



**Fiesta Restaurant Group, Inc.  
2018 Annual Report**





Dear Fellow Shareholders:

We had an eventful and productive year at Fiesta Restaurant Group as we successfully executed and completed our Strategic Renewal Plan aimed at restoring our iconic Pollo Tropical® and Taco Cabana® brands to full strength and growth. The tireless work and dedication of our Team, supported by the substantial investments we made to solidify our foundation and long-term potential, have elevated important aspects of the guest experience. Specifically, we heightened our food quality and freshly prepared cuisine through ingredient and recipe quality upgrades, introduced product innovation such as Crispy Pollo Bites™ at Pollo Tropical and Kickin' Grande Nachos at Taco Cabana, among other menu items, and enhanced our restaurant environment. In doing so, we have broadened our brands' appeal as we build a track record of sales momentum and increased profit per transaction.

We celebrated two milestones in 2018 - Taco Cabana's 40th anniversary in September and Pollo Tropical's 30th anniversary in November. These are incredible achievements that place us within a select group of restaurant brands, and only reinforce what we believe to be our long-term opportunity. We look ahead with great optimism in realizing our potential.

Total revenues increased 2.9% in 2018 to \$688.6 million from \$669.1 million in 2017, driven primarily by comparable restaurant sales increases of 2.2% at Pollo Tropical and 4.5% at Taco Cabana. Our top-line benefitted from the favorable comparison to 2017 which included the negative impact of Hurricanes Harvey and Irma and sales from new restaurants, partially offset by permanent restaurant closures. We also improved our profitability on both a GAAP and non-GAAP basis. Net income was \$7.8 million in 2018, or \$0.29 per diluted share, compared to a net loss of \$36.2 million, or \$1.35 per diluted share in 2017. Consolidated Adjusted EBITDA (a non-GAAP measure, see reconciliation to net income on page 31 of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018) was \$68.0 million in 2018 compared to Consolidated Adjusted EBITDA of \$67.4 million in 2017.

Among our many initiatives in 2018, we rebranded our catering effort under the Catering by Pollo Tropical banner and have refined the catering menu and pricing format. With a newly dedicated team to oversee the program, including both operations and sales, we are seeing early success and are beginning to build a solid book of business. We will further evolve our catering platform in 2019 to be even more competitive and to expand the offering for different occasions and party sizes. We also inaugurated the MyPollo™ and 'MyTC™' digital loyalty programs, allowing guests to find a location, order online, manage their points and redemptions and upload coupons, among other things. Finally, we concluded our comprehensive portfolio review, which consisted of closing underperforming locations and exiting the Atlanta market. Through these actions, we believe we have created catalysts for further sales growth, achieved higher quality restaurant operations, and further optimized our restaurant base.

So far in 2019, we are rolling out upgraded POS tablets for ease and security of transactions, which improves speed of service, especially in our busiest restaurants, and will be testing kiosks at both brands, which may help to decrease costs, increase average ticket and improve accuracy. We also re-launched our 'Pollo Time' and 'TC Time' everyday value platforms to drive traffic in this competitive environment and entered into an agreement with Doordash as our delivery partner. And as always, we are squarely focused on improving food and labor costs through better cost control reporting, management and accountability.

We are certainly proud of all that we have accomplished. Of course, nothing we do would be possible without our hardworking and passionate Team, whom I cannot thank enough for their contributions. On behalf of Fiesta Restaurant Group, we appreciate your investment and continued support in our ability to create long term value for our shareholders.

Sincerely,

Richard "Rich" Stockinger  
President and Chief Executive Officer  
Fiesta Restaurant Group, Inc.



**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  
(State or other jurisdiction of  
incorporation or organization)

90-0712224  
(I.R.S. Employer  
Identification No.)

14800 Landmark Boulevard, Suite 500  
Dallas, TX  
(Address of principal executive office)

75254  
(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:**  
Common Stock, par value \$.01 per share

**Name on each exchange on which registered:**  
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.

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.



**FIESTA RESTAURANT GROUP, INC.**

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

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## PART I

### Presentation of Information

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

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

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

### Use of Non-GAAP Financial Measures

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

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

Restaurant-level Adjusted EBITDA is defined as Adjusted EBITDA excluding franchise royalty revenues and fees, pre-opening costs and general and administrative expenses (including corporate-level general and administrative expenses). Restaurant-level Adjusted EBITDA margin is derived by dividing Restaurant-level Adjusted EBITDA by restaurant sales.

