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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

) Case No.:

)

) **CLASS ACTION COMPLAINT FOR**
) **VIOLATIONS OF THE FEDERAL**
) **SECURITIES LAWS**

Plaintiff,

v.

)

)

) **JURY TRIAL DEMANDED**

FAT BRANDS, INC., ANDREW A.
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,

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Defendants.

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1 (“Plaintiff”) individually and on behalf of all other
2 persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s
3 complaint against Defendants (defined below), alleges the following based upon
4 personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and
5 belief as to all other matters, based upon, *inter alia*, the investigation conducted by
6 and through Plaintiff’s attorneys, which included, among other things, a review of the
7 Defendants’ public documents, conference calls and announcements made by
8 defendants, United States Securities and Exchange Commission (“SEC”) filings, wire
9 and press releases published by and regarding FAT Brands, Inc. (“FAT Brands” or
10 the “Company”), and information readily obtainable on the Internet. Plaintiff believes
11 that substantial evidentiary support will exist for the allegations set forth herein after
12 a reasonable opportunity for discovery.

13 **NATURE OF THE ACTION**

14 1. This is a securities class action on behalf of all those who purchased
15 FAT Brands common stock pursuant to FAT Brands’ October 23, 2017 initial public
16 stock offering (the “IPO”), seeking to pursue remedies under the Securities Act of
17 1933 (the “Securities Act”). As alleged herein, the Defendants are responsible for
18 false and misleading statements and omitting material facts in connection with Fat
19 Brands’ IPO. Specifically, Defendants authorized or signed the Qualified Statement
20 and an Offering Circular (collectively, the “Offering Documents”) and/or participated
21 in making false and misleading statements that omitted material facts in connection
22 with the IPO roadshow. The IPO was made under Regulation A of the Securities Act,
23 and the Offering Circular was filed purportedly pursuant to Rule 253(g)(2). This
24 lawsuit asserts claims under §12(a)(2) of the Securities Act, which provides buyers of
25 securities an express remedy for material misstatements or omissions made by any
26 seller or solicitor in connection with the offer or sale of the issuer’s securities
27 involving a prospectus or oral communications, and §15 of the Securities Act, which
28

1 extends liability for the §12(a)(2) claims to those who controlled the issuer, here FAT
2 Brands.

3 JURISDICTION AND VENUE

4 2. The claims asserted herein arise under and pursuant to §§12(a)(2) and 15
5 of the Securities Act (15 U.S.C. §§771(a)(2) and 77o).

6 3. This Court has jurisdiction over this action pursuant to §22 of the
7 Securities Act (15 U.S.C. §77v) and 28 U.S.C. §1331.

8 4. Venue is properly laid in this District pursuant to §22 of the Securities
9 Act and 28 U.S.C. §1391(b) as the Company's headquarters is located in this Judicial
10 District.

11 5. In connection with the acts, conduct and other wrongs alleged in this
12 complaint, Defendants, directly or indirectly, used the means and instrumentalities of
13 interstate commerce, including but not limited to, the United States mails, interstate
14 telephone communications and the facilities of the national securities exchange.

15 PARTIES

16 6. Plaintiff purchased FAT Brands common stock pursuant and/or traceable
17 to the IPO and was damaged thereby.

18 7. Defendant FAT Brands is a multi-brand franchising company that
19 acquires, markets, and develops fast casual and causal dining restaurant concepts in
20 including Fatburger, Buffalo's Café, Buffalo's Express, Ponderosa Steakhouse, and
21 Bonanza Steakhouse. FAT Brands is a Delaware corporation with headquarters at
22 9720 Wilshire Blvd., Suite 500, Beverly Hills, CA 90212. The Company's shares
23 trade on NASDAQ under the ticker "FAT."

24 8. Defendant Andrew W. Wiederhorn ("Wiederhorn") has been FAT
25 Brands' President, Chief Executive Officer ("CEO"), and a member of the Board of
26 Directors (the "Board") at all relevant times, including at the time of the Company's
27 IPO. Defendant Wiederhorn is also the chairman, CEO and controlling shareholder of
28

1 defendant FCCG (defined below), which owned 100% of FAT Brands' common
2 stock prior to the Company's IPO. As one of FAT Brands' executives in the IPO
3 working group, Wiederhorn reviewed and approved, and participated in making,
4 statements to investors, including statements in the Offering Documents and
5 roadshow. Upon information and belief, Defendant Wiederhorn is a resident of
6 California.

7 9. Defendant Ron Roe ("Roe") has been the Company's Chief Financial
8 Officer ("CFO") at all relevant times, including at the time of the Company's IPO.
9 Defendant Roe is also the CFO of FCCG. Upon information and belief, Defendant
10 Roe is a resident of California.

11 10. Defendants Wiederhorn and Roe are executives of FAT Brands who
12 participated in the Company's IPO roadshow and are sometimes referred to herein as
13 the "Executive Defendants."

14 11. Defendant James Neuhauser ("Neuhauser") is, and was at the time of
15 the IPO, a member of FAT Brands' Board. As a member of the Board, Defendant
16 Neuhauser reviewed and approved, and participated in making, statements to
17 investors in the Offering Documents. Upon information and belief, Defendant
18 Neuhauser is a resident of Virginia.

