.50 per share, and

- Squire Junger, a member of the Company's Board of Directors, acquired 5,000 Series B Units for $125,000 comprised of 5,000 shares of Series B Preferred Stock and 3,000 Series B Warrants to purchase 3,000 shares of the Company's Common Stock at $8.50 per share.

- In aggregate, Mr. Wiederhorn, Mr. Junger, and other related parties acquired 33,000 Series B Units for $825,000 comprised of 33,000 shares of Series B Preferred Stock and 19,800 Series B Warrants to purchase 19,800 shares of the Company's Common Stock at $8.50 per share.

NOTE 15. SHAREHOLDERS' EQUITY

As of December 29, 2019 and December 30, 2018, the total number of authorized shares of common stock was 25,000,000, and there were 11,860,299 and 11,546,589 (unadjusted for the February 28, 2019 stock dividend) shares of common stock outstanding, respectively.

Below are the changes to the Company's common stock during the fiscal year ended December 29, 2019:

- On February 7, 2019, the Company declared a stock dividend equal to 2.13% on its common stock, representing the number of shares equal to $0.12 per share of common stock based on the closing price as of February 6, 2019. The stock dividend was paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019. The Company issued 245,376 shares of common stock at a per share price of $5.64 in satisfaction of the stock dividend. Unless otherwise noted, the common stock share and share price information presented in these Notes to the Audited Financial Statements for periods prior to February 28, 2019 have been adjusted retrospectively to reflect the impact of the stock dividend.

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

- On May 21, 2019, the Company issued a total of 19,416 shares of common stock at a value of $4.64 per share to the non-employee members of the board of directors as consideration for accrued directors' fees.

- On September 24, 2019, the Company issued a total of 17,142 shares of common stock at a value of $5.25 per share to the non-employee members of the board of directors as consideration for accrued directors' fees.

- On November 14, 2019, the Company issued a total of 16,392 shares of common stock at a value of $5.49 per share to the non-employee members of the board of directors as consideration for accrued directors' fees.

NOTE 16. SHARE-BASED COMPENSATION

Effective September 30, 2017, the Company adopted the 2017 Omnibus Equity Incentive Plan (the "Plan"). The Plan is a comprehensive incentive compensation plan under which the Company can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to, FAT Brands Inc. and its subsidiaries. The Plan provides a maximum of 1,021,250 shares available for grant.

All of the stock options issued by the Company to date have included a vesting period of three years, with one-third of each grant vesting annually. The Company's stock option activity for fiscal year ended December 29, 2019 can be summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Stock options outstanding at December 30, 2018	681,633	$ 8.84	8.1
Grants	106,908	$ 5.64	9.7
Forfeited	(66,060)	$ 7.90	8.7
Expired	-	$	
Stock options outstanding at December 29, 2019	722,481	$ 8.45	8.5
Stock options exercisable at December 29, 2019	328,483	$ 9.94	8.1

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

	Including Non-Employee Options
Expected dividend yield	4.00% - 10.43%
Expected volatility	30.23% - 31.73%
Risk-free interest rate	1.52% - 2.85%
Expected term (in years)	5.50 – 5.75

The Company recognized share-based compensation expense in the amount of $262,000 and $439,000, respectively, during the fiscal years ended December 29, 2019 and December 30, 2018. As of December 29, 2019, there remains $150,000 of related share-based compensation expense relating to non-vested grants, which will be recognized over the remaining vesting period, subject to future forfeitures.

NOTE 17. WARRANTS

From the Offering through December 29, 2019, the Company has issued the following outstanding warrants to purchase shares of its common stock:

- Warrants issued on October 20, 2017 to purchase 81,700 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 $14.69 per share, and the Common Stock Warrants were valued at $124,000 at the date of grant. The Common Stock Warrants provide that upon exercise, the Company may elect to redeem the Common Stock Warrants in cash by paying the difference between the applicable exercise price and the then-current fair market value of the common stock.

- Warrants issued on June 7, 2018 to purchase 102,125 shares of the Company's common stock at an exercise price of $7.83 per share (the "Subscription Warrants"). The Subscription Warrants were issued as part of the Subscription Agreement (see Note 13). The Subscription Warrants were valued at $87,000 at the date of grant. The Subscription Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on June 27, 2018 to purchase 25,530 shares of the Company's common stock at an exercise price of $7.83 per share (the "Exchange Warrants"). The Exchange Warrants were issued as part of the Exchange (See Note 13). The Exchange Warrants were valued at $25,000 at the date of grant. The Exchange Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on July 3, 2018 to purchase 57,439 shares of the Company's common stock at an exercise price of $7.83 per share (the "Hurricane Warrants"). The Hurricane Warrants were issued as part of the acquisition of Hurricane. The Hurricane Warrants were valued at $58,000 at the date of grant. The Hurricane Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on July 3, 2018 to purchase 509,604 shares of the Company's common stock at an exercise price of $7.20 per share (the "Lender Warrant"). The Lender Warrant was issued as part of the $16 million credit facility with FB Lending, LLC (See Note 11). The Lender Warrant was valued at $592,000 at the date of grant. The Lender Warrant may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on July 3, 2018 to purchase 66,691 shares of the Company's common stock at an exercise price of $7.20 per share (the "Placement Agent Warrants"). The Placement Agent Warrants were issued to the placement agents of the $16 million credit facility with FB Lending, LLC (See Note 11). The Placement Agent Warrants were valued at $78,000 at the date of grant. The Placement Agent Warrants may be exercised at any time or times beginning on the issue date and ending on the five-year anniversary of the issue date.

- Warrants issued on January 29, 2019, in connection with the Loan and Security Agreement (See Note 11), to purchase up to 1,167,404 shares of the Company's Common Stock at an exercise price of $0.01 per share (the "Lion Warrant"), exercisable at any time between July 1, 2020 and January 29, 2024, but only if the amounts outstanding under the Loan and Security Agreement are not repaid in full on or before June 30, 2020. If the Loan and Security Agreement is repaid in full on or before June 30, 2020, the Lion Warrant will terminate in its entirety. The Lion Warrants were not valued at the date of grant due to the contingency relating to their exercise. The Lion Warrants were cancelled on March 9, 2020 in connection with the repayment of the Loan and Security Agreement in full. (See Note 22)

- Warrants issued on June 19, 2019, in connection with the acquisition of Elevation Burger (See Note 3), to purchase 46,875 shares of the Company's common stock at an exercise price of $8.00 per share (the "Elevation Warrant"), exercisable for a period of five years, but only in the event of a merger of the Company and FCCG, commencing on the second business day following the potential merger and ending on the five year anniversary thereafter, at which time the Elevation Warrant shall terminate The Elevation Warrants were not valued at the date of grant due to the contingency relating to their exercise.

- Warrants issued between October 3, 2019 and December 29, 2019, in connection with the sale of Series B Units (See Note 13), to purchase 34,284 shares of the Company's common stock at an exercise price of $8.50 per share (the "Series B Warrants"), exercisable for a period of five years from October 3, 2019. The outstanding Series B Warrants were valued at $21,000 at the date of grant.

The Company's warrant activity for the fiscal year ended December 29, 2019 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Warrants outstanding at December 30, 2018	843,089	$ 8.06	3.5
Grants	1,248,563	0.54	5.0
Exercised	-	-	-
Forfeited	-	-	-
Expired	-	-	-
Warrants outstanding at December 29, 2019	2,091,652	$ 3.57	4.3
Warrants exercisable at December 29, 2019	877,373	$ 8.08	3.5

The weighted average fair value of the warrants granted from the Offering through December 29, 2019 and the assumptions used in the Black-Scholes valuation model are as follows:

	Warrants
Expected dividend yield	4.00% - 6.63%
Expected volatility	30.23% - 31.73%
Risk-free interest rate	0.99% - 1.91%
Expected term (in years)	3.80 - 5.00

NOTE 18. DIVIDENDS ON COMMON STOCK

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

NOTE 19. COMMITMENTS AND CONTINGENCIES

Litigation

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

On June 7, 2018, FAT Brands, Inc., Andrew Wiederhorn, Ron Roe, James Neuhauser, Edward H. Rensi, Marc L. Holtzman, Squire Junger, Silvia Kessel, Jeff Lotman, Fog Cutter Capital Group Inc., and Tripoint Global Equities, LLC (collectively" the "Original Defendants") were named as defendants in a putative securities class action lawsuit entitled *Rojany v. FAT Brands, Inc.*, Case No. BC708539 (the "*Rojany* Case"), in the Superior Court of the State of California, County of Los Angeles. On July 31, 2018, the *Rojany* Case was designated as complex, pursuant to Rule 3.400 of the California Rules of Court, and assigned the matter to the Complex Litigation Program. On August 2, 2018, the Original Defendants were named defendants in a second putative class action lawsuit, *Alden v. FAT Brands*, Case No. BC716017 (the "*Alden* Case"), filed in the same court. On September 17, 2018, the *Rojany* and *Alden* Cases were consolidated under the *Rojany* Case number. On October 10, 2018, plaintiffs Eric Rojany, Daniel Alden, Christopher Hazelton-Harrington and Byron Marin ("Plaintiffs") filed a First Amended Consolidated Complaint against FAT Brands, Inc., Andrew Wiederhorn, Ron Roe, James Neuhauser, Edward H. Rensi, Fog Cutter Capital Group Inc., and Tripoint Global Equities, LLC (collectively, "Defendants"), thereby removing Marc L. Holtzman, Squire Junger, Silvia Kessel and Jeff Lotman as defendants. On November 13, 2018, Defendants filed a Demurrer to First Amended Consolidated Complaint. On January 25, 2019, the Court sustained Defendants' Demurrer to First Amended Consolidated Complaint with Leave to Amend in Part. Plaintiffs filed a Second Amended Consolidated Complaint on February 25, 2019. On March 27, 2019, Defendants filed a Demurrer to the Second Amended Consolidated Complaint. On July 31, 2019, the Court sustained Defendants' Demurrer to the Second Amended Complaint in Part, narrowing the scope of the case. Defendants filed their Answer to the Second Amended Consolidated Complaint on November 12, 2019. On January 29, 2020, Plaintiffs filed a Motion for Class Certification. Plaintiffs' Motion for Class Certification is fully briefed, and the hearing on Plaintiffs' Motion for Class Certification is set for April 23, 2020. Defendants dispute Plaintiffs' allegations and will continue to vigorously defend themselves in this litigation.

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

On August 24, 2018, the Original Defendants were named as defendants in a putative securities class action lawsuit entitled *Vignola v. FAT Brands, Inc.*, Case No. 2:18-cv-07469-PSG-PLA, in the United States District Court for the Central District of California. On October 23, 2018, Charles Jordan and David Kovacs (collectively, "Lead Plaintiffs") moved to be appointed lead plaintiffs, and the Court granted Lead Plaintiffs' motion on November 16, 2018. On January 15, 2019, Lead Plaintiffs filed a First Amended Class Action Complaint against the Original Defendants. The allegations and claims for relief asserted in *Vignola* are substantively identical to those asserted in the *Rojany* Case. Defendants filed a Motion to Dismiss First Amended Class Action Complaint, or, in the Alternative, to Stay the Action In Favor of a Prior Pending Action. On June 14, 2019, the Court denied Defendants' motion to stay but granted Defendants' motion to dismiss the First Amended Class Action Complaint, with Leave to Amend. Lead Plaintiffs filed a Second Amended Class Action Complaint on August 5, 2019. On September 9, 2019, Defendants' filed a Motion to Dismiss the Second Amended Class Action Complaint. On December 17, 2019, the Court granted Defendants' Motion to Dismiss the Second Amended Class Action Complaint in Part, Without Leave to Amend. The allegations remaining in *Vignola* are substantively identical to those remaining in the *Rojany* Case. Defendants filed their Answer to the Second Amended Class Action Complaint on January 14, 2020. On December 27, 2019, Lead Plaintiffs filed a Motion for Class Certification. By order entered March 16, 2020, the Court denied Lead Plaintiffs' Motion for Class Certification. By order entered April 1, 2020, the Court set various deadlines for the case, including a fact discovery cut-off of December 29, 2020, expert discovery cut-off of February 23, 2021 and trial date of March 30, 2021. Defendants dispute Lead Plaintiffs' allegations and will continue to vigorously defend themselves in this litigation.

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

The Company is involved in other claims and legal proceedings from time-to-time that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these actions will have a material adverse effect on its business, financial condition, results of operations, liquidity or capital resources.

Operating Leases

The Company leases corporate headquarters located in Beverly Hills, California comprising 6,137 square feet of space, pursuant to a lease that expires on September 29, 2025, as well as an additional 2,915 square feet of space pursuant to a lease amendment that expires on February 29, 2024. The Company leases 1,775 square feet of space in Plano, Texas for pursuant to a lease that expires on March 31, 2021. As part of the acquisition of Elevation Burger, the Company assumed a lease of 5,057 square feet of space in Falls Church, Virginia that expires on December 31, 2020. The Company subleases approximately 2,500 square feet of this lease to an unrelated third party. The Company is not a guarantor to the leases of the Yalla restaurants that are being refranchised.

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

NOTE 20. GEOGRAPHIC INFORMATION AND MAJOR FRANCHISEES

Revenues by geographic area are as follows (in thousands):

	Fiscal Year Ended December 29, 2019	Fiscal Year Ended December 30, 2018
United States	$ 18,624	$ 14,023
Other countries	3,881	4,344
Total revenues	$ 22,505	$ 18,367

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

During the fiscal years ended December 29, 2019 and December 30, 2018, no individual franchisee accounted for more than 10% of the Company's revenues.

NOTE 21. OPERATING SEGMENTS

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

As part of its ongoing franchising efforts, the Company will, from time to time, make opportunistic acquisitions of operating restaurants in order to convert them to franchise locations. During the refranchising period, the Company may operate the restaurants.

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

NOTE 22. SUBSEQUENT EVENTS

Pursuant to FASB ASC 855, Management has evaluated all events and transactions that occurred from December 29, 2019 through the date of issuance of these audited consolidated financial statements. During this period, the Company did not have any significant subsequent events, except as disclosed below:

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and other countries. As a result, Company franchisees have temporarily closed some retail locations, reduced or modified store operating hours, adopted a "to-go" only operating model, or a combination these actions. These actions have reduced consumer traffic, all resulting in a negative impact to Company revenues. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while the Company expects this matter to negatively impact our business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. As additional information becomes available regarding the potential impact and the duration of the negative financial effects of the current pandemic, the Company may determine that an impairment adjustment to the recorded value of trademarks, goodwill and other intangible assets may be necessary.

The Securitization described below had the effect of increasing the Company's cash position and liquidity and is expected to help preserve its financial flexibility during the period of uncertainty caused by the pandemic.

Lion Loan and Security Agreement

From January 6, 2020 through February 21, 2020, the Company entered into a series of amendments to the Lion Loan and Security Agreement (the "Third Through Seventh Amendments"), which granted five successive extensions of the due date for the payment of the quarterly interest payment which was originally due January 6, 2020 (the "January Quarterly Interest"). The final result of the Third Through Seventh Amendments, extended the due date for the payment of the January Quarterly Interest payment to March 13, 2020. The Company agreed to pay Lion a total extension fee of $650,000 with the interest payment. Upon payment of the January Quarterly Interest and the extension fee, Lion agreed to waive other late fees which may accrue relating to the payment and waive any default or event of default relating to the conversion of EB Franchises, LLC from a Virginia limited liability company to a Delaware limited liability company.

On March 6, 2020, the Company repaid the Lion Loan and Security Agreement in full by making a total payment of approximately $26,771,000. This consisted of $24,000,000 in principle, approximately $2,120,000 in accrued interest and $651,000 in penalties and fees. As a result of the prepayment, the Lion Warrant was cancelled in its entirety.

Securitization

On March 6, 2020, the Company completed a whole business securitization (the "Securitization") through the creation of a bankruptcy-remote issuing entity, FAT Brands Royalty I, LLC ("FAT Royalty") in which FAT Royalty issued new notes pursuant to an asset-backed securitization (the "Securitization Notes") and indenture (the "Indenture"). The new notes consist of the following:

Note	Public Rating	Seniority	Issue Amount	Coupon	Optional Prepayment Date	Final Maturity Date
A-2	BB	Senior	$ 20,000,000	6.50%	4/27/2021	4/27/2026
B-2	B	Senior Subordinated	$ 20,000,000	9.00%	4/27/2021	4/27/2026

Net proceeds from the issuance of the Securitization Notes were $37,314,000, which consists of the combined face amount of $40,000,000, net of discounts of $246,000 and debt offering costs of $2,440,000. The discount and offering costs will be accreted as additional interest expense over the expected term of the Securitization Notes.

A portion of the proceeds from the Securitization was used to repay the remaining $26,771,000 in outstanding balance under the Loan and Security Agreement with Lion. As a result of the prepayment, the Lion Warrant was cancelled in its entirety. The remaining proceeds from the Securitization will be used for working capital.

While the Securitization Notes are outstanding, scheduled payments of principal and interest are required to be made on a quarterly basis. It is expected that the Securitization Notes will be repaid prior to the Final Maturity Date, with the anticipated repayment date occurring in January 2023 for the A-2 Notes and October 2023 for the B-2 Notes (the "Anticipated Repayment Dates"). If the Company has not repaid or refinanced the Securitization Notes prior to the applicable Anticipated Repayment Date, additional interest expense will begin to accrue and all additional proceeds will be trapped for full amortization, as defined in the related agreements.

The Notes are secured by substantially all of the assets of FAT Royalty, including the equity interests in the FAT Brands Franchising Entities as defined in the Indenture. The restrictions placed on the Company's subsidiaries require that the Company's principal and interest obligations have first priority and amounts are segregated weekly to ensure appropriate funds are reserved to pay the quarterly principal and interest amounts due. The amount of weekly cash flow that exceeds the required weekly interest reserve is generally remitted to the Company. Once the required obligations are satisfied, there are no further restrictions, including payment of dividends, on the cash flows of the subsidiaries.

The Notes have not been and will not be registered under the Securities Act or the securities laws of any jurisdiction. No Notes or any interest or participation thereof may be reoffered, resold, pledged or otherwise transferred unless such Note meets certain requirements as described in the Indenture.

The Notes are subject to certain financial and non-financial covenants, including a debt service coverage ratio calculation, as defined in the related agreements. The covenants, among other things, may limit the ability of certain subsidiaries to declare dividends, make loans or advances or enter into transactions with affiliates. In the event that certain covenants are not met, the Notes may become partially or fully due and payable on an accelerated schedule. In addition, the Company may voluntarily prepay, in part or in full, the Notes at any time following the Par Call Date, subject to certain make-whole interest obligations.

Intercompany Agreement

Subsequent to December 29, 2019, on April 24, 2020, the Company entered into an Intercompany Revolving Credit Agreement with FCCG ("Intercompany Agreement"). The Company had previously extended credit to FCCG pursuant to a certain Intercompany Promissory Note (the "Original Note"), dated October 20, 2017, with an initial principal balance of $11,906,000. Subsequent to the issuance of the Original Note, the Company and certain of its direct or indirect subsidiaries made additional intercompany advances in the aggregate amount of $10,523,000. Pursuant to the Intercompany Agreement, the revolving credit facility bears interest at a rate of 10% per annum, has a five-year term with no prepayment penalties, and has a maximum capacity of $35,000,000. All additional borrowings under the Intercompany Agreement are subject to the approval of the Board of Directors, in advance, on a quarterly basis and may be subject to other conditions as set forth by the Company. The initial balance under the Intercompany Agreement totaled $21,067,000 including the balance of the Original Note, borrowings subsequent to the Original Note, accrued and unpaid interest income, and other adjustments through December 29, 2019. (See Note 14).

Refranchising

During the fiscal year ended December 29, 2019, a franchisee had entered into an agreement with the Company by which it agreed to sell two existing franchised locations to the Company for its refranchising program. Additionally, during the fiscal year, the Company had completed transactions to sell the two locations to new owners. Subsequent to December 29, 2019, as a result of COVID-19, the locations acquired from the existing franchisee became unavailable. The Company is evaluating the impact of the event and determining which existing operating restaurants will be used as a replacement for the new owners (See Note 4).

FAT BRANDS INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

FOR THE FISCAL YEAR ENDED DECEMBER 29, 2019

	Dollars in thousands			
	Balance at Beginning of Period	**Charged to Costs and Expenses**	**Deductions/ Recoveries**	**Balance at End of Period**
Allowance for:				
Trade notes and accounts receivable	$ 744	$ 102	$ 607	$ 239

ITEM 16. FORM 10-K SUMMARY

NOT APPLICABLE.

SIGNATURES

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

FAT BRANDS INC.

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

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

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

DATE	NAME AND TITLE
April 27, 2020	*/s/ Andrew A. Wiederhorn* Andrew A. Wiederhorn Chief Executive Officer and Director (Principal Executive Officer)
April 27, 2020	*/s/ Rebecca D. Hershinger* Rebecca D. Hershinger Chief Financial Officer (Principal Financial and Accounting Officer)
April 27, 2020	*/s/ Edward Rensi* Edward Rensi, Chairman of the Board
April 27, 2020	*/s/ Marc L. Holtzman* Marc L. Holtzman, Director
April 27, 2020	*/s/ Squire Junger* Squire Junger, Director
April 27, 2020	*/s/ Silvia Kessel* Silvia Kessel, Director
April 27, 2020	*/s/ James Neuhauser* James Neuhauser, Director

EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference to			Filed Herewith
		Form	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Company, effective October 19, 2017.	10-Q	3.1	12/04/2017	
3.2	Bylaws of the Company, effective May 21, 2017	1-A	3.2	09/27/2017	
3.3	Certificate of Designation of Rights and Preferences of Series A Fixed Rate Cumulative Preferred Stock	8-K	3.1	06/13/2018	
3.4	Certificate of Designation of Rights and Preferences of Series A-1 Fixed Rate Cumulative Preferred Stock	8-K	3.1	07/10/2018	
3.5	Certificate of Amendment of Certificate of Designation of Series A Fixed Rate Cumulative Preferred Stock	8-K	3.1	02/28/2019	
3.6	Certificate of Amendment of Certificate of Designation of Series A-1 Fixed Rate Cumulative Preferred Stock	8-K	3.2	02/28/2019	
3.7	Certificate of Designation of Rights and Preferences of Series B Cumulative Preferred Stock	8-K	3.1	10/09/2019	
4.1	Warrant to Purchase Common Stock, dated October 20, 2017, issued to Tripoint Global Equities, LLC.	10-Q	4.1	12/04/2017	
4.2	Warrant to Purchase Common Stock, dated June 7, 2018, issued to Trojan Investments, LLC	10-Q	4.1	08/15/2018	
4.3	Warrant to Purchase Common Stock, dated June 27, 2018, issued to Fog Cutter Capital Group, Inc.	10-Q	4.2	08/15/2018	
4.4	Form of Warrants to Purchase Common Stock, dated July 3, 2018, issued to sellers of Hurricane AMT, LLC	8-K	4.1	07/10/2018	
4.5	Warrant to Purchase Common Stock, dated July 3, 2018, issued to FB Lending, LLC	8-K	4.2	07/10/2018	
4.6	Base Indenture, dated March 6, 2020, by and between FAT Brands Royalty I, LLC, and UMB Bank, N.A., as trustee and securities intermediary.	8-K	4.1	03/12/2020	
4.7	Series 2020-1 Supplement to Base Indenture, dated March 6, 2020, by and between FAT Brands Royalty I, LLC, and UMB Bank, N.A., as trustee.	8-K	4.2	03/12/2020	
4.8	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934				X
10.1	Tax Sharing Agreement, dated October 20, 2017, between the Company and Fog Cutter Capital Group Inc.	10-Q	10.2	12/04/2017	
10.2	Voting Agreement, dated October 20, 2017, between the Company and Fog Cutter Capital Group Inc.	10-Q	10.3	12/04/2017	
10.3	Form of Indemnification Agreement, dated October 20, 2017, between the Company and each director and executive officer.	1-A	6.3	09/06/2017	
10.4	2017 Omnibus Equity Incentive Plan	1-A	6.1	09/27/2017	
10.5	Office Lease, dated November 10, 2016, by and among Duesenberg Investment Company, LLC, Fatburger North America, Inc., Fog Cutter Capital Group Inc., and Fatburger Corporation	1-A	6.2	09/06/2017	

10.6	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	Form of Registration Rights Agreement, dated July 3, 2018, by and between the Company and the Sellers under the Amended and Restated Membership Interest Purchase Agreement	8-K	10.1	07/10/2018	
10.9	Warrant Agency Agreement, dated October 3, 2019 (including form of Warrant Certificate)	8-K	10.2	10/09/2019	
10.10	Management Agreement, dated March 6, 2020, by and among FAT Brands Inc., FAT Brands Royalty I, LLC, each of the Franchise Entities, and the Trustee.	8-K	10.2	03/12/2020	
10.11	Intercompany Revolving Credit Agreement, dated April 24, 2020, by and between FAT Brands Inc. and Fog Cutter Capital Group, Inc.				X
10.12	Amended and Restated Office Lease, dated November 18, 2019, by and among Duesenberg Investment Company, LLC, Fatburger North America, Inc., Fog Cutter Capital Group Inc., and Fatburger Corporation				X
21.1	Significant Subsidiaries				X
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document				X (Furnished)
101.SCH	XBRL Taxonomy Extension Schema Document				X (Furnished)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X (Furnished)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X (Furnished)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X (Furnished)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X (Furnished)

EXHIBIT 4.8

DESCRIPTION OF THE REGISTRANT'S SECURITIES

REGISTERED PURSUANT TO SECTION 12 OF THE

SECURITIES EXCHANGE ACT OF 1934

As of April 27, 2020, FAT Brands Inc. registered its common stock, par value $0.0001 per share ("Common Stock") under Section 12 of the Securities Exchange Act of 1934, as amended.

Description of Common Stock

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"), Certificates of Designation that designate various series of preferred stock, and our Bylaws (the "Bylaws"), each of which are filed or incorporated by reference as exhibits to our Annual Report on Form 10-K of which this Exhibit 4.8 is a part.

Voting Rights. Holders of our Common Stock are entitled to cast one vote per share. Holders of our Common Stock are not entitled to cumulate their votes in the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all stockholders present in person or represented by proxy, voting together as a single class. Except as otherwise provided by law, amendments to the Certificate of Incorporation must be approved by a majority or, in some cases, a super-majority of the combined voting power of all shares entitled to vote, voting together as a single class.

Dividend Rights. Holders of Common Stock share ratably (based on the number of shares of Common Stock held) if and when any dividend is declared by the board of directors out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock.

Liquidation Rights. On our liquidation, dissolution or winding up, each holder of Common Stock will be entitled to a pro rata distribution of any assets available for distribution to common stockholders.

Other Matters. No shares of Common Stock are subject to redemption or have preemptive rights to purchase additional shares of Common Stock. Holders of shares of our Common Stock do not have subscription, redemption or conversion rights. There are no redemption or sinking fund provisions applicable to the Common Stock.

Authorized Shares. Our Certificate of Incorporation authorizes the issuance of up to 25,000,000 shares of Common Stock, and up to 5,000,000 shares of preferred stock, par value $0.0001 per share.

Listing. The Common Stock is listed for trading on The NASDAQ Stock Market LLC.

Exhibit 10.11

INTERCOMPANY REVOLVING CREDIT AGREEMENT

THIS INTERCOMPANY REVOLVING CREDIT AGREEMENT (this "**Agreement**") is made and entered into as of April 24, 2020, by and between FAT Brands Inc., a Delaware corporation ("**Lender**"), and Fog Cutter Capital Group Inc., a Maryland corporation ("**Borrower**" and, together with Lender, the "**Parties**" and each, a "**Party**").

RECITALS

WHEREAS, Lender has previously extended credit to Borrower pursuant to that certain Intercompany Promissory Note, dated October 20, 2017, with an initial principal balance of $11,906,000 (the "**Original Note**"), and Lender and certain of its direct or indirect subsidiaries (the "**Subsidiaries**") have made additional intercompany advances to Borrower following the date of the Original Note through December 29, 2019 in the aggregate amount of $10,523,000 (the "**Prior Revolving Loans**");

WHEREAS, Borrower has requested that the Prior Revolving Loans be converted into initial balances of borrowings under this Agreement payable to Lender or the Subsidiaries, as applicable, and that the Lender commit to make additional extensions of credit as provided herein, all on the terms and subject to the conditions described herein; and

WHEREAS, Lender is willing to convert the Prior Revolving Loans to borrowings under this Agreement, and to extend additional credit to Borrower under the terms and conditions herein set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth below, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the Parties hereby agree as follows:

1.1 Intercompany Debt.

(a) Starting Balance. As of December 29, 2019, the Original Note, the Prior Revolving Loans, other adjustments, and the aggregate balance of accrued and unpaid interest thereon (which amounts are reflected on Schedule I as of such date) shall be converted into an initial balance of borrowings under this Agreement in the aggregate amount of $21,067,000, and additional borrowings that were made during the first fiscal quarter of 2020 (which amounts will be reflected on Schedule I) shall be added to the initial balance of borrowings under this Agreement (collectively, the "**Starting Balance**"). The amounts included in the Starting Balance that are owed directly to Lender on the date hereof shall continue to be due and payable to Lender, and the amounts included in the Starting Balance that are owed to each Subsidiary on the date hereof shall remain due and payable to such Subsidiary, as applicable.

