

Fiesta Restaurant Group, Inc.  
Form 10-Q  
August 03, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

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

For the quarterly period ended July 3, 2016

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

Commission File Number: 001-35373

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FIESTA RESTAURANT GROUP, INC.  
(Exact name of Registrant as specified in its charter)

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|                                                                    |                                      |
|--------------------------------------------------------------------|--------------------------------------|
| Delaware                                                           | 90-0712224                           |
| (State or other jurisdiction of incorporation or organization)     | (I.R.S. Employer Identification No.) |
| 14800 Landmark Boulevard, Suite 500<br>Dallas, Texas               | 75254                                |
| (Address of principal executive office)                            | (Zip Code)                           |
| Registrant's telephone number, including area code: (972) 702-9300 |                                      |

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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 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

(Do not check if smaller reporting company)

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 August 1, 2016, Fiesta Restaurant Group, Inc. had 26,921,404 shares of its common stock, \$.01 par value, outstanding.



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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER ENDED JULY 3, 2016

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## PART I—FINANCIAL INFORMATION

## ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FIESTA RESTAURANT GROUP, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except share and per share amounts)

(Unaudited)

|                                                                                                                                                                                      | July 3,<br>2016 | January 3,<br>2016 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------|
| <b>ASSETS</b>                                                                                                                                                                        |                 |                    |
| Current assets:                                                                                                                                                                      |                 |                    |
| Cash                                                                                                                                                                                 | \$4,809         | \$5,281            |
| Trade receivables                                                                                                                                                                    | 10,167          | 9,217              |
| Inventories                                                                                                                                                                          | 2,648           | 2,910              |
| Prepaid rent                                                                                                                                                                         | 3,388           | 3,163              |
| Income tax receivable                                                                                                                                                                | 1,829           | 7,448              |
| Prepaid expenses and other current assets                                                                                                                                            | 3,783           | 3,219              |
| Total current assets                                                                                                                                                                 | 26,624          | 31,238             |
| Property and equipment, net                                                                                                                                                          | 274,960         | 248,992            |
| Goodwill                                                                                                                                                                             | 123,484         | 123,484            |
| Deferred income taxes                                                                                                                                                                | 8,497           | 8,497              |
| Deferred financing costs, net                                                                                                                                                        | 764             | 918                |
| Other assets                                                                                                                                                                         | 2,546           | 2,516              |
| Total assets                                                                                                                                                                         | \$436,875       | \$415,645          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                          |                 |                    |
| Current liabilities:                                                                                                                                                                 |                 |                    |
| Current portion of long-term debt                                                                                                                                                    | \$55            | \$69               |
| Accounts payable                                                                                                                                                                     | 19,022          | 12,405             |
| Accrued payroll, related taxes and benefits                                                                                                                                          | 12,493          | 15,614             |
| Accrued real estate taxes                                                                                                                                                            | 5,191           | 6,121              |
| Other liabilities                                                                                                                                                                    | 10,404          | 12,096             |
| Total current liabilities                                                                                                                                                            | 47,165          | 46,305             |
| Long-term debt, net of current portion                                                                                                                                               | 69,498          | 72,612             |
| Lease financing obligations                                                                                                                                                          | 1,663           | 1,663              |
| Deferred income—sale-leaseback of real estate                                                                                                                                        | 29,036          | 30,086             |
| Other liabilities                                                                                                                                                                    | 24,532          | 20,997             |
| Total liabilities                                                                                                                                                                    | 171,894         | 171,663            |
| Commitments and contingencies                                                                                                                                                        |                 |                    |
| Stockholders' equity:                                                                                                                                                                |                 |                    |
| Common stock, par value \$.01; authorized 100,000,000 shares, issued 26,921,449 and 26,829,220 shares, respectively, and outstanding 26,687,168 and 26,571,602 shares, respectively. | 267             | 266                |
| Additional paid-in capital                                                                                                                                                           | 161,911         | 159,724            |
| Retained earnings                                                                                                                                                                    | 102,803         | 83,992             |
| Total stockholders' equity                                                                                                                                                           | 264,981         | 243,982            |
| Total liabilities and stockholders' equity                                                                                                                                           | \$436,875       | \$415,645          |

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

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FIESTA RESTAURANT GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 THREE AND SIX MONTHS ENDED JULY 3, 2016 AND JUNE 28, 2015  
 (In thousands of dollars, except share and per share amounts)  
 (Unaudited)

|                                                                                                                                 | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                                                                                                 | July 3,<br>2016    | June 28,<br>2015 | July 3,<br>2016  | June 28,<br>2015 |
| Revenues:                                                                                                                       |                    |                  |                  |                  |
| Restaurant sales                                                                                                                | \$180,835          | \$171,268        | \$356,774        | \$334,326        |
| Franchise royalty revenues and fees                                                                                             | 697                | 632              | 1,435            | 1,449            |
| Total revenues                                                                                                                  | 181,532            | 171,900          | 358,209          | 335,775          |
| Costs and expenses:                                                                                                             |                    |                  |                  |                  |
| Cost of sales                                                                                                                   | 54,607             | 54,223           | 108,657          | 105,346          |
| Restaurant wages and related expenses (including stock-based compensation expense of \$40, \$40, \$76, and \$107, respectively) | 46,981             | 42,383           | 92,033           | 82,973           |
| Restaurant rent expense                                                                                                         | 9,113              | 8,048            | 18,034           | 16,055           |
| Other restaurant operating expenses                                                                                             | 24,263             | 21,362           | 46,651           | 41,221           |
| Advertising expense                                                                                                             | 7,006              | 5,144            | 14,001           | 10,698           |
| General and administrative (including stock-based compensation expense of \$1,218, \$1,055, \$2,193, and \$1,929, respectively) | 14,253             | 13,624           | 28,101           | 27,388           |
| Depreciation and amortization                                                                                                   | 8,625              | 7,401            | 16,961           | 14,248           |
| Pre-opening costs                                                                                                               | 2,016              | 1,211            | 3,198            | 2,162            |
| Impairment and other lease charges                                                                                              | 82                 | —                | 94               | 94               |
| Other expense (income)                                                                                                          | 10                 | (142)            | (238)            | (514)            |
| Total operating expenses                                                                                                        | 166,956            | 153,254          | 327,492          | 299,671          |
| Income from operations                                                                                                          | 14,576             | 18,646           | 30,717           | 36,104           |
| Interest expense                                                                                                                | 535                | 414              | 1,093            | 852              |
| Income before income taxes                                                                                                      | 14,041             | 18,232           | 29,624           | 35,252           |
| Provision for income taxes                                                                                                      | 5,125              | 6,983            | 10,813           | 13,502           |
| Net income                                                                                                                      | \$8,916            | \$11,249         | \$18,811         | \$21,750         |
| Basic net income per share                                                                                                      | \$0.33             | \$0.42           | \$0.70           | \$0.81           |
| Diluted net income per share                                                                                                    | \$0.33             | \$0.42           | \$0.70           | \$0.81           |
| Basic weighted average common shares outstanding                                                                                | 26,654,280         | 26,490,673       | 26,629,999       | 26,462,919       |
| Diluted weighted average common shares outstanding                                                                              | 26,660,269         | 26,497,658       | 26,636,145       | 26,470,130       |

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

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## FIESTA RESTAURANT GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
SIX MONTHS ENDED JULY 3, 2016 AND JUNE 28, 2015

(In thousands of dollars, except share amounts)

(Unaudited)

|                                                         | Number of<br>Common<br>Stock<br>Shares | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|---------------------------------------------------------|----------------------------------------|-----------------|----------------------------------|----------------------|----------------------------------|
| Balance at December 28, 2014                            | 26,358,448                             | \$ 264          | \$ 153,867                       | \$ 45,456            | \$ 199,587                       |
| Stock-based compensation                                | —                                      | —               | 2,036                            | —                    | 2,036                            |
| Vesting of restricted shares and related tax benefit    | 173,031                                | 1               | 1,015                            | —                    | 1,016                            |
| Net income                                              | —                                      | —               | —                                | 21,750               | 21,750                           |
| Balance at June 28, 2015                                | 26,531,479                             | \$ 265          | \$ 156,918                       | \$ 67,206            | \$ 224,389                       |
| Balance at January 3, 2016                              | 26,571,602                             | \$ 266          | \$ 159,724                       | \$ 83,992            | \$ 243,982                       |
| Stock-based compensation                                | —                                      | —               | 2,269                            | —                    | 2,269                            |
| Vesting of restricted shares and related tax deficiency | 115,566                                | 1               | (82 )                            | —                    | (81 )                            |
| Net income                                              | —                                      | —               | —                                | 18,811               | 18,811                           |
| Balance at July 3, 2016                                 | 26,687,168                             | \$ 267          | \$ 161,911                       | \$ 102,803           | \$ 264,981                       |

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

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FIESTA RESTAURANT GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 SIX MONTHS ENDED JULY 3, 2016 AND JUNE 28, 2015

(In thousands of dollars)