19 12. Defendant Edward H. Rensi ("Rensi") is, and was at the time of the IPO,
20 the Chairman of FAT Brands' Board. As a member of the Board, Defendant Rensi
21 reviewed and approved, and participated in making, statements to investors in the
22 Offering Documents. Upon information and belief, Defendant Rensi is a resident of
23 Illinois.

24 13. Defendants Marc L. Holtzman ("Holtzman"), Squire Junger ("Junger"),
25 Silvia Kessel ("Kessel") and Jeff Lotman ("Lotman") were listed as "Director
26 Nominees" in the Offering Documents, and would become members of FAT Brands
27 Board at the time of the IPO. These defendants were financially motivated to
28 complete FAT Brands' IPO as they were each in line to receive stock options for

1 15,000 shares of FAT Brands common stock in connection with the IPO. Upon
2 information and belief, Holzman is a resident of Colorado, Junger is a resident of
3 California, Kessel is a resident of New Jersey, and Lotman is a resident of California.

4 14. The defendants referenced above in ¶¶ 8, 9 and 11–13 signed or
5 authorized the signing of the Offering Documents used to conduct the IPO, or were
6 listed therein as “Director Nominees,” and are sometimes referred to herein as
7 “Individual Defendants.”

8 15. Defendant Fog Cutter Capital Group Inc. (“FCCG”) was an Oregon-
9 based company that, at the time of the IPO, owned 100% of FAT Brands’ common
10 stock and voting power. Following the IPO, FCCG retained 80% of FAT Brands’
11 common stock and voting power. Defendant Wiederhorn founded FCCG and was the
12 chairman of its board of directors at the time of FAT Brands’ IPO. Collectively,
13 Defendant Wiederhorn and his family owned 75% of FCCG shares. FCCG once had
14 a public stock listing but lost that listing and now trades on the pink sheets.

15 16. Defendant TriPoint Global Equities, LLC (“TriPoint”) is an investment
16 banking firm that, along with its crowd-funding subsidiary Banq, acted as the
17 underwriter of the IPO, serving as both Lead Manager and Book Runner. TriPoint
18 participated in drafting and disseminating the Offering Documents used to conduct
19 the IPO, and participated in crafting and making statements in connection with the
20 Offering Documents, roadshow video, and other materials appearing on TriPoint’s
21 and Banq’s websites. TriPoint and its representatives assisted FAT Brands and the
22 Individual Defendants in planning the IPO and purportedly conducted an adequate
23 and reasonable investigation into the business and operations of FAT Brands, an
24 undertaking known as a “due diligence” investigation. The due diligence
25 investigation was required of the Underwriter Defendant in order to engage in the
26 IPO. During the course of “due diligence” the Underwriter Defendant had continual
27 access to confidential corporate information concerning FAT Brands’ operations and
28 financial prospects. As a result of constant contacts and communications between

1 TriPoint representatives and FAT Brands, TriPoint knew, or should have known, of
2 FAT Brands' existing problems as detailed herein. TriPoint is referred to herein
3 sometimes as the "Underwriter Defendant." The Underwriter Defendant caused the
4 Offering Documents to be filed with the SEC and declared qualified in connection
5 with offers and sales thereof, including to plaintiff and the Class (as defined below).

6 SUBSTANTIVE ALLEGATIONS

7 **FAT Brands' Fast-Casual Restaurant Concepts**

8 17. At the time of the IPO, FAT Brands was the franchiser of two fast casual
9 restaurant brands: Fatburger and Buffalo's Cafe/Buffalo's Express. According to the
10 IPO Offering Documents, FAT Brands "intend[ed] to complete the acquisitions [of]
11 Ponderosa and Bonanza [steakhouses], including one company-owned restaurant,
12 concurrently with the consummation of" the IPO, which would bring FAT Brands'
13 fast-casual brand concepts up to three.

14 18. As a franchisor, FAT Brands generally did not own or operate actual
15 restaurant locations. Instead, FAT Brands historically generated relatively strong
16 margins (as compared to other restaurant companies) by charging franchisees an
17 initial franchise fee and ongoing royalty payments. According to the IPO Offering
18 Documents, FAT Brands' "asset light franchisor model provide[d] the opportunity for
19 strong profit margins and an attractive free cash flow profile while minimizing
20 restaurant operating company risk, such as long-term real estate commitments or
21 capital investments." At the time of its IPO, FAT Brands' existing portfolio of
22 restaurant brands had a presence in seven states and 18 countries, totaling 176
23 locations.

24 19. Prior to the IPO, FAT Brands' flagship operating subsidiary, Fatburger
25 North America, Inc. ("Fatburger"), accounted for the overwhelming majority of the
26 Company's locations, revenues and profits, with 157 Fatburger locations across five
27 states and 18 countries.

1 20. FAT Brands’ other operating subsidiary, Buffalo’s Franchise Concepts
2 Inc. (“Buffalo Cafe”), accounted for another 19 locations. Additionally, Buffalo’s
3 Express, which is a smaller, fast-casual variant of Buffalo’s Cafe, has been cobranded
4 by FAT Brands with Fatburger, such that at the time of the IPO there were an
5 additional 68 co-branded Buffalo’s Express/Fatburger locations globally.

