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Fiesta Restaurant Group, Inc.

Form 10-K

February 26, 2019

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2018-12-30 0001534992 us-gaap:FranchiseMember 2018-01-01 2018-12-30 0001534992

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us-gaap:GeneralAndAdministrativeExpenseMember 2016-01-04 2017-01-01 0001534992

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us-gaap:GeneralAndAdministrativeExpenseMember 2018-01-01 2018-12-30 0001534992

frgi:RestaurantWagesAndRelatedExpensesMember 2018-01-01 2018-12-30 0001534992

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frgi:PolloTropicalMember 2018-12-30 0001534992 srt:MaximumMember

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K**

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

For the fiscal year ended December 30, 2018

OR

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

Commission File Number: 001-35373

FIESTA RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware **90-0712224**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

14800 Landmark Boulevard, Suite 500 **75254**

Dallas, TX (Zip Code)

Registrant's telephone number, including area code: (972) 702-9300

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

Title of each class: **Name on each exchange on which registered:**

Common Stock, par value \$.01 per share The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on their 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 No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of February 20, 2019, Fiesta Restaurant Group, Inc. had 27,234,451 shares of its common stock, \$.01 par value, outstanding. The aggregate market value of the common stock held by non-affiliates as of July 1, 2018 of Fiesta Restaurant Group, Inc. was \$675,651,497.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for Fiesta Restaurant Group, Inc.'s 2019 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A no later than 120 days after the conclusion of Fiesta Restaurant Group, Inc.'s fiscal year ended December 30, 2018 are incorporated by reference into Part III of this annual report.

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FORM 10-K
YEAR ENDED DECEMBER 30, 2018**

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PART I

Presentation of Information

Throughout this Annual Report on Form 10-K, we refer to Fiesta Restaurant Group, Inc. as "Fiesta Restaurant Group" or "Fiesta" and, together with its consolidated subsidiaries, as "we," "our" and "us" unless otherwise indicated or the context otherwise requires. Any reference to restaurants refers to company-owned restaurants unless otherwise indicated.

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical® and Taco Cabana®, through our wholly-owned subsidiaries Pollo Operations, Inc. and its subsidiaries, and Pollo Franchise, Inc., (collectively "Pollo Tropical") and Taco Cabana, Inc. and its subsidiaries (collectively "Taco Cabana"). Our common stock is traded on The NASDAQ Global Select Market under the symbol "FRGI".

We use a 52- or 53-week fiscal year ending on the Sunday closest to December 31. The fiscal years ended December 28, 2014, January 1, 2017, December 31, 2017 and December 30, 2018 each contained 52 weeks. The fiscal year ended January 3, 2016 contained 53 weeks. The next year to contain 53 weeks is expected to be the fiscal year ending January 3, 2021.

Use of Non-GAAP Financial Measures

Consolidated Adjusted EBITDA and margin and Restaurant-level Adjusted EBITDA and margin are non-GAAP financial measures. We use these non-GAAP financial measures in addition to net income and income from operations to assess our performance, and we believe it is important for investors to be able to evaluate us using the same measures used by management. We believe these measures are important indicators of our operational strength and the performance of our business. These non-GAAP financial measures as calculated by us are not necessarily comparable to similarly titled measures reported by other companies and should not be considered as an alternative to net income (loss), earnings (loss) per share, cash flows from operating activities or other financial information determined under GAAP.

Prior to the second quarter of 2017, Adjusted EBITDA and Consolidated Adjusted EBITDA were defined as earnings before interest expense, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other expense (income), net. In 2017, our board of directors appointed a new Chief Executive Officer who initiated the Strategic Renewal Plan (the "Plan") and uses an Adjusted EBITDA measure for the purpose of assessing performance and allocating resources to our segments. The Adjusted EBITDA measure used by the chief operating decision maker includes adjustments for significant items that management believes are related to strategic changes and/or are not related to the ongoing operation of our restaurants. Beginning in the second quarter of 2017, the primary measure of segment profit or loss used by the chief operating decision maker to assess performance and allocate resources is Adjusted EBITDA, which is now defined as earnings attributable to the applicable operating segments before interest expense, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense, other expense (income), net, and certain significant items for each segment that management believes are related to strategic changes and/or are not related to the ongoing operation of our restaurants as set forth in the reconciliation table below. Adjusted EBITDA for each of our segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain finance, legal, supply chain, human resources, construction and other administrative functions. See Note 11 to the Consolidated Financial Statements included in this Annual Report on Form 10-K. Consolidated Adjusted EBITDA margin and Adjusted EBITDA margin are derived by dividing Consolidated Adjusted EBITDA and Adjusted EBITDA by total revenues and segment revenues, respectively. Restaurant-level Adjusted EBITDA is defined as Adjusted EBITDA excluding franchise royalty revenues and fees, pre-opening costs and general and administrative expenses (including corporate-level general and administrative expenses). Restaurant-level Adjusted EBITDA margin is derived by dividing Restaurant-level Adjusted EBITDA by restaurant sales.

Management believes that such financial measures, when viewed with our results of operations calculated in accordance with GAAP and our reconciliation of net income (loss) to Consolidated Adjusted EBITDA and Restaurant-level Adjusted EBITDA (i) provide useful information about our operating performance and period-over-period changes, (ii) provide additional information that is useful for evaluating the operating performance

of our business and (iii) permit investors to gain an understanding of the factors and trends affecting our ongoing earnings, from which capital investments are made and debt is serviced. However, such measures are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income or cash flow from operating activities as indicators of operating performance or liquidity. Also, these measures may not be comparable to similarly titled captions of other companies.

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All such financial measures have important limitations as analytical tools. These limitations include the following:

- such financial information does not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;
- such financial information does not reflect interest expense or the cash requirements necessary to service payments on our debt;
- although depreciation and amortization are non-cash charges, the assets that we currently depreciate and amortize will likely have to be replaced in the future, and such financial information does not reflect the cash required to fund such replacements; and
- such financial information does not reflect the effect of earnings or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges and gains (such as impairment and other lease charges, other income and expense and stock-based compensation expense) have recurred and may recur.

See Item 6, "Selected Financial Data" for a quantitative reconciliation from net income (loss), which we believe is the most directly comparable GAAP financial performance measure to Consolidated Adjusted EBITDA and Restaurant-level Adjusted EBITDA.

Forward-Looking Statements

Matters discussed in this report and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, expressed or implied, regarding our intention to repurchase shares from time to time under the share repurchase program and the source of funding of such repurchases, our anticipated growth, operating results, future earnings per share, plans, objectives, and the impact of our investments in our Strategic Renewal Plan (the "Plan") and other business initiatives on future sales and earnings, contain 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, (the "Exchange Act"). These statements are often identified by the words "believe," "positioned," "estimate," "project," "plan," "goal," "target," "assumption," "continue," "intend," "expect," "future," "anticipate," and other similar expressions, whether in the negative or the affirmative, that are not statements of historical fact. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict, and you should not place undue reliance on our forward-looking statements. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this report and in our other public filings with the United States Securities and Exchange Commission ("SEC"). All forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this report or other periodic reports represent our estimates as of the date made and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we expressly disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

Table of Contents**ITEM 1. BUSINESS****Overview*****Our Company***

We own, operate and franchise two restaurant brands, Pollo Tropical® and Taco Cabana®, which this year celebrated 30th and 40th anniversaries, respectively, of operating history and loyal customer bases. Our Pollo Tropical restaurants feature fire-grilled and crispy citrus marinated chicken and other freshly prepared tropical inspired menu items, while our Taco Cabana restaurants specialize in Mexican inspired food made fresh by hand. We believe that both brands offer distinct and unique flavors with broad appeal at a compelling value, which differentiates them in the competitive fast-casual and quick-service restaurant segments. Nearly all of our restaurants offer the convenience of drive-thru windows.

For the fiscal year ended December 30, 2018, average annual sales per restaurant was approximately \$2.5 million for our Pollo Tropical restaurants and approximately \$1.8 million for our Taco Cabana restaurants. As of December 30, 2018, we owned and operated 139 Pollo Tropical restaurants in Florida and 162 Taco Cabana restaurants in Texas for a total of 301 restaurants. We franchise our Pollo Tropical restaurants primarily in international markets, and as of December 30, 2018, had 24 franchised Pollo Tropical restaurants outside the United States. In addition, as of December 30, 2018, we had five domestic non-traditional Pollo Tropical licensed locations on college campuses and one location in a hospital in Florida. As of December 30, 2018, we had six Taco Cabana franchised restaurants in New Mexico and two domestic non-traditional Taco Cabana licensed locations on college campuses in Texas. For the fiscal year ended December 30, 2018, we generated consolidated revenues of \$688.6 million, and comparable restaurant sales increased 2.2% and 4.5% for Pollo Tropical and Taco Cabana, respectively.

The Strategic Renewal Plan (the "Plan")

On February 27, 2017, we announced the appointment of Richard C. Stockinger as Chief Executive Officer and President of the Company, effective February 28, 2017. Shortly thereafter, we developed and began implementing the Plan designed to significantly improve our core business model and drive long term shareholder value creation. It consisted of the following: 1) revitalizing restaurant performance in core markets; 2) managing capital and financial discipline; 3) establishing platforms for long term growth; and 4) optimizing each brands' restaurant portfolio. We filled open positions on our senior management team by early in the fourth quarter of 2017 to ensure the successful implementation of the Plan and the refinement of our strategy and tactics as we moved forward. We relaunched the Pollo Tropical brand in October 2017 and the Taco Cabana brand in July 2018 once the material aspects of the Plan with respect to each brand were in place. The relaunch of both brands was delayed as a result of Hurricanes Harvey and Irma (the "Hurricanes") in the third quarter of 2017.