(Unaudited)

|                                                                                     | Six Months Ended |                  |
|-------------------------------------------------------------------------------------|------------------|------------------|
|                                                                                     | July 3,<br>2016  | June 28,<br>2015 |
| Cash flows from operating activities:                                               |                  |                  |
| Net income                                                                          | \$18,811         | \$21,750         |
| Adjustments to reconcile net income to net cash provided from operating activities: |                  |                  |
| Loss (gain) on disposals of property and equipment                                  | 25               | (271 )           |
| Stock-based compensation                                                            | 2,269            | 2,036            |
| Impairment and other lease charges                                                  | 94               | 94               |
| Depreciation and amortization                                                       | 16,961           | 14,248           |
| Amortization of deferred financing costs                                            | 154              | 154              |
| Amortization of deferred gains from sale-leaseback transactions                     | (1,791 )         | (1,812 )         |
| Changes in other operating assets and liabilities                                   | 7,046            | (1,997 )         |
| Net cash provided from operating activities                                         | 43,569           | 34,202           |
| Cash flows from investing activities:                                               |                  |                  |
| Capital expenditures:                                                               |                  |                  |
| New restaurant development                                                          | (35,760 )        | (33,462 )        |
| Restaurant remodeling                                                               | (486 )           | (1,526 )         |
| Other restaurant capital expenditures                                               | (1,995 )         | (2,679 )         |
| Corporate and restaurant information systems                                        | (3,997 )         | (2,233 )         |
| Total capital expenditures                                                          | (42,238 )        | (39,900 )        |
| Properties purchased for sale-leaseback                                             | (2,663 )         | —                |
| Proceeds from sale-leaseback transactions                                           | 3,642            | —                |
| Proceeds from disposals of other properties                                         | 226              | 139              |
| Net cash used in investing activities                                               | (41,033 )        | (39,761 )        |
| Cash flows from financing activities:                                               |                  |                  |
| Excess tax benefit from vesting of restricted shares                                | 120              | 1,016            |
| Borrowings on revolving credit facility                                             | 9,400            | 16,000           |
| Repayments on revolving credit facility                                             | (12,500 )        | (11,000 )        |
| Principal payments on capital leases                                                | (28 )            | (25 )            |
| Net cash (used in) provided by financing activities                                 | (3,008 )         | 5,991            |
| Net (decrease) increase in cash                                                     | (472 )           | 432              |
| Cash, beginning of period                                                           | 5,281            | 5,087            |
| Cash, end of period                                                                 | \$4,809          | \$5,519          |
| Supplemental disclosures:                                                           |                  |                  |
| Interest paid on long-term debt                                                     | \$921            | \$819            |
| Interest paid on lease financing obligations                                        | \$71             | \$70             |
| Accruals for capital expenditures                                                   | \$6,093          | \$4,813          |
| Income tax payments, net                                                            | \$5,275          | \$9,270          |

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

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FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except share and per share amounts)

1. Basis of Presentation

**Business Description.** Fiesta Restaurant Group, Inc. ("Fiesta Restaurant Group" or "Fiesta") owns, operates and franchises two fast-casual restaurant brands through its 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"). Unless the context otherwise requires, Fiesta and its subsidiaries, Pollo Tropical and Taco Cabana, are collectively referred to as the "Company". At July 3, 2016, the Company owned and operated 172 Pollo Tropical® restaurants and 164 Taco Cabana® restaurants. The Pollo Tropical restaurants include 122 located in Florida, 33 located in Texas, thirteen located in Georgia and four located in Tennessee. The Taco Cabana restaurants include 163 located in Texas and one located in Oklahoma. At July 3, 2016, the Company franchised a total of 37 Pollo Tropical restaurants and seven Taco Cabana restaurants. The franchised Pollo Tropical restaurants include 17 in Puerto Rico, one in Honduras, one in the Bahamas, three in Trinidad & Tobago, one in Venezuela, five in Panama, three in Guatemala, and six on college campuses and a hospital in Florida. The franchised Taco Cabana restaurants include five in New Mexico and two on college campuses in Texas.

**Basis of Consolidation.** The unaudited condensed consolidated financial statements presented herein reflect the consolidated financial position, results of operations and cash flows of Fiesta and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

**Fiscal Year.** The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. The fiscal year ended January 3, 2016 contained 53 weeks. The three and six months ended July 3, 2016 and June 28, 2015 each contained thirteen and twenty-six weeks, respectively. The fiscal year ending January 1, 2017 will contain 52 weeks.

**Basis of Presentation.** The accompanying unaudited condensed consolidated financial statements for the three and six months ended July 3, 2016 and June 28, 2015 have been prepared without an audit pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain information and footnotes required by U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and six months ended July 3, 2016 and June 28, 2015 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended January 3, 2016 included in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016. The January 3, 2016 balance sheet data is derived from those audited financial statements.

**Fair Value of Financial Instruments.** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect our own assumptions. The following methods were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the fair value:

**Current Assets and Liabilities.** The carrying values reported on the balance sheet of cash, accounts receivable and accounts payable approximate fair value because of the short maturity of those financial instruments.

**Revolving Credit Borrowings.** The fair value of outstanding revolving credit borrowings under the Company's senior credit facility, which is considered Level 2, is based on current LIBOR rates. At July 3, 2016, the fair value and carrying value of the Company's senior credit facility was approximately \$67.9 million.



Long-Lived Assets. The Company reviews its long-lived assets, principally property and equipment, for impairment at the restaurant level. In addition to considering management's plans, known regulatory or governmental actions and damage due to acts of God (hurricanes, tornadoes, etc.), the Company considers a triggering event to have occurred related to a specific restaurant if the restaurant's cash flows for the last twelve months are less than a minimum threshold or if consistent levels of cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. If an indicator of impairment exists for any of its assets, an estimate of undiscounted future cash flows over the life of the primary asset for each restaurant is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. For closed restaurant locations, the Company reviews the future minimum lease payments and

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## FIESTA RESTAURANT GROUP, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In thousands of dollars, except share and per share amounts)

related ancillary costs from the date of the restaurant closure to the end of the remaining lease term and records a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries.

Use of Estimates. The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements. Estimates also affect the reported amounts of expenses during the reporting periods. Significant items subject to such estimates and assumptions include: accrued occupancy costs, insurance liabilities, evaluation for impairment of goodwill and long-lived assets and lease accounting matters. Actual results could differ from those estimates.

## 2. Other Liabilities

Other liabilities, current, consisted of the following:

|                                                            | July 3,<br>2016 | January 3,<br>2016 |
|------------------------------------------------------------|-----------------|--------------------|
| Accrued workers' compensation and general liability claims | \$6,113         | \$ 5,540           |
| Sales and property taxes                                   | 1,905           | 3,031              |
| Accrued occupancy costs                                    | 884             | 980                |
| Other                                                      | 1,502           | 2,545              |
|                                                            | \$10,404        | \$ 12,096          |

Other liabilities, long-term, consisted of the following:

|                                                            | July 3,<br>2016 | January 3,<br>2016 |
|------------------------------------------------------------|-----------------|--------------------|
| Accrued occupancy costs                                    | \$16,915        | \$ 15,349          |
| Deferred compensation                                      | 1,687           | 1,665              |
| Accrued workers' compensation and general liability claims | 1,792           | 697                |
| Other                                                      | 4,138           | 3,286              |
|                                                            | \$24,532        | \$ 20,997          |

Accrued occupancy costs include obligations pertaining to closed restaurant locations and accruals to expense operating lease rental payments on a straight-line basis over the lease term.

The following table presents the activity in the closed-store reserve, of which \$1.0 million and \$1.2 million are included in long-term accrued occupancy costs at July 3, 2016 and January 3, 2016, respectively, with the remainder in other current liabilities:

|                                               | Six<br>Months<br>Ended<br>July 3,<br>2016 | Year<br>Ended<br>January<br>3, 2016 |
|-----------------------------------------------|-------------------------------------------|-------------------------------------|
| Balance, beginning of period                  | \$1,832                                   | \$1,251                             |
| Provisions for restaurant closures            | —                                         | 554                                 |
| Additional lease charges, net of (recoveries) | 13                                        | 258                                 |
| Payments, net                                 | (338 )                                    | (358 )                              |
| Other adjustments                             | 141                                       | 127                                 |
| Balance, end of period                        | \$1,648                                   | \$1,832                             |

## 3. Stock-Based Compensation

During the six months ended July 3, 2016 and June 28, 2015, the Company granted 50,087 and 22,597 non-vested restricted shares, respectively, under the Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan (the "Fiesta Plan") to certain employees. These shares generally vest and become non-forfeitable over a four year vesting period. The

weighted average fair value at grant date for these non-vested shares issued to employees during the six months ended July 3, 2016 and June 28, 2015 was \$35.25 and \$62.05, respectively.

During the six months ended July 3, 2016 and June 28, 2015, the Company granted 5,762 and 10,007 restricted stock units, respectively, under the Fiesta Plan to certain employees. The restricted stock units granted during the six months ended July 3,

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FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In thousands of dollars, except share and per share amounts)

2016 vest and become non-forfeitable at the end of a four year vesting period. The restricted stock units granted during the six months ended June 28, 2015 vest and become non-forfeitable over a four year vesting period or, for certain units, at the end of a four year vesting period. The weighted average fair value at grant date for these restricted stock units issued to employees during six months ended July 3, 2016 and June 28, 2015 was \$35.25 and \$62.05, respectively.

Also during the six months ended July 3, 2016 and June 28, 2015, the Company granted 33,691 and 17,501 non-vested restricted shares, respectively, and 33,691 and 17,501 restricted stock units, respectively, under the Fiesta Plan to certain employees subject to performance conditions. The non-vested restricted shares vest and become non-forfeitable over a four year vesting period subject to the attainment of performance conditions. The restricted stock units vest and become non-forfeitable at the end of a three year vesting period. The number of shares into which the restricted stock units convert is determined based on the attainment of certain performance conditions, and for the restricted stock units granted during the six months ended July 3, 2016 and June 28, 2015, ranges from no shares, if the minimum performance condition is not met, to 67,382 and 35,002 shares, respectively, if the maximum performance condition is met. The weighted average fair value at grant date for restricted non-vested shares and restricted stock units subject to performance conditions granted during the six months ended July 3, 2016 and June 28, 2015 was \$35.25 and \$65.01, respectively.

During the three months ended July 3, 2016 and June 28, 2015, the Company granted 14,081 and 8,698 non-vested restricted shares, respectively, to non-employee directors. The weighted average fair value at the grant date for restricted non-vested shares issued to directors during the three months ended July 3, 2016 and June 28, 2015, was \$33.39 and \$54.06, respectively. These shares vest and become non-forfeitable over a one year vesting period. Stock-based compensation expense for the three and six months ended July 3, 2016 was \$1.3 million and \$2.3 million, respectively, and for the three and six months ended June 28, 2015 was \$1.1 million and \$2.0 million, respectively. As of July 3, 2016, the total unrecognized stock-based compensation expense relating to non-vested restricted shares and restricted stock units was approximately \$8.4 million. At July 3, 2016, the remaining weighted average vesting period for non-vested restricted shares was 1.8 years and restricted stock units was 2.3 years.