6 21. Regarding FAT Brands’ post-IPO acquisition of Homestyle Dining LLC,
7 which then owned Ponderosa Franchising Company and Bonanza Restaurant
8 Company (“Ponderosa & Bonanza”), the Offering Documents stated that those
9 brands would “offer the quintessential American steakhouse experience, for which
10 there is strong and growing demand in international markets, particularly in Asia, the
11 Middle East, Europe and Central America.” Ponderosa & Bonanza were established
12 in 1965 and 1963, respectively. As of June 25, 2017, there were 100 Ponderosa and
13 20 Bonanza steakhouse restaurants operating under franchise and sub-franchise
14 agreements in 19 states in the United States, Canada, Puerto Rico, the United Arab
15 Emirates, Egypt, Qatar, Taiwan, and one company-owned Ponderosa restaurant in the
16 United States.

17 **FCCG’s Development of FAT Brands**

18 22. On August 15, 2003, Beverly Hills-based FCCG completed a \$7 million
19 investment and financing package for Fatburger, and would later acquire the
20 remainder of the Company in 2011. Defendant Wiederhorn, who founded FCCG,
21 became Fatburger’s CEO in 2006 (and continued to serve as FCCG’s Chairman and
22 CEO, as well as Fatburger’s CEO and President, through the time of FAT Brands’
23 IPO).

24 23. After Defendant Wiederhorn’s appointment as CEO of Fatburger in
25 2006, Fatburger was barred from selling additional franchises in California for
26 several months due to Wiederhorn’s prior felony convictions. He plead guilty to two
27 felony charges in 2004 for filing a false tax return and paying an illegal bribe to
28 Capital Consultants.

1 24. Then, after borrowing approximately \$3.85 million from financier
2 General Electric Capital Business Asset Funding Corp. (“GE”), on or about March
3 31, 2009, several Fatburger subsidiaries received notices of default and demand for
4 payment from GE by April 9, 2009. Because Fatburger was unable to repay GE,
5 several Fatburger subsidiaries filed for Chapter 11 bankruptcy protection on April 7,
6 2009 - including Fatburger Restaurants of California and Fatburger Restaurants of
7 Nevada - which were later jointly administered in a single bankruptcy proceeding.

8 25. After the bankruptcy filing, NASDAQ delisted FCCG’s common stock
9 for failing to timely file financial reports with the SEC. The approximately eight
10 million shares of FCCG common stock then issued and outstanding as of March 10,
11 2010 became worthless.

12 26. In 2011, FCCG acquired the 25-unit Buffalo’s Cafe franchise brand
13 concept and subsequently converted both the Fatburger and Buffalo’s Cafe brands
14 into a franchisor model. After the acquisition of Buffalo’s Cafe, FCCG developed the
15 Buffalo Express concept and rolled out scores of cobranded Fatburger/Buffalo
16 Express restaurants.

17 27. In March 2017, FCCG agreed to acquire Homestyle Dining LLC, the
18 franchisor of the Ponderosa & Bonanza restaurants, with the specific plan to use the
19 forthcoming proceeds from the FAT Brands IPO to fund that acquisition.

20 **FCCG’s Control of FAT Brands Before and After the IPO**

21 28. Before the IPO, FCCG owned all eight million shares of FAT Brands
22 common stock and controlled 100% of its voting power. FAT Brands was formed as
23 a Delaware corporation on March 21, 2017 for the purposes of completing a public
24 offering and acquiring and continuing the businesses being conducted by subsidiaries
25 of FCCG. At the time of the IPO, Defendant Wiederhorn was serving as President
26 and CEO of FAT Brands as well as the Chairman and CEO of FCCG. FAT Brands’
27 CFO and Chief Controlling Officers are also affiliates and executives of FCCG. The
28 Wiederhorn family collectively owned 75% of FCCG at the time of the IPO.

1 29. FCCG, through Defendants Wiederhorn, Roe and other FCCG affiliates,
2 planned to conduct FAT Brands’ IPO as a Regulation A+, or “Reg A+,” offering.
3 Under Title IV of the 2015 Jumpstart Our Business Startups (JOBS) Act, a private
4 company can raise money and go public vis-à-vis a Reg A+ offering pursuant to a
5 streamlined, expedited review process in which the company would be required to
6 make its offering memorandum public just 21 days before SEC qualification.

7 30. The Defendants planned that FAT Brands would sell two million shares
8 of the Company’s common stock through a Reg A+ offering to investors for \$12 per
9 share, raising \$24 million in gross proceeds and leaving FCCG’s ownership of its
10 eight million shares intact (now worth 80% of the total voting power of FAT Brands).
11 FAT Brands simultaneously planned to use \$10.55 million to purchase Ponderosa &
12 Bonanza, and to send \$9.5 million of its IPO proceeds to FCCG to repay debt. After
13 the repayment of the \$9.5 million to FCCG, FAT Brands would assume a \$20.5
14 million debt obligation to FCCG, which would carry a 10% interest rate and mature
15 five years following the IPO.

16 31. According to the Offering Documents, FAT Brands intended to pay
17 annual dividends of \$0.48 per share, and with the IPO priced at \$12 per share, that
18 equated to a 4% yield on the stock being sold in the IPO. Notably, Defendant FCCG,
19 as the Company’s controlling shareholder, would receive the lion’s share of those
20 stock dividends.

21 **The Materially False and Misleading Offering Documents**
22 **and Roadshow Documents**

23 32. On or about September 6, 2017, FAT Brands filed with the SEC its first
24 draft of Form 1-A (File No. 024-10737). Following several amendments made in
25 response to comments received from the SEC, the Form 1-A was qualified by the
26 SEC on October 3, 2017. On October 18, 2017, a final amendment was made on
27 Form 1-A POS and utilized for the IPO (the “Qualified Statement”). The Qualified
28 Statement was signed by Defendants Wiederhorn, Roe, Neuhauser, and Rensi.