Other Events

Based on the completion of our restaurant portfolio examination as part of our strategic review process in December 2018, we closed 14 Pollo Tropical restaurants, including all of our Pollo Tropical restaurants in the greater Atlanta metropolitan area, and nine Taco Cabana restaurants. For the twelve months ended December 30, 2018, the 14 closed Pollo Tropical restaurants contributed \$15.8 million in restaurant sales and approximately \$5.2 million in restaurant-level pre-tax operating losses, including \$2.2 million in depreciation expense. For the twelve months ended December 30, 2018, the nine closed Taco Cabana restaurants contributed \$9.5 million in restaurant sales and approximately \$1.7 million in restaurant-level pre-tax operating losses, including \$0.7 million in depreciation expense. During the twelve months ended December 30, 2018, the Company recognized \$21.1 million in impairment and other lease charges including non-cash impairment charges of \$17.1 million and related lease and other charges of \$2.1 million primarily related to these closed restaurants, three of which were initially impaired in 2017, and adjustments to estimates of future lease costs for certain previously closed restaurants, and impairment charges of \$1.9 million related to seven underperforming Pollo Tropical and Taco Cabana restaurants that we continue to operate.

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Our restaurants operate in the fast-casual and quick-service restaurant segments and feature fresh-made cooking, drive-thru service and catering.

Pollo Tropical. Our Pollo Tropical restaurants feature fresh chicken marinated in a proprietary blend of tropical fruit juices and spices, crispy or fire-grilled, boneless and bone-in. Other favorite menu items include Mojo Roast Pork and TropiChops® (a create your own bowl of fire-grilled chicken breast or Crispy Pollo Bites™, roast pork or grilled vegetables served over white, brown or yellow rice, red or black beans, mac and cheese or mashed potatoes, and topped with vegetables including tomatoes, kernel corn, peppers and sautéed onions), sandwiches, wraps and salads. Side dishes include rice, beans, french fries, coleslaw, and corn casserole. The menu's emphasis is on freshness and quality. We also offer a self-service salsa bar which includes a wide selection of salsas, sauces, cilantro, onions and other items which allow our guests to further customize their orders. Dessert offerings include key lime pie, cuatro leches cake, flan and cheesecake, and beverages include fountain soft drinks and other bottled drinks. Most menu items are prepared daily in each of our restaurants, which feature open display cooking on large, open-flame grills. We offer both individual and family meal-sized portions which enable us to provide a home meal replacement for our guests and catering for parties and corporate events.

Our Pollo Tropical restaurant dining areas are designed to create an inviting, festive and tropical atmosphere. We also provide our guests the option of take-out, including the ability to order on-line in advance, and nearly all of our restaurants provide the convenience of drive-thru windows. Delivery was available through third-party partnerships at select locations in 2018 and beginning in 2019 is available at all Pollo Tropical locations. Our Pollo Tropical restaurants are generally open for lunch, dinner, and late night seven days a week. As of December 30, 2018, substantially all of our Pollo Tropical restaurants were freestanding buildings. Our typical freestanding Pollo Tropical restaurant ranges from 2,800 to 3,700 square feet and provides interior seating for approximately 70 to 90 guests. For the year ended December 30, 2018, the average sales transaction at our Pollo Tropical restaurants was \$11.63, with sales at dinner and lunch representing 52.9% and 47.1%, respectively. For the year ended December 30, 2018, our Pollo Tropical brand generated total revenues of \$376.2 million and Adjusted EBITDA of \$54.9 million.

Pollo Tropical opened its first restaurant in 1988 in Miami, Florida. As of December 30, 2018, we owned and operated a total of 139 Pollo Tropical restaurants, all located in Florida. We continue to reimage existing Pollo Tropical restaurants to update both the exterior and interior of the restaurants to the latest standard.

We are franchising and licensing our Pollo Tropical restaurants internationally and in non-traditional domestic locations. As of December 30, 2018, we had 24 franchised Pollo Tropical restaurants located in Puerto Rico, Panama, the Bahamas and Guyana, and five non-traditional licensed locations on college campuses and one located in a hospital in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets.

Taco Cabana. Our Taco Cabana restaurants serve fresh, Mexican-inspired food that feature loaded tacos, flame-grilled USDA Choice steak and chicken fajitas, quesadillas, hand-rolled flautas, enchiladas, burritos, and customizable salads served in our Cabana Bowl®. We also offer freshly made flour tortillas, shareable appetizers and our popular breakfast tacos. Our self-service salsa bar includes a wide selection of freshly made salsas, sauces, sliced jalapeños, chopped cilantro, chopped onions and other items which allow our guests to further customize their orders. We also offer desserts such as sopapillas, key lime pie and cheesecake, and beverages including fountain soft drinks, our signature frozen margaritas and beer as well as bottled Mexican Coke and Fanta Orange soda made with real cane sugar. Most menu items are freshly-prepared at each restaurant daily.

Taco Cabana restaurants feature open display cooking that enables guests to observe fajitas cooking on an open grill, a tortilla machine pressing and grilling fresh flour tortillas and the fresh preparation of other menu items. Our Taco Cabana restaurants feature interior dining areas as well as semi-enclosed and outdoor patio areas, which provide a vibrant, contemporary decor and relaxing atmosphere. Many locations also have live entertainment at select times, with expansion expected in 2019. We offer both individual and family meal-sized portions, which enable us to provide a home meal replacement for our guests and catering for parties and corporate events. Additionally, we provide our guests the option to order on-line in advance, as well as the convenience of drive-thru windows. Delivery is available through third-party partnerships at select locations and is expected to expand to all locations in 2019. Our typical

freestanding Taco Cabana restaurants average approximately 3,500 square feet (exclusive of the exterior dining area) and provide seating for approximately 80 guests, with additional outside patio seating for approximately 50 guests. As of December 30, 2018, substantially all of our Taco Cabana restaurants were freestanding buildings.

Taco Cabana pioneered the Mexican patio cafe concept with its first restaurant in San Antonio, Texas in 1978. As of December 30, 2018, we owned and operated 162 Taco Cabana restaurants, all located in Texas. As of December 30, 2018, we also had six Taco Cabana franchised restaurants located in New Mexico and two non-traditional Taco Cabana licensed locations

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located on college campuses in Texas. At the beginning of 2017, the majority of our Taco Cabana restaurants were open 24 hours a day, seven days a week. However, during 2017, we reviewed hours of operation across our restaurant portfolio and reduced the number of restaurants that operate 24 hours a day, seven days a week to 32. We continue to review hours of operation and make related adjustments accordingly. For the year ended December 30, 2018, sales at dinner, lunch and breakfast represented 24.9%, 22.3% and 23.4%, respectively, and the average sales transaction at our Taco Cabana restaurants was \$10.47. For the year ended December 30, 2018, our Taco Cabana brand generated total revenues of \$312.4 million and Adjusted EBITDA of \$13.1 million.

Our Competitive Strengths

We believe the success of our Pollo Tropical and Taco Cabana brands is a result of the following key attributes:

Well Positioned and Differentiated in the Fast-Casual and Quick-Service Segments. As of December 30, 2018, we owned, operated and franchised 339 fast-casual restaurants under our Pollo Tropical and Taco Cabana brands which have 30 and 40 years, respectively, of operating history. In addition, at \$2.5 million and \$1.8 million, respectively, for 2018, we believe Pollo Tropical and Taco Cabana have compelling average annual sales per restaurant within the fast-casual and quick-service segments. We believe our brands are well positioned in the industry due to our high quality, freshly-prepared food, value and differentiation of flavor profiles. Additionally, we believe the Plan enhanced the overall guest experience and better positions our brands for successful and sustainable future growth.

Two Leading, Differentiated Brands Serving Fresh, High Quality Foods with Broad Appeal and a Compelling Value Proposition. Our Pollo Tropical and Taco Cabana brands are differentiated from other dining options and offer distinct flavor profiles and healthy menu choices at affordable prices that we believe have broad consumer appeal, provide guests with a compelling value proposition, attract a diverse customer base and drive guest frequency and loyalty. Pollo Tropical and Taco Cabana are committed to serving freshly-prepared food using quality ingredients that are made-to-order and customized for each guest. Both of our brands offer a wide range of menu offerings and home meal replacement options in generous portion sizes and at affordable price points which appeal to a broad customer base. Our open display kitchen format allows guests to view and experience our food being freshly-prepared and cooked to order. We have enhanced our menus, including some seasonal offerings at our Pollo Tropical and Taco Cabana restaurants in order to provide variety to our guests and to address changes in consumer preferences. We also selectively use promotions and limited time offers which are intended to reinforce our value proposition and to introduce new products. Additionally, we offer our guests the convenience of drive-thru service and on-line ordering at the majority of our restaurants in order to provide a viable option for home meal replacement and family meals.