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



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

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.

## ITEM 1. BUSINESS

### Overview

#### *Our Company*

We own, operate and franchise two restaurant brands, Pollo Tropical<sup>®</sup> and Taco Cabana<sup>®</sup>, which this year celebrated 30<sup>th</sup> and 40<sup>th</sup> 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.

## ***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<sup>®</sup> (a create your own bowl of fire-grilled chicken breast or Crispy Pollo Bites<sup>™</sup>, 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 reimagine 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<sup>®</sup>. 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 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 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 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).

	<u>Pollo Tropical</u>	<u>Taco Cabana</u>
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.

## 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
<b><i>Pollo Tropical:</i></b>			
Average annual sales per company-owned restaurant (in thousands) <sup>(1)</sup> . .	\$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%
<b><i>Taco Cabana:</i></b>			
Average annual sales per company-owned restaurant (in thousands) <sup>(1)</sup> . .	\$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 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 Offer 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.

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 DeLucca Development Center, Juvenile Diabetes Research Foundation, Children’s Hospitals of Texas, Houston Food Bank, Austin Central Texas Food Bank, El Pasoans Fighting for Hunger Food Bank, San Antonio Food Bank, San Antonio Haven for Hope and Madison on Marsh Nursing Home;
- We provided hundreds of hot meals to local police, FBI, first responders and local residents in need after the Parkland, Florida shooting tragedy;
- Hundreds of hot meals were provided to first responders, victims, elderly residents and others in Texas and in Florida in the aftermath of the Hurricanes; and
- We assist, through our non-profit Fiesta Family Foundation, many of our employees who have personally suffered losses or other hardships, including as a result of the Hurricanes.

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

### **Suppliers and Distributors**

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

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

### **Quality Assurance**

Pollo Tropical and Taco Cabana are committed to obtaining quality ingredients and creating freshly-prepared food in a safe manner. In addition to operating in accordance with quality assurance and health standards mandated by federal, state and local governmental laws and regulations regarding minimum cooking times and temperatures, maximum time standards for holding prepared food, food handling guidelines and cleanliness, among other things, we have also developed our own internal quality control standards. We require our suppliers to adhere to our high quality control standards, and we regularly inspect their products and production and distribution facilities to ensure that they conform to those standards. In addition, we have implemented certain procedures to ensure that we serve safe, quality meals to our guests. As an example, we utilize the nationally-recognized ServSafe program to train our kitchen staff and managers on proper food handling and preparation techniques. In addition, we have hired a third party that conducts unscheduled food safety inspections of our restaurants, and restaurant managers conduct internal inspections for taste, quality, cleanliness and food safety on a regular basis. These third-party inspections are one of the metrics used in our restaurant-level incentive bonus programs.

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

### **Trademarks**

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

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

### **Continued Commitment to Strong Governance**

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

## **Government Regulation**

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

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

Taco Cabana is subject to alcoholic beverage control regulations that require state, county or municipal licenses or permits to sell alcoholic beverages at each restaurant location that sells alcoholic beverages. Typically, licenses must be renewed every one to two years and may be revoked or suspended for cause at any time. Licensing entities, authorized with law enforcement authority, may issue violations and conduct audits and investigations of the restaurant's records and procedures. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of our Taco Cabana restaurants including minimum age for consumption, certification requirements for employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. These regulations also prescribe certain required banking and accounting practices related to alcohol sales and purchasing. Our Taco Cabana restaurants are subject to state "dram-shop" laws. Dram-shop laws provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated or minor patron. We have specific insurance that covers claims arising under dram-shop laws. However, we cannot ensure that this insurance will be adequate to cover any claims that may be instituted against us. In early 2017, we discontinued the sale of alcoholic beverages at Pollo Tropical restaurants.

## **Employees**

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

## **Availability of Information**

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

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

## ITEM 1A. RISK FACTORS

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

### Risks Related to Our Business

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

The restaurant industry is highly competitive. In each of our markets, our restaurants compete with a large number of national and regional restaurant chains, as well as locally owned restaurants, offering low and medium-priced fare. We also compete with delivered meal solutions, convenience stores, grocery stores and other restaurant retailers.