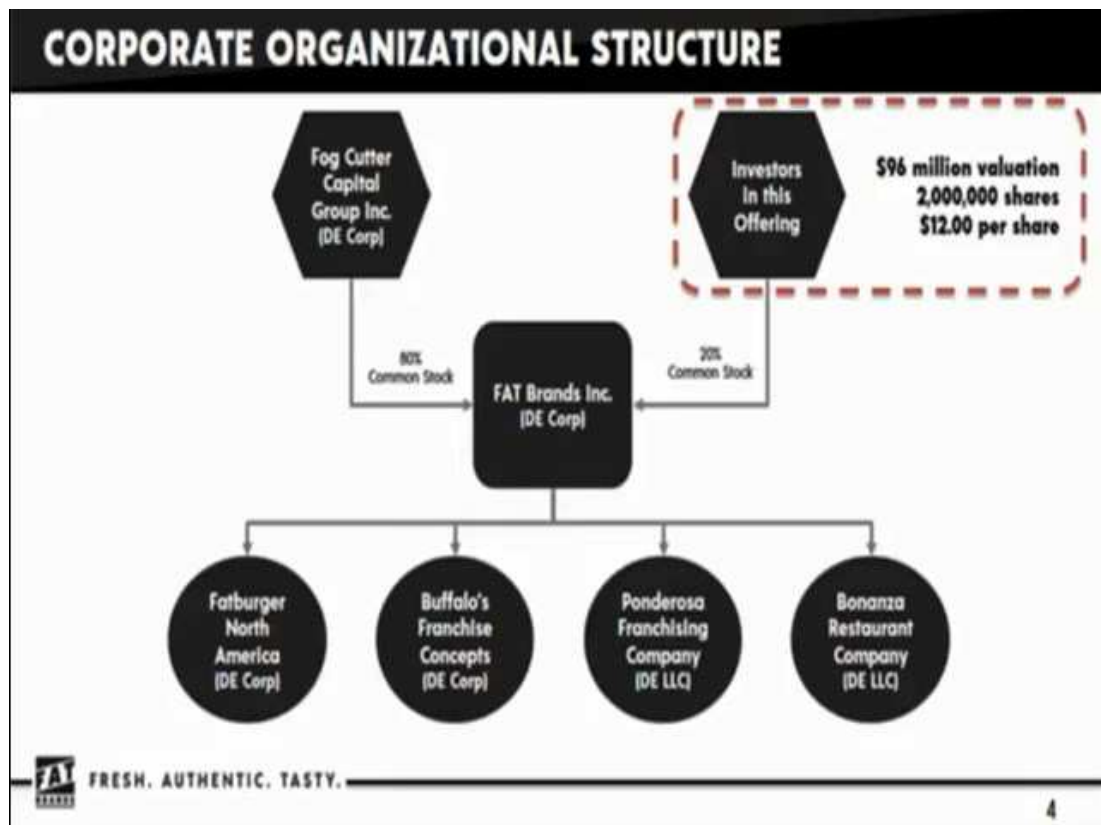
1 33. On October 5, 2017, FAT Brands filed an Offering Circular with the
2 SEC, which was subsequently amended and filed with the SEC on October 23, 2017.
3 The Qualified Statement and Offering Circular are collectively referred herein as the
4 “Offering Documents.”

5 34. Beginning on or around August 3, 2017 (at the latest), utilizing the
6 Offering Documents, Defendant FAT Brands, the Executive Defendants and the
7 Underwriter Defendant commenced a multi-city roadshow to market FAT Brands
8 common stock to the investing public. The roadshow was completed on or about
9 October 20, 2017, and the IPO was priced at \$12 per share. Due to their rigorous
10 marketing efforts, defendants raised \$24 million through the sale of two million
11 shares of FAT Brands common stock during the IPO roadshow - leaving defendant
12 FCCG with 80% of FAT Brands’ outstanding common stock and the \$3.84 million in
13 annual dividends that would be paid on those shares.

14 35. Mark Elenowitz (“Elenowitz”), CEO of Defendant TriPoint, told
15 *Forbes* on October 23, 2017 that “[t]he offering was very well received with \$64
16 million-of interest – we had to decline \$40 million. We built the broker-dealer
17 syndicate of 21 members and we had to decline an additional 6 syndicate members
18 that wanted to join, but by then we were already oversubscribed.” According to
19 *Forbes*, “[t]his level of over-subscription is a first for Reg A+,” “mak[ing] the FAT
20 Brands offering by far the most successful Reg A+ to date for institutional
21 engagement.”

22 36. As part of the IPO roadshow, on or about September 19, 2017,
23 defendants conducted a live interactive online webinar, featured on
24 VirtualInvestorConference.com, to promote FAT Brands’ forthcoming offering.
25 Defendant Wiederhorn and Elenowitz (CEO of Underwriter Defendant TriPoint)
26 hosted the webinar and answered questions from potential investors about FAT
27 Brands and the offering. The webinar included a video presentation that contained
28 material misstatements and omissions that defendants participated in making.