Compelling Business Model. We enjoy significant brand recognition due to high market penetration of our restaurants in our core markets which provides operating, marketing and distribution efficiencies and convenience for our guests. Both of our brands have strong brand affinity in our core markets as evidenced by fast-casual and quick-service segment-leading average annual sales volumes, as noted above. Pollo Tropical produces high restaurant-level operating margins and, with the implementation of the Plan, sales growth and effective cost management, we anticipate Taco Cabana will produce higher restaurant-level operating margins in the future.

Growth Strategies

Our long-term strategy is focused on profitably building our base business, growing new distribution channels, including catering, delivery, licensed and franchised locations, and development of new restaurants.

Our strategies for growth primarily include:

Increase Comparable Restaurant Sales. We experienced an increase in comparable restaurant sales in 2018 which we believe is attributable to the Plan, pricing, and the comparison to 2017 which included the negative impact related to the Hurricanes, partially offset by market and industry conditions and, in the case of Taco Cabana, a transitioning guest base due to the repositioning of the brand with higher quality offerings at reasonable prices and the elimination of deep discounting. We experienced a decline in comparable restaurant sales in 2016 and 2017 which we believe was attributable to challenging market and industry conditions and opportunities for improvement at both brands that were addressed as part of the Plan. In addition, 2017 was further negatively impacted by reduced media over several consecutive months while we implemented key aspects of the Plan as well as the impact of the Hurricanes. We experienced an increase in comparable restaurant sales at each brand in 2011 through 2015 and we are focused on increasing comparable restaurant sales in the future by attracting new customers and increasing guest frequency

through the following strategies:

Focus on consistency of operations and food quality: We believe high quality food and hospitality, a comfortable ambience, and reasonable prices result in an enjoyable guest experience, which drives loyalty and guest frequency. We have improved systems, processes and equipment, added incremental labor in our restaurants, implemented tighter management spans

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of control and enhanced our field leadership teams, to ensure consistency of operations at both brands. During 2017, we improved over 90 percent of our recipes with higher quality, fresh ingredients. In addition, supply chain and food preparation processes have been implemented at both brands to ensure high quality, freshness and consistency of our food, which we believe are critical components to the continued success of our brands.

New product innovation: Across both brands, our menus are centered on freshly prepared, quality food offerings that we believe have both broad appeal and provide everyday value. Pollo Tropical and Taco Cabana each have separate teams of product research and development professionals that enables us to continually refine our menu offerings and develop new products, several of which are validated by consumer research. Maintaining a strong product pipeline is critical to keeping our offerings compelling, and we intend to introduce innovative new menu items and enhancements to existing menu favorites throughout the year to drive further guest traffic and maximize guest frequency.

Focus on effective advertising to highlight our everyday value proposition: Pollo Tropical and Taco Cabana utilize an integrated, multi-level marketing approach that includes periodic system-wide promotions, outdoor marketing including billboards, in-restaurant promotions, local trade area marketing, social media, digital and web-based marketing and other strategies, including the use of radio and television advertising and limited-time offer menu item and value promotions. We plan to continue refining our advertising and media strategies to reinforce the key attributes of our brands which include high quality, freshly-prepared food, an enhanced guest experience, everyday value, convenience and new limited time menu offerings. In addition, we introduced new email and app-based loyalty programs at Pollo Tropical (My Pollo™) and Taco Cabana (My TC™) in 2018 to further connect with our guests to build affinity and frequency. As a percentage of Pollo Tropical restaurant sales, Pollo Tropical's advertising expenditures were 3.5% in 2018, 4.4% in 2017 and 3.7% in 2016. As a percentage of Taco Cabana restaurant sales, Taco Cabana's advertising expenditures were 3.4% in 2018, 3.3% in 2017 and 3.9% in 2016.

Grow our off-premise sales: The inclusion of portable menu items, such as wraps, sandwiches, bowls and salads, as well as home meal replacement and family meals, and an increased focus on catering and delivery will continue to be a key focus for both brands as we look to capture more off-premise meal occasions which we believe may be significant. In 2018, we invested in catering resources utilizing dedicated leadership and enhanced digital capabilities, enhanced on-line ordering, and smart phone apps. In late 2018, we began deploying our portable point-of-sale tablets which accept payment to improve speed of service and throughput in our drive-thru lanes.

Continue our reimage program: We believe ensuring a high-quality restaurant environment that complements our quality focus on food and hospitality will further drive incremental sales and profitability. We continue to implement restaurant enhancement initiatives to ensure safe, consistent and appealing environments at our Pollo Tropical and Taco Cabana restaurants. In addition, we are continuing to gradually update the exterior and interior elements of our restaurants to the current standard so that we are more relevant to our guests. We expect that these enhancements will improve our brands' positioning in the marketplace and offer a consistent, quality experience.

Non-traditional license and international franchise development. We are updating our franchise disclosure documents to support potential franchise growth in the future. We are currently primarily focused on growing non-traditional domestic licensed locations and modestly growing international locations with quality operators.

Improve Profitability and Optimize Our Infrastructure. We believe that our large restaurant base, skilled management team, operating systems, technology initiatives and training and development programs support our strategy of enhancing operating efficiencies while prudently growing our restaurant base. We continue to focus on maximizing cost efficiencies, including, among other things, implementing profit enhancement initiatives focused on food and labor costs, leveraging our purchasing power and enhancing our supply chain to optimize costs while delivering a high-quality guest experience with consistency. Our restaurant-level profitability at Pollo Tropical is very competitive within the restaurant industry segments in which we compete. We believe Taco Cabana will become more competitive within the restaurant industry segments in which we compete over time through growing comparable restaurant sales and traffic and other margin improvement initiatives.

Develop New Restaurants. We believe that we have opportunities to develop additional Pollo Tropical and Taco Cabana restaurants in Florida and Texas, respectively, as well as potential future expansion opportunities in other

regions of the United States that match our site selection criteria. However, in 2017, after taking into account challenging market conditions and opportunities for improvement at both brands that were addressed as part of the Plan and because restaurants in new markets had not achieved expected sales volumes and profitability at the pace we anticipated, new restaurant investment was slowed with a suspension of development outside of Florida and Texas. We target opening freestanding restaurants in order to provide drive-thru service which is an important convenience and sales component for our brands. The location of our restaurants is a critical component of each restaurant's success. We evaluate potential new sites on many criteria including accessibility, visibility, costs, surrounding traffic patterns, competition and demographic

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characteristics. Our senior management team determines the acceptability of all new sites based upon site visits, analyses prepared by our real estate, financial and operations professionals, and third-party proprietary location research and analysis. Historically, this process has typically resulted in entering into a long-term lease for the land followed by construction of the building or the conversion of an existing building using cash generated from our operations or with borrowings under our senior credit facility.

The following table includes the recent historical initial interior cost (including equipment, seating, signage and other interior costs) of a typical new or converted freestanding restaurant, as well as the historical exterior cost (including building and site improvements).

	Pollo Tropical	Taco Cabana
Interior costs and signage	\$0.5 million to \$0.7 million	\$0.4 million to \$0.6 million
Exterior costs	\$0.9 million to \$1.8 million	\$0.4 million to \$1.2 million

The cost of building and equipping new restaurants can vary significantly and depends on a number of factors, including the local economic conditions, geographic considerations, the size of the restaurant, the characteristics of a particular site, and whether we are constructing a new building or converting an existing building. Accordingly, the cost of opening new restaurants in the future may differ substantially from the historical cost of restaurants previously opened.

Competition

The restaurant industry is highly competitive with respect to price, service, location and food quality. In each of our markets, our restaurants compete with a large number of national and regional quick service, fast casual, and in some cases casual dining restaurant chains, as well as locally owned restaurants. We also compete with delivered meal solutions, convenience stores, grocery stores and other restaurant retailers.

We believe that:

- product quality and taste;
- brand differentiation and recognition;
- convenience of location;
- speed of service;
- menu variety;
- value perception;
- ambiance;
- cleanliness; and
- hospitality

are among the important competitive factors in the fast-casual and quick-service restaurant segments and that our two concepts effectively compete against those categories. Pollo Tropical's competitors include national and regional chicken-based concepts, as well as other concepts. Taco Cabana's competitors include other Mexican inspired concepts as well as other concepts.

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Selected restaurant operating data for our two restaurant concepts is as follows:

	Year Ended			
	December 30, 2018	December 31, 2017	January 1, 2017	
<i>Pollo Tropical:</i>				
Average annual sales per company-owned restaurant (in thousands) ⁽¹⁾	\$2,521	\$2,331	\$2,354	
Average sales transaction	\$11.63	\$11.16	\$10.94	
Drive-through sales as a percentage of total sales	47.6 %	47.9 %	46.3 %	
Day-part sales percentages:				
Lunch	47.1 %	47.2 %	47.1 %	
Dinner and late night	52.9 %	52.8 %	52.9 %	
<i>Taco Cabana:</i>				
Average annual sales per company-owned restaurant (in thousands) ⁽¹⁾	\$1,846	\$1,760	\$1,894	
Average sales transaction	\$10.47	\$9.43	\$9.27	
Drive-through sales as a percentage of total sales	55.7 %	56.4 %	55.7 %	
Day-part sales percentages:				
Breakfast	23.4 %	23.5 %	22.3 %	
Lunch	22.3 %	21.8 %	22.0 %	
Dinner	24.9 %	24.7 %	24.9 %	
Late night (9pm to midnight)	11.8 %	11.4 %	11.8 %	
Afternoon (2pm to 5pm)	13.1 %	12.7 %	12.6 %	
Overnight (midnight to 6am)	4.5 %	5.9 %	6.4 %	

(1) Average annual sales for company-owned restaurants are derived by dividing restaurant sales for such year for the applicable segment by the average number of company-owned restaurants for the applicable segment for such year. For comparative purposes, the calculation of average annual sales per company-owned restaurant is based on a 52-week fiscal year.