A summary of all non-vested restricted shares and restricted stock units activity for the six months ended July 3, 2016 was as follows:

|                                | Non-Vested Shares |                                   | Restricted Stock Units |                                   |
|--------------------------------|-------------------|-----------------------------------|------------------------|-----------------------------------|
|                                | Shares            | Weighted Average Grant Date Price | Units                  | Weighted Average Grant Date Price |
| Outstanding at January 3, 2016 | 257,618           | \$ 30.69                          | 42,840                 | \$ 56.46                          |
| Granted                        | 97,859            | 34.98                             | 39,453                 | 35.25                             |
| Vested/Released                | (115,327)         | 26.19                             | (239 )                 | 50.80                             |
| Forfeited                      | (5,869 )          | 36.79                             | (2,148 )               | 46.82                             |
| Outstanding at July 3, 2016    | 234,281           | \$ 34.54                          | 79,906                 | \$ 46.26                          |

The fair value of the non-vested restricted shares and restricted stock units is based on the closing price on the date of grant.

#### 4. Business Segment Information

The Company is engaged in the fast-casual restaurant industry, with two restaurant concepts (each of which is an operating segment): Pollo Tropical and Taco Cabana. Pollo Tropical restaurants offer a wide variety of freshly prepared Caribbean inspired food, while our Taco Cabana restaurants offer a broad selection of hand-made, freshly

prepared and authentic Mexican food.

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## FIESTA RESTAURANT GROUP, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In thousands of dollars, except share and per share amounts)

The accounting policies of each segment are the same as those described in the summary of significant accounting policies discussed in Note 1 to the Company's audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016. The Company reports more than one measure of segment profit or loss to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The primary measures of segment profit or loss used to assess performance and allocate resources are income before taxes and Adjusted EBITDA, which is defined as earnings attributable to the applicable operating segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. Although the chief operating decision maker uses Adjusted EBITDA as a measure of segment profitability, in accordance with Accounting Standards Codification 280, Segment Reporting, the following table includes segment income before taxes, which is the measure of segment profit or loss determined in accordance with the measurement principles that are most consistent with the principles used in measuring the corresponding amounts in the consolidated financial statements.

The "Other" column includes corporate related items not allocated to reportable segments and consists primarily of corporate owned property and equipment, miscellaneous prepaid costs, capitalized costs associated with the issuance of indebtedness, corporate cash accounts, a current income tax receivable and advisory fees related to a proposed separation transaction.

| Three Months Ended                        | Pollo<br>Tropical | Taco<br>Cabana | Other | Consolidated |
|-------------------------------------------|-------------------|----------------|-------|--------------|
| July 3, 2016:                             |                   |                |       |              |
| Restaurant sales                          | \$ 101,879        | \$ 78,956      | \$ —  | \$ 180,835   |
| Franchise revenue                         | 508               | 189            | —     | 697          |
| Cost of sales                             | 32,266            | 22,341         | —     | 54,607       |
| Restaurant wages and related expenses (1) | 23,980            | 23,001         | —     | 46,981       |
| Restaurant rent expense                   | 4,825             | 4,288          | —     | 9,113        |
| Other restaurant operating expenses       | 13,701            | 10,562         | —     | 24,263       |
| Advertising expense                       | 3,685             | 3,321          | —     | 7,006        |
| General and administrative expense (2)    | 8,843             | 5,363          | 47    | 14,253       |
| Depreciation and amortization             | 5,428             | 3,197          | —     | 8,625        |
| Pre-opening costs                         | 1,795             | 221            | —     | 2,016        |
| Impairment and other lease charges        | —                 | 82             | —     | 82           |
| Interest expense                          | 228               | 307            | —     | 535          |
| Income before taxes                       | 7,636             | 6,452          | (47)  | 14,041       |
| Capital expenditures                      | 20,468            | 3,633          | 1,346 | 25,447       |
| June 28, 2015:                            |                   |                |       |              |
| Restaurant sales                          | \$ 89,569         | \$ 81,699      | \$ —  | \$ 171,268   |
| Franchise revenue                         | 477               | 155            | —     | 632          |
| Cost of sales                             | 30,094            | 24,129         | —     | 54,223       |
| Restaurant wages and related expenses (1) | 19,251            | 23,132         | —     | 42,383       |
| Restaurant rent expense                   | 3,820             | 4,228          | —     | 8,048        |
| Other restaurant operating expenses       | 10,893            | 10,469         | —     | 21,362       |
| Advertising expense                       | 1,904             | 3,240          | —     | 5,144        |
| General and administrative expense (2)    | 7,651             | 5,973          | —     | 13,624       |
| Depreciation and amortization             | 4,340             | 3,061          | —     | 7,401        |
| Pre-opening costs                         | 1,144             | 67             | —     | 1,211        |
| Impairment and other lease charges        | —                 | —              | —     | —            |

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|                      |        |       |     |        |
|----------------------|--------|-------|-----|--------|
| Interest expense     | 176    | 238   | —   | 414    |
| Income before taxes  | 10,908 | 7,324 | —   | 18,232 |
| Capital expenditures | 17,102 | 2,607 | 934 | 20,643 |

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## FIESTA RESTAURANT GROUP, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In thousands of dollars, except share and per share amounts)

| Six Months Ended                                     | Pollo<br>Tropical | Taco<br>Cabana | Other  | Consolidated |
|------------------------------------------------------|-------------------|----------------|--------|--------------|
| July 3, 2016:                                        |                   |                |        |              |
| Restaurant sales                                     | \$200,785         | \$155,989      | \$ —   | \$ 356,774   |
| Franchise revenue                                    | 1,085             | 350            | —      | 1,435        |
| Cost of sales                                        | 63,870            | 44,787         | —      | 108,657      |
| Restaurant wages and related expenses <sup>(1)</sup> | 46,876            | 45,157         | —      | 92,033       |
| Restaurant rent expense                              | 9,469             | 8,565          | —      | 18,034       |
| Other restaurant operating expenses                  | 26,293            | 20,358         | —      | 46,651       |
| Advertising expense                                  | 7,447             | 6,554          | —      | 14,001       |
| General and administrative expense <sup>(2)</sup>    | 16,528            | 10,825         | 748    | 28,101       |
| Depreciation and amortization                        | 10,706            | 6,255          | —      | 16,961       |
| Pre-opening costs                                    | 2,909             | 289            | —      | 3,198        |
| Impairment and other lease charges                   | —                 | 94             | —      | 94           |
| Interest expense                                     | 479               | 614            | —      | 1,093        |
| Income before taxes                                  | 17,305            | 13,067         | (748)  | 29,624       |
| Capital expenditures                                 | 34,567            | 5,267          | 2,404  | 42,238       |
| June 28, 2015:                                       |                   |                |        |              |
| Restaurant sales                                     | \$176,458         | \$157,868      | \$ —   | \$ 334,326   |
| Franchise revenue                                    | 1,158             | 291            | —      | 1,449        |
| Cost of sales                                        | 58,633            | 46,713         | —      | 105,346      |
| Restaurant wages and related expenses <sup>(1)</sup> | 38,005            | 44,968         | —      | 82,973       |
| Restaurant rent expense                              | 7,469             | 8,586          | —      | 16,055       |
| Other restaurant operating expenses                  | 20,982            | 20,239         | —      | 41,221       |
| Advertising expense                                  | 4,262             | 6,436          | —      | 10,698       |
| General and administrative expense <sup>(2)</sup>    | 15,448            | 11,940         | —      | 27,388       |
| Depreciation and amortization                        | 8,079             | 6,169          | —      | 14,248       |
| Pre-opening costs                                    | 2,014             | 148            | —      | 2,162        |
| Impairment and other lease charges                   | —                 | 94             | —      | 94           |
| Interest expense                                     | 361               | 491            | —      | 852          |
| Income before taxes                                  | 22,498            | 12,754         | —      | 35,252       |
| Capital expenditures                                 | 32,144            | 5,658          | 2,098  | 39,900       |
| Identifiable Assets:                                 |                   |                |        |              |
| July 3, 2016:                                        | 263,100           | 162,505        | 11,270 | 436,875      |
| January 3, 2016                                      | 237,065           | 165,549        | 13,031 | 415,645      |

(1) Includes stock-based compensation expense of \$40 and \$76 for the three and six months ended July 3, 2016, respectively, and \$40 and \$107 for the three and six months ended June 28, 2015, respectively.

(2) Includes stock-based compensation expense of \$1,218 and \$2,193 for the three and six months ended July 3, 2016, respectively, and \$1,055 and \$1,929 for the three and six months ended June 28, 2015, respectively.





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FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In thousands of dollars, except share and per share amounts)

## 5. Net Income per Share

The Company computes basic net income per share by dividing net income applicable to common shares by the weighted average number of common shares outstanding during each period. Our non-vested restricted shares contain a non-forfeitable right to receive dividends on a one-to-one per share ratio to common shares and are thus considered participating securities. The impact of the participating securities is included in the computation of basic net income per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings attributable to common shares and participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Net income per common share was computed by dividing undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and non-vested restricted shares based on the weighted average shares outstanding during the period.

Diluted earnings per share reflects the potential dilution that could occur if our restricted stock units were converted into common shares. Restricted stock units with performance conditions are only included in the diluted earnings per share calculation to the extent that performance conditions have been met at the measurement date. We compute diluted earnings per share by adjusting the basic weighted average number of common shares by the dilutive effect of the restricted stock units, determined using the treasury stock method.