(b) Reborrowing. Following the date hereof, Borrower may at any time and from time to time (i) repay to Lender or the applicable Subsidiary, and (ii) borrow and reborrow solely from Lender, and Lender shall be obligated to lend to Borrower, subject in all cases to the terms and conditions of this Agreement and other agreements and instruments that may apply to Lender and/or any of the Subsidiaries from time to time, up to a maximum amount of borrowings outstanding hereunder at any time of $35,000,000. Any such additional borrowings or reborrowings shall be subject to the approval by the Lender's board of directors, in advance on a quarterly basis and may be subject to other conditions set forth by the Lender.

(c) Interest. Borrower shall be charged interest on a daily basis for the outstanding balance of borrowings and accrued and unpaid interest under this Agreement. The interest rate to be paid by Borrower shall be at a rate equal to ten percent (10.0%) per annum, compounded annually, and shall continue to accrue until paid. Interest shall be computed on the basis of a year of 365 days for the actual number of days elapsed.

(d) Schedules. Borrowings and accrued and unpaid interest hereunder shall be evidenced by one or more loan accounts or records maintained by Lender in the ordinary course of business. Lender shall also attach and update on at least a quarterly basis Schedule I to this Agreement, detailing the balances and payments made hereunder during each fiscal quarter of Lender.

1.2 Repayment. Borrower may repay at any time any and all outstanding borrowings hereunder without penalty. On the Maturity Date (defined below), Borrower shall be obligated to repay in full the entire amount of outstanding borrowings hereunder plus accrued and unpaid interest thereon. Repayment of borrowings hereunder and interest thereon may be made in cash, set off against other obligations owed by Lender to Borrower (including under the Tax Sharing Agreement, dated October 20, 2017, between the Parties), or such other form as may be agreed by the Parties.

1.3 Term of Agreement. The term of this Agreement shall commence on the date hereof and shall continue until the five-year anniversary of the date hereof, unless terminated earlier as provided below or extended by the mutual agreement of the Parties (the "**Maturity Date**").

1.4 Termination. Either Party shall have the right to terminate this Agreement upon the occurrence of any of the following events:

(a) A material breach of this Agreement by either Party that is not cured within thirty (30) days after receipt of written notice of such breach from the other Party;

(b) Lender shall have the right to terminate this Agreement if Borrower or its affiliates own shares representing less than 80% of the voting power of the outstanding Common Stock of Lender; or

(c) In no way limiting the foregoing, the Parties may terminate this Agreement by mutual consent memorialized in a writing reasonably satisfactory to both Lender and Borrower.

1.5 Miscellaneous. The terms set forth in Schedule A attached hereto are incorporated by reference herein and shall apply to this Agreement as if fully set forth herein.

(This space is intentionally left blank)

IN WITNESS WHEREOF, Borrower and Lender have each caused this Agreement to be executed on the date and year first above written.

FOG CUTTER CAPITAL GROUP INC. ("Borrower")

By: */s/ Ron Roe*
Name: Ron Roe
Title: CFO

FAT BRANDS INC. ("Lender")

By: */s/ Andrew A. Wiederhorn*
Name: Andrew A. Wiederhorn
Title: CEO

SCHEDULE A (Additional Terms)

The term "Agreement" shall refer to the agreement to which this Schedule A is attached. To the extent that there is any conflict between any provision of this Schedule and any provision set forth in the body of this Agreement, the provision set forth in the body of this Agreement shall control.

A. Governing Law. The internal laws of the State of California (without reference to its principles of conflicts of law) govern the construction, interpretation and other matters arising out of, relating to, or in connection with this Agreement, unless expressly provided otherwise in this Agreement.

B. Notices. Each Party giving any notice (a "**Notice**") required or permitted under this Agreement will give the Notice in writing and use one of the following methods of delivery to the Party to be notified, at the address set forth below or another address of which the sending Party has been notified in accordance with this Schedule: (a) by telephone; or (b) in writing (which includes means of electronic transmission (i.e., "e-mail") or facsimile transmission). Any Notice shall be effective: (1) in the case of hand-delivery, when delivered; (2) if given by mail, four days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested; (3) in the case of a telephonic Notice, when a Party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next day on which the Party receiving the notice is open for business by hand delivery, a facsimile or electronic transmission, or overnight courier delivery of a confirmatory notice (received at or before noon on such next business day); (4) in the case of a facsimile transmission, when sent to the applicable Party's facsimile machine's telephone number if the Party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine; (5) in the case of electronic transmission, when actually received; and (6) if given by any other means (including by overnight courier), when actually received. Until further notice, as provided above, addresses for Notices shall be:

If to Borrower: Fog Cutter Capital Group Inc.
9720 Wilshire Boulevard, Suite 500
Beverly Hills, CA 90212
Attn: Chief Financial Officer

If to Lender: FAT Brands Inc.
9720 Wilshire Boulevard, Suite 500
Beverly Hills, CA 90212
Attn: Chief Financial Officer

C. Binding Effect and Assignment. This Agreement binds and benefits the Parties and their respective successors and assigns. No Party may assign any of its rights or delegate any of its obligations under this Agreement without the written consent of Lender and Borrower, which consent may be withheld in such Party's sole and absolute discretion, and any assignment or attempted assignment in violation of the foregoing will be null and void. Notwithstanding the preceding sentence, Lender may assign this Agreement in connection with (a) a merger transaction in which Lender is not the surviving entity or (b) the sale of all or substantially all of its assets.

D. Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable, the remaining provisions of this Agreement shall remain in full force.

E. Counterparts. The Parties may execute this Agreement in multiple counterparts, each of which constitutes an original as against the Party that signed it, and all of which together constitute one agreement. The signatures of the Parties need not appear on the same counterpart. The delivery of signed counterparts by facsimile or e-mail transmission that includes a copy of the sending Party's signature is as effective as signing and delivering the counterpart in person.

F. Certain Expenses. Each Party will be responsible its own respective costs, fees and expenses relating to this Agreement and the transactions hereunder.

G. Amendment. The Parties may amend this Agreement only by a written agreement signed by each of the Parties that identifies itself as an amendment to this Agreement.

H. Waiver. No course of dealing and no delay or failure of any Party in exercising any right, power, remedy or privilege under this Agreement shall affect any other or future exercise thereof or operate as a waiver thereof, nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power, remedy or privilege preclude any further exercise thereof or of any other right, power, remedy or privilege. The rights and remedies of the Parties under this Agreement are cumulative and not exclusive of any rights or remedies which they would otherwise have. Any waiver, permission, consent or approval of any kind or character on the part of any Party of any breach or default under this Agreement or any such waiver of any provision or condition of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing.

I. Authority. Each Party represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement have been duly authorized by all necessary corporate or other action, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

J. Construction of Agreement.

(a) Any reference in this Agreement to the singular includes the plural where appropriate.

(b) Any captions, titles and headings, and any table of contents, included in this Agreement are for convenience only, and do not affect this Agreement's construction or interpretation.

(c) Language used in this Agreement is and shall be deemed language mutually chosen by the Parties hereto to express their mutual intent and no rule of strict construction shall be applied against any Party.

(d) This Agreement is for the sole benefit of the Parties hereto and the Lender's Subsidiaries, and does not, and is not intended to, confer any rights or remedies in favor of any other Person, including any creditor or stockholder of any Party.

(e) The words "including," "includes," or "include" are to be read as listing non-exclusive examples of the matters referred to, whether or not words such as "without limitation" or "but not limited to" are used in each instance.

(f) Where this Agreement states that a Party "will" or "shall" perform in some manner or otherwise act or omit to act, it means that the Party is legally obligated to do so in accordance with this Agreement.

(g) Unless otherwise expressly specified, all references in this Agreement to "dollars" or "$" means United States Dollars.

K. Damages. IN NO EVENT WILL ANY PARTY BE LIABLE TO ANY OTHER PARTY FOR ANY SPECIAL, INCIDENTAL, INDIRECT, COLLATERAL, CONSEQUENTIAL OR PUNITIVE DAMAGES INCLUDING BUT NOT LIMITED TO LOST PROFITS OR BUSINESS INTERRUPTION DAMAGES, HOWEVER CAUSED BASED UPON ANY THEORY OF LIABILITY.

SCHEDULE I

QUARTERLY LOAN BALANCES AND PAYMENTS

Fiscal Quarter	Loans (net of repayment and offsets) Made During Fiscal Quarter	Interest Accrued During Fiscal Quarter	Outstanding Balance at End of Fiscal Quarter
Q4 2019	$	$	$ 21,067,000.00
Q1 2020	$	$	$
Q2 2020	$	$	$
Q3 2020	$	$	$
Q4 2020	$	$	$
Q1 2021	$	$	$
Q2 2021	$	$	$
Q3 2021	$	$	$
Q4 2021	$	$	$
Q1 2022	$	$	$
Q2 2022	$	$	$
Q3 2022	$	$	$
Q4 2022	$	$	$
Q1 2023	$	$	$
Q2 2023	$	$	$
Q3 2023	$	$	$
Q4 2023	$	$	$

AMENDED AND RESTATED OFFICE LEASE

9720 WILSHIRE

DUESENBERG INVESTMENT COMPANY, LLC,

a California limited liability company,

as Landlord,

and

FAT BRANDS INC.,

a Delaware corporation,

as Tenant.

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AMENDED AND RESTATED OFFICE LEASE

This Amended and Restated Office Lease (the "**Lease**"), dated as of the date set forth in Section 1 of the Summary of Basic Lease Information (the "**Summary**"), below, is made by and between DUESENBERG INVESTMENT COMPANY, LLC, a California limited liability company ("**Landlord**"), and FAT BRANDS INC., a Delaware corporation ("**Tenant**").

SUMMARY OF BASIC LEASE INFORMATION

	TERMS OF LEASE	DESCRIPTION
1.	Date:	November 18, 2019
2.	Premises	
	2.1 Building:	That certain office building located at 9720 Wilshire Boulevard, Beverly Hills, CA 90212.
	2.2 Premises:	15,213 rentable square feet of space (the "**Premises**") consisting of (i) 2,915 rentable square feet of space, commonly known as Suite 210 (the "**Suite 210 Premises**"), located on the second (2nd) floor of the Building, (ii) 6,137 rentable square feet of space, commonly known as Suite 500 (the "**Suite 500 Premises**"), comprising the entirety of the rentable area, including the restrooms, on the fifth (5th) floor of the Building (the Suite 210 Premises and the Suite 500 Premises are collectively, the "**Original Premises**"), and (iii) 6,161 rentable square feet of space, commonly known as Suite 800 (the "**Additional Premises**"), comprising the entirety of the rentable area, including the restrooms, on the eighth (8th) floor of the Building, all as further set forth in **Exhibit A** to this Lease.
	2.3 Project:	See Section 1.1.2 of this Lease.

3. Lease Term (Article 2).

3.1 Length of Term:

The length of the term of Tenant's lease of the Suite 210 Premises, the Suite 500 Premises and the Additional Premises shall each have separate terms as set forth below, and each term, as applicable, is a "**Lease Term**".

The Lease Term with respect to the Suite 210 Premises shall commence on the Original Premises Commencement Date and shall expire (unless earlier terminated pursuant to this Lease) on the Suite 210 Premises Expiration Date (defined in Section 3.3 of this Summary) (the "**Suite 210 Lease Term**").

The Lease Term with respect to the Suite 500 Premises shall commence on the Original Premises Commencement Date and shall expire (unless earlier terminated pursuant to this Lease) on the Suite 500/Additional Premises Expiration Date (defined in Section 3.3 of this Summary) (the "**Suite 500 Lease Term**").

The Lease Term with respect to the Additional Premises shall commence on the Additional Premises Commencement Date and shall expire (unless earlier terminated pursuant to this Lease) on the Suite 500/Additional Premises Expiration Date (the "**Additional Premises Lease Term**").

3.2 Lease Commencement Date:

Tenant's lease of the Original Premises and the Additional Premises shall commence separately, as set forth below and each date, as applicable, is a "**Lease Commencement Date**".

With respect to the Original Premises, the Lease Commencement Date shall be the date referenced in Section 1 above (the "**Original Premises Commencement Date**").

With respect to the Additional Premises, the Lease Commencement Date shall be the date

that is sixty (60) days following the date (the "**Delivery Date**") that Landlord delivers the Additional Premises to Tenant (the "**Additional Premises Commencement Date**").

3.3 Lease Expiration Date: The Premises shall expire separately, as set forth below and each date, as applicable, is a "**Lease Expiration Date**".

With respect to the Suite 210 Premises, February 28, 2024 (also referred to herein as the "**Suite 210 Premises Expiration Date**").

With respect to the Suite 500 Premises and the Additional Premises, September 30, 2025 (also referred to herein as the "**Suite 500/Additional Premises Expiration Date**").

4. Base Rent (Article 3):

4.1 Amount Due:

Suite 210 Premises

Period During Lease Term	Annual Base Rent	Monthly Installment of Base Rent	Monthly Rental Rate per Rentable Square Foot
Original Premises Commencement Date – February 29, 2020	N/A	$16,469.75	$5.65
March 1, 2020 – February 28, 2021	$204,544.28	$17,046.19**	$5.85*
March 1, 2021 – February 28, 2022	$211,713.72	$17,642.81**	$6.05*
March 1, 2022 – February 28, 2023	$219,123.72	$18,260.31	$6.26*
March 1, 2023 – February 29, 2024	$226,793.04	$18,899.42	$6.48*

*The calculations of the Monthly Rental Rate per Rentable Square Foot of the Suite 210 Premises set forth above are approximate calculations based on a three and one-half percent (3.5%) increase per annum, rounded to the nearest one-hundredth of a dollar, and are provided for convenience only. The Monthly Base Rent and Annual Base Rent amounts set forth above shall control.

**Subject to the terms set forth in Section 3.2 below, the Base Rent for the Suite 210 Premises attributable to March, 2020 and March, 2021 shall be abated.

Suite 500 Premises

Period During Lease Term	Annual Base Rent	Monthly Installment of Base Rent	Monthly Rental Rate per Rentable Square Foot
Original Premises Commencement Date – April 30, 2020	N/A	$26,184.84	$4.78***
May 1, 2020 – April 30, 2021	$497,097.00	$41,424.75**	$6.75
May 1, 2021 – April 30, 2022	$516,980.88	$43,081.74	$7.02*
May 1, 2022 – April 30, 2023	$537,660.12	$44,805.01	$7.30*
May 1, 2023 – April 30, 2024	$559,166.52	$46,597.21	$7.59*
May 1, 2024 – April 30, 2025	$581,533.20	$48,461.10	$7.90*
May 1, 2025 – September 30, 2025	N/A	$50,399.54	$8.21*

*The calculations of the Monthly Rental Rate per Rentable Square Foot of the Suite 500 Premises set forth above are approximate calculations based on a four percent (4%) increase per annum, rounded to the nearest one-hundredth of a dollar, and are provided for convenience only. The Monthly Base Rent and Annual Base Rent amounts set forth above shall control.

**Subject to the terms set forth in Section 3.2 below, fifty percent (50%) of the Base Rent for the Suite 500 Premises attributable to June 2020 through November 2020 shall be abated.

***Based on the prior rentable square footage of 5,478.

Additional Premises

Period During Lease Term	Annual Base Rent	Monthly Installment of Base Rent	Monthly Rental Rate per Rentable Square Foot
Additional Premises Commencement Date – April 30, 2021	N/A	$42,510.90**	$6.90
May 1, 2021 – April 30, 2022	$530,536.08	$44,211.34	$7.18*
May 1, 2022 – April 30, 2023	$551,757.48	$45,979.79	$7.46*
May 1, 2023 – April 30, 2024	$573,827.76	$47,818.98	$7.76*
May 1, 2024 – April 30, 2025	$596,780.88	$49,731.74	$8.07*
May 1, 2025 – September 30, 2025	N/A	$51,721.01	$8.39*

*The calculations of the Monthly Rental Rate per Rentable Square Foot of the Additional Premises set forth above are approximate calculations based on a four percent (4%) increase per annum, rounded to the nearest one-hundredth of a dollar, and are provided for convenience only. The Monthly Base Rent and Annual Base Rent amounts set forth above shall control.

**Subject to the terms set forth in Section 3.2 below, fifty percent (50%) of the Base Rent for the Additional Premises attributable to the second (2nd) through seventh (7th) full calendar months of the Additional Premises Lease Term shall be abated.

4.2 Rent Payment Address: Duesenberg Investment Company, LLC
c/o Topa Property Group, Inc.
1800 Avenue of the Stars, Suite 650
Los Angeles, California 90067

5. Base Year (Article 4):

5.1 Operating Base Year (Section 4.2.1): Calendar year 2019 with respect to the Suite 210 Premises.

		Calendar year 2020 with respect to the Suite 500 Premises and the Additional Premises.
	5.2 Tax Base Year (Section 4.2.1):	Calendar year 2019 with respect to the Suite 210 Premises. Calendar year 2020 with respect to the Suite 500 Premises and the Additional Premises.
6.	Tenant's Share (Article 4):	5.97% with respect to the Suite 210 Premises, 12.2730% with respect to the Suite 500 Premises and 12.3210% with respect to the Additional Premises.
7.	Permitted Use (Article 5):	General office use only, consistent with the character of the Building as a first-class office building.
8.	Security Deposit (Article 21):	$119,081.53.
9.	Parking Pass Ratio (Article 28):	A total of (i) nine (9) unreserved parking passes with respect to the Suite 210 Premises, (ii) eighteen (18) unreserved parking passes with respect to the Suite 500 Premises, of which Tenant shall have the obligation to rent from Landlord twelve (12) of such unreserved parking passes (the "**Suite 500 Must-Take Passes**"), and (iii) eighteen (18) unreserved parking passes with respect to the Additional Premises, of which Tenant shall have the obligation to rent from Landlord twelve (12) of such unreserved parking passes (the "**Additional Premises Must-Take Passes**"), all subject to the terms of Article 28 of this Lease.

10.	Address of Tenant (Section 29.18):	Fat Brands Inc. 9720 Wilshire Boulevard, Suite 500 Beverly Hills, California 90212 Attention: Andrew A. Wiederhorn
11.	Address of Landlord (Section 29.18):	Duesenberg Investment Company, LLC c/o Topa Property Group, Inc. 1800 Avenue of the Stars, Suite 650 Los Angeles, California 90067 Attention: Property Manager with a copy to: Duesenberg Investment Company, LLC c/o Topa Property Group, Inc. 1800 Avenue of the Stars, Suite 650 Los Angeles, California 90067 Attention: President and: Allen Matkins Leck Gamble Mallory & Natsis LLP 1901 Avenue of the Stars, Suite 1800 Los Angeles, California 90067 Attention: John M. Tipton, Esq.
12.	Brokers (Section 29.24):	First Property Realty Corporation (for Tenant) and CBRE, Inc. (for Landlord)
13.	Tenant Improvement Allowance (**Exhibit B**):	$184,470.00 (i.e., $15.00 per rentable square foot of the Suite 500 Premises and the Additional Premises).
14.	Refurbishment Allowance (Section 8.6 below):	$29,150.00 (i.e., $10.00 per rentable square foot of the Suite 210 Premises).

RECITALS

A. Landlord and Tenant entered into that certain Office Lease dated November 10, 2016 (the "**Original Prior Lease**"), as amended by that certain First Amendment to Office Lease dated as of February 5, 2019 (the "**First Amendment**", and together with the Original Prior Lease, the "**Prior Lease**") whereby Landlord leases to Tenant and Tenant leases from Landlord the Original Premises.

B. Landlord and Tenant desire to extend the term of Tenant's lease of the Suite 500 Premises, to expand the Original Premises to include the Additional Premises and to enter into a new lease to consolidate the agreements governing Tenant's lease of each of the Original Premises (including Tenant's lease of the Suite 210 Premises during the Suite 210 Lease Term) and the Additional Premises, and therefore, desire to enter into this Lease. Accordingly, effective as of the Original Premises Commencement Date, (i) this Lease shall amend and restate the Prior Lease in its entirety, (ii) this Lease shall thereafter supersede the Prior Lease, except in connection with those certain obligations of Landlord and Tenant under the Prior Lease which (a) specifically survive the expiration or earlier termination of the Prior Lease (including, without limitation, the payment by Tenant of all amounts owed by Tenant under the Prior Lease, provided that any overpayment of rent or other amount by Tenant under the Prior Lease, if applicable, shall be applied to rent next due under this Lease), and/or (b) pertain to any period prior to the Original Premises Commencement Date, and (iii) all references in this Lease to the "Premises" shall be deemed to include both the Original Premises and the Additional Premises, unless expressly provided otherwise in this Lease.

ARTICLE 1

PREMISES, BUILDING, PROJECT, AND COMMON AREAS

1.1 **Premises, Building, Project and Common Areas.**

1.1.1 **The Premises.** Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth in Section 2.2 of the Summary (the "**Premises**"). The outline of the Premises is set forth in **Exhibit A** attached hereto and the Premises has approximately the number of rentable square feet as set forth in Section 2.2 of the Summary. The parties hereto agree that the lease of the Premises is upon and subject to the terms, covenants and conditions herein set forth, and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of such terms, covenants and conditions by it to be kept and performed and that this Lease is made upon the condition of such performance. The parties hereto hereby acknowledge that the purpose of **Exhibit A** is to show the approximate location of the Premises in the Building (as that term is defined in Section 1.1.2, below) only, and such Exhibit is not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the precise area thereof or the specific location of the Common Areas (as that term is defined in Section 1.1.3, below) or the elements thereof or of the accessways to the Premises or the Project (as that term is defined in Section 1.1.2, below). Except as specifically set forth in the Tenant Work Letter attached hereto as **Exhibit B** (the "**Tenant Work Letter**") and subject to Landlord's obligations set forth in Article 7 of this Lease with respect to the condition and repair of the Base Building (as defined in Section 8.2 below), (i) Landlord and Tenant acknowledge that Tenant has been occupying the Original Premises pursuant to the terms of the Prior Lease, Tenant is fully aware of the condition of the Original Premises and Tenant shall continue to be in occupancy of and accept the Original Premises, the Building and the Project in their "AS-IS" condition as of the Original Premises Commencement Date and Landlord shall not be obligated to (a) provide or pay for any improvement work or services related to the improvement of the Original Premises, or (b) deliver the Original Premises to Tenant, and (ii) Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Additional Premises, and Tenant shall accept the Additional Premises in its "as-is" condition as of the Delivery Date. Tenant also acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises, the Building or the Project or with respect to the suitability of any of the foregoing for the conduct of Tenant's business. The taking of possession of the Additional Premises by Tenant shall conclusively establish that the Additional Premises and the Building were at such time in good and sanitary order, condition and repair, subject to Landlord's obligations set forth in Article 7 of this Lease with respect to the condition and repair of the Base Building.

1.1.2 **The Building and The Project.** The Premises are a part of the building set forth in Section 2.1 of the Summary (the "**Building**"). The term "**Project**," as used in this Lease, shall mean (i) the Building and the Common Areas, (ii) the land (which is improved with landscaping, parking facilities and other improvements) upon which the Building and the Common Areas are located, and (iii) at Landlord's reasonable discretion, any additional real property, areas, land, buildings or other improvements added thereto outside of the Project, provided that such addition shall not decrease the rights and/or increase the obligations of Tenant hereunder.

1.1.3 **Common Areas.** Tenant shall have the non-exclusive right to use in common with other tenants in the Project, and subject to the rules and regulations referred to in Article 5 of this Lease, those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project, including, without limitation, common plaza areas, parking areas or facilities, walkways, driveways, courtyards, corridors, lobbies, hallways, stairwells, elevators and common restrooms (such areas, together with such other portions of the Project designated by Landlord, in its discretion, including certain areas designated for the exclusive use of certain tenants, or to be shared by Landlord and certain tenants, are collectively referred to herein as the "**Common Areas**"). The Common Areas shall consist of the "**Project Common Areas**" and the "**Building Common Areas**." The term "**Project Common Areas**," as used in this Lease, shall mean the portion of the Project designated as such by Landlord. The term "**Building Common Areas**," as used in this Lease, shall mean the portions of the Common Areas located within the Building designated as such by Landlord. The manner in which the Common Areas are maintained and operated shall be at the reasonable discretion of Landlord and the use thereof shall be subject to such reasonable rules, regulations and restrictions as Landlord may make from time to time. Landlord reserves the right to close temporarily, make alterations or additions to, or change the location of elements of the Project and the Common Areas; provided that Landlord shall use commercially reasonable efforts to conduct such work in a manner designed to minimize any disruptions to Tenant's business operations or access to the Premises.

1.2 **Stipulation of Square Feet of Premises and Building.** For purposes of this Lease, the "rentable square feet" of the Premises shall be deemed to be as set forth in Section 2.2 of the Summary. Landlord and Tenant hereby acknowledge and agree that the Base Rent set forth in Section 4 of the Summary was calculated pursuant to the measurements of the Building and the Premises as set forth in Sections 2.1 and 2.2 of the Summary, and that such measurements shall not be subject to any re-measurement or recalculation during the initial applicable Lease Term.

ARTICLE 2

LEASE TERM; OPTION TERM

2.1 **In General.** The terms and provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease (the "**Lease Term**") shall be as set forth in Section 3.1 of the Summary, shall commence on the dates set forth in Section 3.2 of the Summary with respect to each of the Original Premises and Additional Premises, and shall terminate on the dates set forth in Section 3.3 of the Summary unless this Lease is sooner terminated as hereinafter provided. Tenant hereby acknowledges that the Additional Premises are currently occupied by another tenant of the Building. If Landlord is unable for any reason to deliver possession of the Additional Premises to Tenant on any specific date, then Landlord shall not be subject to any liability for its failure to do so, and such failure shall not affect the validity of this Lease or the obligations of Tenant hereunder. At any time during the applicable Lease Term, Landlord may deliver to Tenant a notice in the form as set forth in **Exhibit C**, attached hereto, as a confirmation only of the information set forth therein, which Tenant shall either (i) execute and return, or (ii) object in writing to Landlord, in either event within five (5) days of receipt thereof. If Tenant objects to Landlord's notice as provided in the preceding sentence, then Landlord and Tenant agree to work together in good faith to resolve any dispute regarding the information contained in such notice.

2.2 **Option Term**.

2.2.1 **Option Right**. Landlord hereby grants to the Tenant originally named in this Lease (the "**Original Tenant**") and any Permitted Transferee Assignee (as defined in Section 14.8 below) one (1) option to extend the initial Lease Term (which for purposes of this Section 2.2, shall be respect to the Suite 500 Premises and the Additional Premises only (collectively, the "**Option Premises**"), it being acknowledged that Tenant shall have no right to renew or extend the Suite 210 Premises) for a period of five (5) years (the "**Option Term**"), which option shall be exercisable only by written notice delivered by Tenant to Landlord as provided below, provided that, as of the date of delivery of such notice, Tenant is not in monetary or material non-monetary default (beyond applicable notice and cure periods) under this Lease, and has not previously been in monetary or material non-monetary default (beyond applicable notice and cure periods) under this Lease more than once in the prior twenty-four (24) month period. Upon the proper exercise of the option to extend, and provided that, at Landlord's option, as of the end of the initial Lease Term, Tenant is not in default under this Lease, and Tenant has not previously been in default under this Lease more than once in the prior twenty-four (24) month period, the Lease Term, as it applies to the entire Option Premises, shall be extended for a period of five (5) years. The rights contained in this Section 2.2 shall be personal to the Original Tenant and any Permitted Transferee Assignee and may only be exercised by the Original Tenant or Permitted Transferee Assignee (and not any other assignee, or any sublessee or other transferee of Tenant's interest in this Lease) if the Original Tenant or any Permitted Transferee Assignee occupies at least seventy-five percent (75%) of the Option Premises.