Seasonality

Our business is marginally seasonal due to regional weather conditions. Sales from our restaurants located in South Florida are generally higher during the winter months than during the summer months, while sales from our restaurants located in Texas, Central Florida, and North Florida are generally higher during the summer months than the winter months. In addition, we have outdoor seating at many of our restaurants and the effects of adverse weather may impact the use of these areas and may negatively impact our restaurant sales.

Operations***Management Structure***

We conduct substantially all of our operations, training, marketing, real estate, facilities and culinary research and development support functions from our Pollo Tropical division headquarters in Miami, Florida, and our Taco Cabana division headquarters in San Antonio, Texas. The management structure of Pollo Tropical consists of our President of Pollo Tropical, Danny Meisenheimer, who also serves as our Chief Operating Officer of Fiesta, and has over 30 years of experience in the restaurant industry, and one Vice President of Operations who is supported by four Regional Directors and 19 District Managers. The management structure of Taco Cabana consists of our President of Taco Cabana, Charles Locke, who has over 20 years of restaurant industry experience, and one Vice President of Operations who is supported by six Regional Directors and 22 District Managers. The Pollo Tropical and Taco Cabana Presidents are supported by a number of divisional and corporate executives with responsibility for operations, marketing, product development, purchasing, human resources, training, real estate and finance. For each of our brands, a district manager is responsible for the direct oversight of the day-to-day operations of an average of approximately seven restaurants. Typically, district managers have previously served as restaurant managers at one of our restaurants or held an equivalent position to district manager at a competing restaurant concept. District managers and restaurant managers are compensated with a fixed

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salary plus an incentive bonus based upon the performance of the restaurants under their supervision. Typically, our restaurants are staffed with hourly employees who are supervised by a salaried restaurant or general manager and one to three salaried assistant managers and one to eight shift leaders.

Our executive management functions are primarily conducted from our offices in Dallas, Texas and Miami, Florida. Our management team is led by Richard Stockinger, who serves as our President and Chief Executive Officer, Louis DiPietro serves as our Senior Vice President, General Counsel and Corporate Secretary, Anthony Dinkins serves as our Senior Vice President of Human Resources, Danny Meisenheimer serves as our Senior Vice President, Chief Operating Officer of Fiesta and President of Pollo Tropical, and Charles Locke serves as President of Taco Cabana. Lynn Schweinfurth served as our Senior Vice President, Chief Financial Officer and Treasurer until January 25, 2019. Cheri Kinder serves as our Vice President, Corporate Controller and Chief Accounting Officer and is currently serving as Interim Chief Financial Officer and Treasurer while we conduct a formal search for a new permanent Chief Financial Officer.

Training

We maintain a comprehensive training and development program for all our restaurant personnel and provide both classroom and in-restaurant training for our salaried and hourly team members. Technology enhancements, expansion of leadership development curriculum, and a re-design of our e-learning courses coinciding with the introduction of a new Learning Management System platform is underway to focus our team members on system-wide operating procedures by position, food preparation methods and guest service standards.

The onboarding period for new managers is spent initially in a comprehensive management training program supervised by a dedicated field training manager. This period covers basic shift control and restaurant operations, team member supervision, procedural and technical skills and management development. This training is complemented by active coaching and a limited span of control. Thereafter, we customize an intensive, self-paced ongoing development program designed to prepare each employee for the next level of management. The onboarding period also includes robust classroom training with an emphasis on skill and competency building.

Our training process for new restaurant openings has been developed over the last five years as we expanded into new territory. Dedicated trainers, a new restaurant opening support team and a well-documented training and logistics process is in place to assist us in ensuring consistent execution of the brand standards as new restaurants open. The process consists of courses delivered both digitally and in the classroom, hands-on training and role-playing to ensure we transfer knowledge of our menu authenticity, knowledge and passion for our food and a culture of caring, which are strengths in our traditional markets. Our opening processes and training programs are designed to effectively instill these values along with our operating standards to our teams in new markets.

Management Information Systems

Our management information systems provide us the ability to efficiently and effectively manage our restaurants and to ensure consistent application of operating controls at our restaurants.

In all corporate-owned restaurants, we use computerized management information systems, which we believe are scalable to support our future growth plans. We use touch-screen point-of-sale (POS) systems designed specifically for the restaurant industry that facilitate accuracy and speed of order taking, are user-friendly, require limited cashier training and improve speed-of-service through the use of conversational order-taking techniques. The POS systems are integrated with above-store enterprise applications that are designed to facilitate financial and management control of our restaurant operations. All products sold and related prices at our restaurants are programmed into the system from our central support office.

We provide in-store access to enterprise systems that assist in labor scheduling and food cost management, allow on-line ordering from distributors, and reduce managers' administrative time. Critical information from such systems is available in near real-time to our restaurant managers, who are expected to react quickly to trends or situations in their restaurant. Our district managers also receive near real-time information from all restaurants under their control and have access to key operating data on a remote basis. Management personnel at all levels, from the restaurant manager through senior management, utilize key restaurant performance indicators to manage our business.

These enterprise systems provide daily tracking and reporting of traffic counts, menu item sales, labor and food data including costs, and other key operating information for each restaurant. These systems also provide the ability to

monitor labor utilization and sales trends on a real-time basis at each restaurant and provide analyses, reporting and tools to enable all levels of management to review a wide-range of financial, product mix and operational data.

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We use an integrated digital ordering system that is integrated with our POS system at each restaurant. Individual, group or catering orders placed on our website or that of our third-party delivery partners, mobile app or through our call center are transmitted electronically to the restaurants to provide a seamless ordering, payment and pickup or delivery experience for our guests.

We expect to continue making substantial investments in technology that we believe will drive sales and transaction growth through improved customer engagement and off-premise service offerings, improve the effectiveness of labor and inventory management and business analytics, and improve efficiencies with our core enterprise systems. As we enter into 2019, we are rolling out portable POS tablets with the ability to accept secure payments at both brands to improve speed of service. In addition, in early 2019, we will begin testing self-service kiosks inside our restaurants for guests to order and pay and will measure, among other things, the impact to traffic, guest check average, accuracy, staffing and operations.

Community Social Impact

We are committed to being a deeply responsible company in the communities where we do business. Our focus is on serving high quality food to our guests and contributing positively to the communities where our restaurants are located. This is integral to our business strategy. Some of our initiatives include:

• Our chicken is free of hormones and trans-fats and our shrimp is Best Aquaculture certified;

• We continue to pursue finding more earth-friendly serving and packaging materials for our products including bags that are made from recycled material, are 100% recyclable and reusable and are Rainforest Alliance certified, paper drink cups that are Sustainable Forest Initiative certified and aluminum that contains postindustrial re-processed and postconsumer material;

• Military veterans are actively recruited to work at our restaurants;

• We have military appreciation days and we provide discounts to military and first responders;

In 2018, we provided monetary and food donations or volunteered to the following organizations: Susan G. Komen, Boys and Girls Club of America, Salvation Army, Sandra DeLuca Development Center, Juvenile Diabetes Research Foundation, Children's Hospitals of Texas, Houston Food Bank, Austin Central Texas Food Bank, El Pasoans Fighting for Hunger Food Bank, San Antonio Food Bank, San Antonio Haven for Hope and Madison on Marsh Nursing Home;

• We provided hundreds of hot meals to local police, FBI, first responders and local residents in need after the Parkland, Florida shooting tragedy;

• Hundreds of hot meals were provided to first responders, victims, elderly residents and others in Texas and in Florida in the aftermath of the Hurricanes; and

• We assist, through our non-profit Fiesta Family Foundation, many of our employees who have personally suffered losses or other hardships, including as a result of the Hurricanes.

As a result of these initiatives, we believe we deliver benefits to our stakeholders, including employees, business partners, customers, suppliers, stockholders, community members and others.

Suppliers and Distributors

For our Pollo Tropical and Taco Cabana restaurants, we have negotiated directly with local and national suppliers for the purchase of food and beverage products and supplies to ensure consistent quality and freshness and to obtain competitive prices. Food and supplies for both brands are ordered from approved suppliers and are shipped to the restaurants via distributors. Both brands are responsible for monitoring quality control, for the supervision of these suppliers and for conducting inspections to observe preparations and ensure the quality of products purchased.

For both our Pollo Tropical and Taco Cabana restaurants, we have service agreements with our primary distributors of food and paper products. In 2014, we consolidated our food distribution with Performance Food Group, Inc., which is now our primary distributor of food and beverage products and supplies for both our Pollo Tropical and Taco Cabana restaurants under a distribution services agreement that expires on July 31, 2019. For our Pollo Tropical restaurants, Kelly Food Service is our primary chicken distributor under an agreement that expires on July 31, 2019. We also currently rely on six suppliers for chicken for our Pollo Tropical and Taco Cabana restaurants under agreements that expire on December 31, 2019.