Pollo Tropical's competitors include national and regional chicken-based concepts as well as other types of quick-service and fast-casual restaurants. Our Taco Cabana restaurants compete with Mexican concepts, including those in the quick-service, fast-casual and casual dining segments. Many of our competitors or potential competitors have greater financial and other resources than we do, which may allow them to react to changes in pricing, marketing, and trends in the restaurant industry more quickly or effectively than we can. Additionally, to remain competitive, we have increasingly offered selected food items and combination meals at discounted prices. These pricing and other marketing strategies have had, and in the future may have, a negative impact on our sales and earnings.

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

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

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

- costs related to remaining competitive and current with regard to new technologies in our restaurants such as loyalty programs, gift cards, on-line ordering and credit card security; and
- regional weather conditions including hurricanes, windstorms and flooding, and other natural disasters.

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

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

These strategic initiatives included detailed items focused on the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

and other items at our restaurants, which could cause a restaurant to remove items from its menu. If such actions were to occur, customers could change their dining habits and affected restaurants could experience significant reductions in sales during the shortage or thereafter.

***Loss of senior management could adversely affect our future success.***

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

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

Labor is a primary component in the cost of operating our restaurants. If we face labor shortages or increased labor costs, because of increased competition for employees, a decrease in the labor supply to us or our key suppliers due to changes in immigration policy including barriers to immigrants entering, working in, or remaining in the United States, higher employee-turnover rates, unionization of restaurant workers, or increases in federal, state, or local minimum wages or in other employee benefits costs (including costs associated with health insurance coverage or workers’ compensation insurance), this could have a material adverse effect on our operating results.

If a significant portion of our employees were to become union organized, our labor costs could increase. Potential changes in labor laws could increase the likelihood of some or all of our employees being subjected to greater organized labor influence and could have an adverse effect on our business and financial results by imposing requirements that could potentially increase our costs.

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

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

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

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

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

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

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

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

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

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

***Economic downturns may adversely impact consumer spending patterns.***

Our business is dependent to a significant extent on national, regional and local economic conditions, particularly those that affect our guests that frequently patronize our restaurants. In particular, where our guests' disposable income is reduced (such as by job losses, credit constraints and higher housing, tax, utility, gas, consumer credit or other costs) or where the perceived wealth of guests has decreased (because of circumstances such as lower residential real estate values, lower investment values, increased foreclosure rates, increased tax rates or other economic disruptions), our restaurants have in the past experienced, and may in the future experience, lower sales and guest traffic as guests choose lower-cost alternatives or choose alternatives to dining out. The resulting decrease in our guest traffic or average sales per transaction has had an adverse effect in the past, and could in the future have a material adverse effect, on our business.

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

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

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

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and



local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

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

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

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

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

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

Although we believe that compliance with these laws has not had a material adverse effect on our operations to date, we may experience material difficulties or failures with respect to compliance with such laws in the future. Our failure to comply with these laws could result in required renovations to our facilities, litigation, fines, penalties, judgments, or other sanctions, including the temporary suspension of restaurant operations or a delay in construction or opening of a restaurant, any of which could adversely affect our business and our reputation.

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

***Changes in employment laws may adversely affect our business.***

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

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

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

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

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

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

Under the comprehensive U.S. health care reform law enacted in 2010, the Affordable Care Act, changes that became effective in 2014, and the employer mandate and employer penalties that became effective in 2015, may increase our labor costs significantly. While changes in the law that became effective in 2015, including the imposition of a penalty on individuals who do not obtain health care coverage, have not resulted in significant numbers of additional employees electing to participate in our health care plans, there can be no assurance that this will not change in the future which may increase our health care costs. It is also possible that making changes or failing to make changes in the health care plans we offer will make us less attractive to our current or potential employees. The costs and other effects of these new health care requirements on future periods cannot be determined with certainty and could have a material adverse effect on our results of operations.

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

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

***Our franchisees could take actions that harm our reputation.***

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

***Our indebtedness could adversely affect our financial condition.***

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

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

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

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

We expect to use cash flow from operations and revolving borrowings under our senior credit facility to meet our current and future financial obligations, including funding our operations, debt service and capital expenditures. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future, which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not have enough money, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including our senior credit facility, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness, including the agreements for our senior credit facility, may limit our ability to pursue any of these alternatives.

