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Fiesta Restaurant Group, Inc.

Form 10-K

February 26, 2019

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[Table of Contents](#)

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

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

For the fiscal year ended December 30, 2018

OR

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

Commission File Number: 001-35373

FIESTA RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

14800 Landmark Boulevard, Suite 500 75254

Dallas, TX (Address of principal executive office) (Zip Code)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

**FIESTA RESTAURANT GROUP, INC.
FORM 10-K
YEAR ENDED DECEMBER 30, 2018**

	Page
<u>PART I</u>	
<u>Item 1 Business</u>	<u>4</u>
<u>Item 1A Risk Factors</u>	<u>14</u>
<u>Item 1B Unresolved Staff Comments</u>	<u>23</u>
<u>Item 2 Properties</u>	<u>23</u>
<u>Item 3 Legal Proceedings</u>	<u>24</u>
<u>Item 4 Mine Safety Disclosures</u>	<u>24</u>
<u>PART II</u>	
<u>Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>25</u>
<u>Item 6 Selected Financial Data</u>	<u>28</u>
<u>Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<u>Item 7A Quantitative and Qualitative Disclosures about Market Risk</u>	<u>54</u>
<u>Item 8 Financial Statements and Supplementary Data</u>	<u>54</u>
<u>Item 9 Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>54</u>
<u>Item 9A Controls and Procedures</u>	<u>54</u>
<u>Item 9B Other Information</u>	<u>57</u>
<u>PART III</u>	
<u>Item 10 Directors, Executive Officers and Corporate Governance</u>	<u>57</u>
<u>Item 11 Executive Compensation</u>	<u>57</u>
<u>Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>57</u>
<u>Item 13 Certain Relationships and Related Transactions, and Director Independence</u>	<u>57</u>
<u>Item 14 Principal Accountant Fees and Services</u>	<u>57</u>
<u>PART IV</u>	
<u>Item 15 Exhibits and Financial Statement Schedules</u>	<u>58</u>
<u>Item 16 Form 10-K Summary</u>	<u>61</u>

Table of Contents

PART I

Presentation of Information

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

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

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

Use of Non-GAAP Financial Measures

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

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

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

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

2

Table of Contents

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

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

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

Forward-Looking Statements

Matters discussed in this report and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, expressed or implied, regarding our intention to repurchase shares from time to time under the share repurchase program and the source of funding of such repurchases, our anticipated growth, operating results, future earnings per share, plans, objectives, and the impact of our investments in our Strategic Renewal Plan (the "Plan") and other business initiatives on future sales and earnings, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). These statements are often identified by the words "believe," "positioned," "estimate," "project," "plan," "goal," "target," "assumption," "continue," "intend," "expect," "future," "anticipate," and other similar expressions, whether in the negative or the affirmative, that are not statements of historical fact. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict, and you should not place undue reliance on our forward-looking statements. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this report and in our other public filings with the United States Securities and Exchange Commission ("SEC"). All forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this report or other periodic reports represent our estimates as of the date made and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we expressly disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

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

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

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

The Strategic Renewal Plan (the "Plan")

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

Other Events

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

Table of Contents***Our Brands***

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

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

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

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

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

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

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

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

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

Table of Contents

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

Our Competitive Strengths

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

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

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

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

Growth Strategies

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

Our strategies for growth primarily include:

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

through the following strategies:

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

6

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

Competition

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

We believe that:

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

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

Table of Contents**Restaurant Operating Data**

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

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

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

Seasonality

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

Operations***Management Structure***

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

Table of Contents

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

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

Training

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

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

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

Management Information Systems

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

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

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

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

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

Table of Contents

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

We expect to continue making substantial investments in technology that we believe will drive sales and transaction growth through improved customer engagement and off-premise service offerings, improve the effectiveness of labor and inventory management and business analytics, and improve efficiencies with our core enterprise systems.

As we enter into 2019, we are rolling out portable POS tablets with the ability to accept secure payments at both brands to improve speed of service. In addition, in early 2019, we will begin testing self-service kiosks inside our restaurants for guests to order and pay and will measure, among other things, the impact to traffic, guest check average, accuracy, staffing and operations.

Community Social Impact

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

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

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

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

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

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