Quality Assurance

Pollo Tropical and Taco Cabana are committed to obtaining quality ingredients and creating freshly-prepared food in a safe manner. In addition to operating in accordance with quality assurance and health standards mandated by federal, state and local governmental laws and regulations regarding minimum cooking times and temperatures, maximum time standards for holding prepared food, food handling guidelines and cleanliness, among other things, we have also developed our own internal quality control standards. We require our suppliers to adhere to our high quality control standards, and we regularly inspect their products and production and distribution facilities to ensure that they conform to those standards. In addition, we have implemented certain

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procedures to ensure that we serve safe, quality meals to our guests. As an example, we utilize the nationally-recognized ServSafe program to train our kitchen staff and managers on proper food handling and preparation techniques. In addition, we have hired a third party that conducts unscheduled food safety inspections of our restaurants, and restaurant managers conduct internal inspections for taste, quality, cleanliness and food safety on a regular basis. These third-party inspections are one of the metrics used in our restaurant-level incentive bonus programs.

In addition to food safety, our operational focus at each of our two concepts is closely monitored to achieve a high level of guest satisfaction via speed of service, order accuracy and quality of service. Our senior management and restaurant management staffs are principally responsible for ensuring compliance with our operating policies. We have uniform operating standards and specifications relating to the quality, preparation and selection of menu items, maintenance and cleanliness of the restaurants and employee conduct. In order to maintain compliance with these operating standards and specifications, we distribute to our restaurant operations management team detailed reports measuring compliance with various guest service standards and objectives, including feedback obtained directly from our guests. The guest feedback is monitored by an independent agency and by us and consists of evaluations of speed of service, quality of service, quality of our menu items and other operational objectives including the cleanliness of our restaurants. We also have in-house guest service representatives that manage guest feedback and inquiries.

Trademarks

We believe that our trademarks, service marks, trade dress, logos and other proprietary intellectual property are important to our success. We have registered the principal Pollo Tropical and Taco Cabana logos and designs with the U.S. Patent and Trademark Office on the Principal Register as a service mark for our restaurant services. We also have secured or have applied for state and federal registrations for several other advertising or promotional marks, including variations of the Pollo Tropical and Taco Cabana principal marks as well as those related to our core menu offerings. In connection with our current and potential international franchising activities, we have applied for or been granted registrations in foreign countries of the Pollo Tropical and Taco Cabana principal marks and several other marks.

Other than the Pollo Tropical and Taco Cabana trademarks and the logo and trademark of Fiesta Restaurant Group (including Internet domain names and addresses) and proprietary rights relating to certain of our core menu offerings, we have no proprietary intellectual property.

Continued Commitment to Strong Governance

At the 2018 Annual Meeting of Stockholders, we declassified our board of directors so that beginning at our 2019 Annual Meeting of Stockholders, our entire board of directors will stand for re-election for a one-year term. Additionally, in 2018, our board of directors adopted a mandatory maximum age of 75 for any director nominee.

Government Regulation

Various federal, state and local laws affect our business, including various health, sanitation, fire and safety standards. Restaurants to be constructed or reimaged are subject to state and local building code and zoning requirements. In connection with the development and reimaging of our restaurants, we may incur costs to meet certain federal, state and local regulations, including regulations promulgated under the Americans with Disabilities Act.

We are subject to the federal Fair Labor Standards Act and various other federal and state laws governing employment matters. While we pay, on average, rates that are above the federal minimum wage, and where applicable, state minimum wage, increases in those minimum wages have in the past increased wage rates at our restaurants and in the future will affect our labor costs. We are also subject to provisions of the comprehensive federal health care reform law. We anticipate that a combination of labor management, cost reduction initiatives, technology and menu price increases can materially offset the potential increased costs associated with future regulations.

Taco Cabana is subject to alcoholic beverage control regulations that require state, county or municipal licenses or permits to sell alcoholic beverages at each restaurant location that sells alcoholic beverages. Typically, licenses must be renewed every one to two years and may be revoked or suspended for cause at any time. Licensing entities, authorized with law enforcement authority, may issue violations and conduct audits and investigations of the restaurant's records and procedures. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of our Taco Cabana restaurants including minimum age for consumption, certification requirements for

employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. These regulations also prescribe certain required banking and accounting practices related to alcohol sales and purchasing. Our Taco Cabana restaurants are subject to state "dram-shop" laws. Dram-shop laws provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated or minor patron. We have specific insurance that covers claims arising

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under dram-shop laws. However, we cannot ensure that this insurance will be adequate to cover any claims that may be instituted against us. In early 2017, we discontinued the sale of alcoholic beverages at Pollo Tropical restaurants.

Employees

As of December 30, 2018, we employed approximately 10,220 persons, of which approximately 210 were corporate and administrative personnel and approximately 10,010 were restaurant operations and other supervisory personnel. None of our employees are covered by collective bargaining agreements. We believe that overall relations with our employees are good.

Availability of Information

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the "SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1 800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

We make available through our internet website (www.frgi.com) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after electronically filing such material with the SEC. The reference to our website address is a textual reference only, meaning that it does not constitute incorporation by reference of the information contained on the website and should not be considered part of this document. In addition, at our website you may also obtain, free of charge, copies of our corporate governance materials, including the charters for the committees of our board of directors and copies of various corporate policies including our Code of Business Ethics and Conduct, Code of Ethics for Executives and our "Whistle Blower" policy.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, as well as other information and data included in this Annual Report on Form 10-K. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties we face. Our business is also subject to general risks and uncertainties that affect many other companies, including overall economic and industry conditions. Additional risks and uncertainties not currently known to us or that we currently believe are not material also may impair our business, consolidated financial condition and results of operations.

Risks Related to Our Business

The market in which we compete is highly competitive, and we may not be able to compete effectively.

The restaurant industry is highly competitive. In each of our markets, our restaurants compete with a large number of national and regional restaurant chains, as well as locally owned restaurants, offering low and medium-priced fare. We also compete with delivered meal solutions, convenience stores, grocery stores and other restaurant retailers. Pollo Tropical's competitors include national and regional chicken-based concepts as well as other types of quick-service and fast-casual restaurants. Our Taco Cabana restaurants compete with Mexican concepts, including those in the quick-service, fast-casual and casual dining segments. Many of our competitors or potential competitors have greater financial and other resources than we do, which may allow them to react to changes in pricing, marketing, and trends in the restaurant industry more quickly or effectively than we can. Additionally, to remain competitive, we have increasingly offered selected food items and combination meals at discounted prices. These pricing and other marketing strategies have had, and in the future may have, a negative impact on our sales and earnings.

Factors applicable to the quick-service and fast-casual restaurant segments may adversely affect our results of operations, which may cause a decrease in earnings and revenues.

The quick-service and fast-casual restaurant segments are highly competitive and can be materially adversely affected by many factors, including:

- changes in local, regional or national economic conditions;
- changes in demographic trends;
- changes in consumer tastes;
- changes in traffic patterns;
- increases in fuel prices and utility costs;
- consumer concerns about health, diet and nutrition;
- instances of food-borne or localized illnesses or other food safety issues;
- increases in the number of, and particular locations of, competing restaurants;
- changes in discretionary consumer spending;
- inflation;
- availability of key commodities such as beef, chicken, eggs and produce;
- increases in the cost of key commodities, such as beef, chicken, eggs and produce as well as the cost of paper goods and packaging;
- the availability of hourly-paid employees and experienced restaurant managers including a decrease in the labor supply due to changes in immigration policy such as barriers for entry into, working in, or remaining in the United States;
- increased labor costs, including higher wages, unemployment insurance, minimum wage, unionization of restaurant employees and overtime requirements;
- increases in the cost of providing healthcare and related benefits to employees, including the impact of the Affordable Care Act;
- costs related to remaining competitive and current with regard to new technologies in our restaurants such as loyalty programs, gift cards, on-line ordering and credit card security; and
- regional weather conditions including hurricanes, windstorms and flooding, and other natural disasters.

Our success depends in significant part on the success of our Strategic Renewal Plan.

On April 24, 2017, we announced our Strategic Renewal Plan which was essentially completed at the end of the 2018 fiscal year. There can be no assurance that the strategic initiatives implemented under the Plan will deliver on their intended results, which could in turn adversely affect our business.

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These strategic initiatives included detailed items focused on the following:

- Revitalizing our brands in core markets;
- Managing our capital effectively and exhibiting strong financial discipline;
- Establishing platforms for long term growth; and
- Reviewing our restaurant portfolio and closing underperforming restaurants.

Our continued growth depends on our ability to open and operate new restaurants profitably, which in turn depends on our continued access to capital, and newly developed restaurants may not perform as we expect and there can be no assurance that our growth and development plans will be achieved.

While we have decreased the number of new restaurants which we plan to open in the near term, our continued growth still depends on our ability to develop additional Pollo Tropical and Taco Cabana restaurants. Development involves substantial risks, including the following:

- developed restaurants that do not achieve desired revenue or cash flow levels or other operating and performance targets once opened;
- the inability to recruit and retain managers and other employees necessary to staff each new restaurant;
- incurring substantial unrecoverable costs in the event a development project is abandoned prior to completion or a new restaurant is closed due to poor financial performance;
- changes in general economic and business conditions;
- the inability to fund development;
- increasing development costs or development costs that exceed budgeted amounts;
- delays in completion of construction;
- the inability to obtain all necessary zoning and construction permits;
- the inability to identify, or the unavailability of, suitable sites on acceptable leasing or purchase terms; and
- changes in governmental rules and regulations or enforcement thereof.