2.2.2 **Option Rent**. The annual rent payable by Tenant during the Option Term (the "**Option Rent**") shall be equal to the Fair Market Rent (as defined below) for the Option Premises as of the commencement date of the Option Term. The "**Fair Market Rent**" shall be equal to the annual rent (including additional rent and considering any "base year" or "expense stop" applicable thereto), taking into account all escalations, at which, as of the commencement of the Option Term, tenants are leasing non-sublease, non-encumbered, non-equity, non-expansion space comparable in size, location and quality to the Option Premises for a term comparable to the Option Term, in an arm's-length transaction, which comparable space is located in the Project or in the Comparable Buildings (as defined hereinbelow) and which comparable transactions (collectively, the "**Comparable Transactions**") are entered into within the six (6) month period immediately preceding Landlord's delivery of the Option Rent Notice (as defined in Section 2.2.3 below) taking into consideration only the following concessions (the "**Concessions**"): (a) rental abatement concessions, if any, being granted such tenants in connection with such comparable space; and (b) tenant improvements or allowances provided or to be provided for such comparable space, taking into account, and deducting the value of, the existing improvements in the Option Premises, such value to be based upon the age, condition, design, quality of finishes and layout of the improvements and the extent to which the same can be utilized by Tenant based upon the fact that the precise tenant improvements existing in the Option Premises are specifically suitable to Tenant; and (c) other reasonable monetary concessions being granted such tenants in connection with such comparable space; provided, however, that in calculating the Option Rent, no consideration shall be given to (i) the fact that Landlord is or is not required to pay a real estate brokerage commission in connection with Tenant's exercise of its right to lease the Option Premises during the Option Term or in connection with the Comparable Transactions or the fact that landlords are or are not paying real estate brokerage commissions in connection with such

Comparable Transactions, and (ii) any period of rental abatement, if any, granted to tenants in Comparable Transactions in connection with the design, permitting and construction of tenant improvements in such comparable spaces. The Fair Market Rent shall additionally include a determination as to whether, and if so to what extent, Tenant must provide Landlord with financial security, such as a letter of credit or guaranty, for Tenant's rent obligations in connection with Tenant's lease of the Option Premises during the Option Term. Such determination shall be made by reviewing the extent of financial security then generally being imposed in Comparable Transactions from tenants of comparable financial condition and credit history to the then existing financial condition and credit history of Tenant (with appropriate adjustments to account for differences in the then-existing financial condition of Tenant and such other tenants). If in determining the Option Rent a tenant improvement allowance is granted under item (b) above, Landlord may, at Landlord's sole option, elect any or a portion of the following: (A) to grant some or all of the Concessions to Tenant in the form as described above (i.e., as free rent or as an improvement allowance), and (B) to adjust the rental rate component of the Option Rent to be an effective rental rate which takes into consideration the total dollar value of the Concessions (in which case the Concessions evidenced in the effective rental rate shall not be granted to Tenant). For purposes of this Lease, the term **"Comparable Buildings"** shall mean first class office buildings comparable to the building in size, amenities, services, age, quality of construction and exterior appearance, which office buildings are located within the "Beverly Hills Triangle" submarket in Beverly Hills, California.

2.2.3 **Exercise of Option(s)**. The option contained in this Section 2.2 shall be exercised by Tenant, if at all, only in the following manner: (i) Tenant shall deliver written notice to Landlord not more than fourteen (14) months nor less than twelve (12) months prior to the expiration of the initial Lease Term, stating that Tenant is interested in exercising its option (**"Tenant's Interest Notice"**); (ii) Landlord, after receipt of Tenant's Interest Notice, shall deliver notice (the **"Option Rent Notice"**) to Tenant not less than eleven (11) months prior to the expiration of the initial Lease Term or the First Option Term, as the case may be, setting forth the Option Rent; and (iii) if Tenant wishes to exercise such option, Tenant shall, on or before the earlier of (A) the date occurring ten (10) months prior to the expiration of the initial Lease Term, and (B) the date occurring thirty (30) days after Tenant's receipt of the Option Rent Notice, exercise the option by delivering written notice thereof to Landlord, and upon, and concurrent with, such exercise, Tenant may, at its option, object to the Option Rent contained in the Option Rent Notice, in which case the parties shall follow the procedure, and the Option Rent shall be determined, as set forth in Section 2.2.4 below. Time is of the essence with respect to the delivery of Tenant's Interest Notice and Tenant's exercise of the option (including any objection to the Option Rent set forth in the Option Rent Notice) set forth in this Section 2.2.

2.2.4 **Determination of Option Rent**. In the event Tenant timely and appropriately objects to the Option Rent set forth in the Option Rent Notice, then Landlord and Tenant shall attempt to agree upon the Option Rent using their best good-faith efforts. If Landlord and Tenant fail to reach agreement within fifteen (15) days following Tenant's objection to the Option Rent, (the **"Outside Agreement Date"**), then each party shall make a separate determination of the Option Rent within fifteen (15) days following the Outside Agreement Date, and such determinations shall be submitted to arbitration in accordance with Sections 2.2.4.1 through 2.2.4.7 below.

2.2.4.1 Landlord and Tenant shall each appoint one (1) arbitrator who shall by profession be a real estate broker who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of office space in the Comparable Buildings. The determination of the arbitrators shall be limited solely to the issue area of whether Landlord's or Tenant's submitted Option Rent is the closest to the actual Option Rent as determined by the arbitrators, taking into account the requirements of Section 2.2.2 of this Lease. Each such arbitrator shall be appointed within fifteen (15) days after the Outside Agreement Date.

2.2.4.2 The two (2) arbitrators so appointed shall within ten (10) days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third (3rd) arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two (2) arbitrators.

2.2.4.3 The three (3) arbitrators shall within thirty (30) days of the appointment of the third (3rd) arbitrator reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Option Rent, and shall notify Landlord and Tenant thereof.

2.2.4.4 The decision of the majority of the three (3) arbitrators shall be binding upon Landlord and Tenant.

2.2.4.5 If either Landlord or Tenant fails to appoint an arbitrator within fifteen (15) days after the Outside Agreement Date, the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.

2.2.4.6 If the two (2) arbitrators fail to agree upon and appoint a third (3rd) arbitrator, or both parties fail to appoint an arbitrator, then the appointment of the third (3rd) arbitrator or any arbitrator shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of JAMS, but subject to the instruction set forth in this Section 2.2.4.

2.2.4.7 The cost of the arbitration shall be paid by Landlord and Tenant equally.

ARTICLE 3

BASE RENT

3.1 **In General**. Tenant shall pay, without prior notice or demand, to Landlord or Landlord's agent at the address set forth in Section 4.2 of the Summary, or, at Landlord's option, at such other place as Landlord may from time to time designate in writing, by a check or wire transfer for currency which, at the time of payment, is legal tender for private or public debts in the United States of America, base rent (**"Base Rent"**) as set forth in Section 4 of the Summary, payable in equal monthly installments as set forth in Section 4 of the Summary in advance on or before the first day of each and every calendar month during the applicable Lease Term, without any setoff or deduction whatsoever. The Base Rent for the first full calendar month of the Lease Term with respect to the Additional Premises shall be paid at the time of Tenant's execution of this Lease. If any Rent payment date (including the applicable Lease Commencement Date) falls

on a day of the month other than the first day of such month or if any payment of Rent is for a period which is shorter than one month, the Rent for any fractional month shall accrue on a daily basis for the period from the date such payment is due to the end of such calendar month or to the end of the applicable Lease Term at a rate per day which is equal to 1/365 of the applicable annual Rent. All other payments or adjustments required to be made under the terms of this Lease that require proration on a time basis shall be prorated on the same basis.

3.2 **Abated Base Rent**. Subject to the terms of this Section 3.2, during (such periods of time are each a "**Base Rent Abatement Period**") (i) the calendar months of March 2020 and March 2021, Tenant's obligation to pay Base Rent otherwise due for the Suite 210 Premises shall be fully abated, (ii) the calendar months of June 2020 through November 2020, Tenant's obligation to pay Base Rent otherwise due for the Suite 500 Premises shall be abated by fifty percent (50%), and (iii) the second (2nd) through seventh (7th) full calendar months of the Additional Premises Lease Term, Tenant's obligation to pay Base Rent otherwise due for the Additional Premises shall be abated by fifty percent (50%). Such rights to abate Base Rent shall be referred to herein as the "**Base Rent Abatement**". Tenant acknowledges and agrees that during such Base Rent Abatement Period, such Base Rent Abatement shall have no effect on the calculation of any future increases in Base Rent payable by Tenant pursuant to the terms of this Lease, which increases shall be calculated without regard to such Base Rent Abatement. Tenant acknowledges and agrees that the foregoing Base Rent Abatement has been granted to Tenant as additional consideration for entering into this Lease, and for agreeing to pay the Base Rent and perform the terms and conditions otherwise required under this Lease. If Tenant shall be in monetary or material non-monetary default under this Lease, and shall fail to cure such monetary or material non-monetary default within the notice and cure period, if any, permitted for cure pursuant to this Lease or if this Lease is terminated for any reason other than Landlord's breach of this Lease, casualty or condemnation, then, in addition to any remedies Landlord may have under this Lease, Landlord, at its option, may elect any or all of the following remedies: (i) Tenant's right to receive the Base Rent Abatement under this paragraph shall automatically be deemed terminated and of no further force or effect, or (ii) the unexpired portion of the Base Rent Abatement Period as of such default or termination shall be moved to the end of the applicable Lease Term, and Tenant shall immediately be obligated to begin paying Base Rent at the full amounts of the monthly installments therefor set forth above. The foregoing Base Rent Abatement right set forth in this Section 3.2 shall be personal to the Original Tenant, and shall only apply to the Original Tenant (and not any assignee, or any sublessee or other transferee of the Original Tenant's interest in this Lease).

ARTICLE 4

ADDITIONAL RENT

4.1 **General Terms**. In addition to paying the Base Rent specified in Article 3 of this Lease, Tenant shall pay Tenant's Share (as that term is defined in Section 4.2.7 of this Lease) of (i) the annual Operating Expenses (as that term is defined in Section 4.2.5 of this Lease) that are in excess of the amount of Operating Expenses applicable to the Operating Base Year (as that term is defined in Section 4.2.1, below), and (ii) the annual Tax Expenses (as that term is defined in Section 4.2.6 of this Lease) that are in excess of the amount of Tax Expenses applicable to the Tax Base Year (as that term is defined in Section 4.2.2 of this Lease); provided, however, that in no event shall any decrease in Direct Expenses for any Expense Year below Direct Expenses for the

Base Year entitle Tenant to any decrease in Base Rent or any credit against sums due under this Lease. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the terms of this Lease, are hereinafter collectively referred to as the "**Additional Rent**", and the Base Rent and the Additional Rent are herein collectively referred to as "**Rent.**" All amounts due under this Article 4 as Additional Rent shall be payable for the same periods and in the same manner as the Base Rent. Without limitation on other obligations of Tenant which survive the expiration of the applicable Lease Term, the obligations of Tenant to pay the Additional Rent provided for in this Article 4 shall survive the expiration of the applicable Lease Term.

4.2 **Definitions of Key Terms Relating to Additional Rent**. As used in this Article 4, the following terms shall have the meanings hereinafter set forth:

4.2.1 "Operating **Base Year**" shall mean the period set forth in Section 5.1 of the Summary.

4.2.2 "**Tax Base Year**" shall mean the period set forth in Section 5.2 of the Summary.

4.2.3 "**Direct Expenses**" shall mean "Operating Expenses" and "Tax Expenses."

4.2.4 "**Expense Year**" shall mean each calendar year in which any portion of the applicable Lease Term falls, through and including the calendar year in which the applicable Lease Term expires, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Share of Direct Expenses shall be equitably adjusted for any Expense Year involved in any such change.

4.2.5 "**Operating Expenses**" shall mean all expenses, costs and amounts of every kind and nature which Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement (subject to exclusions as expressly provided below), restoration or operation of the Project, or any portion thereof, all as determined in accordance with sound real estate management and accounting principles, consistently applied. Without limiting the generality of the foregoing, Operating Expenses shall specifically include any and all of the following: (i) the cost of supplying all utilities, the cost of operating, repairing, maintaining, and renovating the utility, telephone, mechanical, sanitary, storm drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections and the cost of contesting any governmental enactments which may affect Operating Expenses, and the costs incurred in connection with a transportation system management program or similar program; (iii) the cost of all insurance carried by Landlord or the property manager of Landlord in connection with the Project; (iv) the cost of landscaping, relamping, and all supplies, tools, equipment and materials used in the operation, repair and maintenance of the Project, or any portion thereof; (v) costs incurred in connection with the parking areas servicing the Project; (vi) fees and other costs, including management fees, consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Project; (vii) payments under any equipment rental agreements and the fair rental

value of any amenity space serving the tenants of the Project and any management office space and the cost of furnishings in such amenity space and management office space; (viii) wages, salaries and other compensation and benefits, including taxes levied thereon, of all persons engaged in the operation, maintenance and security of the Project; (ix) payments or costs under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs by the Project, including, without limitation, any covenants, conditions and restrictions affecting the Project, reciprocal easement agreements affecting the Project, and any agreements with transit agencies affecting the Project; (x) operation, repair, maintenance and replacement of all systems and equipment and components thereof of the Project; (xi) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in common areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xii) amortization (including interest on the unamortized cost) over such period of time as Landlord shall reasonably determine of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof; (xiii) the cost of capital improvements or other costs incurred in connection with the Project (A) which are intended to effect economies in the operation or maintenance of the Project, or any portion thereof, (B) that are required to comply with governmentally mandated conservation programs, (C) which are replacements or modifications of nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition, or (D) that are required under any Applicable Laws (as that term is defined in Article 24 below), except for capital repairs, replacements or other capital improvements to remedy a condition existing prior to the commencement date of the Prior Lease which an applicable governmental authority, if it had knowledge of such condition prior to the commencement date of the Prior Lease and if such condition was not subject to a variance or a grandfathered/grandmothered code waiver exception, would have then required to be remedied pursuant to then-current Applicable Laws, in their form existing as of the commencement date of the Prior Lease; provided, however, that any such permitted capital expenditure shall be amortized with interest (at the Interest Rate (as defined in Article 25 below)) over reasonable useful life as Landlord shall reasonably determine in accordance with sound real estate management and accounting principles, consistently applied; (xiv) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute Tax Expenses; (xv) the cost of tenant relation programs reasonably established by Landlord; and (xvi) costs in connection with Other Improvements in accordance with Section 29.35 below. Notwithstanding the foregoing, for purposes of this Lease, Operating Expenses shall not, however, include:

(a) costs, including legal fees, space planners' fees, advertising and promotional expenses (except as otherwise set forth above), and brokerage fees incurred in connection with the original construction or development, or original or future leasing of the Project, and costs, including permit, license and inspection costs, incurred with respect to the installation of tenant improvements made for new tenants initially occupying space in the Project after the Lease Commencement Date or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project (excluding, however, such costs relating to any Common Areas);

(b) except as set forth in items (xii), (xiii), and (xiv) above, depreciation, interest and principal payments on mortgages and other debt costs, if any, penalties

and interest, costs of capital repairs and alterations, and costs of capital improvements and equipment;

(c) costs for which the Landlord is reimbursed by any tenant or occupant of the Project or by insurance by its carrier or any tenant's carrier or by anyone else, and utility costs for which any tenant directly contracts with the local public service company;

(d) any bad debt loss, rent loss, or reserves for bad debts or rent loss;

(e) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants;

(f) the wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-à-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall Operating Expenses for purposes of this Lease include wages and/or benefits attributable to personnel above the level of Project manager or Project engineer (however, personnel performing accounting work in connection with the operation and management of the Project shall not be excluded, irrespective of their rank or position);

(g) amount paid as ground rental for the Project by the Landlord;

(h) except for a Project management fee, overhead and profit increment paid to the Landlord or to subsidiaries or affiliates of the Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, first-class unaffiliated third parties on a competitive basis;

(i) any compensation paid to clerks, attendants or other persons in commercial concessions operated by the Landlord (other than with respect to the parking facilities), provided that any compensation paid to any concierge at the Project shall be includable as an Operating Expense;

(j) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project;

(k) all items and services for which Tenant or any other tenant in the Project reimburses Landlord or which Landlord provides selectively to one or more tenants (other than Tenant) without reimbursement;

(l) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(m) rent for any office space occupied by Project management personnel to the extent the size or rental rate of such office space exceeds the size or fair market rental value of office space occupied by management personnel of the comparable buildings in the vicinity of the Building, with adjustment where appropriate for the size of the applicable project;

(n) costs arising from the gross negligence or willful misconduct of Landlord or its agents, employees, vendors, contractors, or providers of materials or services;

(o) costs incurred to comply with Applicable Laws relating to the removal of hazardous material (as defined under Applicable Laws) which was in existence in the Building or on the Project prior to the commencement date of the Prior Lease, and was of such a nature that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions that it then existed in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto; and costs incurred to remove, remedy, contain, or treat hazardous material, which hazardous material is brought into the Building or onto the Project after the date hereof by Landlord or any other tenant of the Project and is of such a nature, at that time, that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions, that it then exists in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto;

(p) costs that are reimbursed out of insurance, warranty or condemnation proceeds, or which are reimbursed by Tenant or other tenants other than pursuant to an expense escalation clause (except that any deductible amount under any insurance policy shall be included within Operating Expenses);

(q) costs directly incurred as a part of the original construction of the Building or in connection with a major change in the Building, such as adding or deleting floors;

(r) advertising expenditures;

(s) any gifts provided to any entity whatsoever, including, but not limited to, Tenant, other tenants, employees, vendors, contractors, prospective tenants and agents;

(t) costs, including permit, license and inspection costs, incurred with respect to the installation of other tenants' or occupants' improvements made for tenants or other occupants in the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants in the Building;

(u) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Building to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis;

(v) any costs or expenses (including fines, interest, penalties and legal fees) arising out of Landlord's failure to timely pay Operating Expenses or Taxes;

(w) costs of correcting structural or other latent construction defects in the initial design and construction of the Building;

(x) fees payable by Landlord for management of the Project in excess of three percent (3.0%) of Landlord's gross rental revenues; and

(y) any above Building standard cleaning, including, but not limited to construction cleanup.

If Landlord is not furnishing any particular work or service (the cost of which, if performed by Landlord, would be included in Operating Expenses) to a tenant who has undertaken to perform such work or service in lieu of the performance thereof by Landlord, Operating Expenses shall be deemed to be increased by an amount equal to the additional Operating Expenses which would reasonably have been incurred during such period by Landlord if it had at its own expense furnished such work or service to such tenant. If the Project is not at least ninety-five percent (95%) occupied during all or a portion of the Operating Base Year or any Expense Year, Landlord may elect to make an appropriate adjustment to the components of Operating Expenses for such year to determine the amount of Operating Expenses that would have been incurred had the Project been ninety-five percent (95%) occupied; and the amount so determined shall be deemed to have been the amount of Operating Expenses for such year. Operating Expenses for the Operating Base Year shall not include market-wide cost increases due to extraordinary circumstances, including, but not limited to, events of Force Majeure (as that term is defined in Section 29.16, below), boycotts, strikes, conservation surcharges, embargoes or shortages, or amortized costs relating to capital improvements. In no event shall the components of Direct Expenses for any Expense Year related to Project insurance, security or utility costs be less than the components of Direct Expenses related to Project insurance, security or utility costs, respectively, in the Operating Base Year.

Landlord shall (i) not charge items to Operating Expenses that are otherwise also charged separately to others, and (ii) Landlord shall not collect Operating Expenses from Tenant and all other tenants/occupants in the Building in an amount in excess of what Landlord incurred for the items included in Operating Expenses; provided that the foregoing shall not exclude inclusion of management fees and other fees and expenses calculated as a percentage of Operating Expenses.

4.2.6 **Taxes**.

4.2.6.1 "**Tax Expenses**" shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature, whether general, special, ordinary or extraordinary, (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment,

apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof.

4.2.6.2 Tax Expenses shall include, without limitation: (i) Any tax on the rent, right to rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof; (ii) Any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, it being acknowledged by Tenant and Landlord that Proposition 13 was adopted by the voters of the State of California in the June 1978 election ("**Proposition 13**") and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants, and, in further recognition of the decrease in the level and quality of governmental services and amenities as a result of Proposition 13, Tax Expenses shall also include any governmental or private assessments or the Project's contribution towards a governmental or private cost-sharing agreement for the purpose of augmenting or improving the quality of services and amenities normally provided by governmental agencies; (iii) Any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including, without limitation, any business or gross income tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof; and (iv) Any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises. All assessments of Tax Expenses which may be paid in installments shall be paid by Landlord in the maximum number of installments permitted by Applicable Law and included in Tax Expenses in the year in which the assessment is actually paid; provided, however, that Landlord shall be obligated to continue such practice only for so long as, and to the extent that, such practice is consistent with the prevailing practice in Comparable Buildings.

4.2.6.3 Any actual, reasonable out-of-pocket costs and expenses (including, without limitation, reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year such expenses are paid. Refunds of Tax Expenses shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable, provided that in no event shall the amount to be refunded to Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year. If Tax Expenses for any period during the applicable Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses included by Landlord as Tax Expenses pursuant to the terms of this Lease. Notwithstanding anything to the contrary contained in this Section 4.2.6 (except as set forth in Section 4.2.6.1, above), there shall be excluded from Tax Expenses (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes

to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, and (iii) any items paid by Tenant under Section 4.5 of this Lease.

4.2.7 **"Tenant's Share"** shall mean the percentage set forth in Section 6 of the Summary. Tenant's Share was calculated by multiplying the number of rentable square feet of the Premises by 100 and dividing the product by the total rentable square feet in the Building. In the event either the Premises and/or the Building is expanded or reduced, Tenant's Share shall be appropriately adjusted, and, as to the Expense Year in which such change occurs, Tenant's Share for such year shall be determined on the basis of the number of days during such Expense Year that each such Tenant's Share was in effect.

4.3 **Cost Pools.** Landlord shall have the right, from time to time, to equitably allocate some or all of the Direct Expenses for the Project among different portions or occupants of the Project (the **"Cost Pools"**), in Landlord's reasonable discretion. Such Cost Pools may include, but shall not be limited to, the office space tenants and the retail space tenants of the Project. The Direct Expenses within each such Cost Pool shall be allocated and charged to the tenants within such Cost Pool in an equitable manner.

4.4 **Calculation and Payment of Additional Rent.** If for any Expense Year ending or commencing within the applicable Lease Term, Tenant's Share of Operating Expenses and Tax Expenses for such Expense Year exceeds Tenant's Share of Operating Expenses and Tax Expenses applicable to the Operating Base Year and Tax Base Year, respectively, then Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, below, and as Additional Rent, an amount equal to the excess (the **"Excess"**).

4.4.1 **Statement of Actual Direct Expenses and Payment by Tenant.** Landlord shall endeavor to give to Tenant on or before the last day of April following the end of each Expense Year, a statement (the **"Statement"**) which shall state the Operating Expenses and Tax Expenses incurred or accrued for such preceding Expense Year, and which shall indicate the amount of the Excess. Upon receipt of the Statement for each Expense Year commencing or ending during the applicable Lease Term, if an Excess is present, Tenant shall pay, with its next installment of Base Rent due, the full amount of the Excess for such Expense Year, less the amounts, if any, paid during such Expense Year as Estimated Excess (as that term is defined in Section 4.4.2, below). The failure of Landlord to timely furnish the Statement for any Expense Year shall not prejudice Landlord or Tenant from enforcing its rights under this Article 4. Even though the applicable Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Direct Expenses for the Expense Year in which this Lease terminates, if an Excess is present, Tenant shall immediately pay to Landlord such amount. The provisions of this Section 4.4.1 shall survive the expiration or earlier termination of the applicable Lease Term.

4.4.2 **Statement of Estimated Direct Expenses.** In addition, Landlord shall endeavor to give Tenant a yearly expense estimate statement (the **"Estimate Statement"**) on or before the last day of January following the end of each Expense Year which shall set forth Landlord's reasonable estimate (the **"Estimate"**) of what the total amount of Operating Expenses and Tax Expenses for the then-current Expense Year shall be and the estimated excess (the

"**Estimated Excess**") as calculated by comparing the Operating Expenses and Tax Expenses for such Expense Year, which shall be based upon the Estimate, to the amount of Operating Expenses and Tax Expenses for the Operating Base Year and Tax Base Year, respectively. The failure of Landlord to timely furnish the Estimate Statement for any Expense Year shall not preclude Landlord from enforcing its rights to collect any Estimated Excess under this Article 4, nor shall Landlord be prohibited from revising any Estimate Statement or Estimated Excess theretofore delivered to the extent necessary. Thereafter, Tenant shall pay, with its next installment of Base Rent due, a fraction of the Estimated Excess for the then-current Expense Year (reduced by any amounts paid pursuant to the last sentence of this Section 4.4.2). Such fraction shall have as its numerator the number of months which have elapsed in such current Expense Year, including the month of such payment, and twelve (12) as its denominator. Until a new Estimate Statement is furnished (which Landlord shall have the right to deliver to Tenant at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Excess set forth in the previous Estimate Statement delivered by Landlord to Tenant.

4.5 **Taxes and Other Charges for Which Tenant Is Directly Responsible**.

4.5.1 Tenant shall be liable for and shall pay prior to delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

4.5.2 If the tenant improvements in the Premises, whether installed and/or paid for by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed for real property tax purposes at a valuation higher than the valuation at which tenant improvements conforming to Landlord's "building standard" in other space in the Building are assessed, then the Tax Expenses levied against Landlord or the property by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property of Tenant and shall be governed by the provisions of Section 4.5.1, above.

4.5.3 Notwithstanding any contrary provision herein, Tenant shall pay prior to delinquency any (i) rent tax or sales tax, service tax, transfer tax or value added tax, or any other applicable tax on the rent or services herein or otherwise respecting this Lease, (ii) taxes assessed upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion of the Project, including the Project parking facilities; or (iii) taxes assessed upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

4.6 **Landlord's Books and Records**. Within sixty (60) days after receipt of a Statement by Tenant, if Tenant disputes the amount of Direct Expenses set forth in the Statement,

an independent certified public accountant (which accountant is a member of a nationally or regionally recognized accounting firm and is not working on a contingency fee basis), designated and paid for by Tenant, may, after reasonable notice to Landlord and at reasonable times, inspect Landlord's records with respect to the Statement at Landlord's offices; provided that Tenant is not then in default under this Lease after notice and the expiration of any applicable cure periods and Tenant has paid all amounts required to be paid under the applicable Estimate Statement and Statement, as the case may be. In connection with such inspection, Tenant and Tenant's agents must agree in advance to follow Landlord's reasonable rules and procedures regarding inspections of Landlord's records, and shall execute a commercially reasonable confidentiality agreement regarding such inspection. Tenant's failure to dispute the amount of Direct Expenses set forth in any Statement within sixty (60) days of Tenant's receipt of such Statement shall be deemed to be Tenant's approval of such Statement and Tenant, thereafter, waives the right or ability to dispute the amounts set forth in such Statement. If after such inspection, Tenant still disputes such Direct Expenses, Landlord and Tenant shall meet in order to resolve the dispute. If Landlord and Tenant are unable to resolve the dispute, a determination as to the proper amount shall be made, at Tenant's expense, by an independent certified public accountant (the "**Accountant**") selected by Landlord and subject to Tenant's reasonable approval; provided that if such determination by the Accountant proves that Direct Expenses were overstated by more than five percent (5%), then the cost of the Accountant and the cost of such determination shall be paid for by Landlord. If such audit or review by the Accountant reveals that Landlord has overcharged or undercharged Tenant, then within thirty (30) days after the results of such audit, Landlord shall reimburse Tenant (or credit against Rent) the amount of the overcharge or Tenant shall pay the amount of the undercharge, as applicable. Tenant hereby acknowledges that Tenant's sole right to inspect Landlord's books and records and to contest the amount of Direct Expenses payable by Tenant shall be as set forth in this Section 4.6, and Tenant hereby waives any and all other rights pursuant to Applicable Laws to inspect such books and records and/or to contest the amount of Direct Expenses payable by Tenant. The rights to inspect Landlord's books and records set forth in this Section 4.6 above are personal to the Original Tenant and any Permitted Transferee Assignee, and may only be exercised by the Original Tenant or any Permitted Transferee Assignee (and not any other assignee, or any sublessee or other transferee of Original Tenant's interest in this Lease).

ARTICLE 5

USE OF PREMISES

5.1 **Permitted Use.** Tenant shall use the Premises solely for the Permitted Use set forth in Section 7 of the Summary and Tenant shall not use or permit the Premises or the Project to be used for any other purpose or purposes whatsoever without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion.