Weighted average outstanding restricted stock units totaling 13,990 and 10,698 shares for the three and six months ended July 3, 2016, respectively, and 9,391 and 4,696 shares for the three and six months ended June 28, 2015, respectively, were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

The computation of basic and diluted net income per share is as follows:

|                                                    | Three Months Ended |               | Six Months Ended |               |
|----------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                    | July 3, 2016       | June 28, 2015 | July 3, 2016     | June 28, 2015 |
| Basic and diluted net income per share:            |                    |               |                  |               |
| Net income                                         | \$8,916            | \$ 11,249     | \$18,811         | \$ 21,750     |
| Less: income allocated to participating securities | (89 )              | (142 )        | (183 )           | (285 )        |
| Net income available to common stockholders        | \$8,827            | \$ 11,107     | \$18,628         | \$ 21,465     |
| Weighted average common shares, basic              | 26,654,286         | 26,490,673    | 26,629,992       | 26,462,919    |
| Restricted stock units                             | 5,989              | 6,985         | 6,146            | 7,211         |
| Weighted average common shares, diluted            | 26,660,275         | 26,497,658    | 26,636,138       | 26,470,130    |
| Basic net income per common share                  | \$0.33             | \$ 0.42       | \$0.70           | \$ 0.81       |
| Diluted net income per common share                | \$0.33             | \$ 0.42       | \$0.70           | \$ 0.81       |

## 6. Commitments and Contingencies

**Lease Assignments.** Taco Cabana has assigned three leases on properties where it no longer operates restaurants with lease terms expiring on various dates through 2029 to various parties. The assignees are responsible for making the payments under these leases. The Company is a guarantor under one of these leases and it remains secondarily liable as a surety with respect to two of these leases. The maximum potential liability for future rental payments the Company could be required to make under these leases at July 3, 2016 was \$1.8 million. The Company could also be obligated to pay property taxes and other lease related costs. The obligations under these leases will generally continue to decrease over time as the operating leases expire. The Company does not believe it is probable that it would be ultimately responsible for the obligations under these leases.

Legal Matters. The Company is a party to legal proceedings incidental to the conduct of business, including the matter described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability.

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FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In thousands of dollars, except share and per share amounts)

On September 29, 2014, Daisy, Inc., an automotive repair shop in Cape Coral, Florida, filed a putative class action suit against Fiesta's subsidiary, Pollo Operations, Inc. ("Pollo Operations") in the United States District Court for the Middle District of Florida. The suit alleged that Pollo Operations engaged in unlawful activity in violation of the Telephone Consumer Protection Act, § 227 et seq. occurring in December 2010 and January 2011. During the first quarter of 2016, Pollo Operations reached a settlement with the plaintiff which resulted in dismissal of the case and paid all settlement claims.

The Company is also a party to various other litigation matters incidental to the conduct of business. The Company does not believe that the outcome of any of these matters will have a material effect on its consolidated financial statements.

7. Recent Accounting Pronouncements

In May 2014, and in subsequent updates, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the guidance in former Topic 605, Revenue Recognition, and provides for either a full retrospective adoption in which the standard is applied to all of the periods presented or a modified retrospective adoption in which the cumulative effect of initially applying the standard is recognized at the date of initial application. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers unless the contracts are in the scope of other US GAAP requirements. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property and equipment, including real estate. The Company is currently evaluating the impact of the provisions of Topic 606; however, the Company expects the provisions to primarily impact certain franchise revenues and does not expect the standard to have a material effect on its financial statements. For the Company, the new standard is effective for interim and annual periods beginning after December 15, 2017.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessee recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. For the Company, the new standard is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required with an option to use certain practical expedients. The new guidance is required to be applied at the beginning of the earliest comparative period presented. The Company is currently evaluating the impact on its financial statements. Although the impact is not currently estimable, the Company expects to recognize lease assets and lease liabilities for most of the leases it currently accounts for as operating leases.

In March 2016, the FASB issued ASU No. 2016-04, Recognition of Breakage for Certain Prepaid Stored-Value Products (Topic 405-20), which creates an exception under Topic 405-20 to derecognize financial liabilities related to certain prepaid stored-value products using a breakage model consistent with the revenue breakage model in Topic 606. The new guidance will be effective concurrent with Topic 606, which is effective for the Company for interim and annual periods beginning after December 15, 2017. The Company does not expect this standard to have a material effect on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), to simplify various aspects of the accounting and presentation of share-based payments, including the income tax effects of awards and forfeiture assumptions. Currently, tax deductions in excess of compensation costs (excess tax benefits) are recorded in equity and tax deduction shortfalls (tax deficiencies), to the extent of previous excess tax benefits, are recorded in equity and then to income tax expense. Under the new guidance, all excess tax benefits and tax deficiencies will be recorded to income tax expense in the income statement, which could create volatility in the Company's income statement. The new guidance will also change the classification of excess tax benefits in the cash flow statement and impact the diluted earnings per share calculation. The guidance will be

effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. Different components of the guidance require prospective, retrospective and/or modified retrospective adoption. The Company is currently evaluating the impact on its financial statements and it is not currently estimable.

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

The following Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and the accompanying financial statement notes. Any reference to restaurants refers to company-owned restaurants unless otherwise indicated. Throughout this MD&A, we refer to Fiesta Restaurant Group, Inc., together with its consolidated subsidiaries, as "we," "our" and "us."

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. The fiscal year ended January 3, 2016 contained 53 weeks. The three and six months ended July 3, 2016 and June 28, 2015 each contained thirteen and twenty-six weeks, respectively. The fiscal year ending January 1, 2017 will contain 52 weeks.

Company Overview

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical® and Taco Cabana®, which have almost 30 years and 40 years, respectively, of operating history and loyal customer bases in their core markets. Our Pollo Tropical restaurants offer a wide variety of freshly prepared Caribbean inspired food, while our Taco Cabana restaurants offer a broad selection of hand-made, freshly prepared and authentic Mexican food. We believe that both brands are differentiated from other restaurant concepts and offer a unique dining experience. We are positioned within the value-oriented fast-casual restaurant segment, which combines the convenience and value of quick-service restaurants with the variety, food quality, décor and atmosphere more typical of casual dining restaurants. Our open display kitchen format allows guests to view and experience our food being freshly-prepared and cooked to order. Additionally, nearly all of our restaurants offer the convenience of drive-thru windows. As of July 3, 2016, our company-owned restaurants included 172 Pollo Tropical restaurants and 164 Taco Cabana restaurants.

We franchise our Pollo Tropical restaurants primarily internationally and as of July 3, 2016, we had 31 franchised Pollo Tropical restaurants located in Puerto Rico, Honduras, Trinidad & Tobago, the Bahamas, Venezuela, Panama and Guatemala, and six licensed locations on college campuses and a hospital in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets, and we have commitments for additional non-traditional locations in U.S. markets in which we currently operate.

As of July 3, 2016, we had five Taco Cabana franchised restaurants located in New Mexico and two non-traditional Taco Cabana licensed locations on college campuses in Texas.

Executive Summary-Consolidated Operating Performance for the Three Months Ended July 3, 2016

Our second quarter 2016 results and highlights include the following:

Net income decreased \$2.3 million to \$8.9 million in the second quarter of 2016, or \$0.33 per diluted share, compared to net income of \$11.2 million, or \$0.42 per diluted share in the second quarter of 2015, primarily due to new restaurant performance, lower comparable restaurant sales and higher operating expenses.

Total revenues increased 5.6% in the second quarter of 2016 to \$181.5 million compared to \$171.9 million in the second quarter of 2015, driven primarily by an increase in the number of our company-owned restaurants, partially offset by a decrease in comparable restaurant sales. Comparable restaurant sales decreased 3.8% for our Taco Cabana restaurants resulting primarily from a decrease in comparable guest traffic of 5.5% partially offset by an increase in average check of 1.7%. Comparable restaurant sales decreased 1.4% for our Pollo Tropical restaurants resulting primarily from a decrease in comparable guest traffic of 2.6% partially offset by an increase in average check of 1.2%. During the second quarter of 2016, we opened eleven new company-owned Pollo Tropical restaurants and two Taco Cabana restaurants. During the second quarter of 2015, we opened six new company-owned Pollo Tropical restaurants and one Taco Cabana restaurant and permanently closed two company-owned Taco Cabana restaurants.

Adjusted EBITDA decreased \$2.4 million in the second quarter of 2016 to \$24.6 million compared to \$27.0 million in the second quarter of 2015. Revenue growth in the second quarter of 2016 was offset by lower profitability as a result of new restaurant performance, lower comparable restaurant sales, higher operating expenses and severance and relocation costs associated with transitioning our Pollo Tropical headquarters from Miami, Florida to Dallas, Texas. Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see "Management's Use of Non-GAAP Financial

Measures".