Our long-term development plans will require additional management, operational and financial resources. For example, we will be required to recruit managers and other personnel for each new restaurant. We cannot ensure that we will be able to manage our expanding operations effectively and our failure to do so could adversely affect our results of operations. In addition, our ability to open new restaurants and to grow, as well as our ability to meet other anticipated capital needs, may depend on our continued access to external financing, including borrowing under our senior secured revolving credit facility, which we refer to as the "senior credit facility." There can be no assurance that we will have access to the capital we need at acceptable terms or at all, which could materially adversely affect our business. In addition, our need to manage our indebtedness levels to ensure continued compliance with financial leverage ratio covenants under our senior credit facility may reduce our ability to develop new restaurants.

Customer preferences and traffic could be adversely impacted by health concerns about certain food products, reports of food-borne illnesses or food safety issues, any of which could result in a decrease in demand for our products.

Customer preferences and traffic could be adversely impacted by health concerns or negative publicity about the consumption of particular food products, which could cause a decline in demand for those products and adversely impact our sales.

Instances or reports, whether verified or not, of food-safety issues, such as food-borne illnesses, food tampering, food contamination or mislabeling, either during growing, manufacturing, packaging, storing or preparation, have in the past severely injured the reputations of companies in the food processing, grocery and quick-service and fast-casual restaurant sectors and could affect us as well. Any report linking us to food-borne illnesses or food tampering, contamination, mislabeling or other food-safety issues could damage our brand value and severely hurt sales of our food products and possibly lead to product liability claims, litigation (including class actions) or damages.

These problems, other food-borne illnesses (such as norovirus or hepatitis A), and injuries caused by the presence of foreign material could require us to temporarily close our restaurants. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and a decrease in customer traffic to our restaurants. Furthermore, any instances of food contamination, whether or not at our restaurants, could subject us or our suppliers to a food recall pursuant to the United States Food and Drug

Administration's recently enacted Food Safety Modernization Act.

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Changes in consumer tastes may reduce the frequency of their visits to our restaurants which could negatively impact our business.

We obtain a significant portion of our revenues from the sale of foods that are characterized as tropical and Mexican inspired and if consumer preferences for these types of foods change, it could have a material adverse effect on our operating results. Additionally, numerous companies in the industry have introduced products positioned to capitalize on the growing consumer preference for food products that are, or are perceived to be, promoting good health, nutritious, fresh, local, clean and all-natural, free from artificial ingredients, minimally processed, low in calories and low in fat content. Our inability to continue to respond to customer demand or changes in customer taste and preferences could require us to change our pricing, marketing, or promotional strategies, which could materially and adversely affect our consolidated financial results or the brand identity that we have created.

An increase in food costs could adversely affect our operating results.

Our profitability and operating margins are dependent in part on our ability to anticipate and react to changes in food costs. Changes in the cost or availability of certain food products could affect our ability to offer a broad menu and maintain competitive prices and could materially adversely affect our profitability and reputation. The type, variety, quality and cost of produce, beef, poultry, cheese and other commodities can be subject to change and to factors beyond our control, including weather, governmental regulation, availability and seasonality, each of which may affect our food costs or cause a disruption in our supply. Although we utilize purchasing contracts to lock in the prices for a material portion of the food commodities used in our restaurants, some of the commodities used in our operations cannot be locked in for periods longer than one month. We do not use financial instruments to hedge our risk against market fluctuations in the price of commodities at this time. We may not be able to anticipate and react to changing food costs through our purchasing practices and menu price adjustments in the future, and failure to do so could negatively impact our revenues and results of operations.

We could also be adversely affected by price increases specific to ingredients we have chosen due to their specific quality profile or related criteria, the markets for which are generally smaller and more concentrated than the markets for other commodity food products.

If a significant disruption in service or supply by any of our suppliers or distributors were to occur, it could create disruptions in the operations of our restaurants, which could have a material adverse effect on our business.

Our restaurants depend on frequent deliveries of ingredients and other products. For both our Pollo Tropical and Taco Cabana restaurants, we have service agreements with our primary distributors of food and paper products. In 2014, we consolidated our food distribution with Performance Food Group, Inc., which is now our primary distributor of food and beverage products and supplies for both our Pollo Tropical and Taco Cabana restaurants under a distribution services agreement that expires on July 31, 2019. For our Pollo Tropical restaurants, Kelly Food Service is our primary chicken distributor under an agreement that expires on July 31, 2019. We also currently rely on six suppliers for chicken for our Pollo Tropical restaurants under agreements that expire on December 31, 2019. There are many factors which could cause shortages or interruptions in the supply of our ingredients and products, including adverse weather, unanticipated demand, labor or distribution problems, food safety issues by our suppliers or distributors, cost, and the financial health of our suppliers. If we cannot replace or engage distributors or suppliers who meet our specifications in a short period of time, this could increase our expenses and cause shortages of food and other items at our restaurants, which could cause a restaurant to remove items from its menu. If such actions were to occur, customers could change their dining habits and affected restaurants could experience significant reductions in sales during the shortage or thereafter.

Loss of senior management could adversely affect our future success.

Our success depends on the services of our senior management, all of whom are "at will" employees. The loss of a member of senior management could have an adverse impact on our business or the financial market's perception of our ability to continue to grow.

If there is a lack of sufficient labor or labor costs increase, our operating results may be adversely affected.

Labor is a primary component in the cost of operating our restaurants. If we face labor shortages or increased labor costs, because of increased competition for employees, a decrease in the labor supply to us or our key suppliers due to changes in immigration policy including barriers to immigrants entering, working in, or remaining in the United

States, higher employee-turnover rates, unionization of restaurant workers, or increases in federal, state, or local minimum wages or in other employee benefits costs (including costs associated with health insurance coverage or workers' compensation insurance), this could have a material adverse effect on our operating results.

If a significant portion of our employees were to become union organized, our labor costs could increase. Potential changes in labor laws could increase the likelihood of some or all of our employees being subjected to greater organized labor influence

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and could have an adverse effect on our business and financial results by imposing requirements that could potentially increase our costs.

The success of our marketing programs and the impact of those of our competitors could have a material adverse effect on our results of operations and financial condition.

If our competitors increase spending on advertising and promotions, or our advertising and other marketing programs do not result in increased net sales or if the costs of advertising, media, or marketing increase greater than expected, or are less effective than our competitors, our profitability could be materially adversely affected.

Any material failure, interruption, or security breach in our systems could adversely affect our business.

We rely heavily on information technology systems across our operations, including point-of-sale processing in our restaurants, gift and loyalty cards, online business, and various other processes and transactions. Our ability to effectively manage our business and coordinate the preparation and sale of our products depends significantly on the reliability and capacity of these systems. We expect to expand our utilization of technology throughout our business and the failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could cause reduced efficiency of our operations, and significant capital investments could be required to remediate the problem.

Security breaches of confidential guest information in connection with our electronic processing of credit and debit card transactions or security breaches of confidential employee information may adversely affect our business.

A significant amount of our restaurant sales are by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and debit card information of their guests has been stolen. We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our guests' credit or debit card information. Any such claim or proceeding, or any adverse publicity resulting from these allegations, may have a material adverse effect on us and our restaurants.

We also collect and maintain personal information about our employees and customers as part of some of our marketing and guest loyalty programs. The collection and use of such information is regulated at the federal and state levels, and the regulatory environment related to information security and privacy is increasingly demanding. We also rely increasingly on cloud computing and other technologies that result in third parties holding significant amounts of customer or employee information on our behalf. If the security and information systems of our outsourced third-party providers we use to store or process such information are compromised or if we or such third parties otherwise fail to comply with these laws and regulations, we could face litigation and the imposition of penalties, which could adversely affect our financial performance. Our reputation as a brand or as an employer could also be adversely affected, which could impair our sales or ability to attract and keep qualified employees.

Our business is regional and we therefore face risks related to reliance on certain markets as well as risks for other unforeseen events.

As of December 30, 2018, all of our Company-owned Pollo Tropical restaurants were located in Florida and all of our Company-owned Taco Cabana restaurants were located in Texas. Therefore, events and conditions specific to these regions, including economic conditions, state and local government regulations, weather conditions or other conditions affecting Florida and Texas, and the tourism industry in Florida, may have a material impact on the success of our restaurants in those locations.

Many of our restaurants are located in regions that may be susceptible to severe weather conditions. For example, our Florida and certain of our Texas restaurants are susceptible to hurricanes, other severe tropical weather events and flooding, and in the past, a number of our Texas restaurants have been periodically affected by severe winter weather. As a result, adverse weather conditions in any of these areas could damage these restaurants, reduce guest traffic to these restaurants, make it difficult or impossible for restaurants to receive deliveries of ingredients or other products and otherwise have a material adverse impact on our business.

Economic downturns may adversely impact consumer spending patterns.