1 37. For example, during the webinar, Defendant Wiederhorn discussed
2 Defendant FCCG's holdings in FAT Brands, and how FCCG would continue to hold
3 at least 80% of FAT Brands after the IPO. To highlight this point, Wiederhorn
4 showed the following slide during the video presentation, explaining that FCCG
5 would hold 80% of FAT Brands' common stock and outside investors would hold
6 20% of the Company's common stock:



21 38. The images and statements communicated to investors that are
22 referenced in the preceding paragraph contained material misstatements and
23 omissions. Indeed, what was not disclosed during the webinar was that the combined
24 Wiederhorn family's ownership of FCCG was actually 75% - meaning the
25 Wiederhorn family, not just FCCG, would be FAT Brands' controlling shareholder
26 owners following the IPO. Moreover, there was no disclosure that Defendant
27 Wiederhorn planned to merge FCCG into FAT Brands in 2018 or 2019, effectively
28

1 allowing him and his family to take FCCG public without undertaking a formal IPO
2 process.

3 39. Also during the webinar, Defendant Wiederhorn touted FAT Brands’
4 “asset-light business model” and explained that FAT Brands, as a franchisor, was not
5 making significant capital expenditures, and was thus maintaining an attractive free
6 cash flow profile. Defendant Wiederhorn presented the following slide regarding
7 FAT Brands’ asset-light model:


8 **ASSET-LIGHT BUSINESS MODEL**

9

10 **FAT Brands maintains an asset-light business model, which allows for growth**
11 **with minimal capital expenditures through franchising**

- 12 • Revenues from (i) franchise fees & (ii) royalties
- 13 • Franchisor model enables scale w/ limited incremental overhead and minimal store-level risk exposure
- 14 • Multi-brand approach allows efficient back office support to franchisees
- 15 • Business model drives strong profit margins and attractive free cash

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18 **EBITDA margin expanded from 42% in 2013¹ to 59% in 2016¹**

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20 ¹ Includes Perdue's & Bonanza Steakhouses, Fatburger, Buffalo's Cafe and co-branded Fatburger / Buffalo's Express.

21 **FAT BRANDS** FRESH. AUTHENTIC. TASTY.

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21 40. However, the images and statements communicated to investors that are
22 referenced in the preceding paragraph also contained material misstatements and
23 omissions. For example, there was no mention of the fact that FAT Brands’ then-
24 present free cash flow was not enough to cover its outsized dividend, which at \$0.48
25 per share annually, would cost FAT Brands \$5 million to service (which was
26 particularly critical because FAT Brands was assuming the \$20.5 million debt to
27 FCCG as part of the IPO, thus increasing its leverage and debt servicing costs).

1 41. Toward the end of the webinar, Defendant Wiederhorn and Elenowitz
2 (on behalf of Underwriter Defendant TriPoint) fielded real-time questions from
3 investors participating in the webinar. In response to the question “what is [FAT
4 Brands’] EBITDA margin,” Wiederhorn replied “almost 60%,” adding that the
5 EBITDA margin is “very, very strong.” However, the reality was that both the
6 Fatburger and Ponderosa & Bonanza brands were on track to report lower revenues in
7 2017 than they did in 2016, which meant that the combined company’s profit margins
8 were on the decline at the time of the IPO. The lower margins, coupled with the
9 increased new leverage, put FAT Brands on course to report lower 2017 profits. This
10 rendered the statements touting FAT Brands’ “EBITDA margins” materially false
11 and misleading, as sales growth for the existing brands’ stores had already
12 plummeted and the Ponderosa & Bonanza acquisition would further diminish sales
13 growth and profits.

14 42. Moreover, the Offering Documents for the IPO were negligently
15 prepared and, as a result, contained untrue statements of material facts and omitted to
16 state other facts necessary to make the statements made not misleading, and were not
17 prepared in accordance with the rules and regulations governing their preparation.

18 43. Despite having reported achieving \$1.7 million in net income on \$4.3
19 million of revenue during the first six months of 2017 – a 40% net margin and an
20 astounding 62% operating margin, which margins were used to price the shares sold
21 in the IPO based on their future assumed profitability – with both the Fatburger and
22 Ponderosa & Bonanza brands on track to report lower revenues in 2017 than they did
23 in 2016 the combined company’s profit margins were on the decline at the time of the
24 IPO. This, when coupled with the increased new leverage, put the Company on
25 course to report lower 2017 profit and rendered statements in the Offering Documents
26 such as “between 2012 and 2016, unadjusted for the acquisition of Ponderosa and
27 Bonanza, the company achieved compound annual growth rates in net revenue, net
28 income, and EBITDA of 9.9%, 40.0% and 35.3%, respectively, reflecting consistent

1 yearly growth over this period,” materially false and misleading because sales growth
2 for the existing brands’ stores had already plummeted, and the Ponderosa & Bonanza
3 acquisition would further diminish sales growth and profits.

4 44. By October 2017, after having agreed to pay \$10.55 million to acquire
5 Ponderosa & Bonanza in March 2017, FAT Brands had received internal reports and
6 data indicating that its revenues were not growing anywhere near as robustly as
7 projected by FCCG when negotiating the acquisition.

8 45. Although the Offering Documents repeatedly referenced how FAT
9 Brands’ “Capital Light Business Model [Drove] High Free Cash Flow Conversion”
10 by “requiring minimal capital expenditures,” the Offering Documents failed to
11 disclose that FAT Brands’ then-present free cash flow was not enough to cover its
12 outsized dividend, which, at \$0.48 per share annually, would cost the Company \$5
13 million to service (which was particularly critical because FAT Brands was assuming
14 the \$20.5 million debt to FCCG as part of the IPO, thus increasing its leverage and
15 thus debt servicing costs).