5.2 **Prohibited Uses.** The uses prohibited under this Lease shall include, without limitation, use of the Premises or a portion thereof for (i) offices of any agency or bureau of the United States or any state or political subdivision thereof; (ii) offices or agencies of any foreign governmental or political subdivision thereof; (iii) offices of any health care professionals or service organization providing services to the public; (iv) schools or other training facilities which are not ancillary to corporate, executive or professional office use; (v) retail or restaurant uses; (vi) communications firms such as radio and/or television stations; or (vi) the sale, use, possession,

cultivation and/or distribution of marijuana (irrespective of whether or not permitted by Applicable Laws), or the sale, use, possession, cultivation and/or distribution of any other controlled substances (other than the individual use and possession of prescription medication legally prescribed by such individual's doctor). Tenant shall not allow occupancy density of use of the Premises which is greater than the average density of the other tenants of the Building. Tenant further covenants and agrees that Tenant shall not use, or suffer or permit any person or persons to use, the Premises or any part thereof for any use or purpose contrary to the provisions of the Rules and Regulations set forth in **Exhibit D**, attached hereto (the **"Rules and Regulations"**), or in violation of any Applicable Laws, including, without limitation, any such Applicable Laws relating to hazardous materials or substances, as those terms are defined by Applicable Laws. Tenant shall not do or permit anything to be done in or about the Premises which will in any way damage the reputation of the Project or obstruct or interfere with the rights of other tenants or occupants of the Building, or injure or annoy them or use or allow the Premises to be used for any improper, unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall comply with all recorded covenants, conditions, and restrictions now or hereafter affecting the Project; provided that the same shall not (other than in a de minimis manner) (a) adversely affect Tenant's rights under this Lease, (b) adversely affect Tenant's use of the Premises for the Permitted Use, or (c) increase Tenant's monetary obligations under this Lease.

ARTICLE 6

SERVICES AND UTILITIES

6.1 **Standard Tenant Services.** Landlord shall provide the following services on all days (unless otherwise stated below) during the applicable Lease Term.

6.1.1 Subject to limitations imposed by all governmental rules, regulations and guidelines applicable thereto, Landlord shall provide heating and air conditioning (**"HVAC"**) when necessary for normal comfort for normal office use in the Premises from 8:00 A.M. to 6:00 P.M. Monday through Friday, and on Saturdays from 9:00 A.M. to 1:00 P.M. (collectively, the **"Building Hours"**), except for the date of observation of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day and, at Landlord's discretion, other locally or nationally recognized holidays (collectively, the **"Holidays"**).

6.1.2 Landlord shall provide electricity to the Premises via the existing Building electrical systems (including adequate electrical wiring and facilities for connection to Tenant's lighting fixtures and other equipment) for lighting and power suitable for normal general office use in accordance with Applicable Laws. As part of Operating Expenses, Landlord shall replace (as reasonably necessary) lamps, starters and ballasts for Building standard lighting fixtures within the Premises, provided that Tenant shall bear the cost of replacement of lamps, starters and ballasts for non-Building standard lighting fixtures within the Premises.

6.1.3 Landlord shall provide city water from the regular Building outlets for drinking, lavatory and toilet purposes in the Building Common Areas.

6.1.4 Landlord shall provide daily janitorial services to the Premises Monday through Friday, except the date of observation of the Holidays, in and about the Premises and window washing services in a manner consistent with other Comparable Buildings.

6.1.5 Landlord shall provide nonexclusive, non-attended automatic passenger elevator service during the Building Hours and shall have one elevator available at all other times, except on the Holidays.

6.1.6 Landlord shall provide nonexclusive freight elevator service subject to scheduling as reasonably approved by Landlord.

6.1.7 Except in the event of an emergency or as otherwise specifically required pursuant to Applicable Law or the terms of this Lease, Tenant shall be granted access to the Premises, the Building and the Building parking facility twenty-four (24) hours per day, seven (7) days per week, every day of the year, during the applicable Lease Term, subject to all Applicable Laws, Landlord's reasonable access control procedures, the Rules and Regulations and the terms of this Lease.

Tenant shall cooperate with Landlord at all times and abide by all regulations and requirements that Landlord may reasonably prescribe for the proper functioning and protection of the HVAC, electrical, mechanical and plumbing systems. Tenant shall, at Tenant's sole cost and expense, install and otherwise ensure that any kitchen or kitchenette area located in the Premises, if any, is equipped with properly functioning floor drains and auto shut-off valves.

6.2 **Overstandard Tenant Use.** Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, or equipment or lighting other than Building standard lights in the Premises, which machines, equipment and/or lighting are non-general office use quantities and/or configurations which may affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of Section 6.1 of this Lease. If such consent is given, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including supplementary or additional metering devices, and the cost thereof, including the cost of installation, operation and maintenance, increased wear and tear on existing equipment and other similar charges, shall be paid by Tenant to Landlord upon billing by Landlord. If Tenant uses electricity in excess of 3.0 watts per usable square foot of the Premises of low voltage power (120/280 volts), calculated on an average monthly basis for Building Hours, or if Tenant uses water, heat or air conditioning in excess of that supplied by Landlord pursuant to Section 6.1 of this Lease, or if Tenant shall install and/or operate in the Premises any equipment which shall have an electrical consumption greater than that of normal general office equipment, or which, consistent with the practices of the landlords of comparable first class office buildings located in the vicinity of the Building, are considered to be high electricity consumption equipment, Tenant shall pay to Landlord, within thirty (30) days following billing with reasonable detail, the cost of such excess consumption, the cost of the installation, operation, and maintenance of equipment which is installed in order to supply such excess consumption, and the cost of the increased wear and tear on existing equipment caused by such excess consumption; and Landlord may install devices to separately meter any increased use and in such event Tenant shall pay the increased cost directly to Landlord, on

demand, at the rates charged by the public utility company furnishing the same, including the cost of such additional metering devices. Tenant's use of electricity shall never exceed the capacity of the feeders to the Project or the risers or wiring installation, and subject to the terms of Section 29.32, below, Tenant shall not install or use or permit the installation or use of any computer or electronic data processing equipment in the Premises, without the prior written consent of Landlord. If Tenant desires to use heat, ventilation or air conditioning during hours other than those for which Landlord is obligated to supply such utilities pursuant to the terms of Section 6.1 of this Lease, Tenant shall give Landlord such prior notice, if any, as Landlord shall from time to time establish as appropriate, of Tenant's desired use in order to supply such utilities, and Landlord shall supply such utilities to Tenant at such hourly cost to Tenant (which shall be treated as Additional Rent) as Landlord shall from time to time establish. Notwithstanding any provision to the contrary contained in this Lease, Tenant shall promptly pay to Landlord, Landlord's standard charge for any services provided to Tenant which Landlord is not specifically obligated to provide to Tenant pursuant to the terms of this Lease.

6.3 **Interruption of Use.** Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service (including telephone and telecommunication services), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Building or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or other parties, or by any other cause; and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this Article 6. Landlord may comply with voluntary controls or guidelines promulgated by any governmental entity relating to the use or conservation of energy, water, gas, light or electricity or the reduction of automobile or other emissions without creating any liability of Landlord to Tenant under this Lease, provided that the Premises are not thereby rendered untenantable.

6.4 **Abatement of Rent**. In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, as a result of any failure to provide services, utilities or access to the Premises to the extent Landlord is obligated to provide the same under this Lease (any such set of circumstances to be known as an "**Abatement Event**"), then Tenant shall give Landlord notice of such Abatement Event, and if such Abatement Event continues for five (5) consecutive business days after Landlord's receipt of any such notice or (the "**Eligibility Period**"), then the Base Rent and Tenant's Share of Direct Expenses, shall be abated or reduced, as the case may be, after the expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises; provided, however, in the event that Tenant is prevented from using, and does not use, a portion of the Premises for a period of time in excess of the Eligibility Period and the remaining portion of the Premises is not sufficient to allow Tenant

to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the Base Rent and Tenant's Share of Direct Expenses for the entire Premises shall be abated for such time as Tenant continues to be so prevented from using, and does not use, the Premises. If, however, Tenant reoccupies any portion of the Premises during such period, the Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. Such right to abate Base Rent and Tenant's Share of Direct Expenses shall be Tenant's sole and exclusive remedy at law or in equity for an Abatement Event. To the extent Tenant is entitled to abatement without regard to the Eligibility Period, because of an event described in Articles 11 or 13 of this Lease, then the Eligibility Period shall not be applicable. Except as provided in this Section 6.4, nothing contained herein shall be interpreted to mean that Tenant is excused from paying Rent due hereunder.

ARTICLE 7

REPAIRS

Landlord shall maintain and keep in good repair and condition, the structural portions of the Building, including the foundation, floor/ceiling slabs, roof, curtain wall, exterior glass and mullions, columns, beams, shafts (including elevator shafts), stairs, parking areas, stairwells (excluding internal stairwells within tenants' premises), elevator cabs, plazas, pavement, sidewalks, curbs, entrances, landscaping, art work, sculptures, men's and women's public washrooms, Building mechanical, electrical and telephone closets, and all common and public areas (collectively, "**Building Structure**"), the Base Building mechanical, electrical, life safety, plumbing, sprinkler systems and HVAC systems and other building systems and equipment which were not constructed by, and are not for the exclusive use of, Tenant or Tenant Parties (as defined in Section 10.1 below) (collectively, the "**Building Systems**"). Notwithstanding anything in this Lease to the contrary, Tenant shall be required to repair the Building Structure and/or the Building Systems to the extent required because of (i) Tenant's use of the Premises for other than normal and customary business office operations, or (ii) the negligence or willful misconduct of Tenant or the Tenant Parties, unless and to the extent such damage is covered by insurance carried or required to be carried by Landlord pursuant to Article 10 (such obligation to the extent applicable to Tenant as qualified and conditioned will hereinafter be defined as the "**BS/BS Exception**"). Except as provided as part of Landlord's obligations set forth above or elsewhere in the Lease, Tenant shall, at Tenant's own expense, pursuant to the terms of this Lease, including without limitation Article 8 hereof, keep the non-structural portions of the Premises, including all improvements, fixtures and furnishings therein, and the floor or floors of the Building on which the Premises are located, in good order, repair and condition at all times during the applicable Lease Term (but such obligation shall not extend to the Building Structure and the Building Systems, except pursuant to the BS/BS Exception). In addition, except as provided as part of Landlord's repair obligation set forth above or elsewhere in this Lease, Tenant shall, at Tenant's own expense, but under the supervision and subject to the prior approval of Landlord, and within any reasonable period of time specified by Landlord, pursuant to the terms of this Lease, including without limitation Article 8 hereof, promptly and adequately repair all damage to the Premises and replace or repair all damaged, broken, or worn fixtures and appurtenances, except for damage

caused by ordinary wear and tear or beyond the reasonable control of Tenant; provided however, that, at Landlord's option, or if Tenant fails to make such repairs, Landlord may in accordance with Article 27 below, but need not, make such repairs and replacements, and Tenant shall pay Landlord an oversight fee equal to five percent (5%) of the cost thereof and reimburse Landlord for Landlord's actual, out-of-pocket costs and expenses incurred by Landlord and arising from Landlord's involvement with such repairs and replacements forthwith upon being billed for same. Landlord may, but shall not be required to, enter the Premises at all reasonable times to make such repairs, alterations, improvements or additions to the Premises or to the Project or to any equipment located in the Project as Landlord shall reasonably desire or deem necessary or as Landlord may be required to do by governmental or quasi-governmental authority or court order or decree. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect.

ARTICLE 8

ADDITIONS AND ALTERATIONS

8.1 **Landlord's Consent to Alterations.** Tenant may not make any improvements, alterations, additions or changes to the Premises or any mechanical, plumbing or HVAC facilities or systems pertaining to the Premises (collectively, the "**Alterations**") without first procuring the prior written consent of Landlord to such Alterations, which consent shall be requested by Tenant not less than twenty (20) days prior to the commencement thereof, and which consent shall not be unreasonably withheld, conditioned or delayed by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which affects the structural portions or the systems or equipment of the Building or is visible from the exterior of the Building. Subject to the terms of this Article 8 (including, without limitation, Landlord's prior written approval), Landlord acknowledges that Tenant may modernize and update the bathrooms located within the full floor portions of the Premises (i.e., the Suite 500 Premises and the Additional Premises) which work may include the replacement of fixtures (i.e., toilets, sinks, etc.). The construction of the initial improvements to the Premises shall be governed by the terms of the Tenant Work Letter and not the terms of this Article 8. Notwithstanding anything to the contrary contained herein, Tenant may make cosmetic changes to the Premises, including, without limitation, painting and installation of carpeting (the "**Cosmetic Alterations**"), without Landlord's consent, provided that such alterations do not (i) affect the exterior appearance of the Building, (ii) affect the Base Building, (iii) require any building permit, (iv) unreasonably interfere with any other occupant's normal and customary office operation, (v) fail to comply with Applicable Laws, (vi) adversely affect the certificate of occupancy issued for the Building, or (vii) involve the expenditure of more than Twenty-Five Thousand Dollars ($25,000.00) in the aggregate during any twelve (12) month period. Tenant shall give Landlord at least thirty (30) days prior written notice of such Cosmetic Alterations, which notice shall be accompanied by reasonably adequate evidence that such changes meet the criteria contained in this Section 8.1.

8.2 **Manner of Construction.** Landlord may impose, as a condition of its consent to any and all Alterations or repairs of the Premises or about the Premises, such requirements as Landlord in its reasonable discretion may deem desirable, including, but not limited to, the requirement that Tenant utilize for such purposes only contractors, subcontractors, materials,

mechanics and materialmen selected by Tenant from a list provided and approved by Landlord, the requirement that upon Landlord's request, Tenant shall, at Tenant's expense, remove such Alterations upon the expiration or any early termination of the applicable Lease Term, and the requirement that all Alterations conform in terms of quality and style to the Building's standards established by Landlord (a current copy of which is attached hereto as **Exhibit E** and which may be subject to reasonable change from time to time). If such Alterations will involve the use of or disturb hazardous materials or substances existing in the Premises, Tenant shall comply with Landlord's rules and regulations concerning such hazardous materials or substances. Landlord's approval of the plans, specifications and working drawings for Tenant's Alterations shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all Applicable Laws. Tenant shall construct such Alterations and perform such repairs in a good and workmanlike manner, in conformance with any and all Applicable Laws and pursuant to a valid building permit, issued by the City of Beverly Hills, all in conformance with Landlord's construction rules and regulations (a current copy of which is attached hereto as **Exhibit F** and which may be reasonably revised from time to time). In the event Tenant performs any Alterations in the Premises which require or give rise to governmentally required changes to the Base Building, then Landlord shall, at Tenant's expense, make such changes to the Base Building. The "**Base Building**" shall mean the Building Structure and the Building Systems. In performing the work of any such Alterations, Tenant shall have the work performed in such manner so as not to obstruct access to the Project or any portion thereof, by any other tenant of the Project, and so as not to obstruct the business of Landlord or other tenants in the Project. Tenant shall not use (and upon notice from Landlord shall cease using) contractors, subcontractors, services, workmen, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with the workforce or trades engaged in performing other work, labor or services in or about the Building or the Common Areas. In addition to Tenant's obligations under Article 9 of this Lease, upon completion of any Alterations, Tenant agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the County of Los Angeles in accordance with Section 8182 of the Civil Code of the State of California or any successor statute, and Tenant shall deliver to the Project management office a reproducible copy of the "as built" drawings of the Alterations as well as all permits, approvals and other documents issued by any governmental agency in connection with the Alterations.

8.3 **Payment for Improvements.** If payment is made directly to contractors, Tenant shall comply with Landlord's requirements for final lien releases and waivers pursuant to Applicable Law in connection with Tenant's payment for work to contractors. Whether or not Tenant orders any work directly from Landlord, Tenant shall pay to Landlord an oversight fee equal to five percent (5%) of the cost of such work and reimburse Landlord for Landlord's reasonable, actual, out-of-pocket costs and expenses actually incurred in connection with Landlord's review of such work.

8.4 **Construction Insurance.** In addition to the requirements of Article 10 of this Lease, in the event that Tenant makes any Alterations, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant carries "**Builder's All Risk**" insurance in an amount reasonably approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may reasonably require, it being understood and agreed that all of such Alterations shall be insured by Tenant pursuant to Article 10 of this Lease immediately upon completion thereof. In addition, Landlord may, in its discretion, require Tenant

to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of such Alterations and naming Landlord as a co-obligee.

8.5 **Landlord's Property**. All Alterations, improvements, fixtures, equipment and/or appurtenances which may be installed or placed in or about the Premises, from time to time, shall be at the sole cost of Tenant and any permanently affixed Alterations, improvements, equipment and/or appurtenances shall be and become the property of Landlord, except that Tenant may remove any movable fixtures and/or equipment which Tenant can substantiate to Landlord have not been paid for with any tenant improvement allowance funds provided to Tenant by Landlord, provided Tenant repairs any damage to the Premises and Building caused by such removal and returns the affected portion of the Premises to the condition existing prior to the installation of such Alterations. Furthermore, Landlord may, by written notice to Tenant prior to the end of the applicable Lease Term, or given following any earlier termination of this Lease (or, at the time Landlord consents to any such Alterations if Tenant requests Landlord's decision with respect to such removal), require Tenant, at Tenant's expense, to remove any Alterations or improvements in the Premises, and to repair any damage to the Premises and Building caused by such removal and return the affected portion of the Premises the condition existing prior to the installation of such Alterations. If Tenant fails to complete such removal and/or to repair any damage caused by the removal of any Alterations or improvements in the Premises, and returns the affected portion of the Premises to the condition existing prior to the installation of such Alterations, then at Landlord's option, either (A) Tenant shall be deemed to be holding over in the Premises and Rent shall continue to accrue in accordance with the terms of Article 16, below, until such work shall be completed, or (B) Landlord may do so and may charge the actual out-of-pocket cost thereof to Tenant. Tenant hereby protects, defends, indemnifies and holds Landlord harmless from any liability, cost, obligation, expense or claim of lien in any manner to the extent relating to the installation, placement, removal or financing of any such Alterations, improvements, fixtures and/or equipment in, on or about the Premises by or on behalf of Tenant, which obligations of Tenant shall survive the expiration or earlier termination of this Lease.

8.6 **Refurbishment Allowance**. Tenant, subject to the terms of this Section 8.6 below, shall be entitled to a one-time refurbishment allowance in the amount of $29,150.00 (i.e., $10.00 per rentable square foot of the Suite 210 Premises) in the aggregate (the **"Refurbishment Allowance"**) for the costs relating to the design and construction of Tenant's refurbishments, which are permanently affixed to the Suite 210 Premises (the **"Refurbishments"**). In no event shall Landlord be obligated to make disbursements pursuant to this Lease for costs that are unrelated to the Refurbishments nor for any Refurbishments in a total amount which exceeds the Refurbishment Allowance. Except as otherwise provided in this Section 8.6, Tenant (or Tenant's contractor) shall perform any Refurbishments at its sole cost and expense and in accordance with the terms of this Article 8 (including, without limitation, following Landlord's prior written consent and pursuant to plans approved by Landlord) and Article 9 below. Subject to the provisions of this Section 8.6 above, following the completion of the Refurbishments, Landlord shall deliver a check made payable to Tenant in payment for the applicable portion of the Refurbishment Allowance, provided that (i) if applicable, Tenant's architect (or contractor) delivers to Landlord a certificate, in a form reasonably acceptable to Landlord, certifying that the construction of the Refurbishments has been completed, (ii) Tenant delivers to Landlord, if applicable, properly executed unconditional mechanic's lien releases in compliance with both California Civil Code

Section 8134 and Section 8138, (iii) Landlord has determined that no substandard work exists which adversely affects the mechanical, electrical, plumbing, heating, ventilating and air conditioning, life-safety or other systems of the Building, the curtain wall of the Building, the structure or exterior appearance of the Building, or any other tenant's use of such other tenant's leased premises in the Building, and (iv) Tenant delivers to Landlord all invoices, marked as having been paid, from all general contractors, subcontractors, laborers, materialmen, and suppliers used by Tenant for labor rendered and materials delivered to the Suite 210 Premises in connection with the Refurbishments. Notwithstanding any provision to the contrary in this Lease, Tenant shall have the option to convert the amount of the Refurbishment Allowance, or any portion thereof, into an additional tenant improvement allowance to be applied to the Tenant Improvements (as defined in Section 2.1 of the Tenant Work Letter) in accordance with the terms of the Tenant Work Letter as if such amount were a part of the Tenant Improvement Allowance. In the event Tenant desires to exercise such option, Tenant shall provide written notice thereof to Landlord on or before the Allowance Deadline (as defined in Section 2.1 of the Tenant Work Letter), which notice shall contain the amount of the Refurbishment Allowance that Tenant desires to convert into an additional tenant improvement allowance (the "**Conversion Amount**"). Upon Landlord's receipt of such notice, (a) the amount of the Refurbishment Allowance shall be decreased by the Conversion Amount, and (b) the Tenant Improvement Allowance (as defined in Section 2.1 of the Tenant Work Letter) shall be increased by the Conversion Amount. Any unused portion of the Refurbishment Allowance remaining as of the Allowance Deadline shall remain with Landlord and Tenant shall have no further right thereto.

ARTICLE 9

COVENANT AGAINST LIENS

Tenant shall keep the Project and Premises free from any liens or encumbrances arising out of the work performed, materials furnished or obligations incurred by or on behalf of Tenant, and shall protect, defend, indemnify and hold Landlord harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of same or in connection therewith. Tenant shall give Landlord notice at least fifteen (15) days prior to the commencement of any such work on the Premises (or such additional time as may be necessary under Applicable Laws) to afford Landlord the opportunity of posting and recording appropriate notices of non-responsibility. Tenant shall remove any such lien or encumbrance by bond or otherwise within ten (10) days after notice by Landlord, and if Tenant shall fail to do so, Landlord may pay the amount necessary to remove such lien or encumbrance, without being responsible for investigating the validity thereof. The amount so paid shall be deemed Additional Rent under this Lease payable upon demand, without limitation as to other remedies available to Landlord under this Lease. Nothing contained in this Lease shall authorize Tenant to do any act which shall subject Landlord's title to the Building or Premises to any liens or encumbrances whether claimed by operation of law or express or implied contract. Any claim to a lien or encumbrance upon the Building or Premises arising in connection with any such work or respecting the Premises not performed by or at the request of Landlord shall be null and void, or at Landlord's option shall attach only against Tenant's interest in the Premises and shall in all respects be subordinate to Landlord's title to the Project, Building and Premises.

ARTICLE 10

INSURANCE

10.1 **Indemnification and Waiver.** Tenant hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises from any cause whatsoever and agrees that Landlord, its members, partners, subpartners and their respective officers, directors, agents, servants, employees, and independent contractors (collectively, "**Landlord Parties**") shall not be liable for, and are hereby released from any responsibility for, any damage either to person or property or resulting from the loss of use thereof, which damage is sustained by Tenant or by other persons claiming through Tenant, except for personal injury or property damage claims to the extent arising from the gross negligence or willful misconduct of any Landlord Parties. Tenant shall indemnify, defend, protect, and hold harmless the Landlord Parties from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred in connection with or arising from any cause in, on or about the Premises, any violation of any Applicable Laws, including, without limitation, any environmental laws, any acts, omissions or negligence of Tenant or of any person claiming by, through or under Tenant, or of the contractors, agents, servants, employees, invitees, guests or licensees of Tenant or any such person (collectively, "**Tenant Parties**"), in, on or about the Project, or any injury or damage to the person, property, or business of Tenant, its employees, agents, contractors, invitees, visitors, or any other person entering upon the Premises under the express or implied invitation of Tenant (whether such injury or damage occurs in the Premises or in, on, or about the Project), or any breach of the terms of this Lease, either prior to, during, or after the expiration of the applicable Lease Term, provided that the terms of the foregoing indemnity shall not apply to the gross negligence or willful misconduct of any Landlord Parties. Should Landlord be named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy of the Premises, Tenant shall pay to Landlord its reasonable costs and expenses incurred in such suit, including without limitation, its actual and reasonable professional fees such as appraisers', accountants' and attorneys' fees. Further, Tenant's agreement to indemnify Landlord pursuant to this Section 10.1 is not intended and shall not relieve any insurance carrier of its obligations under policies required to be carried by Tenant pursuant to the provisions of this Lease, to the extent such policies cover the matters subject to Tenant's indemnification obligations; nor shall they supersede any inconsistent agreement of the parties set forth in any other provision of this Lease. The provisions of this Section 10.1 shall survive the expiration or sooner termination of this Lease with respect to any claims or liability arising in connection with any event occurring prior to such expiration or termination.

10.2 **Tenant's Compliance With Landlord's Fire and Casualty Insurance.** Tenant shall, at Tenant's expense, comply with all insurance company requirements pertaining to the use of the Premises. If Tenant's conduct or use of the Premises causes any increase in the premium for such insurance policies then Tenant shall reimburse Landlord for any such increase.

10.3 **Tenant's Insurance.** Tenant shall maintain the following coverages in the following amounts.

10.3.1 Commercial General Liability Insurance covering the insured against claims of bodily injury, personal injury and property damage (including loss of use thereof) arising

out of Tenant's operations, and contractual liabilities (covering the performance by Tenant of its indemnity agreements) including a Broad Form endorsement covering the insuring provisions of this Lease and the performance by Tenant of the indemnity agreements set forth in Section 10.1 of this Lease, for limits of liability not less than:

Bodily Injury and Property Damage Liability	$5,000,000 each occurrence $5,000,000 annual aggregate
Personal Injury Liability	$5,000,000 each occurrence $5,000,000 annual aggregate 0% Insured's participation

10.3.2 Physical Damage Insurance covering (i) all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Premises installed by, for, or at the expense of Tenant, (ii) the Tenant Improvements, and any other improvements which exist in the Premises as of the Original Premises Commencement Date or the Additional Premises Commencement Date (excluding the Base Building) (the "**Original Improvements**"), and (iii) all other improvements, alterations and additions to the Premises. Such insurance shall be written on an "all risks" of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year.

10.3.3 Worker's Compensation or other similar insurance pursuant to all applicable state and local statutes and regulations, and Employer's Liability with minimum limits of not less than $1,000,000 each accident/employee/disease.

10.3.4 Business Income Interruption for one (1) year to reimburse Tenant for actual direct or indirect loss of earnings attributable to the risks outlined in Section 10.3.2 above.

10.4 **Form of Policies**. The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. Such insurance shall (i) name Landlord, Landlord's lender, and any other party the Landlord so specifies, as an additional insured, including Landlord's managing agent, if any; (ii) specifically cover the liability assumed by Tenant under this Lease, including, but not limited to, Tenant's obligations under Section 10.1 of this Lease; (iii) be issued by an insurance company having a rating of not less than A-X in Best's Insurance Guide or which is otherwise acceptable to Landlord and licensed to do business in the State of California; (iv) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and is non-contributing with any insurance requirement of Tenant; (v) be in form and content reasonably acceptable to Landlord; and (vi) contain a cross-liability endorsement or severability of interest clause acceptable to Landlord. Tenant shall provide Landlord at least thirty (30) days' (or ten (10) days' with respect to non-payment of premium) prior written notice of any cancellation in coverage or reduction in coverage below the limits required hereunder. Tenant shall deliver said policy or policies or certificates

thereof to Landlord on or before the Original Premises Commencement Date and at least twenty (20) days before the expiration dates thereof. In the event Tenant shall fail to procure such insurance, or to deliver such policies or certificate, Landlord may, at its option, procure such policies for the account of Tenant, and the reasonable cost thereof shall be paid to Landlord within five (5) days after delivery to Tenant of bills therefor.

10.5 **Subrogation.** Landlord and Tenant intend that their respective property loss risks shall be borne by reasonable insurance carriers to the extent above provided, and Landlord and Tenant hereby agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a property loss to the extent that such loss is the result of a risk insurable under policies of property damage insurance. Notwithstanding anything to the contrary contained in this Lease, the parties each hereby waive all rights and claims against each other for such losses, and waive all rights of subrogation of their respective insurers, provided such waiver of subrogation shall not affect the right to the insured to recover thereunder. The parties agree that their respective insurance policies are now, or shall be, endorsed such that the waiver of subrogation shall not affect the right of the insured to recover thereunder, so long as no material additional premium is charged therefor.

10.6 **Additional Insurance Obligations.** Landlord may require Tenant to obtain, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 10 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord, but Landlord shall only be entitled to require such increased amounts and/or other coverages if they are not in excess of the amounts and types of insurance then being required by landlords of the Comparable Buildings.