Our business is dependent to a significant extent on national, regional and local economic conditions, particularly those that affect our guests that frequently patronize our restaurants. In particular, where our guests' disposable income is reduced (such as by job losses, credit constraints and higher housing, tax, utility, gas, consumer credit or other costs) or where the perceived wealth of guests has decreased (because of circumstances such as lower residential real

estate values, lower investment values, increased foreclosure rates, increased tax rates or other economic disruptions), our restaurants have in the past experienced, and may in the future experience, lower sales and guest traffic as guests choose lower-cost alternatives or choose alternatives to dining out. The resulting decrease in our guest traffic or average sales per transaction has had an adverse effect in the past, and could in the future have a material adverse effect, on our business.

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Our expansion into new markets may present increased risks due to a lack of market awareness of our brands.

We have encountered and may continue to encounter difficulties developing restaurants outside of our more mature core markets. For example, we closed all Pollo Tropical restaurants in Texas, Tennessee and Georgia over the last three years. We may be unable to find attractive locations or successfully market our products as we attempt to expand beyond our existing markets, as the competitive circumstances and consumer characteristics in these new areas may differ substantially from those in areas in which we currently operate. It may be more challenging for us to attract guests to our restaurants in areas where there is a limited or a lack of market awareness of the Pollo Tropical or Taco Cabana brand. Restaurants opened in new markets where we have not reached media efficiency may open at lower sales volumes than restaurants opened in more mature markets, and may have lower restaurant-level operating margins than more mature markets. Sales at restaurants opened in new markets that are not yet media efficient have taken and may continue to take longer to reach average restaurant sales volumes, if at all, thereby adversely affecting our operating results, including the recognition of future impairment and other lease charges. Opening new restaurants in areas in which potential guests may not be familiar with our restaurants may include costs related to the opening and marketing of those restaurants that are substantially greater than those incurred by our restaurants in other areas. Even though we may incur substantial additional costs with respect to these new restaurants, they may attract fewer guests than our more established restaurants in existing markets. We may also not open a sufficient number of restaurants in new markets to adequately leverage distribution, supervision and marketing costs. As a result of the foregoing, we cannot ensure that we will be able to successfully or profitably operate our new restaurants outside our existing markets.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future results of operations.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

Government regulation could adversely affect our financial condition and results of operations.

In connection with the operation of our business, we are subject to extensive federal, state, local, and foreign laws and regulations that are complex and vary from location to location, including those related to:

- franchise relationships;
- building construction and zoning requirements;
- nutritional content labeling and disclosure requirements;
- management and protection of the personal data of our employees and customers; and
- environmental matters.

Our restaurants are licensed and subject to regulation under federal, state, local and foreign laws, including business, health, fire, sales of alcohol (with respect to our Taco Cabana restaurants) and safety codes. For example, we are subject to the U.S. Americans with Disabilities Act, or ADA, and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.

In addition, various federal, state, local and foreign labor laws govern our operations and our relationship with our employees, including minimum wage requirements, overtime, accommodation and working conditions, benefits, work authorization requirements, insurance matters, workers' compensation, disability laws such as the ADA discussed above, child labor laws, and anti-discrimination laws.

Although we believe that compliance with these laws has not had a material adverse effect on our operations to date, we may experience material difficulties or failures with respect to compliance with such laws in the future. Our failure

to comply with these laws could result in required renovations to our facilities, litigation, fines, penalties, judgments, or other sanctions, including the temporary suspension of restaurant operations or a delay in construction or opening of a restaurant, any of which could adversely affect our business and our reputation.

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In addition, new government initiatives or changes to existing laws, such as the adoption and implementation of national, state, or local government proposals relating to increases in minimum wage rates, may increase our costs of doing business and adversely affect our results of operations.

Changes in employment laws may adversely affect our business.

Various federal and state labor laws govern the relationship with our employees and affect operating costs. These laws include employee classification as exempt/non-exempt for overtime and other purposes, minimum wage requirements, unemployment tax rates, workers' compensation rates, immigration status and other wage and benefit requirements. In addition, states in which we operate are considering or have already adopted new immigration laws or enforcement programs, and the U.S. Congress and Department of Homeland Security from time to time consider and may implement changes to federal immigration laws, regulations or enforcement programs as well. Some of these changes may increase our obligations for compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we require all workers to provide us with government-specified documentation evidencing their employment eligibility, some of our employees may, without our knowledge, be unauthorized workers. We currently participate in the E-Verify program, an Internet-based, free program run by the United States government to verify employment eligibility, in states in which participation is required. However, use of the E-Verify program does not guarantee that we will properly identify all applicants who are ineligible for employment. Unauthorized workers are subject to deportation and may subject us to fines or penalties, and if any of our workers are found to be unauthorized we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and keep qualified employees.

Termination of a significant number of employees who were unauthorized employees may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in additional adverse publicity. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration compliance laws. These factors could materially adversely affect our business, financial condition and results of operations.

If one of our employees sells alcoholic beverages to an intoxicated patron or to a minor, we may be liable to third parties for the acts of the patron or incur significant fines or penalties.

We serve alcoholic beverages at our Taco Cabana restaurants and are subject to the "dram-shop" statutes of the jurisdictions in which we serve alcoholic beverages. "Dram-shop" statutes generally provide that serving alcohol to an intoxicated patron is a violation of the law. We discontinued the sale of alcoholic beverages at Pollo Tropical restaurants in early 2017.

In most jurisdictions, if one of our employees sells alcoholic beverages to an intoxicated patron we may be liable to third parties for the acts of the patron. We cannot guarantee that those patrons will not be served or that we will not be subject to liability for their acts. Our liquor liability insurance coverage may not be adequate to cover any potential liability and insurance may not continue to be available on commercially acceptable terms or at all, or we may face increased deductibles on such insurance. A significant dram-shop claim or claims could have a material adverse effect on us as a result of the costs of defending against such claims; paying deductibles and increased insurance premium amounts; implementing improved training and heightened control procedures for our employees; and paying any damages or settlements on such claims.

Additionally, we are subject to statutes of the jurisdictions in which we serve alcoholic beverages which prohibit us from selling or serving alcohol to minor patrons. These statutes generally provide that serving or selling alcohol to minors is a violation of the law, and will result in fines and other penalties including the suspension or loss of our license to sell alcohol in the future. If we were to incur a significant number of sale to minor violations the fines or penalties could have a material adverse effect on us.

The effect of changes to U.S. health care laws may increase our health care costs and negatively impact our financial results.

Under the comprehensive U.S. health care reform law enacted in 2010, the Affordable Care Act, changes that became effective in 2014, and the employer mandate and employer penalties that became effective in 2015, may increase our labor costs significantly. While changes in the law that became effective in 2015, including the imposition of a penalty on individuals who do not obtain health care coverage, have not resulted in significant numbers of additional

employees electing to participate in our health care plans, there can be no assurance that this will not change in the future which may increase our health care costs. It is also possible that making changes or failing to make changes in the health care plans we offer will make us less attractive to our current or potential employees. The costs and other effects of these new health care requirements on future periods cannot be determined with certainty and could have a material adverse effect on our results of operations.

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We may incur significant liability or reputational harm if claims are brought against us or against our franchisees.

We or our franchisees may be subject to complaints, regulatory proceedings or litigation from guests or other persons alleging food-related illness, injuries suffered on our premises or other food quality, health or operational concerns, including environmental claims. In addition, in recent years a number of restaurant companies have been subject to lawsuits, including class action lawsuits, alleging, among other things, violations of federal and state law regarding workplace and employment matters, discrimination, harassment, wrongful termination and wage, rest break, meal break and overtime compensation issues and, in the case of certain restaurants, alleging that they have failed to disclose the health risks associated with high-fat or high sodium foods and that their marketing practices have encouraged obesity. We may also be subject to litigation or other actions initiated by governmental authorities, our employees and our franchisees, among others, based upon these and other matters. Adverse publicity resulting from such allegations or occurrences or alleged discrimination or other operating issues stemming from one of our locations, a number of our locations or our franchisees could adversely affect our business, regardless of whether the allegations are true, or whether we are ultimately held liable. Any cases filed against us could materially adversely affect us if we lose such cases and have to pay substantial damages or if we settle such cases. In addition, any such cases may materially and adversely affect our operations by increasing our litigation costs and diverting our attention and resources to address such actions. In addition, if a claim is successful, our insurance coverage may not cover or be adequate to cover all liabilities or losses and we may not be able to continue to maintain such insurance, or to obtain comparable insurance at a reasonable cost, if at all. If we suffer losses, liabilities or loss of income in excess of our insurance coverage or if our insurance does not cover such loss, liability or loss of income, there could be a material adverse effect on our results of operations.

Our franchisees could take actions that harm our reputation.

As of December 30, 2018, a total of 38 Pollo Tropical and Taco Cabana restaurants were owned and operated by our franchisees. We do not exercise control of the day-to-day operations of our franchisees and the number of franchised restaurants may increase in the future. While we attempt to ensure that franchisee-owned restaurants maintain the same high operating standards as our Company-owned restaurants, one or more of these franchisees may fail to meet these standards. Any shortcomings at our franchisee-owned restaurants could be attributed to our company as a whole and could adversely affect our reputation and damage our brands.

Our indebtedness could adversely affect our financial condition.

As of December 30, 2018, we had \$79.7 million of outstanding indebtedness comprised of \$78.0 million of revolving credit borrowings under our senior credit facility and capital lease obligations of \$1.7 million.