16 46. Furthermore, while the Offering Documents represented that the
17 “existing markets for Fatburger, Buffalo’s Cafe, Buffalo’s Express, and Ponderosa
18 and Bonanza locations are far from saturated and can support a significant increase in
19 units,” the reality at the time of the IPO was that the “fast-casual” dining sector was
20 extremely saturated, and the sector was facing significant headwinds and a slowdown
21 in growth. For example, by 2017, fast-casual sales growth in the United States had
22 slowed to around 6%, as compared to 8% growth in 2016, and between 10%-11%
23 growth in each of the prior five years. Additionally, a number of notable fast-casual
24 dining concepts had posted significant losses at the time of the IPO, leading some
25 businesses to close locations (including Qdoba, Pie Five, Noodles & Co., and Pollo
26 Tropical) and others to file for bankruptcy (Cosi, Rita Restaurant Corp., and Garden
27 Fresh Corp.). For reference, one of the principal reasons for this slowdown in growth
28 was that customers were much more reluctant to spend their money on trendy fast-

1 casual restaurant concepts, and instead preferred cheaper and quicker dining options,
2 including traditional fast-food chains.

3 47. Additionally, although the Offering Documents disclosed that “[i]n
4 October 2015, [defendant] Rensi filed for protection under Chapter 11 of the Federal
5 Bankruptcy Code,” and that “in November 1998, [the former employer of Defendant
6 Wiederhorn and his father-in-law, now FAT Brands’ COO] underwent a pre-
7 packaged bankruptcy,” the Offering Documents failed to adequately disclose the
8 bankruptcies filed by several of the Fatburger subsidiaries in 2009, or the financial
9 problems that caused such bankruptcies, or the resulting financial impact that those
10 bankruptcies had on FCCG. Further, it was material information to investors that
11 FAT Brands’ management team was previously unable to obtain financing in
12 connection with a prior acquisition spree.¹

13 48. Although the Offering Documents stated that Defendant “Wiederhorn
14 beneficially own[ed] 38.2% of FCCG, and disclaim[ed] beneficial ownership of the
15 Company held by FCCG except to the extent of his pecuniary interest in FCCG,” the
16 Offering Documents omitted the fact that the combined Wiederhorn family’s
17 ownership of FCCG was actually 75% - meaning the Wiederhorn family, not just
18 FCCG, would be FAT Brands’ controlling shareholder owners following the IPO.

19 49. The Offering Documents further represented, among other things, that
20 FCCG would “remain a significant stockholder” in FAT Brands following the
21

22
23 ¹ Indeed, the IPO Offering Documents expressly stated that “[i]n addition to our
24 pending acquisition of Ponderosa and Bonanza, as of the date of this Offering
25 Circular we have entered into a letter of intent to acquire an additional restaurant
26 concept with approximately 60 franchised stores for approximately \$11,000,000, and
27 are in discussions to acquire another restaurant concept with approximately 50 stores
28 for a purchase price in the range of \$26-30 million. We intend to finance future
acquisitions through a combination of borrowings under a proposed new credit
facility and by issuing new equity securities, including preferred stock if available on
terms satisfactory to us.”

1 Company's IPO, and that for so long as FCCG continued to own at least 80% of FAT
2 Brands the two companies would file joint tax returns, with FCCG receiving any tax
3 savings on the part of FAT Brands resulting from the combined filings (including as a
4 result of FCCG's net operation losses ("NOLs")).

5 50. In reality, however, Defendant Wiederhorn was intending to merge
6 FCCG into FAT Brands in 2018 or 2019, effectively allowing him and his family to
7 take FCCG public without undertaking a formal IPO process, and unreasonably
8 benefitting FCCG financially.

9 51. For example, Defendant FCCG and the Wiederhorn family alone knew
10 at the time of the IPO the amount of NOLs that FCCG then maintained – and they
11 alone then knew how the impending 2018 tax bill, which had been unveiled in
12 September 2017, would devalue those NOLs, reducing the value of the NOLs, and
13 FCCG's and the Wiederhorn family's incentive to keep FCCG and FAT Brands
14 separate.

15 52. The statements referenced above in ¶¶ 36, 37, 39, 41, 43 and 45 – 49
16 were each materially false and misleading because they failed to disclose and
17 misrepresented the following adverse facts that existed at the time of the IPO:

- 18 a. FAT Brands' sales growth had significantly declined;
- 19 b. Sales growth at Ponderosa & Bonanza was significantly below
20 that which FAT Brands had believed it was when it agreed to acquire those brands in
21 March 2017;
- 22 c. The fast-casual dining sector was extremely saturated and facing
23 significant headwinds and a slowdown in growth, which was largely caused by
24 customers fleeing to lower cost, quicker options such as traditional fast-food chain;
- 25 d. FAT Brands' free cash flow was less than its \$5 million annual
26 dividend obligations;
- 27 e. The Wiederhorn family planned to merge FCCG into FAT Brands
28 following the IPO; and

1 f. FCCG and the Wiederhorn family that owned it had already once
2 run FCCG/Fatburger into bankruptcy, resulting in its stock being delisted in
3 connection with the attempt to undertake an acquisition spree much like the spree
4 they were undertaking at FAT Brands at the time of the Company's IPO.