ARTICLE 11

DAMAGE AND DESTRUCTION

11.1 **Repair of Damage to Premises by Landlord.** Tenant shall promptly notify Landlord of any damage to the Premises resulting from fire or any other casualty. If the Premises or any Common Areas serving or providing access to the Premises shall be damaged by fire or other casualty, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this Article 11, restore the Base Building and such Common Areas. Such restoration shall be to substantially the same condition of the Base Building and the Common Areas prior to the casualty, except for modifications required by zoning and building codes and other Applicable Laws or by the holder of a mortgage on the Building or Project or any other modifications to the Common Areas deemed desirable by Landlord, provided that access to the Premises and any common restrooms serving the Premises shall not be materially impaired. Upon the occurrence of any damage to the Premises, upon notice (the "**Landlord Repair Notice**") to Tenant from Landlord, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.3 of this Lease, and Landlord shall repair any injury or damage to the Tenant Improvements and the Original Improvements installed in the Premises and shall return such Tenant Improvements and Original Improvements to their original condition; provided that if the cost of such repair by Landlord

exceeds the amount of insurance proceeds received by Landlord from Tenant's insurance carrier, as assigned by Tenant, the cost of such repairs shall be paid by Tenant to Landlord prior to Landlord's commencement of repair of the damage. In the event that Landlord does not deliver the Landlord Repair Notice within sixty (60) days following the date the casualty becomes known to Landlord, Tenant shall, at its sole cost and expense, repair any injury or damage to the Tenant Improvements and the Original Improvements installed in the Premises and shall return such Tenant Improvements and Original Improvements to their original condition. Whether or not Landlord delivers a Landlord Repair Notice, prior to the commencement of construction, Tenant shall submit to Landlord, for Landlord's review and approval, all plans, specifications and working drawings relating thereto, and Landlord shall select the contractors to perform such improvement work. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof; provided however, that if such fire or other casualty shall have damaged the Premises or Common Areas necessary to Tenant's occupancy, Landlord shall allow Tenant a proportionate abatement of Rent to the extent Landlord is reimbursed from the proceeds of rental interruption insurance purchased by Landlord as part of Operating Expenses, during the time and to the extent the Premises are unfit for occupancy for the purposes permitted under this Lease, and not occupied by Tenant as a result thereof; provided, further, however, that if the damage or destruction is due to the negligence or willful misconduct of Tenant or any of its agents, employees, contractors, invitees or guests, Tenant shall be responsible for any reasonable, applicable insurance deductible (which shall be payable to Landlord upon demand) and there shall be no rent abatement. In the event that Landlord shall not deliver the Landlord Repair Notice, Tenant's right to rent abatement pursuant to the preceding sentence shall terminate as of the date Tenant should have completed repairs to the Premises assuming Tenant used reasonable due diligence in connection therewith.

11.2 **Landlord's Option to Repair; Tenant's Option to Terminate.** Notwithstanding the terms of Section 11.1 of this Lease, Landlord may elect not to rebuild and/or restore the Premises, Building and/or Project, and instead terminate this Lease, by notifying Tenant in writing (the "**Termination Notice**") of such termination within sixty (60) days after the date of discovery of the damage, such notice to include a termination date giving Tenant ninety (90) days to vacate the Premises, but Landlord may so elect only if the Building or Project shall be damaged by fire or other casualty or cause, whether or not the Premises are affected, and one or more of the following conditions is present: (i) in Landlord's reasonable judgment based upon an estimate ("**Repair Estimate**") from a licensed architect or contractor reasonably selected by Landlord, repairs cannot reasonably be completed within two hundred seventy (270) days after the date of discovery of the damage (when such repairs are made without the payment of overtime or other premiums); (ii) the holder of any mortgage on the Building or Project or ground lessor with respect to the Building or Project shall require that the insurance proceeds or any portion thereof be used to retire the mortgage debt, or shall terminate the ground lease, as the case may be; (iii) the damage is not fully covered (other than deductible amounts) by Landlord's actual policies; or (iv) the damage is material and occurs during the last twelve (12) months of the Lease Term. Landlord shall provide the Repair Estimate to Tenant within sixty (60) days after the date of discovery of the damage. If Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above and the Premises is damaged such that it is untenable or the Building is damaged such that Tenant is deprived of reasonable access to the Premises, and the Repair Estimate indicates that the repairs cannot be completed within two hundred seventy (270) days after the damage or destruction is discovered (when such repairs are made without the payment of

overtime or other premiums), Tenant may, within thirty (30) days following Landlord's election not to terminate this Lease, elect to terminate this Lease by written notice to Landlord effective as of the date specified in the notice, which date shall not be less than thirty (30) days nor more than ninety (90) days after the date such notice is given by Tenant. In the event this Lease is terminated in accordance with the terms of this Section 11.2, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under items (ii) and (iii) of Section 10.3.2 of this Lease.

11.3 **Waiver of Statutory Provisions.** The provisions of this Lease, including this Article 11, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, the Building or the Project, and any Applicable Laws, including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Building or the Project.

ARTICLE 12

NONWAIVER

No provision of this Lease shall be deemed waived by either party hereto unless expressly waived in a writing signed thereby. The waiver by either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance of a lesser amount than the Rent herein stipulated shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. No receipt of monies by Landlord from Tenant after the termination of this Lease shall in any way alter the length of the applicable Lease Term or of Tenant's right of possession hereunder, or after the giving of any notice shall reinstate, continue or extend the applicable Lease Term or affect any notice given Tenant prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit, or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of said Rent shall not waive or affect said notice, suit or judgment.

ARTICLE 13

CONDEMNATION

If the whole or any part of the Premises, Building or Project shall be taken by power of eminent domain or condemned by any competent authority for any public or quasi-public use or

purpose, or if any adjacent property or street shall be so taken or condemned, or reconfigured or vacated by such authority in such manner as to require the use, reconstruction or remodeling of any part of the Premises, Building or Project, or if Landlord shall grant a deed or other instrument in lieu of such taking by eminent domain or condemnation, Landlord shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. If more than twenty-five percent (25%) of the rentable square feet of the Premises is taken, or if access to the Premises is substantially impaired, in each case for a period in excess of one hundred twenty (120) days, Tenant shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. Tenant shall not because of such taking assert any claim against Landlord or the authority for any compensation because of such taking and Landlord shall be entitled to the entire award or payment in connection therewith, except that Tenant shall have the right to file any separate claim available to Tenant for any taking of Tenant's personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the applicable Lease Term pursuant to the terms of this Lease, and for moving expenses, so long as such claims do not diminish the award available to Landlord, its ground lessor with respect to the Building or Project or its mortgagee, and such claim is payable separately to Tenant. All Rent shall be apportioned as of the date of such termination. If any part of the Premises shall be taken, and this Lease shall not be so terminated, the Rent shall be proportionately abated. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure. Notwithstanding anything to the contrary contained in this Article 13, in the event of a temporary taking of all or any portion of the Premises for a period of one hundred twenty (120) days or less, then this Lease shall not terminate but the Base Rent and the Additional Rent shall be abated for the period of such taking in proportion to the ratio that the amount of rentable square feet of the Premises taken bears to the total rentable square feet of the Premises. Landlord shall be entitled to receive the entire award made in connection with any such temporary taking.

ARTICLE 14

ASSIGNMENT AND SUBLETTING

14.1 **Transfers.** Tenant shall not, without the prior written consent of Landlord, assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, permit any assignment, or other transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or enter into any license or concession agreements or otherwise permit the occupancy or use of the Premises or any part thereof by any persons other than Tenant and its employees and contractors (all of the foregoing are hereinafter sometimes referred to individually as a "**Transfer**" and collectively as "**Transfers**" and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a "**Transferee**"). If Tenant desires Landlord's consent to any Transfer, Tenant shall notify Landlord in writing, which notice (the "**Transfer Notice**") shall include (i) the proposed effective date of the Transfer, which shall not be less than thirty (30) days nor more than one hundred eighty (180) days after the date of delivery of the Transfer Notice, (ii) a description of the portion of the Premises to be transferred (the "**Subject Space**"), (iii) all of the material terms of the proposed Transfer and the consideration therefor, including calculation of the Transfer Premium (as that term is defined in Section 14.3 below) in connection with such Transfer, the name and address of the proposed Transferee, and an executed copy of all documentation

effectuating the proposed Transfer, including all operative documents to evidence such Transfer and all agreements incidental or related to such Transfer, provided that Landlord shall have the right to require Tenant to utilize Landlord's standard Transfer documents in connection with the documentation of Landlord's consent to such Transfer, and provided further that the terms of the proposed Transfer shall provide that such proposed Transferee shall not be permitted to further assign or sublease its interest in the Subject Space and/or this Lease without Landlord's prior written consent (not to be unreasonably withheld, conditioned or delayed), and (iv) current financial statements of the proposed Transferee certified by an officer, partner or owner thereof, business credit of the proposed Transferee and any other information reasonably required by Landlord which will reasonably enable Landlord to determine the financial responsibility, character, and reputation of the proposed Transferee, nature of such Transferee's business and proposed use of the Subject Space. Any Transfer made without Landlord's prior written consent shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a default by Tenant under this Lease. Whether or not Landlord consents to any proposed Transfer, Tenant shall pay Landlord's review and processing fee up to $1,500.00 for each proposed Transfer, as well as any reasonable professional fees (including, without limitation, reasonable attorneys', accountants', architects', engineers' and consultants' fees) incurred by Landlord, not to exceed One Thousand Five Hundred and No/100 Dollars ($1,500.00) per each proposed Transfer in the ordinary course of business, within thirty (30) days after written request by Landlord. Landlord and Tenant hereby agree that, without limitation as to what is not "in the ordinary course of business", a proposed Transfer shall be deemed not "in the ordinary course of business" if such particular proposed Transfer involves the review of documentation by Landlord on more than two (2) occasions.

14.2 **Landlord's Consent.** Landlord shall not unreasonably withhold, condition or delay its consent to any proposed Transfer of the Subject Space to the Transferee on the terms specified in the Transfer Notice. Without limitation as to other reasonable grounds for withholding consent, the parties hereby agree that it shall be reasonable under this Lease and under any Applicable Laws for Landlord to withhold consent to any proposed Transfer where one or more of the following apply:

14.2.1 The Transferee is of a character or reputation or engaged in a business which is not consistent with the quality of the Building or the Project, or would be a significantly less prestigious occupant of the Building than Tenant;

14.2.2 The Transferee intends to use the Subject Space for purposes which are not permitted under this Lease;

14.2.3 The Transferee is either a governmental agency or instrumentality thereof;

14.2.4 The Transferee is not a party of reasonable financial worth and/or financial stability in light of the responsibilities to be undertaken in connection with the Transfer on the date consent is requested;

14.2.5 The proposed Transfer would cause a violation of another lease for space in the Project, or would give an occupant of the Project a right to cancel its lease;

14.2.6 The terms of the proposed Transfer will allow the Transferee to exercise a right of renewal, right of expansion, right of first offer, or other similar right held by Tenant (or will allow the Transferee to occupy space leased by Tenant pursuant to any such right);

14.2.7 Either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee (a **"Transferee Affiliate"**), (i) occupies space in the Project at the time of the request for consent, or (ii) is negotiating with Landlord (which for purposes of this item (ii) and (iii), below, shall be evidenced by the transmittal of one or more letters of intent, draft proposals or lease documents by the proposed Transferee or Transferee Affiliate to Landlord or Landlord to the proposed Transferee or Transferee Affiliate) to lease space in the Project at such time, or (iii) has negotiated with Landlord during the twelve (12)-month period immediately preceding the Transfer Notice; or

14.2.8 The Transferee does not intend to occupy the entire Premises and conduct its business therefrom for a substantial portion of the term of the Transfer.

If Landlord consents to any Transfer pursuant to the terms of this Section 14.2 (and does not exercise any recapture rights Landlord may have under Section 14.4 of this Lease), Tenant may within six (6) months after Landlord's consent, but not later than the expiration of said six-month period, enter into such Transfer of the Premises or portion thereof, upon substantially the same terms and conditions as are set forth in the Transfer Notice furnished by Tenant to Landlord pursuant to Section 14.1 of this Lease, provided that if there are any material changes in the terms and conditions from those specified in the Transfer Notice (i) such that Landlord would initially have been entitled to refuse its consent to such Transfer under this Section 14.2, or (ii) which would cause the proposed Transfer to be more favorable to the Transferee than the terms set forth in Tenant's original Transfer Notice, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article 14 (including Landlord's right of recapture, if any, under Section 14.4 of this Lease). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under Section 14.2 or otherwise has breached or acted unreasonably under this Article 14, their sole remedies shall be a declaratory judgment and an injunction for the relief sought without any monetary damages, and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all Applicable Laws, on behalf of the proposed Transferee. Tenant shall indemnify, defend and hold harmless Landlord from any and all liability, losses, claims, damages, costs, expenses, causes of action and proceedings involving any third party or parties (including without limitation Tenant's proposed subtenant or assignee) who claim they were damaged by Landlord's wrongful withholding or conditioning of Landlord's consent.

14.3 **Transfer Premium.** If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any Transfer Premium received by Tenant from such Transferee in any particular calendar month. **"Transfer Premium"** shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred, after deducting the reasonable expenses incurred by Tenant for (i) any changes, alterations and improvements to the Premises in connection with the Transfer,

(ii) any free base rent reasonably provided to the Transferee in connection with the Transfer (provided that such free rent shall be deducted only to the extent the same is included in the calculation of total consideration payable by such Transferee), and (iii) any brokerage commissions in connection with the Transfer and (iv) legal fees reasonably incurred in connection with the Transfer. "**Transfer Premium**" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with such Transfer.

14.4 **Landlord's Option as to Subject Space.** Notwithstanding anything to the contrary contained in this Article 14, Landlord shall have the option, by giving written notice to Tenant within thirty (30) days after receipt of any Transfer Notice, to recapture the Subject Space for the remainder of the applicable Lease Term in the event Tenant contemplates a Transfer to which, together with all prior Transfers then remaining in effect, would cause seventy-five percent (75%) or more of the Premises to be Transferred. Such recapture notice shall cancel and terminate this Lease with respect to the Subject Space and the prior Transfers as of the date stated in the Transfer Notice as the effective date of the proposed Transfer (or at Landlord's option, shall cause the Transfer to be made to Landlord or its agent, in which case the parties shall execute the Transfer documentation promptly thereafter). In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Rent reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of the same. If Landlord declines, or fails to elect in a timely manner to recapture the Subject Space (including the prior Transfers) under this Section 14.4, then, provided Landlord has consented to the proposed Transfer, Tenant shall be entitled to proceed to transfer the Subject Space to the proposed Transferee, subject to provisions of this Article 14.

14.5 **Effect of Transfer.** If Landlord consents to a Transfer, (i) the terms and conditions of this Lease shall in no way be deemed to have been waived or modified, (ii) such consent shall not be deemed consent to any further Transfer by either Tenant or a Transferee, (iii) Tenant shall deliver to Landlord, promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, (iv) Tenant shall furnish upon Landlord's request a complete statement, certified by an independent certified public accountant, or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer, and (v) no Transfer relating to this Lease or agreement entered into with respect thereto, whether with or without Landlord's consent, shall relieve Tenant or any guarantor of the Lease from any liability under this Lease, including, without limitation, in connection with the Subject Space. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated, Tenant shall, within thirty (30) days after demand, pay the deficiency, and if understated by more than five percent (5%), Tenant shall pay Landlord's costs of such audit.

14.6 **Additional Transfers.** For purposes of this Lease, the term "**Transfer**" shall also include (i) if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, or transfer of fifty percent (50%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof, and (ii) if Tenant is a closely held corporation (*i.e.*, whose stock is not publicly held and not traded through an exchange or over the counter), (A) the dissolution, merger, consolidation or other reorganization of Tenant or (B) the sale or other transfer of an aggregate of fifty percent (50%) or more of the voting shares of Tenant (other than to immediate family members by reason of gift or death), within a twelve (12)-month period, or (C) the sale, mortgage, hypothecation or pledge of an aggregate of fifty percent (50%) or more of the value of the unencumbered assets of Tenant within a twelve (12)-month period.

14.7 **Occurrence of Default.** Any Transfer hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any Transfer, Landlord shall have the right to: (i) treat such Transfer as cancelled and repossess the Subject Space by any lawful means, or (ii) require that such Transferee attorn to and recognize Landlord as its landlord under any such Transfer. If Tenant shall be in monetary or material non-monetary default under this Lease, Landlord is hereby irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord (which Landlord shall apply towards Tenant's obligations under this Lease) until such default is cured. Such Transferee shall rely on any representation by Landlord that Tenant is in default hereunder, without any need for confirmation thereof by Tenant. Upon any assignment, the assignee shall assume in writing all obligations and covenants of Tenant thereafter to be performed or observed under this Lease. No collection or acceptance of rent by Landlord from any Transferee shall be deemed a waiver of any provision of this Article 14 or the approval of any Transferee or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing. In no event shall Landlord's enforcement of any provision of this Lease against any Transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person. If Tenant's obligations hereunder have been guaranteed, Landlord's consent to any Transfer shall not be effective unless the guarantor also consents to such Transfer.

14.8 **Deemed Consent Transfers**. Notwithstanding anything to the contrary contained in this Lease, (A) an assignment or subletting of all or a portion of the Premises to an affiliate of Tenant (an entity which is controlled by, controls, or is under common control with, Tenant as of the date of this Lease), (B) a sale of corporate shares of capital stock in Tenant in connection with an initial public offering of Tenant's stock on a nationally-recognized stock exchange, (C) an assignment of the Lease to an entity which acquires all or substantially all of the stock or assets of Tenant, or (D) an assignment of the Lease to an entity which is the resulting entity of a merger or consolidation of Tenant during the Lease Term, shall not be deemed a Transfer requiring Landlord's consent under this Article 14 (any such assignee or sublessee described in items (A) through (D) of this Section 14.8 hereinafter referred to as a "**Permitted Transferee**"), provided that (i) Tenant notifies Landlord at least thirty (30) days prior to the effective date of any such assignment or sublease and promptly supplies Landlord with any documents or information reasonably requested by Landlord regarding such Transfer or Permitted Transferee as set forth above, (ii) Tenant is not in default, beyond the applicable notice and cure period, and such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease,

(iii) such Permitted Transferee shall be of a character and reputation consistent with the quality of the Building, (iv) such Permitted Transferee shall have a tangible net worth (not including goodwill as an asset) computed in accordance with generally accepted accounting principles ("**Net Worth**") at least equal to the greater of (1) the Net Worth of Original Tenant on the date of this Lease, and (2) the Net Worth of Tenant on the day immediately preceding the effective date of such assignment or sublease, (v) no assignment or sublease relating to this Lease, whether with or without Landlord's consent, shall relieve Tenant from any liability under this Lease, and (vi) the liability of such Permitted Transferee under either an assignment or sublease shall be joint and several with Tenant. An assignee of Tenant's entire interest in this Lease who qualifies as a Permitted Transferee may also be referred to herein as a "**Permitted Transferee Assignee**." "**Control**," as used in this Section 14.8, shall mean the ownership, directly or indirectly, of more than fifty percent (50%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of more than fifty percent (50%) of the voting interest in, any person or entity.

ARTICLE 15

SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES

15.1 **Surrender of Premises.** No act or thing done by either party or any agent or employee of either party during the applicable Lease Term shall be deemed to constitute an acceptance by either party of a surrender of the Premises unless such intent is specifically acknowledged a writing signed by both parties. The delivery of keys to the Premises to Landlord or any agent or employee of Landlord shall not constitute a surrender of the Premises or effect a termination of this Lease, whether or not the keys are thereafter retained by Landlord, and notwithstanding such delivery Tenant shall be entitled to the return of such keys at any reasonable time upon request until this Lease shall have been properly terminated. The voluntary or other surrender of this Lease by Tenant, whether accepted by Landlord or not, or a mutual termination hereof, shall not work a merger, and at the option of Landlord shall operate as an assignment to Landlord of all subleases or subtenancies affecting the Premises or terminate any or all such sublessees or subtenancies.

15.2 **Removal and Restoration.** Upon the expiration of the applicable Lease Term, or upon any earlier termination of this Lease, Tenant shall, subject to the provisions of this Article 15, quit and surrender possession of the Premises to Landlord in as good order and condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, reasonable wear and tear, casualty and condemnation, and repairs which are specifically made the responsibility of Landlord hereunder excepted. Upon such expiration or termination, Tenant shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, and such items of furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitions, cabling installed at or by the request of Tenant that is not contained in protective conduit or metal raceway and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and such similar articles of any other persons claiming under Tenant, as Landlord may, in its sole discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises and Building resulting from such removal. Tenant shall also comply with its removal and restoration obligations set forth in Sections

8.5 and 29.32 of this Lease (with respect to Alterations and Lines) and Section 2.3 of the Tenant Work Letter (with respect to Above Standard Tenant Improvements) upon the expiration or earlier termination of this Lease.

ARTICLE 16

HOLDING OVER

If Tenant holds over after the expiration of the applicable Lease Term or earlier termination thereof, such tenancy shall be a tenancy at sufferance, and shall not constitute a renewal hereof or an extension for any further term, and in such case Rent shall be payable at a monthly rate equal to the product of 150% of the Rent applicable during the last rental period of the applicable Lease Term under this Lease. Such tenancy shall be subject to every other applicable term, covenant and agreement contained herein. For purposes of this Article 16, a holding over shall include (i) Tenant's remaining in the Premises after the expiration or earlier termination of the applicable Lease Term, and/or (ii) Tenant's failure to timely comply with the removal and restoration provisions set forth in Sections 8.5, 15.2 and 29.32 of this Lease and Section 2.3 of the Tenant Work Letter. Nothing contained in this Article 16 shall be construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. If Tenant holds over without Landlord's express written consent, and tenders payment of rent for any period beyond the expiration of the applicable Lease Term by way of check (whether directly to Landlord, its agents, or to a lock box) or wire transfer, Tenant acknowledges and agrees that the cashing of such check or acceptance of such wire shall be considered inadvertent and not be construed as creating a month-to-month tenancy, provided Landlord refunds such payment to Tenant promptly upon learning that such check has been cashed or wire transfer received. The provisions of this Article 16 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Landlord resulting therefrom. Tenant agrees that any proceedings necessary to recover possession of the Premises, whether before or after expiration of the applicable Lease Term, shall be considered an action to enforce the terms of this Lease for purposes of the awarding of any attorney's fees in connection therewith.

ARTICLE 17

ESTOPPEL CERTIFICATES

Within ten (10) business days following a request in writing by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an estoppel certificate, which, as submitted by Landlord, shall be substantially in the form of **Exhibit G**, attached hereto (or such other form as may be required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time, and shall also contain any

other information reasonably requested by Landlord or Landlord's current or prospective mortgagee. Any such certificate may be relied upon by any current or prospective mortgagee or purchaser of all or any portion of the Project. Tenant shall execute and deliver whatever other instruments may be reasonably required for such purposes. At any time during the applicable Lease Term, Landlord may require Tenant, and to the extent applicable, any guarantor(s), to provide Landlord with a current audited financial statement and audited financial statements of the two (2) years prior to the current financial statement year. Such statements shall be delivered by Tenant and such guarantor(s) to Landlord within fifteen (15) days after Landlord's written request therefor and be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant or such guarantor(s), shall be audited by an independent certified public accountant with copies of the auditor's statement, reflecting Tenant's or such guarantor(s)', as applicable, then-current financial condition in such form and detail as Landlord may reasonably request. The failure of Tenant and any such guarantor(s) to timely execute, acknowledge and deliver such estoppel certificate or other instruments shall constitute an acceptance of the Premises and an acknowledgment by Tenant and such guarantor(s) that statements included in the estoppel certificate are true and correct, without exception.

ARTICLE 18

SUBORDINATION

This Lease shall be subject and subordinate to all present and future ground or underlying leases of the Building or Project and to the lien of any mortgage, trust deed or other encumbrances now or hereafter in force against the Building or Project or any part thereof, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds, unless the holders of such mortgages, trust deeds or other encumbrances, or the lessors under such ground lease or underlying leases, require in writing that this Lease be superior thereto. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage or deed in lieu thereof (or if any ground lease is terminated), to attorn, without any deductions or set-offs whatsoever, to the lienholder or purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof (or to the ground lessor), if so requested to do so by such purchaser or lienholder or ground lessor, and to recognize such purchaser or lienholder or ground lessor as the lessor under this Lease, provided such lienholder or purchaser or ground lessor shall agree to accept this Lease and not disturb Tenant's occupancy, so long as Tenant timely pays the rent and observes and performs the terms, covenants and conditions of this Lease to be observed and performed by Tenant. Landlord's interest herein may be assigned as security at any time to any lienholder. Tenant shall, within five (5) days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any such mortgages, trust deeds, ground leases or underlying leases (which may include, without limitation, a subordination, non-disturbance and attornment agreement on Landlord's lender's standard form, duly executed and acknowledged by Tenant). Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale.

ARTICLE 19

DEFAULTS; REMEDIES

19.1 **Events of Default.** The occurrence of any of the following shall constitute a default of this Lease by Tenant:

19.1.1 Any failure by Tenant to pay any Rent or any other charge required to be paid under this Lease, or any part thereof, where such failure is not cured within three (3) days after Notice that such amount is past due; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's performance in this Lease, in which event the failure to perform by Tenant within such time period shall be a default by Tenant under this Section 19.1.2, any failure by Tenant to observe or perform any other provision, covenant or condition of this Lease to be observed or performed by Tenant where such failure continues for fifteen (15) days after written notice thereof from Landlord to Tenant; provided that if the nature of such default is such that the same cannot reasonably be cured within a fifteen (15) day period, Tenant shall not be deemed to be in default if it diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure such default, but in no event exceeding a period of time in excess of sixty (60) days after written notice thereof from Landlord to Tenant; or

19.1.3 To the extent permitted by Applicable Laws, a general assignment by Tenant or any guarantor of this Lease for the benefit of creditors, or the taking of any corporate action in furtherance of bankruptcy or dissolution whether or not there exists any proceeding under an insolvency or bankruptcy law, or the filing by or against Tenant or any guarantor of any proceeding under an insolvency or bankruptcy law, unless in the case of a proceeding filed against Tenant or any guarantor the same is dismissed within sixty (60) days, or the appointment of a trustee or receiver to take possession of all or substantially all of the assets of Tenant or any guarantor, unless possession is restored to Tenant or such guarantor within thirty (30) days, or any execution or other judicially authorized seizure of all or substantially all of Tenant's assets located upon the Premises or of Tenant's interest in this Lease, unless such seizure is discharged within thirty (30) days; or

19.1.4 Abandonment (pursuant to Applicable Law) of the Premises by Tenant; or

19.1.5 The failure by Tenant to observe or perform according to the provisions of Articles 5, 14, 17 or 18 of this Lease where such failure continues for more than three (3) business days after notice from Landlord; or

19.1.6 Tenant's failure to occupy the Additional Premises within thirty (30) business days after the applicable Additional Premises Commencement Date.

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by Applicable Laws.

19.2 **Remedies Upon Default.** Upon the occurrence of any event of default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all

of which remedies shall be distinct, separate and cumulative), the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

19.2.1 Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(i) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the applicable Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and

(v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Applicable Laws.

The term **"rent"** as used in this Section 19.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Paragraphs 19.2.1(i) and (ii), above, the **"worth at the time of award"** shall be computed by allowing interest at the rate set forth in Article 25 of this Lease, but in no case greater than the maximum amount of such interest permitted by Applicable Laws. As used in Paragraph 19.2.1(iii) above, the **"worth at the time of award"** shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

19.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, above, or any Applicable Laws or other provision of this Lease), without prior demand or notice except as required by Applicable Laws, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Subleases of Tenant**. If Landlord elects to terminate this Lease on account of any default by Tenant, as set forth in this Article 19, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

19.4 **Form of Payment After Default**. Following the occurrence of an event of default by Tenant, Landlord shall have the right to require that any or all subsequent amounts paid by Tenant to Landlord hereunder, whether to cure the default in question or otherwise, be paid in the form of cash, money order, cashier's or certified check drawn on an institution acceptable to Landlord, or by other means approved by Landlord, notwithstanding any prior practice of accepting payments in any different form.

19.5 **Efforts to Relet**. No re-entry or repossession, repairs, maintenance, changes, alterations and additions, reletting, appointment of a receiver to protect Landlord's interests hereunder, or any other action or omission by Landlord shall be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, nor shall same operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, unless express written notice of such intention is sent by Landlord to Tenant. Tenant hereby irrevocably waives any right otherwise available under any Applicable Laws to redeem or reinstate this Lease.

ARTICLE 20

COVENANT OF QUIET ENJOYMENT

Landlord covenants that Tenant, on paying the Rent, charges for services and other payments herein reserved and on keeping, observing and performing all the other terms, covenants, conditions, provisions and agreements herein contained on the part of Tenant to be kept, observed and performed, shall, during the applicable Lease Term, peaceably and quietly have, hold and enjoy the Premises subject to the terms, covenants, conditions, provisions and agreements hereof without interference by any persons lawfully claiming by or through Landlord.