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## Results of Operations

The following table summarizes the changes in the number and mix of Pollo Tropical and Taco Cabana company-owned and franchised restaurants:

|                   | Pollo Tropical |            | Taco Cabana |       |            |       |
|-------------------|----------------|------------|-------------|-------|------------|-------|
|                   | Owned          | Franchised | Total       | Owned | Franchised | Total |
| January 3, 2016   | 155            | 35         | 190         | 162   | 6          | 168   |
| New               | 6              | 1          | 7           | —     | —          | —     |
| Closed            | —              | —          | —           | —     | —          | —     |
| April 3, 2016     | 161            | 36         | 197         | 162   | 6          | 168   |
| New               | 11             | 2          | 13          | 2     | 1          | 3     |
| Closed            | —              | (1)        | (1)         | —     | —          | —     |
| July 3, 2016      | 172            | 37         | 209         | 164   | 7          | 171   |
| December 28, 2014 | 124            | 37         | 161         | 167   | 7          | 174   |
| New               | 6              | —          | 6           | —     | —          | —     |
| Closed            | —              | —          | —           | (3)   | —          | (3)   |
| March 29, 2015    | 130            | 37         | 167         | 164   | 7          | 171   |
| New               | 6              | —          | 6           | 1     | —          | 1     |
| Closed            | —              | (2)        | (2)         | (2)   | (1)        | (3)   |
| June 28, 2015     | 136            | 35         | 171         | 163   | 6          | 169   |

## Three Months Ended July 3, 2016 Compared to Three Months Ended June 28, 2015

The following table sets forth, for the three months ended July 3, 2016 and June 28, 2015, selected consolidated operating results as a percentage of consolidated restaurant sales and selected segment operating results as a percentage of applicable segment restaurant sales:

|                                       | Three Months Ended |             |               |                |              |              |                |             |              |
|---------------------------------------|--------------------|-------------|---------------|----------------|--------------|--------------|----------------|-------------|--------------|
|                                       | July 3, 2016       |             | June 28, 2015 |                | July 3, 2016 |              | June 28, 2015  |             |              |
|                                       | Pollo Tropical     | Taco Cabana | Consolidated  | Pollo Tropical | Taco Cabana  | Consolidated | Pollo Tropical | Taco Cabana | Consolidated |
| Restaurant sales:                     |                    |             |               |                |              |              |                |             |              |
| Pollo Tropical                        | 56.3 %             | 52.3 %      |               |                |              |              |                |             |              |
| Taco Cabana                           | 43.7 %             | 47.7 %      |               |                |              |              |                |             |              |
| Consolidated restaurant sales         | 100.0 %            | 100.0 %     |               |                |              |              |                |             |              |
| Costs and expenses:                   |                    |             |               |                |              |              |                |             |              |
| Cost of sales                         | 31.7 %             | 33.6 %      | 28.3 %        | 29.5 %         | 30.2 %       | 31.7 %       |                |             |              |
| Restaurant wages and related expenses | 23.5 %             | 21.5 %      | 29.1 %        | 28.3 %         | 26.0 %       | 24.7 %       |                |             |              |
| Restaurant rent expense               | 4.7 %              | 4.3 %       | 5.4 %         | 5.2 %          | 5.0 %        | 4.7 %        |                |             |              |
| Other restaurant operating expenses   | 13.4 %             | 12.2 %      | 13.4 %        | 12.8 %         | 13.4 %       | 12.5 %       |                |             |              |
| Advertising expense                   | 3.6 %              | 2.1 %       | 4.2 %         | 4.0 %          | 3.9 %        | 3.0 %        |                |             |              |
| Pre-opening costs                     | 1.8 %              | 1.3 %       | 0.3 %         | 0.1 %          | 1.1 %        | 0.7 %        |                |             |              |





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Consolidated Revenues. Revenues include restaurant sales, which consist of food and beverage sales, net of discounts, at our company-owned restaurants, and franchise royalty revenues and fees, which represent ongoing royalty payments that are determined based on a percentage of franchisee sales, franchise fees associated with new restaurant openings, and development fees associated with the opening of new franchised restaurants in a given market. Restaurant sales are influenced by new restaurant openings, closures of restaurants and changes in comparable restaurant sales.

Total revenues increased 5.6% to \$181.5 million in the second quarter of 2016 from \$171.9 million in the second quarter of 2015. Restaurant sales increased 5.6% to \$180.8 million in the second quarter of 2016 from \$171.3 million in the second quarter of 2015.

The following table presents the primary drivers of the increase or decrease in restaurant sales for both Pollo Tropical and Taco Cabana for the second quarter of 2016 compared to the second quarter of 2015 (in millions):

## Pollo Tropical:

|                                                                         |      |      |   |
|-------------------------------------------------------------------------|------|------|---|
| Decrease in comparable restaurant sales                                 | \$   | (1.1 | ) |
| Incremental sales related to new restaurants, net of closed restaurants | 13.4 |      |   |
| Total increase                                                          | \$   | 12.3 |   |

## Taco Cabana:

|                                                                         |     |      |   |
|-------------------------------------------------------------------------|-----|------|---|
| Decrease in comparable restaurant sales                                 | \$  | (3.0 | ) |
| Incremental sales related to new restaurants, net of closed restaurants | 0.3 |      |   |
| Total decrease                                                          | \$  | (2.7 | ) |

Comparable restaurant sales for Pollo Tropical restaurants decreased 1.4% in the second quarter of 2016. Comparable restaurant sales for Taco Cabana restaurants decreased 3.8% in the second quarter of 2016. Restaurants are included in comparable restaurant sales after they have been open for 18 months. Increases or decreases in comparable restaurant sales result primarily from an increase or decrease in guest traffic and an increase in average check. The increase in average check is primarily driven by menu price increases. For Pollo Tropical, a decrease in guest traffic of 2.6% was partially offset by menu price increases which drove an increase in restaurant sales of 1.0% in the second quarter of 2016 as compared to the second quarter of 2015. For Taco Cabana, a decrease in guest traffic of 5.5% was partially offset by menu price increases which drove an increase in restaurant sales of 2.4% in the second quarter of 2016 as compared to the second quarter of 2015. As a result of new restaurant openings, expected sales cannibalization of existing restaurants negatively impacted comparable restaurant sales for Pollo Tropical by 2.0% in the second quarter of 2016. Comparable restaurant sales for both brands continue to be negatively impacted by the general slowdown in restaurant sales industrywide.

Restaurants in newer markets that have not reached media efficiency generally have lower sales than restaurants in mature, media-efficient markets. As a result, Pollo Tropical revenues are growing at a slower rate than the average number of restaurants.

Franchise revenues remained relatively stable and increased by less than \$0.1 million to \$0.7 million in the second quarter of 2016 from \$0.6 million in the second quarter of 2015.

Operating costs and expenses. Operating costs and expenses include cost of sales, restaurant wages and related expenses, other restaurant expenses and advertising expenses. Cost of sales consists of food, paper and beverage costs including packaging costs, less rebates and purchase discounts. Cost of sales is generally influenced by changes in commodity costs, the sales mix of items sold and the effectiveness of our restaurant-level controls to manage food and paper costs. Key commodities, including chicken and beef, are generally purchased under contracts for future periods of up to one year.

Restaurant wages and related expenses include all restaurant management and hourly productive labor costs, employer payroll taxes, restaurant-level bonuses and related benefits. Payroll and related taxes and benefits are subject to inflation, including minimum wage increases and increased costs for health insurance, workers' compensation insurance and state unemployment insurance.

Other restaurant operating expenses include all other restaurant-level operating costs, the major components of which are utilities, repairs and maintenance, general liability insurance, real estate taxes, sanitation, supplies and credit card fees.

Advertising expense includes all promotional expenses including television, radio, billboards and other sponsorships and promotional activities.

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Pre-opening costs include costs incurred prior to opening a restaurant, including restaurant employee wages and related expenses, travel expenditures, recruiting, training, promotional costs associated with the restaurant opening and rent, including any non-cash rent expense recognized during the construction period. Pre-opening costs are generally incurred beginning four to six months prior to a restaurant opening.

The following tables present the primary drivers of the changes in the components of restaurant operating margins for Pollo Tropical and Taco Cabana for the second quarter of 2016 compared to the second quarter of 2015. All percentages are stated as a percentage of applicable segment restaurant sales.

Pollo Tropical:

Cost of sales:

|                                                                   |        |
|-------------------------------------------------------------------|--------|
| Lower commodity costs                                             | (2.2)% |
| Menu price increases                                              | (0.3)% |
| Operating inefficiencies                                          | 0.5 %  |
| Other                                                             | 0.1 %  |
| Net decrease in cost of sales as a percentage of restaurant sales | (1.9)% |

Restaurant wages and related expenses:

|                                                                                        |        |
|----------------------------------------------------------------------------------------|--------|
| Higher labor costs and impact of lower sales volumes for comparable restaurants        | 0.7 %  |
| Higher labor costs and impact of lower sales volumes for new restaurants (1)           | 0.8 %  |
| Higher medical benefit costs                                                           | 0.3 %  |
| Higher workers compensation costs                                                      | 0.3 %  |
| Other                                                                                  | (0.1)% |
| Net increase in restaurant wages and related costs as a percentage of restaurant sales | 2.0 %  |

Other operating expenses:

|                                                                                         |        |
|-----------------------------------------------------------------------------------------|--------|
| Higher repairs and maintenance costs                                                    | 0.6 %  |
| Higher insurance costs                                                                  | 0.5 %  |
| Higher real estate taxes related to new restaurants                                     | 0.3 %  |
| Lower utilities costs                                                                   | (0.3)% |
| Other                                                                                   | 0.1 %  |
| Net increase in other restaurant operating expenses as a percentage of restaurant sales | 1.2 %  |

Advertising expense:

|                                                                         |       |
|-------------------------------------------------------------------------|-------|
| Increase in advertising                                                 | 1.5 % |
| Net increase in advertising expense as a percentage of restaurant sales | 1.5 % |

Pre-opening costs:

|                                                                       |       |
|-----------------------------------------------------------------------|-------|
| Timing of restaurant openings                                         | 0.5 % |
| Net increase in pre-opening costs as a percentage of restaurant sales | 0.5 % |

(1) Includes additional restaurant managers in training that will be deployed to new restaurants as they open.

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## Taco Cabana:

## Cost of sales:

|                                                                   |        |
|-------------------------------------------------------------------|--------|
| Lower commodity costs                                             | (1.0)% |
| Menu price increases                                              | (0.7)% |
| Operating inefficiencies                                          | 0.5 %  |
| Net decrease in cost of sales as a percentage of restaurant sales | (1.2)% |

## Restaurant wages and related expenses:

|                                                                                        |        |
|----------------------------------------------------------------------------------------|--------|
| Impact of lower sales volumes and higher labor costs for comparable restaurants        | 1.1 %  |
| Impact of closing lower sales volume restaurants, net of new restaurants               | (0.2)% |
| Lower medical benefit costs                                                            | (0.3)% |
| Other                                                                                  | 0.2 %  |
| Net increase in restaurant wages and related costs as a percentage of restaurant sales | 0.8 %  |

## Other operating expenses:

|                                                                                         |       |
|-----------------------------------------------------------------------------------------|-------|
| Higher repairs and maintenance costs                                                    | 0.3 % |
| Higher real estate taxes                                                                | 0.2 % |
| Other                                                                                   | 0.1 % |
| Net increase in other restaurant operating expenses as a percentage of restaurant sales | 0.6 % |

## Advertising expense:

|                                                                         |       |
|-------------------------------------------------------------------------|-------|
| Increase in advertising                                                 | 0.2 % |
| Net increase in advertising expense as a percentage of restaurant sales | 0.2 % |

## Pre-opening costs:

|                                                                       |       |
|-----------------------------------------------------------------------|-------|
| Timing of restaurant openings                                         | 0.2 % |
| Net increase in pre-opening costs as a percentage of restaurant sales | 0.2 % |

Consolidated Restaurant Rent Expense. Restaurant rent expense includes base rent and contingent rent on our leases characterized as operating leases, reduced by amortization of gains on sale-leaseback transactions. Restaurant rent expense, as a percentage of total restaurant sales, increased to 5.0% in the second quarter of 2016 from 4.7% in the second quarter of 2015 primarily as a result of new restaurants, which generally have higher rent, and the impact of lower comparable restaurant sales.