As a result of our indebtedness, a portion of our operating cash flow will be required to make payments on our outstanding indebtedness. In addition, to the extent we significantly increase our borrowings and interest rates increase under our senior credit facility, we may not generate sufficient cash flow from operations to enable us to both repay our indebtedness and fund our other liquidity needs.

Our indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our debt;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our indebtedness and related interest, including indebtedness we may incur in the future, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increase our cost of borrowing;
- place us at a competitive disadvantage compared to our competitors that may have less debt; and
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes.

We expect to use cash flow from operations and revolving borrowings under our senior credit facility to meet our current and future financial obligations, including funding our operations, debt service and capital expenditures. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow

from operations in the future, which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not have enough money, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including our senior credit facility, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness, including the agreements for our senior credit facility, may limit our ability to pursue any of these alternatives.

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Despite current indebtedness levels and restrictive covenants, we may still be able to incur more debt or make certain restricted payments, which could further exacerbate the risks described above.

We and our subsidiaries may be able to incur additional debt in the future. Although our senior credit facility contains restrictions on our ability to incur indebtedness, those restrictions are subject to a number of exceptions. We may also consider investments in joint ventures or acquisitions, which may increase our indebtedness. Moreover, although our senior credit facility contains restrictions on our ability to make restricted payments, including the declaration and payment of dividends, we are able to make such restricted payments under certain circumstances. Adding new debt to current debt levels or making restricted payments could intensify the related risks that we and our subsidiaries now face.

Our senior credit facility restricts our ability to engage in some business and financial transactions.

Our senior credit facility restricts our ability in certain circumstances to, among other things:

- incur additional debt;
- pay dividends and make other distributions on, redeem or repurchase, capital stock;
- make investments or other restricted payments;
- enter into transactions with affiliates;
- sell all, or substantially all, of our assets;
- create liens on assets to secure debt; or
- effect a consolidation or merger.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. In addition, our senior credit facility requires us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet these financial ratios and tests can be affected by events beyond our control, and we cannot ensure that we will meet these tests.

Federal, state and local environmental regulations relating to the use, storage, discharge, emission and disposal of hazardous materials could expose us to liabilities, which could adversely affect our results of operations.

We are subject to a variety of federal, state and local environmental regulations relating to the use, storage, discharge, emission and disposal of hazardous substances or other regulated materials, release of pollutants into the air, soil and water, and the remediation of contaminated sites.

Failure to comply with environmental laws could result in the imposition of fines or penalties, restrictions on operations by governmental agencies or courts of law, as well as investigatory or remedial liabilities and claims for alleged personal injury or damages to property or natural resources. Some environmental laws impose strict, and under some circumstances joint and several, liability for costs of investigation and remediation of contaminated sites on current and prior owners or operators of the sites, as well as those entities that send regulated materials to the sites. We cannot ensure that we have been or will be at all times in complete compliance with such laws, regulations and permits. Therefore, our costs of complying with current and future environmental, health and safety laws could adversely affect our results of operations.

Major developments on trade relations resulting from the recent elections could have a material adverse effect on our business.

The current political climate and recent national elections have introduced uncertainty with respect to trade policies, tariffs and government regulations impacting trade between the United States and other countries. We source several of our ingredients, paper products and other materials used within our business from suppliers outside of the United States, including Asia, Central America and Mexico. Significant developments in trade relations, such as the imposition of tariffs on items imported by us, could increase our costs and materially and adversely affect our consolidated financial results.

We are subject to all of the risks associated with leasing property subject to long-term non-cancelable leases.

The leases for our restaurant locations generally have initial terms of 10 to 20 years, and typically provide for renewal options in five year increments as well as for rent escalations. Generally, our leases are "net" leases, which require us to pay all of the costs of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. If an existing or future restaurant is not profitable, and we decide to close it, we may nonetheless be obligated to perform our monetary

obligations under the applicable lease including, among other things, paying all amounts due for the balance of the lease term. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close restaurants in desirable locations.

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Our failure or inability to enforce our trademarks or other proprietary rights could adversely affect our competitive position or the value of our brand.

We own certain common law trademark rights and a number of federal and international trademark and service mark registrations, including the Pollo Tropical and Taco Cabana names and logos, and proprietary rights relating to certain of our core menu offerings. We believe that our trademarks, service marks, trade dress and other proprietary rights are important to our success and our competitive position. We, therefore, devote appropriate resources to the protection of our trademarks and proprietary rights. If our efforts to protect our intellectual property are inadequate or if any third party misappropriates or infringes on our intellectual property either in print or on the internet, the value of our brands may be harmed which could have a material adverse effect on our business. We are aware of restaurants in foreign jurisdictions using menu items, logos or branding that we believe are based on our intellectual property and our ability to prevent these restaurants from using these elements may be limited in jurisdictions in which we are not operating. This could have an adverse impact on our ability to expand into other jurisdictions in the future.

We are not aware of any assertions that our trademarks or menu offerings infringe upon the proprietary rights of third parties, but we cannot ensure that third parties will not claim infringement by us in the future. Any such claim, whether or not it has merit, could be time-consuming, result in costly litigation, cause delays in introducing new menu items in the future or require us to enter into royalty or licensing agreements. As a result, any such claim could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to Our Common Stock

We do not expect to pay any cash dividends for the foreseeable future, and our senior credit facility limits our ability to pay dividends to our stockholders.

We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. The absence of a dividend on our common stock may increase the volatility of the market price of our common stock or make it more likely that the market price of our common stock will decrease in the event of adverse economic conditions or adverse developments affecting our company. Our senior credit facility limits, and the debt instruments that we and our subsidiaries may enter into in the future may limit, our ability to pay dividends to our stockholders.

If securities analysts do not publish research or reports about our business or if they downgrade our stock, the price of our stock could decline.

The trading market for our common stock will rely in part on the research and reports that industry or financial analysts publish about us or our business. We cannot ensure that these analysts will publish research or reports about us or that any analysts that do so will not discontinue publishing research or reports about us in the future. If one or more analysts who cover us downgrade our stock, our stock price could decline rapidly. If analysts do not publish reports about us or if one or more analyst ceases coverage of our stock, we could lose visibility in the market, which in turn could cause our stock price to decline.

Percentage ownership of our common stock may be diluted in the future.

Percentage ownership of our common stock may be diluted in the future because of equity awards that we expect will be granted to our directors, officers and employees. The Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan provides for the grant of equity-based awards, including restricted stock, restricted stock units, stock options, and other equity-based awards to our directors, officers and other employees, advisors and consultants. In addition, in the future we may also issue common stock or other securities to raise additional capital. Any new shares issued would dilute our existing shareholders.

Proxy contests threatened or commenced against us could be disruptive and costly, and adversely affect our business, operation results and financial condition.

Stockholders may from time to time attempt to effect changes, engage in proxy solicitations or advance stockholder proposals. Responding to proxy contests and related actions by activist stockholders can be costly and time-consuming, disrupt our operations, and divert the attention of our management and employees away from their regular duties and the pursuit of our business strategies, which could materially and adversely affect our business, operating results and financial conditions. Perceived uncertainties as to our future direction as a result of proxy contests and related actions by activist stockholders may lead to the perception of a change in the direction of our business, instability or lack of continuity. This may affect our relationship with current or potential suppliers, vendors,

and other third parties, and make it more difficult to attract and retain management employees and executives which could adversely affect our business, operating results and financial condition. Further, proxy contests and related actions by activist stockholders could cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

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Table of Contents***Provisions in our restated certificate of incorporation and amended and restated bylaws or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.***

Delaware corporate law and our restated certificate of incorporation and amended and restated bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- require that special meetings of our stockholders be called only by our board of directors or certain of our officers, thus prohibiting our stockholders from calling special meetings;
- deny holders of our common stock cumulative voting rights in the election of directors, meaning that stockholders owning a majority of our outstanding common stock will be able to elect all of our directors;
- authorize the issuance of "blank check" preferred stock that our board could issue to dilute the voting and economic rights of our common stock and to discourage a takeover attempt;
- provide the approval of our board of directors or a supermajority of stockholders is necessary to make, alter or repeal our amended and restated bylaws and that approval of a supermajority of stockholders is necessary to amend, alter or change certain provisions of our restated certificate of incorporation;
- establish advance notice requirements for stockholder nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 30, 2018, we owned or leased the following operating restaurant properties:

	Owned	Leased ⁽¹⁾	Total ⁽²⁾
Restaurants:			
Pollo Tropical	6	133	139
Taco Cabana	6	156	162
Total operating restaurants	12	289	301

(1) Includes eleven restaurants located in in-line or storefront locations.

(2) Excludes restaurants operated by our Pollo Tropical and Taco Cabana franchisees.

As of December 30, 2018, we leased 96% of our Pollo Tropical restaurants and 96% of our Taco Cabana restaurants. We typically enter into leases (including renewal options) ranging from 35 to 45 years. The average remaining term for all leases for operating restaurant properties, including options, was approximately 24 years as of December 30, 2018. Generally, we have been able to renew leases, upon or prior to their expiration, at the prevailing market rates, although there can be no assurance that this will continue to occur.

Most leases require us to pay utility and water charges and real estate taxes. Certain leases also require contingent rentals based upon a percentage of gross sales of the particular restaurant that exceed specified minimums. In some of our mall locations, we are also required to pay certain other charges such as a pro-rata share of the mall's common area maintenance costs, insurance and security costs.