ARTICLE 21

SECURITY DEPOSIT

Landlord and Tenant acknowledge and agree that, in accordance with the Prior Lease, Landlord is currently holding a security deposit equal to Forty-Five Thousand Eighty-Four and 26/100 Dollars ($45,084.26) (the **"Existing Security Deposit"**), as security for the faithful performance by Tenant of the terms, covenants and conditions of the Prior Lease. Concurrent with Tenant's execution of this Lease, Tenant shall deposit with Landlord an amount equal to Seventy-Three Thousand Nine Hundred Ninety-Seven and 27/100 Dollars ($73,997.27) which shall be held by Landlord with the Existing Security Deposit as security for the faithful performance by Tenant of all of its obligations under this Lease (together with the Existing Security Deposit, collectively, the **"Security Deposit"**)which shall be equal to the amount set forth in Section 8 of the Summary. If Tenant defaults with respect to any provisions of this Lease, including, but not limited to, the provisions relating to the payment of Rent, the removal of property and the repair of resultant damage, Landlord may, without notice to Tenant, but shall not be required to apply all or any part of the Security Deposit for the payment of any Rent or any other sum in default and Tenant shall, upon demand therefor, restore the Security Deposit to its original amount. Any unapplied portion of the Security Deposit shall be returned to Tenant, or, at Landlord's option, to the last assignee of Tenant's interest hereunder, within sixty (60) days following the expiration of the final Lease Term. Tenant shall not be entitled to any interest on the Security Deposit. Tenant hereby irrevocably waives and relinquishes any and all rights, benefits, or protections, if any, Tenant now has, or in the future may have, under Section 1950.7 of the California Civil Code, any successor statue, and all other provisions of law, now or hereafter in effect, including, but not limited to, any provision of law which (i) establishes the time frame by which a landlord must refund a security deposit under a lease, or (ii) provides that a landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by a tenant, or to clean the subject premises. Tenant acknowledges and agrees that (A) any statutory time frames for the return of a security deposit are superseded by the express period identified in this Article 21, above, and (B) rather than be so limited, Landlord may claim from the Security Deposit (*x*) any and all sums expressly identified in this Article 21, above, and (*y*) any additional sums reasonably necessary to compensate Landlord for any and all losses or damages caused by Tenant's default of this Lease, including, but not limited to, all damages or rent due upon termination of this Lease pursuant to Section 1951.2 of the California Civil Code.

ARTICLE 22

INTENTIONALLY OMITTED

ARTICLE 23

SIGNS

23.1 **Full Floors.** Subject to Landlord's prior written approval, in its sole discretion, and provided all signs are in keeping with the quality, design and style of the Building and Project, Tenant, if the Premises comprise an entire floor of the Building, at its sole cost and expense, may install identification signage anywhere in the Premises including in the elevator lobby of the Premises, provided that such signs must not be visible from the exterior of the Building.

23.2 **Multi-Tenant Floors.** If other tenants occupy space on the floor on which the Premises is located, Tenant's identifying signage shall be provided by Landlord, at Tenant's cost, and such signage shall be comparable to that used by Landlord for other similar floors in the Building and shall comply with Landlord's Building standard signage program.

23.3 **Prohibited Signage and Other Items.** Any signs, notices, logos, pictures, names or advertisements which are installed and that have not been separately approved by Landlord may be removed without notice by Landlord at the sole expense of Tenant. Tenant may not install any signs on the exterior or roof of the Project or the Common Areas. Any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Building), or other items visible from the exterior of the Premises or Building, shall be subject to the prior approval of Landlord, in its sole discretion.

23.4 **Building Directory.** At Landlord's sole cost, Tenant shall have the right to one (1) strip for each 1,000 rentable square feet of the Premises on the Building directory, to display Tenant's name and location in the Building, and the names of Tenant's principal employees.

ARTICLE 24

COMPLIANCE WITH LAW

Tenant shall not do anything or suffer anything to be done in or about the Premises or the Project which will in any way conflict with any federal, state, county or municipal law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated, including, without limitation, any such laws, statutes, ordinances, rules, regulations or requirements relating to hazardous materials or substances, as those terms are defined by such applicable laws, statutes, ordinances, rules, regulations or requirements now or hereafter in effect (collectively, "**Applicable Laws**"). At its sole cost and expense, Tenant shall promptly comply with all such Applicable Laws which relate to (I) Tenant's use of the Premises, (II) the Original Improvements, the Alterations or the Tenant Improvements, or (III) the Base Building and Common Areas, but as to the Base Building and Common Areas, only to the extent such obligations are triggered by the Original Improvements, Alterations or Tenant Improvements, or Tenant's specific manner of use of the Premises (as opposed to mere general office use). Should any standard or regulation now or hereafter be imposed on Landlord or Tenant by a state, federal or local governmental body charged with the establishment, regulation and enforcement of occupational, health or safety standards for employers, employees, landlords or tenants, then Tenant agrees, at its sole cost and expense, to comply with such standards or

regulations. Tenant shall be responsible, at its sole cost and expense, to make all alterations to the Premises as are required to comply with Applicable Laws. The judgment of any court of competent jurisdiction or the admission of Tenant in any judicial action, regardless of whether Landlord is a party thereto, that Tenant has violated any of said governmental measures, shall be conclusive of that fact as between Landlord and Tenant. Landlord shall comply with all Applicable Laws relating to the Base Building and Common Areas, provided that compliance with such Applicable Laws is not the responsibility of Tenant under this Lease, and provided further that Landlord's failure to comply therewith would prohibit Tenant from obtaining or maintaining a certificate of occupancy for the Premises (or its legal equivalent), or would unreasonably and materially affect the safety of Tenant's employees or create a significant health hazard for Tenant's employees. Landlord shall be permitted to include in Operating Expenses any costs or expenses incurred by Landlord under this Article 24 to the extent consistent with the terms of Section 4.2.5 above.

For purposes of Section 1938(a) of the California Civil Code, Landlord hereby discloses to Tenant, and Tenant hereby acknowledges, that the Premises have not undergone inspection by a Certified Access Specialist (CASp). As required by Section 1938(e) of the California Civil Code, Landlord hereby states as follows: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises." In furtherance of the foregoing, Landlord and Tenant hereby agree as follows: (a) any CASp inspection requested by Tenant shall be conducted, at Tenant's sole cost and expense, by a CASp designated by Landlord; and (b) pursuant to Article 24 above, Tenant, at its sole cost and expense, shall be responsible for making any improvements, alterations, modifications and/or repairs within the Premises to correct violations of construction-related accessibility standards disclosed by such CASp inspection; and, if anything done by or for Tenant in its use or occupancy of the Premises shall require any improvements, alterations, modifications and/or repairs to the Project (outside the Premises) to correct violations of construction-related accessibility standards disclosed by such CASp inspection, then Tenant shall, at Landlord's option, either (i) perform such improvements, alterations, modifications and/or repairs at Tenant's sole cost and expense, or (ii) reimburse Landlord upon demand, as Additional Rent, for the out-of-pocket cost to Landlord of performing such improvements, alterations, modifications and/or repairs.

ARTICLE 25

LATE CHARGES

If any installment of Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within five (5) days after said amount is due, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of the overdue amount plus any attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due

hereunder. Notwithstanding the foregoing, Tenant shall be entitled to notice upon the expiration of a five (5) day cure period prior to imposition of any late charge under this Article 25 one (1) time per twelve (12) month period; after such written notice has been provided to Tenant in a twelve (12) month period, Tenant shall not be entitled to any further notice prior to imposition of a late charge under this Article 25 in such twelve (12) month period. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the late charge described above, any Rent or other amounts owing hereunder which are not paid within ten (10) days after the date they are due shall bear interest from the date when due until paid at a rate ("**Interest Rate**") per annum equal to the lesser of (i) the annual "**Bank Prime Loan**" rate cited in the Federal Reserve Statistical Release Publication H.15 (or such other comparable index as Landlord and Tenant shall reasonably agree upon if such rate ceases to be published) plus four (4) percentage points, and (ii) the highest rate permitted by Applicable Laws.

ARTICLE 26

LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT

26.1 **Landlord's Cure.** All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall fail to perform any obligation under this Lease, and such failure shall continue in excess of the time allowed under Section 19.1.2, above, unless a specific time period is otherwise stated in this Lease, Landlord may, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder.

26.2 **Tenant's Reimbursement.** Except as may be specifically provided to the contrary in this Lease, Tenant shall pay to Landlord, upon delivery by Landlord to Tenant of statements therefor: (i) sums equal to expenditures reasonably made and obligations incurred by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of Section 26.1; (ii) sums equal to all losses, costs, liabilities, damages and expenses referred to in Article 10 of this Lease; and (iii) sums equal to all expenditures reasonably made and obligations incurred by Landlord in collecting or attempting to collect the Rent or in enforcing or attempting to enforce any rights of Landlord under this Lease or pursuant to Applicable Laws, including, without limitation, all out-of-pocket legal fees and other reasonable amounts so expended. Tenant's obligations under this Section 26.2 shall survive the expiration or sooner termination of the applicable Lease Term.

ARTICLE 27

ENTRY BY LANDLORD

Landlord reserves the right at all reasonable times and upon no less than twenty-four (24) hours' prior notice (which may be verbal) to Tenant (except in the case of an emergency) to enter the Premises to (i) inspect them; (ii) show the Premises to prospective purchasers, mortgagees or

tenants, or to current or prospective mortgagees, ground or underlying lessors or insurers; (iii) post notices of nonresponsibility; or (iv) alter, improve or repair the Premises or the Building, or for structural alterations, repairs or improvements to the Building or the Building's systems and equipment, provided that Landlord shall use commercially reasonable efforts to perform any such entries in a manner designed to minimize disruption to Tenant's use and occupancy of the Premises. Notwithstanding anything to the contrary contained in this Article 27, Landlord may enter the Premises at any time to (A) perform routine services required of Landlord, including janitorial service; (B) take possession due to any breach of this Lease in the manner provided herein; and (C) as permitted by this Lease, perform any covenants of Tenant which Tenant fails to perform. Landlord may make any such entries without the abatement of Rent and shall take such reasonable steps as required to accomplish the stated purposes. Tenant hereby waives any claims for damages or for any injuries or inconvenience to or interference with Tenant's business, lost profits, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of the above purposes, Landlord shall at all times have a key with which to unlock all the doors in the Premises, excluding Tenant's vaults, safes and special security areas designated in advance by Tenant. In an emergency, Landlord shall have the right in accordance with Applicable Law, to use any reasonable means that Landlord may deem proper to open the doors in and to the Premises. Any entry into the Premises by Landlord in the manner hereinbefore described shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an actual or constructive eviction of Tenant from any portion of the Premises. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations except as otherwise expressly agreed to be performed by Landlord herein.

ARTICLE 28

TENANT PARKING

28.1 **Tenant Parking Passes**. Tenant shall have the right (but not the obligation) to rent from Landlord, commencing on (i) the Original Premises Commencement Date, up to the amount and type of parking passes set forth in Section 9 of the Summary allocated to the Original Premises, provided that Tenant shall have the obligation to rent from Landlord, the Original Premises Must-Take Passes set forth in Section 9 of the Summary, and (ii) the Additional Premises Commencement Date, up to the amount and type of parking passes set forth in Section 9 of the Summary allocated to the Additional Premises, provided that Tenant shall have the obligation to rent from Landlord, the Additional Premises Must-Take Passes set forth in Section 9 of the Summary, all on a monthly basis throughout the applicable Lease Term pertaining to such allocation, which parking passes shall pertain to the Project parking facilities serving the Project. Tenant may change the number of parking passes rented pursuant to this Article 28 upon thirty (30) days prior written notice to Landlord, provided that in no event shall Tenant be entitled to rent more than amount and type of parking passes allotted to Tenant as set forth in Section 9 of the Summary. Tenant shall pay to Landlord for automobile parking passes on a monthly basis the prevailing rate charged from time to time at the location of such parking passes which rate includes any taxes imposed by any governmental authority in connection with the renting of such parking passes by Tenant or the use of the Project parking facilities by Tenant. Tenant's continued right to use the parking passes is conditioned upon Tenant abiding by all rules and regulations which are prescribed from time to time for the orderly operation and use of the Project parking facilities where the parking passes are located, including any sticker or other identification system

established by Landlord, Tenant's cooperation in seeing that Tenant's employees and visitors also comply with such reasonable rules and regulations and Tenant not being in default under this Lease beyond applicable notice and cure periods expressly set forth in this Lease.

28.2 **Other Terms**. Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Project parking facilities at any time and Tenant acknowledges and agrees that Landlord may, without incurring any liability to Tenant and without any abatement of Rent under this Lease, from time to time, temporarily close-off or restrict access to the Project parking facilities for purposes of permitting or facilitating any such construction, alteration or improvements. Landlord shall use commercially reasonable efforts to cause any such work to be conducted in a manner designed to minimize inconvenience to the Tenant Parties. Landlord may delegate its responsibilities hereunder to a parking operator in which case such parking operator shall have all the rights of control attributed hereby to the Landlord. The parking passes rented by Tenant pursuant to this Article 28 are provided to Tenant solely for use by Tenant's own personnel and such passes may not be transferred, assigned, subleased or otherwise alienated by Tenant without Landlord's prior approval. Tenant may validate visitor parking by such method or methods as the Landlord may establish, at the validation rate from time to time generally applicable to visitor parking.

28.3 **Parking Procedures**. The parking passes initially will not be separately identified; however Landlord reserves the right in its sole and good faith discretion to separately identify by signs or other markings the area to which Tenant's parking passes relate. Landlord shall have no obligation to monitor the use of such parking facilities, nor shall Landlord be responsible for any loss or damage to any vehicle or other property or for any injury to any person. Tenant's parking passes shall be used only for parking of automobiles no larger than full size passenger automobiles, sport utility vehicles or pick-up trucks only during the hours that Tenant and/or its personnel are conducting business operations from the Premises; provided, however, occasional overnight parking associated with Tenant's or its personnel's conduct of business from the Premises shall be permitted, subject to Tenant's and/or its personnel's compliance with Landlord's rules related to such overnight parking. Tenant shall comply with all reasonable rules and regulations which may be adopted by Landlord from time to time with respect to parking and/or the parking facilities servicing the Project. Tenant shall not at any time use more parking spaces than the number of parking passes allocated to Tenant or park its vehicles or the vehicles of others in any portion of the Project parking facilities not designated by Landlord as a non-exclusive parking area. Tenant shall not have the exclusive right to use any specific parking space. If Landlord grants to any other tenant the exclusive right to use any particular parking space(s), Tenant shall not use such spaces. All trucks (other than pick-up trucks) and delivery vehicles shall be (i) parked at the loading dock of the Building, (ii) loaded and unloaded in a manner which does not interfere with the businesses of other occupants of the Project, and (iii) permitted to remain on the Project only so long as is reasonably necessary to complete loading and unloading. In the event Landlord elects in its sole and good faith discretion or is required by any Applicable Laws to limit or control parking, whether by validation of parking tickets or any other method of assessment, Tenant agrees to participate in such validation or assessment program under such reasonable rules and regulations as are from time to time established by Landlord.

ARTICLE 29

MISCELLANEOUS PROVISIONS

29.1 **Terms; Captions.** The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. The necessary grammatical changes required to make the provisions hereof apply either to corporations or partnerships or individuals, men or women, as the case may require, shall in all cases be assumed as though in each case fully expressed. The captions of Articles and Sections are for convenience only and shall not be deemed to limit, construe, affect or alter the meaning of such Articles and Sections.

29.2 **Binding Effect.** Subject to all other provisions of this Lease, each of the covenants, conditions and provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit not only of Landlord and of Tenant, but also of their respective heirs, personal representatives, successors or assigns, provided this clause shall not permit any assignment by Tenant contrary to the provisions of Article 14 of this Lease.

29.3 **No Air Rights.** No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

29.4 **Modification of Lease.** Should any current or prospective mortgagee or ground lessor for the Building or Project require a modification of this Lease, which modification will not cause an increased cost or expense to Tenant or in any other way materially and adversely change the rights and obligations of Tenant hereunder, then and in such event, Tenant agrees that this Lease may be so modified and agrees to execute whatever commercially reasonable documents are reasonably required therefor and to deliver the same to Landlord within fifteen (15) days following a request therefor. At the request of Landlord or any mortgagee or ground lessor, Tenant agrees to execute a commercially reasonable short form of Lease and deliver the same to Landlord within fifteen (15) days following the request therefor.

29.5 **Transfer of Landlord's Interest.** Tenant acknowledges that Landlord has the right to transfer all or any portion of its interest in the Project or Building and in this Lease, and Tenant agrees that in the event of any such transfer, Landlord shall automatically be released from all liability under this Lease arising from and after the date of such transfer and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations hereunder arising after the date of transfer, provided that such transferee shall have fully assumed and agreed to be liable for all obligations of this Lease to be performed by Landlord from and after the date of such transfer, including the return of any Security Deposit, and Tenant shall attorn to such transferee. Tenant further acknowledges that Landlord may assign its interest in this Lease to a mortgage lender as additional security and agrees that such an assignment shall not release Landlord from its obligations hereunder and that Tenant shall continue to look to Landlord for the performance of its obligations hereunder.

29.6 **Prohibition Against Recording.** Except as provided in Section 29.4 of this Lease, neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant.

29.7 **Landlord's Title.** Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the title of Landlord.

29.8 **Relationship of Parties.** Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

29.9 **Application of Payments.** Landlord shall have the right to apply payments received from Tenant pursuant to this Lease, regardless of Tenant's designation of such payments, to satisfy any obligations of Tenant hereunder, in such order and amounts as Landlord, in its sole discretion, may elect.

29.10 **Time of Essence.** Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

29.11 **Partial Invalidity.** If any term, provision or condition contained in this Lease shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, provision or condition to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby, and each and every other term, provision and condition of this Lease shall be valid and enforceable to the fullest extent possible permitted by Applicable Laws.

29.12 **No Warranty.** In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising Additional Rent or the amount of the Additional Rent in the aggregate or that Landlord is furnishing the same services to other tenants, at all, on the same level or on the same basis, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

29.13 **Landlord Exculpation; Mutual Waiver of Consequential Damages.** The liability of Landlord or the Landlord Parties to Tenant for any default by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises shall be limited solely and exclusively to an amount which is equal to the interest of Landlord in the Building, provided that in no event shall such liability extend to any sales or insurance proceeds received by Landlord or the Landlord Parties in connection with the Project, Building or Premises. Neither Landlord, nor any of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Section 29.13 shall inure to the benefit of Landlord's and the Landlord Parties' present and future members, partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any Landlord

Parties have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring. Similarly, except with respect to Tenant's violations of the provisions of this Lease regarding Hazardous Materials, Alterations and Tenant's holding over in the Premises following the expiration or sooner termination of this Lease, Tenant shall not be liable under any circumstances for injury or damage to, or interference with, Landlord's business, including, but not limited to, loss of profits, loss of revenues (not including, however, loss of rents), loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring.

29.14 **Entire Agreement.** It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease constitutes the parties' entire agreement with respect to the leasing of the Premises and supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto.

29.15 **Right to Lease.** Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Building or Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the applicable Lease Term, occupy any space in the Building or Project.

29.16 **Force Majeure.** Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorist acts, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease and except as to Tenant's obligations under Articles 5 and 24 of this Lease (collectively, a "**Force Majeure**"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

29.17 **Waiver of Redemption by Tenant.** Tenant hereby waives, for Tenant and for all those claiming under Tenant, any and all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

29.18 **Notices.** All notices, demands, statements, designations, approvals or other communications (collectively, "**Notices**") given or required to be given by either party to the other hereunder or by Applicable Laws shall be in writing, shall be (A) delivered by a nationally

recognized overnight courier, or (B) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in Section 10 of the Summary, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth below, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (i) the date the overnight courier delivery is made, or (ii) the date personal delivery is made or attempted to be made. If Tenant is notified of the identity and address of Landlord's mortgagee or ground or underlying lessor, Tenant shall give to such mortgagee or ground or underlying lessor written notice of any default by Landlord under the terms of this Lease by a method permitted under (A) or (B) above, and such mortgagee or ground or underlying lessor shall be given a reasonable opportunity to cure such default prior to Tenant's exercising any remedy available to Tenant. As of the date of this Lease, any Notices to Tenant and Landlord must be sent, transmitted, or delivered, as the case may be, to the addresses set forth in Sections 10 and 11, respectively, of the Summary.

29.19 **Joint and Several.** If there is more than one Tenant, the obligations imposed upon Tenant under this Lease shall be joint and several.

29.20 **Authority; Tenant Representation.** Landlord and Tenant hereby represent and warrants that such entity is a duly formed and existing entity qualified to do business in California and that each person signing this Lease on behalf of such entity has full right and authority to execute and deliver this Lease. Tenant shall, within ten (10) days after written request by Landlord, deliver to Landlord satisfactory evidence of such authority and upon demand by Landlord, also deliver to Landlord satisfactory evidence of (i) good standing in Tenant's state of formation and (ii) qualification to do business in California. Tenant hereby represents to Landlord that neither Tenant nor any members, partners, subpartners, parent organization, affiliate or subsidiary, or their respective officers, directors, contractors, agents, servants, employees, invitees or licensees (collectively, "**Tenant Individuals**"), to Tenant's current actual knowledge, appears on any of the following lists (collectively, "**Government Lists**") maintained by the United States government:

29.20.1The two (2) lists maintained by the United States Department of Commerce (Denied Persons and Entities; the Denied Persons list can be found at https://www.bis.doc.gov/index.php/the-denied-persons-list; the Entity List can be found at http://www.bis.doc.gov/entities/default.htm);

29.20.2The list maintained by the United States Department of Treasury (Specially Designated Nationals and Blocked Persons, which can be found at https://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx);

29.20.3The two (2) lists maintained by the United States Department of State (Terrorist Organizations and Debarred Parties; the State Department List of Terrorists can be found at https://www.state.gov/j/ct/rls/other/des/123085.htm; the List of Debarred Parties can be found at http://www.pmddtc.state.gov/compliance/debar.html); and

29.20.4Any other list of terrorists, terrorist organizations or narcotics traffickers maintained pursuant to any of the rules and regulations of the Office of Foreign Assets Control, United States Department of Treasury, or by any other government or agency thereof.

Should any Tenant Individuals appear on any Government Lists at any time during the applicable Lease Term, Landlord shall be entitled to terminate this Lease by written notice to Tenant effective as of the date specified in such notice.

29.21 **Attorneys' Fees.** In the event that either Landlord or Tenant should bring suit for the possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provision of this Lease or for any other relief against the other, then all costs and expenses, including reasonable attorneys', experts' and arbitrators' fees and costs, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment.

29.22 **Governing Law; WAIVER OF TRIAL BY JURY.** This Lease shall be construed and enforced in accordance with the laws of the State of California. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LANDLORD AND TENANT HEREBY CONSENT TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW, AND (III) IN THE INTEREST OF SAVING TIME AND EXPENSE, TRIAL WITHOUT A JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER OR THEIR SUCCESSORS IN RESPECT OF ANY MATTER ARISING OUT OF OR IN CONNECTION WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE, OR ANY EMERGENCY OR STATUTORY REMEDY. IN THE EVENT LANDLORD COMMENCES ANY SUMMARY PROCEEDINGS OR ACTION FOR NONPAYMENT OF BASE RENT OR ADDITIONAL RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF ANY NATURE OR DESCRIPTION (UNLESS SUCH COUNTERCLAIM SHALL BE MANDATORY) IN ANY SUCH PROCEEDING OR ACTION, BUT SHALL BE RELEGATED TO AN INDEPENDENT ACTION AT LAW.

29.23 **Submission of Lease.** Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

29.24 **Brokers.** Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the real estate brokers or agents specified in Section 12 of the Summary (the "**Brokers**"), and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the Brokers, occurring by, through, or under the indemnifying party.

29.25 **Independent Covenants.** This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant hereby

expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

29.26 **Project or Building Name and Signage.** Landlord shall have the right at any time to change the name of the Project or Building and to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire. Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord.

29.27 **Counterparts.** This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

29.28 **Confidentiality.** Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal, advisors, agents, employees, and space planning consultants who need to know such information in connection with Tenant's interest in this Lease, provided that Tenant shall be liable for a breach of the terms of this Section 29.28 by any of the foregoing persons or entities.

29.29 **Transportation Management**. Tenant shall comply with all present or future governmentally mandated programs intended to manage parking, transportation or traffic in and around the Building, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities.

29.30 **Building Renovations.** It is specifically understood and agreed that Landlord has made no representation or warranty to Tenant and has no obligation and has made no promises to alter, remodel, improve, renovate, repair or decorate the Premises, Building, or any part thereof and that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant except as specifically set forth herein or in the Tenant Work Letter. However, Tenant hereby acknowledges that Landlord is currently renovating or may during the applicable Lease Term renovate, improve, alter, or modify (collectively, the "**Renovations**") the Project, the Building and/or the Premises including without limitation the parking structure, common areas, systems and equipment, roof, and structural portions of the same, which Renovations may include, without limitation, (i) installing sprinklers in the Building Common Areas and tenant spaces, (ii) modifying the Common Areas and tenant spaces to comply with Applicable Laws, including regulations relating to the physically disabled, seismic conditions, and building safety and security, and (iii) installing new floor covering, lighting, and wall coverings in the Common Areas, and in connection with any Renovations, Landlord may, among other things, erect scaffolding or other necessary structures in the Building, limit or eliminate access to portions

of the Project, including portions of the common areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Landlord shall have no responsibility or for any reason be liable to Tenant for any direct or indirect injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's personal property or improvements resulting from the Renovations or Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions. Landlord agrees to use commercially reasonable efforts to perform any such Renovations in a manner designed to minimize disruption to Tenant's use and occupancy of the Premises for the Permitted Use.

29.31 **No Violation.** Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant shall protect, defend, indemnify and hold Landlord harmless against any claims, demands, losses, damages, liabilities, costs and expenses, including, without limitation, reasonable attorneys' fees and costs, arising from Tenant's breach of this warranty and representation.

29.32 **Communications and Computer Lines.** Tenant may install, maintain, replace, remove or use any communications or computer wires and cables (collectively, the "**Lines**") at the Project in or serving the Premises, provided that (i) Tenant shall obtain Landlord's prior written consent, use a qualified contractor reasonably approved in writing by Landlord, and comply with all of the other provisions of Articles 7 and 8 of this Lease, (ii) an acceptable number of spare Lines and space for additional Lines shall be maintained for existing and future occupants of the Project, as determined in Landlord's reasonable opinion, (iii) the Lines therefor (including riser cables) shall be appropriately insulated to prevent excessive electromagnetic fields or radiation, and shall be surrounded by a protective conduit reasonably acceptable to Landlord, (iv) any new or existing Lines servicing the Premises shall comply with all Applicable Laws, (v) as a condition to permitting the installation of new Lines, Landlord may require that Tenant remove existing Lines located in or serving the Premises and repair any damage in connection with such removal, and (vi) Tenant shall pay all costs in connection therewith, including any fees charged by Landlord for Tenant's use of the Building's telecommunications capacity in excess of Tenant's pro rata share thereof. Landlord reserves the right, upon notice to Tenant prior to the expiration or earlier termination of this Lease, to require that Tenant, at Tenant's sole cost and expense, remove any Lines installed by or on behalf of Tenant located in or serving the Premises prior to the expiration or earlier termination of this Lease. In the event that Tenant fails to complete such removal and/or fails to repair any damage caused by the removal of any Lines, Landlord may do so and may charge the cost thereof to Tenant. In addition, Landlord reserves the right to require that Tenant remove any Lines located in or serving the Premises which are installed by or on behalf of Tenant in violation of these provisions, or which are at any time in violation of any Applicable Laws or represent a dangerous or potentially dangerous condition.

29.33 **Intentionally Omitted.**

29.34 **Office and Communications Services.**

29.34.1 **The Provider**. Landlord has advised Tenant that certain office and communications services may be offered to tenants of the Building by a concessionaire under contract to Landlord ("**Provider**"). Tenant shall be permitted to contract with Provider for the provision of any or all of such services on such terms and conditions as Tenant and Provider may agree.

29.34.2 **Other Terms**. Tenant acknowledges and agrees that: (i) Landlord has made no warranty or representation to Tenant with respect to the availability of any such services, or the quality, reliability or suitability thereof; (ii) the Provider is not acting as the agent or representative of Landlord in the provision of such services, and Landlord shall have no liability or responsibility for any failure or inadequacy of such services, or any equipment or facilities used in the furnishing thereof, or any act or omission of Provider, or its agents, employees, representatives, officers or contractors; (iii) Landlord shall have no responsibility or liability for the installation, alteration, repair, maintenance, furnishing, operation, adjustment or removal of any such services, equipment or facilities; and (iv) any contract or other agreement between Tenant and Provider shall be independent of this Lease, the obligations of Tenant hereunder, and the rights of Landlord hereunder, and, without limiting the foregoing, no default or failure of Provider with respect to any such services, equipment or facilities, or under any contract or agreement relating thereto, shall have any effect on this Lease or give to Tenant any offset or defense to the full and timely performance of its obligations hereunder, or entitle Tenant to any abatement of rent or additional rent or any other payment required to be made by Tenant hereunder, or constitute any accrual or constructive eviction of Tenant, or otherwise give rise to any other claim of any nature against Landlord.