5 53. Pursuant to Item 7(a)(2) of the Form 1-A Instructions, issuers must
6 "describe those distinctive or special characteristics of the issuer's operation or
7 industry that are reasonably likely to have a material impact upon the issuer's future
8 financial performance." Pursuant to Item 9(d) of the Form 1-A Instructions, issuers
9 are also required to "identify the most significant recent trends in production, sales
10 and inventory, the state of the order book and costs and selling prices since the latest
11 financial year." They "also must discuss, for at least the current financial year, any
12 known trends, uncertainties, demands, commitments or events that are reasonably
13 likely to have a material effect on the issuer's net sales or revenues, income from
14 continuing operations, profitability, liquidity or capital resources, or that would cause
15 reported financial information not necessarily to be indicative of future operating
16 results or financial, condition." At the time of the IPO, unbeknownst to investors,
17 FAT Brands' organic sales growth was declining and the sales growth at Ponderosa
18 & Bonanza was much lower than FCCG had presumed when it negotiated to pay
19 \$10.55 million for the franchising rights in March 2017. The adverse events and
20 uncertainties associated with these negative trends were reasonably likely to have a
21 material impact on FAT Brands' profitability and, therefore, were required to be
22 disclosed in the Offering Documents, but were not.

23 54. The IPO was successful for FAT Brands and the Underwriters
24 Defendant who sold two million shares of FAT Brands common stock to the
25 investing public at \$12 per share, raising \$24 million in gross proceeds (\$22.2 million
26 net of underwriting fees and IPO costs).

27 55. The price of FAT Brands common stock later plummeted as the market
28 learned the truth about FAT Brands' business metrics and financial prospects that

1 existed at the time of the Company's IPO. FAT Brands' common stock currently
2 trades at approximately \$7.80 per share or down over 35% from the Company's \$12
3 IPO price less than one year earlier.

4 CLASS ACTION ALLEGATIONS

5 56. Plaintiff brings this action as a class action pursuant to Federal Rule of
6 Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons other
7 than defendants who purchased or otherwise acquired the publicly traded securities of
8 FAT Brands pursuant and/or traceable to the Company's IPO and who were damaged
9 thereby (the "Class"). Excluded from the Class are Defendants, the officers and
10 directors of the Company, members of the Individual Defendants' immediate families
11 and their legal representatives, heirs, successors or assigns and any entity in which
12 the officers and directors of the Company have or had a controlling interest.

13 57. The members of the Class are so numerous that joinder of all members is
14 impracticable. Since the IPO, the Company's securities were actively traded on
15 NASDAQ. While the exact number of Class members is unknown to Plaintiff at this
16 time and can be ascertained only through appropriate discovery, Plaintiff believes that
17 there are hundreds, if not thousands of members in the proposed Class.

18 58. Plaintiff's claims are typical of the claims of the members of the Class as
19 all members of the Class are similarly affected by defendants' wrongful conduct in
20 violation of federal law that is complained of herein.

21 59. Plaintiff will fairly and adequately protect the interests of the members
22 of the Class and has retained counsel competent and experienced in class and
23 securities litigation. Plaintiff has no interests antagonistic to or in conflict with those
24 of the Class.

25 60. Common questions of law and fact exist as to all members of the Class
26 and predominate over any questions solely affecting individual members of the Class.
27 Among the questions of law and fact common to the Class are:
28

- 1 a. whether Defendants issued materially false and misleading
2 statements;
- 3 b. whether the Registration Statement was negligently prepared and
4 contained materially misleading statements and/or omitted material
5 information required to be stated therein;
- 6 c. whether other statements issued by Defendants were materially
7 misleading and/or omitted material information;
- 8 d. whether Defendants acted with reckless disregard for the truth
9 with respect other statements;
- 10 e. whether the Company's securities traded on an efficient market;
11 and
- 12 f. the extent to which members of the Class have sustained damages
13 and the proper measure of damages

14 61. A class action is superior to all other available methods for the fair and
15 efficient adjudication of this controversy since joinder of all members is
16 impracticable. Furthermore, as the damages suffered by individual Class members
17 may be relatively small, the expense and burden of individual litigation make it
18 impossible for members of the Class to individually redress the wrongs done to them.
19 There will be no difficulty in the management of this action as a class action.

20 62. Plaintiff will rely, in part, upon the presumption of reliance established
21 by the fraud-on-the-market doctrine in that:

- 22 a. Defendants made public misrepresentations or failed to disclose
23 material facts;
- 24 b. the omissions and misrepresentations were material;
- 25 c. the Company's securities met the requirements for listing, and
26 were listed and actively traded on NASDAQ, a highly efficient and automated
27 market;
- 28

1 d. the Company's shares were liquid and traded with moderate to
2 heavy volume;

3 e. as a public issuer, the Company filed periodic public reports with
4 the SEC and NASDAQ;

5 f. The Company regularly communicated with public investors via
6 established market communication mechanisms, including through the regular
7 dissemination of press releases via major newswire services and through other
8 wide-ranging public disclosures, such as communications with the financial
9 press and other similar reporting services;

10 g. The Company was followed by a number of securities analysts
11 employed by major brokerage firms who wrote reports that were widely
12 distributed and publicly available;

13 h. the misrepresentations and omissions alleged would tend to induce
14 a reasonable investor to misjudge the value of the Company's securities; and

15 i. Plaintiff and members of the Class purchased, acquired and/or
16 sold the Company's securities between the time the Defendants failed to
17 disclose or misrepresented material facts and the time the true facts were
18 disclosed, without knowledge of the omitted or misrepresented facts.