Consolidated General and Administrative Expenses. General and administrative expenses are comprised primarily of (1) salaries and expenses associated with the development and support of our company and brands and the management oversight of the operation of our restaurants; and (2) legal, auditing and other professional fees and stock-based compensation expense.

General and administrative expenses were \$14.3 million in the second quarter of 2016 and \$13.6 million in the second quarter of 2015, and as a percentage of total revenues, general and administrative expenses were 7.9% in the second quarter of 2016 and the second quarter of 2015 due primarily to higher current year sales and lower incentive based compensation costs. In addition, general and administrative expenses in the second quarter of 2016 include \$0.4 million in severance and relocation costs associated with transitioning our Pollo Tropical headquarters from Miami, Florida to Dallas, Texas.

Adjusted EBITDA. Adjusted EBITDA, which is one of the measures of segment profit or loss used by our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance, is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. Adjusted EBITDA may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation. 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 accounting, legal, supply chain, development, and other administrative functions. Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see the heading entitled "Management's Use of Non-GAAP Financial Measures".

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Adjusted EBITDA for Pollo Tropical decreased to \$14.0 million in the second quarter of 2016 from \$15.9 million in the second quarter of 2015 primarily as a result of lower profitability at new restaurants, the impact of lower comparable restaurant sales and higher operating expenses. Adjusted EBITDA for Taco Cabana decreased to \$10.6 million in the second quarter of 2016 from \$11.1 million in the second quarter of 2015 primarily due to the impact of the decrease in revenues. Consolidated Adjusted EBITDA decreased to \$24.6 million in the second quarter of 2016 from \$27.0 million in the second quarter of 2015.

Depreciation and Amortization. Depreciation and amortization expense increased to \$8.6 million in the second quarter of 2016 from \$7.4 million in the second quarter of 2015 due primarily to increased depreciation relating to new restaurant openings.

Impairment and Other Lease Charges. Each quarter we assess the potential impairment of any long-lived assets that have experienced a triggering event, including restaurants for which the related cash flows are below a certain threshold. After reviewing the specific cash flows and management's plans related to the restaurants for which an impairment review was performed, we determined that no impairment was currently necessary. However, for seven Pollo Tropical restaurants and one Taco Cabana restaurant, the projected cash flows were not substantially in excess of their combined carrying values of \$11.8 million and \$1.3 million, respectively. If the performance of these restaurants does not improve as projected, an impairment charge could be recognized in future periods, and such charge could be material.

Other Expense (Income). Other income in the second quarter of 2015 primarily consisted of expected business interruption insurance proceeds for a Pollo Tropical location that was temporarily closed due to a fire.

Interest Expense. Interest expense increased to \$0.5 million in the second quarter of 2016 from \$0.4 million in the second quarter of 2015.

Provision for Income Taxes. The provision for income taxes was derived using an estimated effective annual income tax rate of 36.5% for the second quarter of 2016 and 38.3% for the second quarter of 2015. There were no discrete tax adjustments in the second quarter of 2016 or 2015. The effective annual income tax rate decreased in the second quarter of 2016 compared to the second quarter of 2015 due primarily to the reinstatement of Work Opportunity Tax Credits.

Net Income. As a result of the foregoing, we had net income of \$8.9 million in the second quarter of 2016 compared to net income of \$11.2 million in the second quarter of 2015.

#### Six Months Ended July 3, 2016 Compared to Six Months Ended June 28, 2015

The following table sets forth, for the six months ended July 3, 2016 and June 28, 2015, selected consolidated operating results as a percentage of consolidated restaurant sales and selected segment operating results as a percentage of applicable segment restaurant sales:

|                                       | Six Months Ended |             |                |             |                |             |
|---------------------------------------|------------------|-------------|----------------|-------------|----------------|-------------|
|                                       | July 3, 2016     |             | June 28, 2015  |             | Consolidated   |             |
|                                       | Pollo Tropical   | Taco Cabana | Pollo Tropical | Taco Cabana | Pollo Tropical | Taco Cabana |
| Restaurant sales:                     |                  |             |                |             |                |             |
| Pollo Tropical                        | 56.3 %           |             | 52.8 %         |             |                |             |
| Taco Cabana                           |                  | 43.7 %      |                | 47.2 %      |                |             |
| Consolidated restaurant sales         | 100.0 %          |             | 100.0 %        |             |                |             |
| Costs and expenses:                   |                  |             |                |             |                |             |
| Cost of sales                         | 31.8 %           | 33.2 %      | 28.7 %         | 29.6 %      | 30.5 %         | 31.5 %      |
| Restaurant wages and related expenses | 23.3 %           | 21.5 %      | 28.9 %         | 28.5 %      | 25.8 %         | 24.8 %      |
| Restaurant rent expense               | 4.7 %            | 4.2 %       | 5.5 %          | 5.4 %       | 5.1 %          | 4.8 %       |
| Other restaurant operating expenses   | 13.1 %           | 11.9 %      | 13.1 %         | 12.8 %      | 13.1 %         | 12.3 %      |
| Advertising expense                   | 3.7 %            | 2.4 %       | 4.2 %          | 4.1 %       | 3.9 %          | 3.2 %       |
| Pre-opening costs                     | 1.4 %            | 1.1 %       | 0.2 %          | 0.1 %       | 0.9 %          | 0.6 %       |

Total revenues increased 6.7% to \$358.2 million in the six months ended July 3, 2016 from \$335.8 million in the six months ended June 28, 2015. Restaurant sales increased 6.7% to \$356.8 million in the six months ended July 3, 2016

from \$334.3 million in the six months ended June 28, 2015.

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The following table presents the primary drivers of the increase or decrease in restaurant sales for both Pollo Tropical and Taco Cabana for the six months ended July 3, 2016 compared to the six months ended June 28, 2015 (in millions):

Pollo Tropical:

|                                                                         |      |      |   |
|-------------------------------------------------------------------------|------|------|---|
| Decrease in comparable restaurant sales                                 | \$   | (1.1 | ) |
| Incremental sales related to new restaurants, net of closed restaurants | 25.4 |      |   |
| Total increase                                                          | \$   | 24.3 |   |

Taco Cabana:

|                                                                         |      |      |   |
|-------------------------------------------------------------------------|------|------|---|
| Decrease in comparable restaurant sales                                 | \$   | (1.8 | ) |
| Decrease in sales related to closed restaurants, net of new restaurants | (0.1 |      | ) |
| Total decrease                                                          | \$   | (1.9 | ) |

Comparable restaurant sales for Pollo Tropical restaurants decreased 0.7% in the six months ended July 3, 2016. Comparable restaurant sales for Taco Cabana restaurants decreased 1.2% in the six months ended July 3, 2016. For Pollo Tropical, a decrease in guest traffic of 1.3% was partially offset by menu price increases which drove an increase in restaurant sales of 0.8% in the six months ended July 3, 2016 as compared to the six months ended June 28, 2015. For Taco Cabana, a decrease in guest traffic of 3.2% was partially offset by menu price increases which drove an increase in restaurant sales of 2.6% in the six months ended July 3, 2016 as compared to the six months ended June 28, 2015. As a result of new restaurant openings, expected sales cannibalization of existing restaurants negatively impacted comparable restaurant sales for Pollo Tropical by 2.0% in the six months ended July 3, 2016. Comparable restaurant sales for both brands continue to be negatively impacted by the general slowdown in restaurant sales industrywide.

Restaurants in newer markets that have not reached media efficiency generally have lower sales than restaurants in mature, media-efficient markets. As a result, Pollo Tropical revenues are growing at a slower rate than the average number of restaurants.

Franchise revenues were \$1.4 million in the six months ended July 3, 2016 and June 28, 2015.

The following tables present the primary drivers of the changes in the components of restaurant operating margins for Pollo Tropical and Taco Cabana for the six months ended July 3, 2016 compared to the six months ended June 28, 2015. All percentages are stated as a percentage of applicable segment restaurant sales.

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Pollo Tropical:

Cost of sales:

|                                                                   |        |
|-------------------------------------------------------------------|--------|
| Lower commodity costs                                             | (2.2)% |
| Menu price increases                                              | (0.3)% |
| Operating inefficiencies                                          | 0.6 %  |
| Higher promotions and discounts                                   | 0.2 %  |
| Other                                                             | 0.3 %  |
| Net decrease in cost of sales as a percentage of restaurant sales | (1.4)% |

Restaurant wages and related expenses:

|                                                                                        |        |
|----------------------------------------------------------------------------------------|--------|
| Higher labor costs and impact of lower sales volumes for comparable restaurants        | 0.5 %  |
| Higher labor costs and impact of lower sales volumes for new restaurants (1)           | 1.0 %  |
| Higher medical benefit costs                                                           | 0.3 %  |
| Higher workers compensation costs                                                      | 0.2 %  |
| Other                                                                                  | (0.2)% |
| Net increase in restaurant wages and related costs as a percentage of restaurant sales | 1.8 %  |

Other operating expenses:

|                                                                                         |       |
|-----------------------------------------------------------------------------------------|-------|
| Higher repairs and maintenance costs                                                    | 0.6 % |
| Higher real estate taxes related to new restaurants                                     | 0.4 % |
| Other                                                                                   | 0.2 % |
| Net increase in other restaurant operating expenses as a percentage of restaurant sales | 1.2 % |

Advertising expense:

|                                                                         |       |
|-------------------------------------------------------------------------|-------|
| Increase in advertising                                                 | 1.3 % |
| Net increase in advertising expense as a percentage of restaurant sales | 1.3 % |

Pre-opening costs:

|                                                                       |       |
|-----------------------------------------------------------------------|-------|
| Timing of restaurant openings                                         | 0.3 % |
| Net increase in pre-opening costs as a percentage of restaurant sales | 0.3 % |

(1) Includes additional restaurant managers in training that will be deployed to new restaurants as they open.