29.35 **The Other Improvements**. If portions of the Project or property adjacent to the Project (collectively, the "**Other Improvements**") are owned by an entity other than Landlord, Landlord, at its option, may enter into an agreement with the owner or owners of any or all of the Other Improvements to provide (i) for reciprocal rights of access and/or use of the Project and the Other Improvements, (ii) for the common management, operation, maintenance, improvement and/or repair of all or any portion of the Project and the Other Improvements, (iii) for the allocation of a portion of the Direct Expenses to the Other Improvements and the operating expenses and taxes for the Other Improvements to the Direct Expenses, and (iv) for the use or improvement of the Other Improvements and/or the Project in connection with the improvement, construction, and/or excavation of the Other Improvements and/or the Project. Nothing contained herein shall be deemed or construed to limit or otherwise affect Landlord's right to convey all or any portion of the Project or any other of Landlord's rights described in this Lease.

29.36 **Reasonableness**. Except for (i) matters for which there is a standard of consent or discretion specifically set forth in this Lease, (ii) matters which could have an adverse effect on the Base Building, or which could affect the exterior appearance of the Building, or (iii) matters covered by Article 4 (Additional Rent), Article 10 (Insurance), or Article 19 (Defaults; Remedies) of this Lease (collectively, the "**Excepted Matters**"), any time the consent of Landlord or Tenant is required under this Lease, such consent shall not be unreasonably withheld, conditioned or delayed, and, except with regard to the Excepted Matters, whenever this Lease grants Landlord or Tenant the right to take action, exercise discretion, establish rules and regulations or make an allocation or other determination, Landlord and Tenant shall act reasonably and in good faith.

29.37 **Termination of Prior Lease**. Upon the Original Premises Commencement Date, the Prior Lease shall automatically terminate and be of no further force or effect and Landlord and Tenant shall be relieved of their respective obligations under the Prior Lease, except for those obligations set forth in the Prior Lease which (i) specifically survive the expiration or earlier termination of the Prior Lease (including, without limitation, the payment by Tenant of all amounts owed by Tenant under the Prior Lease prior to the Original Premises Commencement Date), and/or (ii) pertain to any period prior to the Original Premises Commencement Date.

[SIGNATURES FOLLOW ON NEXT PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

"Landlord":

DUESENBERG INVESTMENT COMPANY, LLC,
a California limited liability company

By TOPA PROPERTY GROUP, INC.,
a California corporation,
as Agent for Landlord

By _____

Name: Chris Greco

Its: CFO

Date: 11/25/2019

"Tenant":

FAT BRANDS INC.,
a Delaware corporation

By: _____

Name: Andrew A. Wiederhorn

Its: CEO

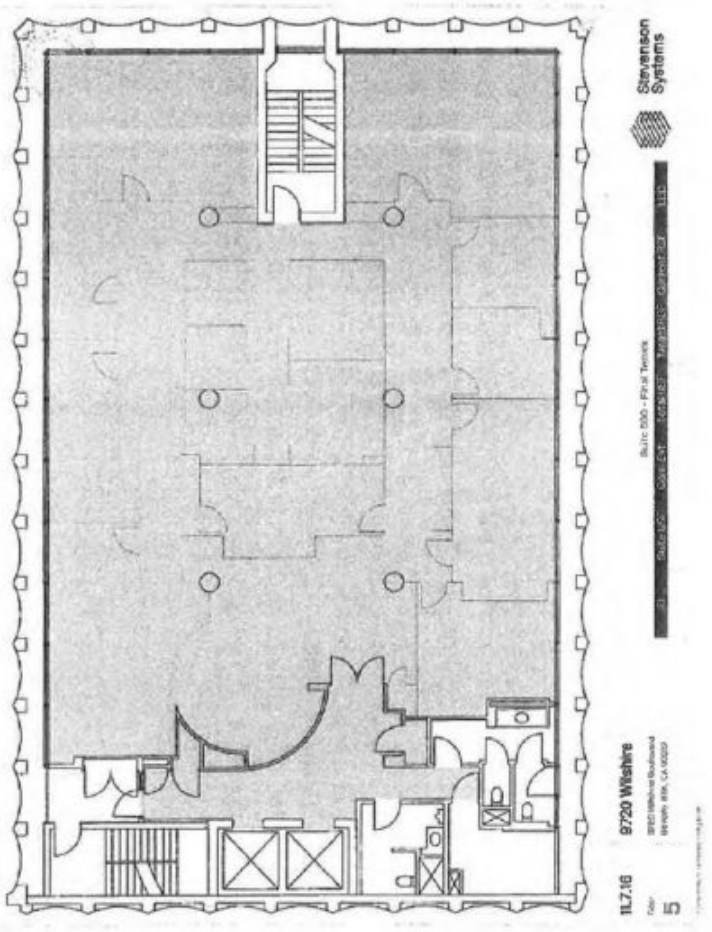
FAT BRANDS INC CORPORATE SEAL 2017 DELAWARE

EXHIBIT A

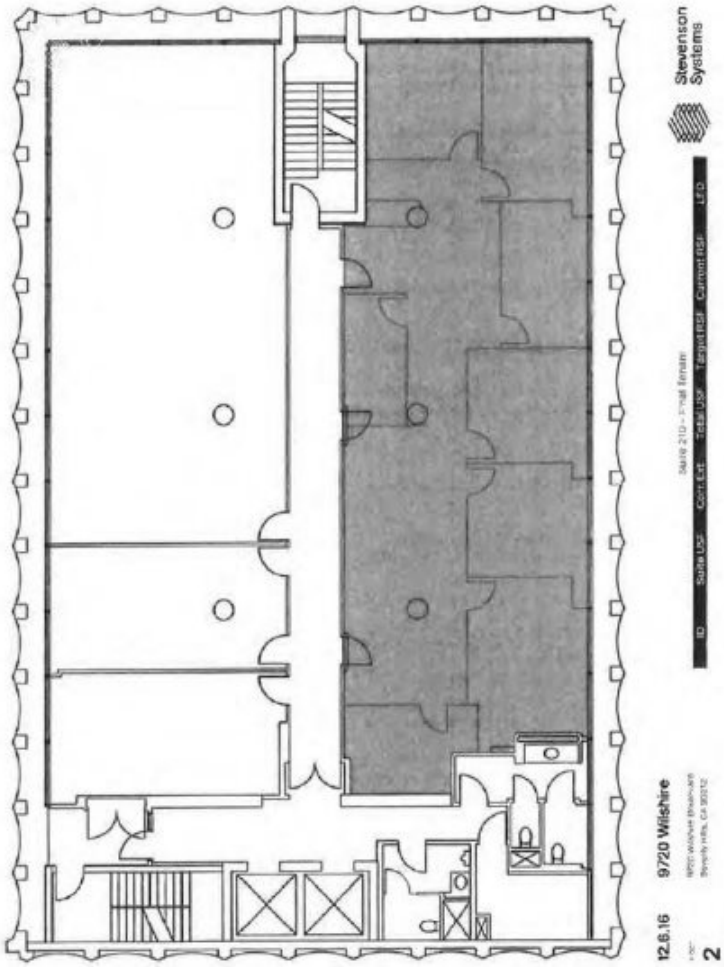
9720 WILSHIRE

OUTLINE OF PREMISES

Suite 500 Premises



Suite 210 Premises



Additional Premises

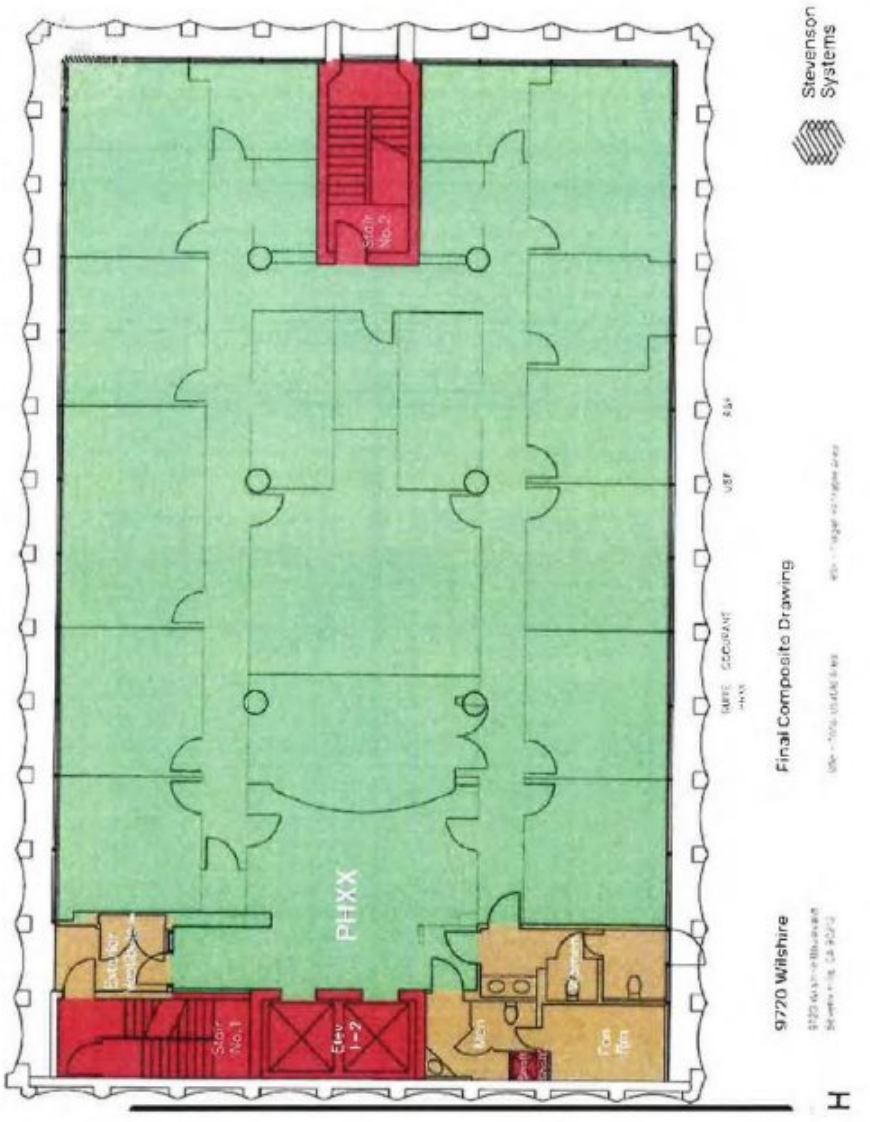


EXHIBIT B

9720 WILSHIRE

TENANT WORK LETTER

This Tenant Work Letter shall set forth the terms and conditions relating to the construction of the Premises. This Tenant Work Letter is essentially organized chronologically and addresses the issues of the construction of the tenant improvements in the Suite 500 Premises and the Additional Premises, in sequence, as such issues will arise during the actual construction of the Suite 500 Premises and the Additional Premises. All references in this Tenant Work Letter to Articles or Sections of "**this Lease**" shall mean the relevant portions of Articles 1 through 29 of the Amended and Restated Office Lease to which this Tenant Work Letter is attached as **Exhibit B** and of which this Tenant Work Letter forms a part, all references in this Tenant Work Letter to the "**Premises**" shall mean the Suite 500 Premises and the Additional Premises, and all references in this Tenant Work Letter to Sections of "**this Tenant Work Letter**" shall mean the relevant portion of Sections 1 through 5 of this Tenant Work Letter.

SECTION 1

LATE DELIVERY REMEDY

The Additional Premises shall be delivered to Tenant on the Delivery Date and Tenant shall accept the Additional Premises from Landlord, in its presently existing "as is" condition. If the Delivery Date for the Additional Premises fails to occur on or before August 31, 2020, which date shall be extended on a day-for-day basis to the extent of delays caused by any acts or omissions of Tenant and/or Tenant's Agents (as that term is defined in Section 4.1.2 of this Tenant Work Letter) (including, without limitation, Tenant's failure to timely provide any approval or consent required herein), and/or any events of Force Majeure (as extended, the "**Outside Delivery Date**"), then, Tenant's sole remedy for such failure at law and in equity shall be to receive one (1) day of Base Rent abatement for the Additional Premises for each day following the Outside Delivery Date until such Delivery Date occurs. Any such Base Rent abatement shall be applied following the expiration of the Base Rent Abatement Period until exhausted. Any such per day Base Rent abatement amount hereunder shall be calculated by dividing the annualized Base Rent with respect to the Additional Premises that otherwise would be due during the first (1st) twelve (12) months of the Additional Premises Lease Term (without considering the Base Rent Abatement) by 365 (i.e., $1,397.61 per day).

SECTION 2

TENANT IMPROVEMENTS

2.1 **Tenant Improvement Allowance**. Tenant shall be entitled to a one-time tenant improvement allowance (the "**Tenant Improvement Allowance**") in the amount of $184,470.00 (i.e., $15.00 per rentable square foot of the Premises) for the costs relating to the initial design and construction of Tenant's improvements, which are permanently affixed to the Premises (the "**Tenant Improvements**"). In addition to the Tenant Improvement Allowance, Tenant shall be

entitled to a space planning allowance (the "**Space Planning Allowance**") in an amount up to Fifteen Cents ($0.15) per rentable square foot of the Premises (i.e., $1,844.70) toward the costs incurred by Tenant for the Final Space Plan (as defined in Section 3.2 below). In no event shall Landlord be obligated to make disbursements pursuant to this Tenant Work Letter in a total amount which exceeds the Tenant Improvement Allowance and/or the Space Planning Allowance, as applicable. Any unused portion of the Tenant Improvement Allowance and/or the Space Planning Allowance remaining as of the date that is twelve (12) months following the Additional Premises Commencement Date (the "**Allowance Deadline**"), shall remain with Landlord and Tenant shall have no further right thereto.

2.2 **Disbursement of the Tenant Improvement Allowance**.

2.2.1 **Tenant Improvement Allowance Items**. Except as otherwise set forth in this Tenant Work Letter, the Tenant Improvement Allowance shall be disbursed by Landlord only for the following items and costs (collectively the "**Tenant Improvement Allowance Items**"):

2.2.1.1 Payment of the fees of the Architect and the Engineers (as those terms are defined in Section 3.1 of this Tenant Work Letter), which fees shall, notwithstanding anything to the contrary contained in this Tenant Work Letter, not exceed an aggregate amount equal to $5.00 per rentable square foot of the Premises, and payment of the fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the preparation and review of the Construction Drawings (as that term is defined in Section 3.1 of this Tenant Work Letter);

2.2.1.2 The payment of plan check, permit and license fees relating to construction of the Tenant Improvements;

2.2.1.3 The cost of construction of the Tenant Improvements, including, without limitation, testing and inspection costs, freight elevator usage, hoisting and trash removal costs, and contractors' fees and general conditions;

2.2.1.4 The cost of any changes in the Base Building when such changes are required by the Construction Drawings (including if such changes are due to the fact that such work is prepared on an unoccupied basis), such cost to include all direct architectural and/or engineering fees and expenses incurred in connection therewith;

2.2.1.5 The cost of any changes to the Construction Drawings or Tenant Improvements required by all applicable building codes (the "**Code**");

2.2.1.6 Intentionally Omitted;

2.2.1.7 Sales and use taxes; and

2.2.1.8 All other costs to be expended by Landlord in connection with the construction of the Tenant Improvements.

2.2.2 **Disbursement of Tenant Improvement Allowance**. During the construction of the Tenant Improvements, Landlord shall make monthly disbursements of the

Tenant Improvement Allowance for Tenant Improvement Allowance Items for the benefit of Tenant and shall authorize the release of monies for the benefit of Tenant as follows.

2.2.2.1 **Monthly Disbursements**. On or before the day of each calendar month, as determined by Landlord, during the construction of the Tenant Improvements (or such other date as Landlord may designate), Tenant shall deliver to Landlord: (i) a request for payment to Tenant , in a form(s) to be provided by Landlord (which may include, without limitation, AIA form G702, AIA form G703 and/or such other forms and schedules as may be required by Landlord), showing, on a line-item basis, the schedule, by trade, of percentage of completion of the Tenant Improvements in the Premises, detailing the portion of the work completed and the portion not completed, and such other details of construction as Landlord may require; (ii) invoices from all of Tenant's Agents, and from the Architect and the Engineers for labor rendered with respect to, and materials delivered to, the Premises; (iii) executed unconditional mechanic's lien releases from all of Tenant's Agents, the Architect and the Engineers which shall comply with the appropriate provisions, as reasonably determined by Landlord, of California Civil Code Sections 8132, 8134, 8136, and 8138, as applicable; and (iv) all other information reasonably requested by Landlord (which may include, without limitation, a subordination, non-disturbance and attornment agreement on Landlord's lender's standard form, duly executed and acknowledged by Tenant, and any other documents or items reasonably required by Landlord's lender). Tenant's request for payment shall be deemed Tenant's acceptance and approval of the work furnished and/or the materials supplied as set forth in Tenant's payment request. Thereafter, Landlord shall deliver a check to Tenant made payable to Tenant in payment of the lesser of: (A) the amounts so requested by Tenant, as set forth in this Section 2.2.2.1, above, less a ten percent (10%) retention (the aggregate amount of such retentions to be known as the "**Final Retention**"), and (B) the balance of any remaining available portion of the Tenant Improvement Allowance (not including the Final Retention), provided that Landlord does not dispute any request for payment based on non-compliance of any work with the Approved Working Drawings (as that term is defined in Section 3.4 below), or due to any substandard work, or for any other reason. Landlord's payment of such amounts shall not be deemed Landlord's approval or acceptance of the work furnished or materials supplied as set forth in Tenant's payment request.

2.2.2.2 **Final Retention**. Subject to the provisions of this Tenant Work Letter, a check for the Final Retention payable to Tenant shall be delivered by Landlord to Tenant following the completion of construction of the Premises, provided that (i) Tenant delivers to Landlord properly executed mechanics lien releases in compliance with both California Civil Code Section 8134 and Section 8138, (ii) Landlord has determined that no substandard work exists which adversely affects the mechanical, electrical, plumbing, heating, ventilating and air conditioning, life-safety or other systems of the Building, the curtain wall of the Building, the structure or exterior appearance of the Building, or any other tenant's use of such other tenant's leased premises in the Building, (iii) Architect delivers to Landlord a certificate, in a form reasonably acceptable to Landlord, certifying that the construction of the Tenant Improvements in the Premises has been substantially completed, (iv) Tenant delivers to Landlord a true and correct copy of the final and unconditional certificate of occupancy or, if appropriate, temporary certificate of occupancy, where applicable and required for legal occupancy, for the Premises, issued without restriction by the appropriate governmental authority having jurisdiction over the Premises, (v) Tenant is then in occupancy or possession of the Premises, has accepted the Premises and is paying rent under this Lease (subject to any rent abatement right expressly set forth in this Lease) without

offset, credit or defense, and all work to be performed by Landlord under this Tenant Work Letter shall have been completed and accepted by Tenant, and (vi) Tenant shall have duly executed and delivered to Landlord a tenant estoppel certificate in the form of **Exhibit G** attached to this Lease or such other form reasonably satisfactory to Landlord and Landlord's lender, if applicable, verifying, ***inter alia***, the satisfaction of the conditions in (v) above.

2.2.2.3 **Other Terms**. Landlord shall only be obligated to make disbursements from the Tenant Improvement Allowance to the extent costs are incurred by Tenant for Tenant Improvement Allowance Items. All Tenant Improvement Allowance Items for which the Tenant Improvement Allowance has been made available shall be deemed Landlord's property under the terms of this Lease.

2.3 **Removal of Above Standard Tenant Improvements**. "**Above Standard Tenant Improvements**" shall mean any Tenant Improvements that Landlord desires to be removed from the Premises on or before the expiration or earlier termination of this Lease. If so directed by Landlord prior to the end of the Lease Term (which for purposes of this Tenant Work Letter shall mean and refer to the Lease Term with respect to the Additional Premises and the Suite 500 Premises), Tenant, at its sole cost and expense, shall remove from the Premises any Above Standard Tenant Improvements designated by Landlord, and shall replace such designated Above Standard Tenant Improvements to be removed with Building standard tenant improvements. Such removal and replacement of Above Standard Tenant Improvements shall be performed promptly and shall be completed by Tenant on or before the end of the Lease Term if notice of removal is given at least thirty (30) days prior to the end of the Lease Term, and if Tenant fails to remove and/or replace any Above Standard Tenant Improvements, Landlord may do so and Tenant shall reimburse Landlord for the cost of such removal and/or replacement.

SECTION 3

CONSTRUCTION DRAWINGS

3.1 **Selection of Architect/Construction Drawings**. Tenant shall retain the architect/space planner selected by Tenant (the "**Architect**"), subject to Landlord's prior written approval, to prepare the Construction Drawings. Tenant shall retain the engineering consultants designated by Landlord (the "**Engineers**") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, lifesafety, and sprinkler work in the Premises, which work is not part of the Base Building. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "**Construction Drawings**." All Construction Drawings shall comply with the drawing format and specifications as determined by Landlord, and shall be subject to Landlord's approval. Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the Base Building plans, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord's review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or

Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors contained in the Construction Drawings, and Tenant's waiver and indemnity set forth in this Lease shall specifically apply to the Construction Drawings.

3.2 **Final Space Plan**. Tenant shall supply Landlord with four (4) copies signed by Tenant of its final space plan for the Premises before any architectural working drawings or engineering drawings have been commenced. The final space plan (the "**Final Space Plan**") shall include a layout and designation of all offices, rooms and other partitioning, their intended use, and equipment to be contained therein. Landlord may request clarification or more specific drawings for special use items not included in the Final Space Plan. Landlord shall advise Tenant within five (5) business days after Landlord's receipt of the Final Space Plan for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall promptly cause the Final Space Plan to be revised to correct any deficiencies or other matters Landlord may reasonably require.

3.3 **Final Working Drawings**. After the Final Space Plan has been approved by Landlord, Tenant shall supply the Engineers with a complete listing of standard and non-standard equipment and specifications, including, without limitation, B.T.U. calculations, electrical requirements and special electrical receptacle requirements for the Premises, to enable the Engineers and the Architect to complete the Final Working Drawings (as that term is defined below) in the manner as set forth below. Upon the approval of the Final Space Plan by Landlord and Tenant, Tenant shall promptly cause the Architect and the Engineers to complete the architectural and engineering drawings for the Premises, and Architect shall compile a fully coordinated set of architectural, structural, mechanical, electrical and plumbing working drawings in a form which is complete to allow subcontractors to bid on the work and to obtain all applicable permits (collectively, the "**Final Working Drawings**") and shall submit the same to Landlord for Landlord's approval. Tenant shall supply Landlord with four (4) copies signed by Tenant of such Final Working Drawings. Landlord shall advise Tenant within ten (10) business days after Landlord's receipt of the Final Working Drawings for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall immediately revise the Final Working Drawings in accordance with such review and any disapproval of Landlord in connection therewith. In addition, if the Final Working Drawings or any amendment thereof or supplement thereto shall require alterations in the Base Building (as contrasted with the Tenant Improvements), and if Landlord in its sole and exclusive discretion agrees to any such alterations, and notifies Tenant of the need and cost for such alterations, then Tenant shall pay the cost of such required changes upon receipt of bills therefor. Tenant shall pay all direct architectural and/or engineering fees in connection therewith, plus a percentage of the cost of such work sufficient to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's involvement with such work.

3.4 **Approved Working Drawings**. The Final Working Drawings shall be approved by Landlord (the "**Approved Working Drawings**") prior to the commencement of construction of the Premises by Tenant. After approval by Landlord of the Final Working Drawings, Tenant may submit the same to the appropriate municipal authorities for all applicable building permits. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any building permit or certificate of occupancy for the Premises and that obtaining the

same shall be Tenant's responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permit or certificate of occupancy. No changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, which consent may not be unreasonably withheld.

SECTION 4

CONSTRUCTION OF THE TENANT IMPROVEMENTS

4.1 **Tenant's Selection of Contractors**.

4.1.1 **The Contractor**. Tenant shall retain, subject to Landlord's prior written approval, which approval may be withheld in Landlord's sole and absolute discretion, a general contractor ("**Contractor**") to construct the Tenant Improvements.

4.1.2 **Tenant's Agents**. All subcontractors, laborers, materialmen, and suppliers used by Tenant (such subcontractors, laborers, materialmen, and suppliers, and the Contractor to be known collectively as "**Tenant's Agents**") must be approved in writing by Landlord, which approval shall not be unreasonably withheld or delayed, provided that Tenant shall be required to employ Landlord's designated subcontractor for all fire life-safety work performed in connection with the construction of the Tenant Improvements. If Landlord does not approve any of Tenant's proposed subcontractors, laborers, materialmen or suppliers, Tenant shall submit other proposed subcontractors, laborers, materialmen or suppliers for Landlord's written approval.

4.2 **Construction of Tenant Improvements by Tenant's Agents**.

4.2.1 **Construction Contract; Cost Budget**. Prior to Tenant's execution of the construction contract and general conditions with Contractor (the "**Contract**"), Tenant shall submit the Contract to Landlord for its approval, which approval shall not be unreasonably withheld or delayed. Prior to the commencement of the construction of the Tenant Improvements, and after Tenant has accepted all bids for the Tenant Improvements, Tenant shall provide Landlord with a detailed breakdown, by trade, of the final costs to be incurred or which have been incurred, as set forth more particularly in Sections 2.2.1.1 through 2.2.1.8, above, in connection with the design and construction of the Tenant Improvements to be performed by or at the direction of Tenant or the Contractor, which costs form a basis for the amount of the Contract (the "**Final Costs**"). Prior to the commencement of construction of the Tenant Improvements, Tenant shall supply Landlord with cash in an amount (the "**Over-Allowance Amount**") equal to the difference between the amount of the Final Costs and the amount of the Tenant Improvement Allowance (less any portion thereof already disbursed by Landlord, or in the process of being disbursed by Landlord, on or before the commencement of construction of the Tenant Improvements). The Over-Allowance Amount shall be disbursed by Landlord prior to the disbursement of any of the then remaining portion of the Tenant Improvement Allowance, and such disbursement shall be pursuant to the same procedure as the Tenant Improvement Allowance. In the event that, after the Final Costs have been delivered by Tenant to Landlord, the costs relating to the design and construction of the Tenant Improvements shall change, any additional costs necessary to such design and construction in excess of the Final Costs, shall be paid by Tenant to Landlord

immediately as an addition to the Over-Allowance Amount or at Landlord's option, Tenant shall make payments for such additional costs out of its own funds, but Tenant shall continue to provide Landlord with the documents described in Sections 2.2.2.1 (i), (ii), (iii) and (iv) of this Tenant Work Letter, above, for Landlord's approval, prior to Tenant paying such costs.

4.2.2 **Tenant's Agents**.

4.2.2.1 **Landlord's General Conditions for Tenant's Agents and Tenant Improvement Work**. Tenant's and Tenant's Agent's construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in strict accordance with the Approved Working Drawings; (ii) Tenant's Agents shall submit schedules of all work relating to the Tenant's Improvements to Contractor and Contractor shall, within five (5) business days of receipt thereof, inform Tenant's Agents of any changes which are necessary thereto, and Tenant's Agents shall adhere to such corrected schedule; and (iii) Tenant shall abide by all rules made by Landlord's Building manager with respect to the use of freight, loading dock and service elevators, storage of materials, coordination of work with the contractors of other tenants, and any other matter in connection with this Tenant Work Letter, including, without limitation, the construction of the Tenant Improvements. Tenant shall not use (and upon notice from Landlord shall cease using) contractors, subcontractors, services, workmen, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with the workforce or trades to be engaged in performing other work, labor or services in or about the Building or the Common Areas.

4.2.2.2 **Indemnity**. Tenant's indemnity of Landlord as set forth in this Lease shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements and/or Tenant's disapproval of all or any portion of any request for payment. Such indemnity by Tenant, as set forth in this Lease, shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to Landlord's performance of any ministerial acts reasonably necessary (i) to permit Tenant to complete the Tenant Improvements, and (ii) to enable Tenant to obtain any building permit or certificate of occupancy for the Premises.