19 63. Based on the foregoing, the market for the Company's securities
20 promptly digested current information regarding the Company from all publicly
21 available sources and reflected such information in the prices of the shares, and
22 Plaintiff and the members of the Class are entitled to a presumption of reliance upon
23 the integrity of the market.

24 64. Alternatively, Plaintiff and the members of the Class are entitled to the
25 presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of*
26 *the State of Utah v. United States*, 406 U.S. 128 (1972) as Defendants omitted
27 material information in the Company's Registration Statement and Prospectus in
28 violation of a duty to disclose such information as detailed above.

COUNT I
Violations of §12(a)(2) of the Securities Act
Against Defendants FAT Brands, FCCG, the Executive Defendants, and the
Underwriter Defendants

65. Plaintiff repeats and realleges the allegations contained above as if fully set forth herein.

66. By means of the defective Offering Documents and other statements made in connection with the roadshow, Defendant FAT Brands, Defendant FCCG, the Executive Defendants and the Underwriter Defendant promoted and sold FAT Brands' common stock to plaintiff and other members of the Class.

67. The Offering Documents and roadshow contained untrue statements of material fact, and/or concealed or failed to disclose material facts, as detailed above. These Defendants owed plaintiff and the other members of the Class who purchased FAT Brands common stock pursuant to the Offering Documents the duty to make a reasonable and diligent investigation of the statements contained in the Offering Documents to ensure that such statements were true and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading. These defendants, in the exercise of reasonable care, should have known of the misstatements and omissions contained in the Offering Documents as set forth above.

68. Plaintiff did not know, nor in the exercise of reasonable diligence could Plaintiff have known, of the untruths and omissions contained in the Offering Documents and roadshow presentation at the time Plaintiff acquired FAT Brands common stock.

69. By reason of the conduct alleged herein, each of the Defendants named in this Count violated §12(a)(2) of the Securities Act. As a direct and proximate result of such violations, plaintiff and the other members of the Class who purchased FAT Brands common stock pursuant to the Offering Documents sustained substantial damages in connection with their purchases of FAT Brands stock. Accordingly,

1 plaintiff and the other members of the Class who hold the common stock issued
2 pursuant to the Offering Documents have the right to rescind and recover the
3 consideration paid for their shares, and hereby tender their common stock to the
4 defendants sued herein. Class members who have sold their common stock seek
5 damages to the extent permitted by law.

6 70. This claim was brought within one year after the discovery of the untrue
7 statements and omissions in the Offering Documents and within three years after
8 Alliance shares was sold to the Class in connection with the Offering.

9 **COUNT II**
10 **Violation of §15 of the Securities Act**
11 **Against Defendants FAT Brands, FCCG, and the Individual Defendants**

12 71. Plaintiff repeats and realleges the allegations contained above as if fully
13 set forth herein.

14 72. This Count is brought pursuant to §15 of the Securities Act against
15 Defendant FAT Brands, Defendant FCCG, and the Individual Defendants.

16 73. The Individual Defendants each were control persons of FAT Brands by
17 virtue of their positions as directors and/or senior officers of FAT Brands. Each of
18 these Defendants had the ability to influence the policies and management of FAT
19 Brands by their voting and control over statements made by FAT Brands in the
20 Offering Documents. The Individual Defendants also each had a series of direct
21 and/or indirect business and/or personal relationships with other directors and/or
22 officers and/or major shareholders of FAT Brands.

23 74. FAT Brands controlled the Individual Defendants and all of its
24 employees.

25 75. FCCG controlled FAT Brands prior to and following the Company's
26 IPO. As conceded in the IPO Offering Documents, FAT Brands was at the time of its
27 IPO and would remain following the IPO a "controlled company," and that "[t]he
28

1 stockholders of FCCG, including Mr. Wiederhorn, will indirectly benefit from the
2 proceeds of this Offering.”

3 76. This claim was brought within one year after the discovery of the untrue
4 statements and omissions in the Offering Documents and within three years after the
5 Company’s securities were sold to the Class in connection with the IPO. It is
6 therefore timely.

7 77. By reason of the above conduct, for which the Company is primarily
8 liable, as set forth above, the Individual Defendants are jointly and severally liable
9 with and to the same extent as the Company’s pursuant to Section 15 of the Securities
10 Action, 15 U.S.C. 77o.

11 **PRAYER FOR RELIEF**

12 WHEREFORE, Plaintiff prays for relief and judgment as follows:

13 A. Determining that this action is a proper class action, certifying Plaintiff
14 as a class representative under Federal Rule of Civil Procedure 23 and appointing
15 Plaintiff’s counsel Class Counsel;

16 B. Awarding compensatory damages in favor of Plaintiff and the other
17 Class members against all Defendants, jointly and severally, for all damages
18 sustained as a result of Defendants’ wrongdoing, in an amount to be proven at trial,
19 including interest thereon;

20 C. Awarding Plaintiff and the Class their reasonable costs and expenses
21 incurred in this action, including counsel fees and expert fees;

22 D. Awarding rescission or a rescissory measure of damages; and

23 E. Such equitable/injunctive or other relief as deemed appropriate by the
24 Court.

25 **JURY TRIAL DEMANDED**

26 Plaintiff hereby demands a trial by jury.
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1 DATED: August 24, 2018

Respectfully submitted,

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