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## Taco Cabana:

## Cost of sales:

|                                                                   |        |
|-------------------------------------------------------------------|--------|
| Menu price increases                                              | (0.8)% |
| Lower commodity costs                                             | (0.5)% |
| Operating inefficiencies                                          | 0.4 %  |
| Net decrease in cost of sales as a percentage of restaurant sales | (0.9)% |

## Restaurant wages and related expenses:

|                                                                                        |        |
|----------------------------------------------------------------------------------------|--------|
| Higher labor costs and impact of lower sales volumes for comparable restaurants        | 0.9 %  |
| Impact of closing lower sales volume restaurants, net of new restaurants               | (0.2)% |
| Higher workers' compensation claim costs                                               | 0.2 %  |
| Lower medical benefit costs                                                            | (0.4)% |
| Other                                                                                  | (0.1)% |
| Net increase in restaurant wages and related costs as a percentage of restaurant sales | 0.4 %  |

## Other operating expenses:

|                                                                                         |        |
|-----------------------------------------------------------------------------------------|--------|
| Higher repairs and maintenance costs                                                    | 0.3 %  |
| Lower utilities                                                                         | (0.3)% |
| Other                                                                                   | 0.3 %  |
| Net increase in other restaurant operating expenses as a percentage of restaurant sales | 0.3 %  |

## Advertising expense:

|                                                                         |       |
|-------------------------------------------------------------------------|-------|
| Increase in advertising                                                 | 0.1 % |
| Net increase in advertising expense as a percentage of restaurant sales | 0.1 % |

## Pre-opening costs:

|                                                                       |       |
|-----------------------------------------------------------------------|-------|
| Timing of restaurant openings                                         | 0.1 % |
| Net increase in pre-opening costs as a percentage of restaurant sales | 0.1 % |

Consolidated Restaurant Rent Expense. Restaurant rent expense includes base rent and contingent rent on our leases characterized as operating leases, reduced by amortization of gains on sale-leaseback transactions. Restaurant rent expense, as a percentage of total restaurant sales, increased to 5.1% in the six months ended July 3, 2016 from 4.8% in the six months ended June 28, 2015 primarily as a result of new restaurants, which generally have higher rent, and the impact of lower comparable sales.

Consolidated General and Administrative Expenses. General and administrative expenses were \$28.1 million in the six months ended July 3, 2016 and \$27.4 million the six months ended June 28, 2015, and as a percentage of total revenues, general and administrative expenses decreased to 7.8% in the six months ended July 3, 2016 compared to 8.2% in the six months ended June 28, 2015 due primarily to higher current year sales and lower incentive based compensation costs. In addition, general and administrative expenses in the six months ended July 3, 2016 include \$1.1 million in advisory fees related to the proposed separation transaction discussed in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 and severance and relocation costs associated with transitioning our Pollo Tropical headquarters from Miami, Florida to Dallas, Texas, partially offset by a \$0.4 million reduction in legal settlement costs.

Adjusted EBITDA. Adjusted EBITDA, which is one of the measures of segment profit or loss used by our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance, is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. Adjusted EBITDA may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation. 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 accounting, legal, supply chain, development, and other administrative functions. Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see the heading entitled "Management's Use of Non-GAAP Financial Measures".

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Adjusted EBITDA for Pollo Tropical decreased to \$29.7 million in the six months ended July 3, 2016 from \$31.9 million in the six months ended June 28, 2015 primarily as a result of lower profitability at new restaurants, the impact of lower comparable restaurant sales and higher operating expenses. Adjusted EBITDA for Taco Cabana increased to \$20.8 million in the six months ended July 3, 2016 from \$20.1 million in the six months ended June 28, 2015 primarily due to a decrease in cost of sales as a percentage of sales driven by menu price increases and lower commodity costs partially offset by the impact of the decrease in revenues. Consolidated Adjusted EBITDA decreased to \$49.8 million in the six months ended July 3, 2016 from \$52.0 million in the six months ended June 28, 2015 primarily a result of the decrease in Pollo Tropical and Taco Cabana Adjusted EBITDA and \$0.7 million in advisory fees related to the proposed separation transaction discussed in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

**Depreciation and Amortization.** Depreciation and amortization expense increased to \$17.0 million in the six months ended July 3, 2016 from \$14.2 million in the six months ended June 28, 2015 due primarily to increased depreciation relating to new restaurant openings.

**Impairment and Other Lease Charges.** Each quarter we assess the potential impairment of any long-lived assets that have experienced a triggering event, including restaurants for which the related cash flows are below a certain threshold. After reviewing the specific cash flows and management's plans related to the restaurants for which an impairment review was performed, we determined that no impairment was currently necessary. However, for seven Pollo Tropical restaurants and one Taco Cabana restaurant, the projected cash flows were not substantially in excess of their combined carrying values of \$11.8 million and \$1.3 million, respectively. If the performance of these restaurants does not improve as projected, an impairment charge could be recognized in future periods, and such charge could be material.

**Other (Income) Expense.** Other income in the six months ended July 3, 2016 primarily consisted of additional proceeds related to a location that closed in 2015 as a result of an eminent domain proceeding. Other income in the six months ended June 28, 2015 primarily consisted of a previously deferred gain from a sale-leaseback transaction that was recognized upon termination of the lease as a result of an eminent domain proceeding and expected business interruption insurance proceeds for a Pollo Tropical location that was temporarily closed due to a fire.

**Interest Expense.** Interest expense increased to \$1.1 million in the six months ended July 3, 2016 from \$0.9 million in the six months ended June 28, 2015.

**Provision for Income Taxes.** The provision for income taxes was derived using an estimated effective annual income tax rate of 36.5% for the six months ended July 3, 2016 and 38.3% for the six months ended June 28, 2015. There were no discrete tax adjustments in the six months ended 2016 or 2015. The effective annual income tax rate decreased in the six months ended July 3, 2016 compared to the six months ended June 28, 2015 due primarily to the reinstatement of Work Opportunity Tax Credits.

**Net Income.** As a result of the foregoing, we had net income of \$18.8 million in the six months ended July 3, 2016 compared to net income of \$21.8 million in the six months ended June 28, 2015.

**Liquidity and Capital Resources**

We do not have significant receivables or inventory and receive trade credit based upon negotiated terms in purchasing food products and other supplies. We are able to operate with a substantial working capital deficit because: restaurant operations are primarily conducted on a cash basis; rapid turnover results in a limited investment in inventories; and cash from sales is usually received before related liabilities for food, supplies and payroll become due.

Capital expenditures and payments related to our lease obligations represent significant liquidity requirements for us. We believe cash generated from our operations, availability of borrowings under our senior credit facility and proceeds from any sale-leaseback transactions which we may choose to do will provide sufficient cash availability to cover our anticipated working capital needs, capital expenditures and debt service requirements for the next twelve months.

**Operating Activities.** Net cash provided by operating activities in the first six months of 2016 and 2015 was \$43.6 million and \$34.2 million, respectively. The increase in net cash provided by operating activities in the first six

months of 2016 was primarily driven by the timing of payments.

Investing Activities. Net cash used in investing activities in the first six months of 2016 and 2015 was \$41.0 million and \$39.8 million, respectively. Capital expenditures are the largest component of our investing activities and include: (1) new restaurant development, which may include the purchase of real estate; (2) restaurant remodeling/reimaging, which includes the renovation

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or rebuilding of the interior and exterior of our existing restaurants; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants; and (4) corporate and restaurant information systems.

The following table sets forth our capital expenditures for the periods presented (in thousands):

|                                              | Pollo<br>Tropical | Taco<br>Cabana | Other   | Consolidated |
|----------------------------------------------|-------------------|----------------|---------|--------------|
| Six Months Ended July 3, 2016:               |                   |                |         |              |
| New restaurant development                   | \$32,572          | \$3,188        | \$—     | \$ 35,760    |
| Restaurant remodeling                        | 486               | —              | —       | 486          |
| Other restaurant capital expenditures (1)    | 659               | 1,336          | —       | 1,995        |
| Corporate and restaurant information systems | 850               | 743            | 2,404   | 3,997        |
| Total capital expenditures                   | \$34,567          | \$5,267        | \$2,404 | \$ 42,238    |
| Number of new restaurant openings            | 17                | 2              |         | 19           |
| Six Months Ended June 28, 2015:              |                   |                |         |              |
| New restaurant development                   | \$30,559          | \$2,903        | \$—     | \$ 33,462    |
| Restaurant remodeling                        | —                 | 1,526          | —       | 1,526        |
| Other restaurant capital expenditures (1)    | 1,559             | 1,120          | —       | 2,679        |
| Corporate and restaurant information systems | 26                | 109            | 2,098   | 2,233        |
| Total capital expenditures                   | \$32,144          | \$5,658        | \$2,098 | \$ 39,900    |
| Number of new restaurant openings            | 12                | 1              |         | 13           |

(1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the six months ended July 3, 2016 and June 28, 2015, total restaurant repair and maintenance expenses were approximately \$9.2 million and \$7.2 million, respectively.