4.2.2.3 **Requirements of Tenant's Agents**. Each of Tenant's Agents shall guarantee to Tenant and for the benefit of Landlord that the portion of the Tenant Improvements for which it is responsible shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Each of Tenant's Agents shall be responsible for the replacement or repair, without additional charge, of all work done or furnished in accordance with its contract that shall become defective within one (1) year after the later to occur of (i) completion of the work performed by such contractor or subcontractors and (ii) the Additional Premises Commencement Date. The correction of such work shall include, without additional charge, all additional expenses and damages incurred in connection with such removal or replacement of all or any part of the Tenant Improvements, and/or the Building and/or common areas that may be damaged or disturbed thereby. All such warranties or guarantees as to materials or workmanship of or with respect to the Tenant Improvements shall be contained in the Contract or subcontract and shall be written such that such guarantees or warranties shall inure to

the benefit of both Landlord and Tenant, as their respective interests may appear, and can be directly enforced by either. Tenant covenants to give to Landlord any assignment or other assurances which may be necessary to effect such right of direct enforcement.

4.2.2.4 **Insurance Requirements**.

4.2.2.4.1 **General Coverages**. All of Tenant's Agents shall carry worker's compensation insurance covering all of their respective employees, and shall also carry public liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in this Lease.

4.2.2.4.2 **Special Coverages**. Tenant shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Tenant Improvements, and such other insurance as Landlord may require, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to this Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord including, but not limited to, the requirement that all of Tenant's Agents shall carry excess liability and Products and Completed Operation Coverage insurance, each in amounts not less than $500,000 per incident, $1,000,000 in aggregate, and in form and with companies as are required to be carried by Tenant as set forth in this Lease.

4.2.2.4.3 **General Terms**. Certificates for all insurance carried pursuant to this Section 4.2.2.4 shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the Contractor's equipment is moved onto the site. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days prior written notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall immediately repair the same at Tenant's sole cost and expense. Tenant's Agents shall maintain all of the foregoing insurance coverage in force until the Tenant Improvements are fully completed and accepted by Landlord, except for any Products and Completed Operation Coverage insurance required by Landlord, which is to be maintained for ten (10) years following completion of the work and acceptance by Landlord and Tenant. All policies carried under this Section 4.2.2.4 shall insure Landlord and Tenant, as their interests may appear, as well as Contractor and Tenant's Agents. All insurance, except Workers' Compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the owner and that any other insurance maintained by owner is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2.2.2 of this Tenant Work Letter. Landlord may, in its discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of the Tenant Improvements and naming Landlord as a co-obligee.

4.2.3 **Governmental Compliance**. The Tenant Improvements shall comply in all respects with the following: (i) the Code and other Applicable Laws, as each may apply

according to the rulings of the controlling public official, agent or other person; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) building material manufacturer's specifications.

4.2.4 **Inspection by Landlord**. Subject to Article 27 of this Lease, Landlord shall have the right to inspect the Tenant Improvements at all times, provided however, that Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute Landlord's approval of the same. Should Landlord disapprove any portion of the Tenant Improvements, Landlord shall notify Tenant in writing of such disapproval and shall specify the items disapproved. Any defects or deviations in, and/or disapproval by Landlord of, the Tenant Improvements shall be rectified by Tenant at no expense to Landlord, provided however, that in the event Landlord determines that a defect or deviation exists or disapproves of any matter in connection with any portion of the Tenant Improvements and such defect, deviation or matter might adversely affect the mechanical, electrical, plumbing, heating, ventilating and air conditioning or life-safety systems of the Building, the structure or exterior appearance of the Building or any other tenant's use of such other tenant's leased premises, Landlord may, take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such defect, deviation and/or matter, including, without limitation, causing the cessation of performance of the construction of the Tenant Improvements until such time as the defect, deviation and/or matter is corrected to Landlord's satisfaction.

4.2.5 **Meetings**. Commencing upon the execution of this Lease, Tenant shall hold meetings at a reasonable time and frequency, with the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and the construction of the Tenant Improvements, which meetings shall be held at a location reasonably approved by Landlord, and Landlord and/or its agents shall receive prior notice of, and shall have the right to attend, all such meetings, and, upon Landlord's request, certain of Tenant's Agents shall attend such meetings. One such meeting each month shall include the review of Contractor's current request for payment.

4.3 **Notice of Completion; Copy of Record Set of Plans**. Within ten (10) days after completion of construction of the Tenant Improvements, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of the county in which the Building is located in accordance with Section 8182 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall cause the Architect and Contractor (A) to update the Approved Working Drawings as necessary to reflect all changes made to the Approved Working Drawings during the course of construction, (B) to certify to the best of their knowledge that the "record-set" of as-built drawings are true and correct, which certification shall survive the expiration or termination of this Lease, and (C) to deliver to Landlord two (2) sets of copies of such record set of drawings within ninety (90) days following issuance of a certificate of occupancy for the Premises, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

SECTION 5

MISCELLANEOUS

5.1 **Tenant's Representative**. Tenant has designated Andrew Wiederhorn as its sole representative with respect to the matters set forth in this Tenant Work Letter, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Tenant Work Letter.

5.2 **Landlord's Representative**. Landlord has designated Randy Lawrence as "**Project Manager**" who shall have full authority and responsibility to act on behalf of Landlord as required by this Tenant Work Letter. Landlord shall not be responsible for any statement, representation or agreement made between Tenant and the Contractor or any subcontractor. It is hereby expressly acknowledged by Tenant that such Contractor is not Landlord's agent and has no authority whatsoever to enter into agreements on Landlord's behalf or otherwise bind Landlord. The Project Manager will furnish Tenant Landlord's approvals or disapprovals of all documents to be prepared by Tenant pursuant to this Tenant Work Letter and changes thereto.

5.3 **Time of the Essence in This Tenant Work Letter**. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

5.4 **Tenant's Lease Default**. Notwithstanding any provision to the contrary contained in this Lease, if an event of default as described in the Lease or this Tenant Work Letter has occurred at any time on or before the Substantial Completion of the Premises, then (i) in addition to all other rights and remedies granted to Landlord pursuant to this Lease, Landlord shall have the right to withhold payment of all or any portion of the Tenant Improvement Allowance and/or Landlord may cause Contractor to cease the construction of the Premises (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Tenant Work Letter shall be forgiven until such time as such default is cured pursuant to the terms of this Lease (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such inaction by Landlord).

5.5 **Parking and Services**. The Contractor, the Architect, and Tenant's Agents (collectively, the "**Permitted Users**") shall receive, free of charge, unreserved parking passes (or parking validations in lieu of parking passes) for parking in the Project parking facility in sufficient quantity for the use by the Permitted Users during, and only in connection with, the design and construction of the Tenant Improvements, and/or Tenant's relocation to the Additional Premises. Additionally, during the period of construction of the Tenant Improvements, neither Tenant, the Contractor, the Architect or Tenant's Agents shall be charged for, directly or indirectly, restrooms, water, electricity during Building Hours, HVAC usage during Building Hours, elevator usage during Building Hours, or freight elevator usage during Building Hours.

EXHIBIT C

9720 WILSHIRE

NOTICE OF LEASE TERM DATES

To: _____
_____
_____
_____

Re: Amended and Restated Office Lease dated _____, 20__ between _____, a _____ ("Landlord"), and _____, a _____ ("Tenant") concerning Suite _____ on floor(s) _____ of the office building located at _____, _____, California.

Ladies and Gentlemen:

In accordance with the Amended and Restated Office Lease (the "Lease"), we wish to advise you and/or confirm as follows:

1. The Lease Term shall commence on or has commenced on _____ for a term of _____ ending on _____.

2. Rent commenced to accrue on _____, in the amount of _____.

3. If the Lease Commencement Date is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter, with the exception of the final billing, shall be for the full amount of the monthly installment as provided for in the Lease.

4. Your rent checks should be made payable to _____ at _____.

5. The exact number of rentable square feet within the Premises is _____ square feet.

6. Tenant's Share as adjusted based upon the exact number of rentable square feet within the Premises is _____%.

"Landlord":

_____,
a _____

By: _____
Its: _____

Agreed to and Accepted
as of _____, 20___.

"Tenant":

_____
a _____

By: _____
Its: _____

EXHIBIT D

9720 WILSHIRE

RULES AND REGULATIONS

Tenant shall faithfully observe and comply with the following Rules and Regulations. Landlord shall not be responsible to Tenant for the nonperformance of any of said Rules and Regulations by or otherwise with respect to the acts or omissions of any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord's prior written consent. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Two keys will be furnished by Landlord for the Premises, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord. Upon the termination of this Lease, Tenant shall return to Landlord all keys of stores, offices, and toilet rooms, either furnished to, or otherwise procured by, Tenant and in the event of the loss of keys so furnished, Tenant shall pay to Landlord the cost of replacing same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such changes.

2. All doors opening to public corridors shall be kept closed at all times except for normal ingress and egress to the Premises.

3. Landlord reserves the right to close and keep locked all entrance and exit doors of the Building during such hours as are customary for comparable buildings in the vicinity of the Building. Tenant, its employees and agents must be sure that the doors to the Building are securely closed and locked when leaving the Premises if it is after the normal hours of business for the Building. Any tenant, its employees, agents or any other persons entering or leaving the Building at any time when it is so locked, or any time when it is considered to be after normal business hours for the Building, may be required to sign the Building register. Access to the Building may be refused unless the person seeking access has proper identification or has a previously arranged pass for access to the Building. Landlord will furnish passes to persons for whom Tenant requests same in writing. Tenant shall be responsible for all persons for whom Tenant requests passes and shall be liable to Landlord for all acts of such persons. The Landlord and his agents shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building or the Project during the continuance thereof by any means it deems appropriate for the safety and protection of life and property.

4. No furniture, freight or equipment of any kind shall be brought into the Building without prior notice to Landlord. All moving activity into or out of the Building shall be scheduled with Landlord and done only at such time and in such manner as Landlord designates. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy property brought into the Building and also the times and manner of moving the same in and out of the Building. Safes and other heavy objects shall, if considered necessary by Landlord, stand on

supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property in any case. Any damage to any part of the Building, its contents, occupants or visitors by moving or maintaining any such safe or other property shall be the sole responsibility and expense of Tenant.

5. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours, in such specific elevator and by such personnel as shall be designated by Landlord.

6. The requirements of Tenant will be attended to only upon application at the management office for the Project or at such office location designated by Landlord. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

7. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on any part of the Premises or the Building without the prior written consent of the Landlord. Tenant shall not disturb, solicit, peddle, or canvass any occupant of the Project and shall cooperate with Landlord and its agents of Landlord to prevent same.

8. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose servants, employees, agents, visitors or licensees shall have caused same.

9. Tenant shall not overload the floor of the Premises, nor mark, drive nails or screws, or drill into the partitions, woodwork or drywall or in any way deface the Premises or any part thereof without Landlord's prior written consent.

10. Except for vending machines intended for the sole use of Tenant's employees and invitees, no vending machine or machines other than fractional horsepower office machines shall be installed, maintained or operated upon the Premises without the written consent of Landlord.

11. Tenant shall not use or keep in or on the Premises, the Building, or the Project any kerosene, gasoline, explosive material, corrosive material, material capable of emitting toxic fumes, or other inflammable or combustible fluid chemical, substitute or material. Tenant shall provide material safety data sheets for any hazardous materials used or kept on the Premises.

12. Tenant shall not without the prior written consent of Landlord use any method of heating or air conditioning other than that supplied by Landlord.

13. Tenant shall not use, keep or permit to be used or kept, any foul or noxious gas or substance in or on the Premises, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors, or vibrations, or interfere with other tenants or those having business therein, whether by the use of any musical instrument, radio, phonograph, or in any other way. Tenant shall not throw anything out of doors, windows or skylights or down passageways.

14. Tenant shall not bring into or keep within the Project, the Building or the Premises any animals, birds, aquariums, firearms or, except in areas designated by Landlord, bicycles or other vehicles (other than automobiles in the parking areas).

15. No cooking shall be done or permitted on the Premises, nor shall the Premises be used for the storage of merchandise, for lodging or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and visitors, provided that such use is in accordance with all Applicable Laws.

16. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the use of the Premises provided for in the Summary. Tenant shall not occupy or permit any portion of the Premises to be occupied as an office for a messenger-type operation or dispatch office, public stenographer or typist, or for the manufacture or sale of liquor, narcotics, or tobacco in any form, or as a medical office, or as a barber or manicure shop, or as an employment bureau without the express prior written consent of Landlord. Tenant shall not engage or pay any employees on the Premises except those actually working for such tenant on the Premises nor advertise for laborers giving an address at the Premises.

17. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of these Rules and Regulations.

18. Tenant, its employees and agents shall not loiter in or on the entrances, corridors, sidewalks, lobbies, courts, halls, stairways, elevators, vestibules or any Common Areas for the purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises. Smoking", as used herein, shall be deemed to include the use of e-cigarettes, smokeless cigarettes and other similar products. All rules and regulations set forth in this **Exhibit D** applicable to smoking also apply to the use of e-cigarettes, smokeless cigarettes and other similar products.

19. Tenant shall not waste electricity, water or air conditioning and agrees to cooperate fully with Landlord to ensure the most effective operation of the Building's heating and air conditioning system, and shall refrain from attempting to adjust any controls. Tenant shall participate in recycling programs undertaken by Landlord.

20. Tenant shall store all its trash and garbage within the interior of the Premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in Los Angeles, California without violation of any Applicable Laws governing such disposal. All trash, garbage and refuse disposal shall be made only through entry-ways and elevators provided for such purposes at such times as Landlord shall designate. If the Premises is or becomes infested with vermin as a result of the use or any misuse or neglect of the Premises by Tenant, its agents, servants, employees, contractors, visitors or licensees, Tenant shall forthwith, at Tenant's expense, cause the Premises to be exterminated from time to time to the satisfaction of

Landlord and shall employ such licensed exterminators as shall be approved in writing in advance by Landlord.

21. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

22. Any persons employed by Tenant to do janitorial work shall be subject to the prior written approval of Landlord, and while in the Building and outside of the Premises, shall be subject to and under the control and direction of the Building manager (but not as an agent or servant of such manager or of Landlord), and Tenant shall be responsible for all acts of such persons.

23. No awnings or other projection shall be attached to the outside walls of the Building without the prior written consent of Landlord, and no curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises other than Landlord standard drapes. All electrical ceiling fixtures hung in the Premises or spaces along the perimeter of the Building must be fluorescent and/or of a quality, type, design and a warm white bulb color approved in advance in writing by Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the prior written consent of Landlord. Tenant shall be responsible for any damage to the window film on the exterior windows of the Premises and shall promptly repair any such damage at Tenant's sole cost and expense. Tenant shall keep its window coverings closed during any period of the day when the sun is shining directly on the windows of the Premises. Prior to leaving the Premises for the day, Tenant shall draw or lower window coverings and extinguish all lights. Tenant shall abide by Landlord's regulations concerning the opening and closing of window coverings which are attached to the windows in the Premises, if any, which have a view of any interior portion of the Building or Building Common Areas.

24. The sashes, sash doors, skylights, windows, and doors that reflect or admit light and air into the halls, passageways or other public places in the Building shall not be covered or obstructed by Tenant, nor shall any bottles, parcels or other articles be placed on the windowsills.

25. Tenant must comply with requests by the Landlord concerning the informing of their employees of items of importance to the Landlord.

26. Tenant must comply with all applicable **"NO-SMOKING"** or similar ordinances. If Tenant is required under the ordinance to adopt a written smoking policy, a copy of said policy shall be on file in the office of the Building.

27. Tenant hereby acknowledges that Landlord shall have no obligation to provide guard service or other security measures for the benefit of the Premises, the Building or the Project. Tenant hereby assumes all responsibility for the protection of Tenant and its agents, employees, contractors, invitees and guests, and the property thereof, from acts of third parties, including keeping doors locked and other means of entry to the Premises closed, whether or not Landlord, at its option, elects to provide security protection for the Project or any portion thereof. Tenant further assumes the risk that any safety and security devices, services and programs which Landlord elects, in its sole discretion, to provide may not be effective, or may malfunction or be

circumvented by an unauthorized third party, and Tenant shall, in addition to its other insurance obligations under this Lease, obtain its own insurance coverage to the extent Tenant desires protection against losses related to such occurrences. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by Applicable Laws.

28. All office equipment of any electrical or mechanical nature shall be placed by Tenant in the Premises in settings approved by Landlord, to absorb or prevent any vibration, noise and annoyance.

29. Tenant shall not use in any space or in the public halls of the Building, any hand trucks except those equipped with rubber tires and rubber side guards.

30. No auction, liquidation, fire sale, going-out-of-business or bankruptcy sale shall be conducted in the Premises without the prior written consent of Landlord.

31. No tenant shall use or permit the use of any portion of the Premises for living quarters, sleeping apartments or lodging rooms.

32. Tenant shall not purchase spring water, towels, janitorial or maintenance or other similar services from any company or persons not approved by Landlord. Landlord shall approve a sufficient number of sources of such services to provide Tenant with a reasonable selection, but only in such instances and to such extent as Landlord in its judgment shall consider consistent with the security and proper operation of the Building.

33. Tenant shall install and maintain, at Tenant's sole cost and expense, an adequate, visibly marked and properly operational fire extinguisher next to any duplicating or photocopying machines or similar heat producing equipment, which may or may not contain combustible material, in the Premises.

Landlord reserves the right at any time to change or rescind any one or more of these Rules and Regulations, or to make such other and further reasonable Rules and Regulations as in Landlord's judgment may from time to time be necessary for the management, safety, care and cleanliness of the Premises, Building, the Common Areas and the Project, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing any such Rules or Regulations against any or all tenants of the Project. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition of its occupancy of the Premises.

EXHIBIT E

9720 WILSHIRE

MINIMUM BUILDING STANDARDS FOR TENANT IMPROVEMENTS

Tenant Space

I. Floor Covering

- Carpet – Patcraft – Broadloom – pd Q2 (Best foot forward, Night Moves, Sturt Your Stuff, Color Your World, Headlines II, Famous Last Words II, Twist & Shout II)

  Modular – Infinite Wisdom Collection
  Broadloom – Encore (Sabre, Windswept)
- VCT – Armstrong – Excelon
- Base – Burke – Rubber Base

II. Acoustical Ceiling

- Donn Fine Lind Grid with Ultima Tile

III. Window Covering

- Window Covering – Headrails 3 ½ inch Space, Anodized with 3 ½ Inch Flat Perforated White Vertical Vanes

IV. Electrical

- All Kitchen Appliances need a separate circuit.
- All wiring entering or leaving tenants space shall be in conduit.
- All floor or deck penetrations shall be in conduit from point to point, no open wiring and penetrations shall be properly sealed with a 2 hour rated approved sealant.

V. Doors/Hardware

- Door Manufacturer - VT Industries, Inc.
- Veneer - White Oak
- Cut - Rift Cut, Open Grain
- Grade – A Grade Controlled Wood
- Finish 20% Sheen Satin Clear
- Frame - Aluminum

- Tenant Locksets – SL9453L06A626 Schlage Mortise Lockset Satin Chrome
  SL9010L06A626 Schlage Passage Latchset Satin Chrome

- Keyway – 6 Pin "C" Schlage
- Closer – LCN P4041 Tripac Aluminum (Fire Rated) 4526D Finish
  SL9010L06A626 Schlage Passage Latchset Satin Chrome
  Keyway – 6 pin "C" Schlage
- Auto Flush Bolt – DCI #942
- Coordinator – Ivey #COR 52
- ABH Universal Coordinator - #3780
- Astaga C – Pemko #355CV
- Threshold – Pemko #271A
- DCI – Dust Proof Strike - #80
- Hagar Floor Stop - #241R
  Note: All hardware to be US26D

VI. Cabinetry

- Upper and Base Cabinetry – Plastic laminate over medium density particleboard at all exposed surfaces. Shelving to be Melamine or equal or all surfaces. Interior cabinet and shelving color to be whit unless plans denote differently. Cabinet exposed surfaces to be Standard Wilsonart, Nevmar, or Formica colors to be selected by Tenant.
- Countertops – Plastic laminate over medium density particleboard at all exposed surfaces with 4" backsplash and self-edge. Backsplash shall be covered at all sink locations. *Standard Wislonart, Nevmar, or Formica colors to be selected by Tenant.

VII. Plumbing

- Sink Just – 19X19 SBW Stainless Steel Sinks, single compartment or equivalent to meet ADA requirements
- Faucets – Delta #1100 – Or equivalent to meet ADA requirements
- Garbage Disposal – ISE#333 or equivalent
- Angle Stops under sink and Branch Lines to be Copper
- Water Heating Element – Insta-Hot with 1.0 gallon per minute inline flow control, 277 volt
- All kitchens to have floor drain with trap primer
- Any appliance that requires water supply shall have floor drain installed under or near with trap primer
- All water supply lines to appliances and sinks, etc shall have an automatic shutoff device installed. (Flood Stop)
- All appliances and devices water supply lines shall be installed in copper tubing. **NO PLASTIC PIPING IS ALLOWED.**

Landlord reserves the right to substitute any of the above-described materials with those of a similar quality and Tenant may substitute any of the above-described materials with those of similar quality, as reasonably approved by Landlord. Should Tenant desire to upgrade any of the items above, written notice must be given to Landlord for approval.

EXHIBIT F

9720 WILSHIRE

CONSTRUCTION RULES AND REGULATIONS

GENERAL INFORMATION

1. Standard Building Hours of Operation: Monday through Friday, 8:00 a.m. to 6 p.m., Saturday 9:00 a.m. to 1:00 p.m., excluding holidays. Contractors may start earlier. Contractor(s) shall advise Building Engineer of work schedule.

2. Standard Building HVAC Hours of Operation: Monday through Friday, 8:00 a.m. to 6 p.m., Saturday 9:00 a.m. to 1:00 p.m.

3. Construction Trash Bins/Dumpsters: Delivery time and placement of disposal trash bins, if allowed, shall be coordinated with, and approved by Building Management. It is the responsibility of the General Contractor to make sure the bin/dumpster is emptied often and the area around the disposal bin kept clean and free of construction debris.

4. Tenant Areas: Patios, walkways and landscape areas are for the exclusive use of the tenants and their clients, not construction personnel. Contractors may take breaks within the confines of the space they are performing working or off-site only.

5. **RADIOS, TAPE OR CD PLAYERS, ETC. ARE NOT ALLOWED ON THE JOB SITE.**

6. **SMOKING IS NOT PERMITTED ON THE JOBSITE.**

PARKING

1. All contractors, subcontractors, vendors, etc. may park in any of the available parking spaces located in the parking facility of the Building, in coordination with Building management. They may not, however, park in short term parking and/or block the entrances/exits of the building. Construction vehicles parking illegally, within the project, will be ticketed and/or towed at their expense.

CONSTRUCTION RULES & REGULATIONS

1. A certificate of insurance (see attached sample) must be provided to Property Management prior to commencement of work. If a certificate has not been provided, all work will be prohibited until certificate has been received.

2. All work should be done in strict conformance with the approved construction plans and specifications. All changes and/or alterations to approved drawings shall be resubmitted to ownership for written approval.

3. All work shall be performed in strict accordance with applicable city, county, state and federal laws, regulations and codes.

4. The General Contractor shall schedule a walk of the common areas with the Property Manager or Engineer prior to construction commencement.

5. Public corridor finishes (carpet, wall covering, doors and frames) shall be protected during construction by the use of paper, plastic and/or masonite. Damage to the finishes shall be repaired by Building Management and charged to the General Contractor as necessary.

6. Smoke detectors in the construction area and adjoining common areas shall be protected at the beginning and returned to normal service at the end of each workday by the General Contractor.

7. Any and all excessively noisy operations, including but not limited to core drilling, concrete cutting, grinding, jack hammering, carpet tack strip installation, power driven fasteners shot to floor or ceiling shall be performed prior to 8 a.m. and/or after 6 p.m. **NO EXCEPTIONS**

8. Neither Ownership nor Building Management accepts any liability for lost or stolen materials and/or tools.

9. It is the responsibility of the General Contractor to make sure that the premises is kept clean on a daily basis. Trash and debris should be removed from the jobsite daily and the site left in broom clean condition.

10. Cabinetry, millwork, doors, etc. shall be finished off-site when possible. Odoriferous materials that cause a strong odor must be done between the hours of Saturday after 2:00 p.m. and Sunday before 12 noon. Building Management may request a Material Safety Data Sheet (MSDS) for use of such materials. The contractor must schedule all such work with the Building Management at least 48 hours in advance.

11. Unless otherwise specified, only a "Building Approved Contractor" may be used for work affecting HVAC, electrical, plumbing, fire sprinkler, life safety and/or air balance. The list of subcontractors may be obtained through Building Management.

12. A building engineer shall be present during a fire sprinkler drain/fill or fire life safety test is being performed. Building Management shall be notified in writing at least 24 hours in advance of the scheduled work.

13. Work that requires entry into another tenant's space must be scheduled through Building Management. Management will contact the tenant and obtain their approval beforehand. Any such work will need to be performed at that tenant's convenience.

14. No materials, tools, carts, etc. shall be stored in any stairwell, public corridor, electrical or mechanical rooms at any time.

15. Building Management reserves the right to inspect the job site at any time and to order work to be stopped immediately, if it is deemed to be in violation of the Building Construction Rules.

16. Final construction clean up shall include the following:

    a. Remove all construction debris.
    b. Clean all interior glass.
    c. Clean light fixtures.
    d. Clean, repair and/or rework all mini blinds existing and new.
    e. Clean interior and exterior of new and existing cabinetry.
    f. Wipe down doors, frames and hardware.
    g. Vacuum carpet.

17. Within three (3) weeks of job completion a close out package containing the following should be sent to building management:

    a. Mechanical and Electrical as-builts
    b. Architectural as-builts.
    c. Permit drawings for all trades.

OWNER INFORMATION

Duesenberg Investment Company
Topa Property Group, Inc.
1800 Avenue of the Stars, Suite 650
Los Angeles, CA 90067-4216
Phone: 310/203-9199 Fax: 310/286-1817

BUILDING MANAGEMENT

Topa Property Group, Inc.
1800 Avenue of the Stars, Suite 650
Los Angeles, CA 90067

Contacts:
Britton Rose, Senior Property Manager
Dan Glick, Chief Engineer

EXHIBIT G

9720 WILSHIRE

FORM OF TENANT'S ESTOPPEL CERTIFICATE

The undersigned as Tenant under that certain Amended and Restated Office Lease (the "Lease") made and entered into as of _____, 20__ by and between _____ as Landlord, and the undersigned as Tenant, for Premises on the _____ floor(s) of the office building located at _____, _____, California _____, certifies, as of the date hereof, as follows:

1. Attached hereto as Exhibit A is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in Exhibit A represent the entire agreement between the parties as to the Premises.

2. The undersigned currently occupies the Premises described in the Lease, the Lease Term commenced on _____, and the Lease Term expires on _____, and the undersigned has no option to terminate or cancel the Lease or to purchase all or any part of the Premises, the Building and/or the Project.

3. Base Rent became payable on _____.

4. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in Exhibit A.

5. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows:

6. Tenant shall not modify the documents contained in Exhibit A without the prior written consent of Landlord's mortgagee.

7. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through _____. The current monthly installment of Base Rent is $_____.

8. To the undersigned's actual knowledge, all conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied and Landlord is not in default thereunder. In addition, the undersigned has not delivered any notice to Landlord regarding a default by Landlord thereunder.

9. No rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord except as provided in the Lease.

10. To the undersigned's actual knowledge, there are no existing defenses or offsets, or claims or any basis for a claim, that the undersigned has against Landlord.

11. If Tenant is a corporation, limited liability company or partnership, each individual executing this Estoppel Certificate on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

12. There are no actions pending against the undersigned under the bankruptcy or similar laws of the United States or any state.

13. Other than in compliance with all applicable laws and incidental to the ordinary course of the use of the Premises, the undersigned has not used or stored any hazardous substances in the Premises.

14. To the undersigned's actual knowledge, all tenant improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by the undersigned and all reimbursements and allowances due to the undersigned under the Lease in connection with any tenant improvement work have been paid in full.

The undersigned acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of making such loan or acquiring such property.

Executed at _____ on the ____ day of _____, 20__.

"Tenant":

_____,
a _____

By: _____
Its: _____

By: _____
Its: _____

EXHIBIT 21.1

Significant Subsidiaries

Name of Subsidiary

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

EXHIBIT 31.1

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: April 27, 2020

/s/ Andrew A. Wiederhorn

Andrew A. Wiederhorn
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: April 27, 2020

/s/ Rebecca D. Hershinger

Rebecca D. Hershinger
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

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

Each of the undersigned hereby certifies, in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in their capacity as an officer of FAT Brands Inc., that, to their knowledge, the Annual Report of FAT Brands Inc. on Form 10-K for the period ended December 29, 2019 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.

April 27, 2020 By */s/ Andrew A. Wiederhorn*

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

April 27, 2020 By */s/ Rebecca D. Hershinger*

Rebecca D. Hershinger
Chief Financial Officer
(Principal Financial and Accounting Officer)

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