In the first six months of 2016, investing activities also included \$2.7 million for the purchase of a property for a sale-leaseback and a sale-leaseback transaction related to our restaurant properties, the net proceeds from which were \$3.6 million.

**Financing Activities.** Net cash used in financing activities in the first six months of 2016 was \$3.0 million and included net revolving credit borrowing repayments under our senior credit facility of \$3.1 million and excess tax benefits of \$0.1 million. Net cash provided by financing activities in the first six months of 2015 was \$6.0 million and included net revolving credit borrowings under our senior credit facility of \$5.0 million and the excess tax benefit from vesting of restricted shares of \$1.0 million.

**Senior Credit Facility.** Our senior credit facility provides for aggregate revolving credit borrowings of up to \$150 million (including \$15 million available for letters of credit) and matures on December 11, 2018. The senior credit facility also provides for potential incremental increases of up to \$50 million to the revolving credit borrowings available under the senior credit facility. On July 3, 2016, there were \$67.9 million in outstanding revolving credit borrowings under our senior credit facility.

Borrowings under the senior credit facility bear interest at a per annum rate, at our option, equal to either (all terms as defined in the senior credit facility):

- 1) the Alternate Base Rate plus the applicable margin of 0.50% to 1.50% based on our Adjusted Leverage Ratio (with a margin of 0.50% as of July 3, 2016), or
- 2) the LIBOR Rate plus the applicable margin of 1.50% to 2.50% based on our Adjusted Leverage Ratio (with a margin of 1.50% at July 3, 2016).

In addition, the senior credit facility requires us to pay (i) a commitment fee based on the applicable Commitment Fee margin of 0.25% to 0.45%, based on our Adjusted Leverage Ratio, (with a margin of 0.25% at July 3, 2016) and the unused portion of the facility and (ii) a letter of credit fee based on the applicable LIBOR margin and the dollar amount of outstanding letters of credit.

All obligations under the senior credit facility are guaranteed by all of our material domestic subsidiaries. In general, our obligations under our senior credit facility and our subsidiaries' obligations under the guarantees are secured by a first priority lien and security interest on substantially all of our assets and the assets of our material subsidiaries

(including a pledge of all of the capital stock and equity interests of our material subsidiaries), other than certain specified assets, including real property owned by us or our subsidiaries.



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The outstanding borrowings under the senior credit facility are prepayable without penalty (other than customary breakage costs). The senior credit facility requires us to comply with customary affirmative, negative and financial covenants, including, without limitation, those limiting our and our subsidiaries' ability to (i) incur indebtedness, (ii) incur liens, (iii) loan, advance, or make acquisitions and other investments or other commitments to construct, acquire or develop new restaurants (subject to certain exceptions), (iv) pay dividends, (v) redeem and repurchase equity interests, (vi) conduct asset and restaurant sales and other dispositions (subject to certain exceptions), (vii) conduct transactions with affiliates and (viii) change our business. In addition, the senior credit facility will require us to maintain certain financial ratios, including minimum Fixed Charge Coverage and maximum Adjusted Leverage Ratios (all as defined under the senior credit facility).

Our senior credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under this facility if there is a default under any of our indebtedness having an outstanding principal amount of \$5.0 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due.

As of July 3, 2016, we were in compliance with the covenants under our senior credit facility. After reserving \$5.2 million for letters of credit issued under the senior credit facility, \$76.9 million was available for borrowing under the senior credit facility at July 3, 2016.

### Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements other than our operating leases, which are primarily for our restaurant properties and not recorded on our consolidated balance sheet.

There have been no significant changes outside the ordinary course of business to our contractual obligations since January 3, 2016. Information regarding our contractual obligations is included under "Contractual Obligations" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

### Inflation

The inflationary factors that have historically affected our results of operations include increases in food and paper costs, labor and other operating expenses and energy costs. Labor costs in our restaurants are impacted by changes in the Federal and state hourly minimum wage rates as well as changes in payroll related taxes, including Federal and state unemployment taxes. We typically attempt to offset the effect of inflation, at least in part, through periodic menu price increases and various cost reduction programs. However, no assurance can be given that we will be able to fully offset such inflationary cost increases in the future.

### Application of Critical Accounting Policies

Our unaudited interim condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the "Significant Accounting Policies" footnote in the notes to our consolidated financial statements for the year ended January 3, 2016 included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. There have been no material changes affecting our critical accounting policies for the six months ended July 3, 2016.

### Management's Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure. We use Adjusted EBITDA in addition to net income, income from operations, and income before income taxes 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 this measure is an important indicator of our operational strength and the performance of our business. Adjusted EBITDA as calculated by us is not necessarily comparable to similarly titled measures reported by other companies, and should not be considered as an alternative to net income, earnings per share, cash flows from operating activities or other financial information determined under GAAP.

Adjusted EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. 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 accounting, legal, supply chain, human resources, development and other administrative functions.

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Management believes that Adjusted EBITDA, when viewed with our results of operations calculated in accordance with GAAP and our reconciliation of Adjusted EBITDA to net income (i) provide useful information about our operating performance and period-over-period growth, (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.

All of such non-GAAP 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 (such as impairment and other lease charges, other income and expense and stock-based compensation expense) have recurred and may recur.

A reconciliation of Adjusted EBITDA to consolidated net income follows:

| (Dollars in thousands)             | Three Months Ended |               | Six Months Ended |               |
|------------------------------------|--------------------|---------------|------------------|---------------|
|                                    | July 3, 2016       | June 28, 2015 | July 3, 2016     | June 28, 2015 |
| Adjusted EBITDA:                   |                    |               |                  |               |
| Pollo Tropical                     | \$13,993           | \$15,862      | \$29,741         | \$31,873      |
| Taco Cabana                        | 10,605             | 11,138        | 20,810           | 20,095        |
| Fiesta                             | (47 )              | —             | (748 )           | —             |
| Consolidated                       | 24,551             | 27,000        | 49,803           | 51,968        |
| Less:                              |                    |               |                  |               |
| Depreciation and amortization      | 8,625              | 7,401         | 16,961           | 14,248        |
| Impairment and other lease charges | 82                 | —             | 94               | 94            |
| Interest expense                   | 535                | 414           | 1,093            | 852           |
| Provision for income taxes         | 5,125              | 6,983         | 10,813           | 13,502        |
| Stock-based compensation expense   | 1,258              | 1,095         | 2,269            | 2,036         |
| Other expense (income)             | 10                 | (142 )        | (238 )           | (514 )        |
| Net income                         | \$8,916            | \$11,249      | \$18,811         | \$21,750      |

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Forward Looking Statements

This Quarterly Report on Form 10-Q contains “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.

“Forward-looking statements” are any statements that are not based on historical information. Statements other than statements of historical facts included herein, including, without limitation, statements regarding our future financial position and results of operations, business strategy, budgets, projected costs and plans and objectives of management for future operations, are “forward-looking statements.” Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “continue” or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or “cautionary statements,” include, but are not limited to:

- Increases in food and other commodity costs;
- Risks associated with the expansion of our business, including increasing real estate and construction costs;
- Risks associated with food borne illness or other food safety issues, including negative publicity through traditional and social media;
- Our ability to manage our growth and successfully implement our business strategy;
  - Labor and employment benefit costs, including the impact of increases in federal and state minimum wages, increases in exempt status salary levels and healthcare costs imposed by the Affordable Care Act;
- Cyber security breaches;
- General economic conditions, particularly in the retail sector;
- Competitive conditions;
- Weather conditions;
- Significant disruptions in service or supply by any of our suppliers or distributors;
- Increases in employee injury and general liability claims;
- Changes in consumer perception of dietary health and food safety;
- Regulatory factors;
- Fuel prices;
- The outcome of pending or future legal claims or proceedings;
- Environmental conditions and regulations;
- Our borrowing costs;
- The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties;
- The risk of an act of terrorism or escalation of any insurrection or armed conflict involving the United States or any other national or international calamity; and
- Factors that affect the restaurant industry generally, including product recalls, liability if our products cause injury, ingredient disclosure and labeling laws and regulations.

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ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We purchase certain products which are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions and other factors which are not considered predictable or within our control. Although many of the products purchased are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements have been negotiated in advance to minimize price volatility. Where possible, we use these types of purchasing techniques to control costs as an alternative to using financial instruments to hedge commodity prices. In many cases, we believe we will be able to address commodity cost increases that are significant and appear to be long-term in nature by adjusting our menu pricing. However, long-term increases in commodity prices may result in lower restaurant-level operating margins.

There were no material changes from the information presented in Item 7A included in our Annual Report on Form 10-K for the year ended January 3, 2016 with respect to our market risk sensitive instruments.

ITEM 4—CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Our senior management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures. We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 3, 2016.

Changes in Internal Control over Financial Reporting. No change occurred in our internal control over financial reporting during the second quarter of 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to various litigation matters incidental to the conduct of our business. We do not believe that the outcome of any of these matters will have a material adverse effect on our business, results of operations or financial condition.

Item 1A. Risk Factors

Part 1 - Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 describes important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time-to-time. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

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Not applicable

Item 5. Other Information

None

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Item 6. Exhibits

(a) The following exhibits are filed as part of this report.

Exhibit  
No.

- |         |                                                                                                                                                                                  |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1    | Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.                                                |
| 31.2    | Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.                                                |
| 32.1    | Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc. |
| 32.2    | Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc. |
| 101.INS | XBRL Instance Document                                                                                                                                                           |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                          |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                            |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                             |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                           |



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SIGNATURES

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

FIESTA RESTAURANT GROUP, INC.

Date: August 3, 2016 /S/ TIMOTHY P. TAFT  
(Signature)  
Timothy P. Taft  
Chief Executive Officer

Date: August 3, 2016 /S/ LYNN S. SCHWEINFURTH  
(Signature)  
Lynn S. Schweinfurth  
Senior Vice President, Chief Financial Officer and Treasurer

Date: August 3, 2016 /S/ CHERI L. KINDER  
(Signature)  
Cheri L. Kinder  
Vice President, Corporate Controller