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

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

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

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

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

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

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

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

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

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

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

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

The leases for our restaurant locations generally have initial terms of 10 to 20 years, and typically provide for renewal options in five year increments as well as for rent escalations. Generally, our leases are “net” leases, which require us to pay all of the costs of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. If an existing or future restaurant is not profitable, and we decide to close it, we may nonetheless be obligated to perform our monetary obligations under the applicable lease including, among other things, paying all amounts due for the balance of the lease term. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close restaurants in desirable locations.

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

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

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

### **Risks Related to Our Common Stock**

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

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

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

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

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

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

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

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

stockholders may lead to the perception of a change in the direction of our business, instability or lack of continuity. This may affect our relationship with current or potential suppliers, vendors, and other third parties, and make it more difficult to attract and retain management employees and executives which could adversely affect our business, operating results and financial condition. Further, proxy contests and related actions by activist stockholders could cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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

	<u>Owned</u>	<u>Leased<sup>(1)</sup></u>	<u>Total<sup>(2)</sup></u>
Restaurants:			
Pollo Tropical . . . . .	6	133	139
Taco Cabana . . . . .	<u>6</u>	<u>156</u>	<u>162</u>
Total operating restaurants . . . . .	<u>12</u>	<u>289</u>	<u>301</u>

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

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

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

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

As of December 30, 2018, we had one restaurant under development, 16 closed properties subleased to third parties, 33 closed restaurant properties available for sublease, three properties for which the lease will be terminated and five owned and closed restaurant properties, of which one has been leased to a third party, three were available for lease (two of which will also be available for sale) and one will be available for sale in 2019.

In addition to the restaurant locations, we lease approximately 21,000 square feet at 14800 Landmark Boulevard, Suite 500, Dallas, Texas which houses some of our executive offices and certain of our administrative functions. We also lease approximately 10,400 square feet at 7255 Corporate Center Drive, Miami, Florida, and 1,300 square feet at 7200 Corporate Center Drive, Miami, Florida, which house some of our executive offices and administrative operations for our Pollo Tropical restaurants. Additionally, we lease approximately 10,300 square feet of office space at 1077 Central Parkway South, Suite 600, San Antonio, Texas, which houses most of our administrative operations for our Taco Cabana restaurants. In addition, we lease an office facility located at 3220 Keller Spring Road, Suite 108, Carrollton, Texas, which is subleased to a third party and an office building at 8918 Tesoro Drive, Suite 200, San Antonio Texas, that is available for sublease.

### **ITEM 3. LEGAL PROCEEDINGS**

We are a party to various litigation matters incidental to the conduct of 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 4. MINE SAFETY DISCLOSURES**

None.

## PART II

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

Our common stock trades on The NASDAQ Global Select Market under the symbol "FRGI". The common stock has been quoted on The NASDAQ Global Select Market since May 8, 2012. On February 20, 2019, there were 27,234,451 shares of our common stock outstanding held by 431 holders of record. This excludes persons whose shares are held by a brokerage house or clearing agency. The closing price of our common stock on February 20, 2019 was \$15.50.

The following table presents the range of high and low closing prices of our common stock for the periods indicated, as reported by The NASDAQ Global Select Market:

	<u>Common Stock Price</u>	
	<u>High</u>	<u>Low</u>
<b>Year Ended December 30, 2018</b>		
First Quarter . . . . .	\$20.20	\$16.60
Second Quarter . . . . .	29.05	18.05
Third Quarter . . . . .	30.55	25.85
Fourth Quarter . . . . .	29.82	14.32
<b>Year Ended December 31, 2017</b>		
First Quarter . . . . .	\$29.45	\$19.80
Second Quarter . . . . .	25.00	20.15
Third Quarter . . . . .	20.60	15.90
Fourth Quarter . . . . .	20.10	16.10

#### Dividends

We did not pay any cash dividends during 2018 or 2017. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain the majority of available funds to fund the development and growth of our business or to use for other corporate related purposes such as the repayment of revolving credit borrowings under our senior credit facility. In addition, we are a holding company and conduct all of our operations through our direct and indirect subsidiaries. As a result, for us to pay dividends, we need to rely on dividends and distributions to us from our subsidiaries. Our senior credit facility limits—and debt instruments that we and our subsidiaries may enter into in the future may limit—our ability to pay dividends to our stockholders.

#### Issuer Purchases of Equity Securities

On February 26, 2018, we announced that our board of directors approved a share repurchase program for up to 1.5 million shares of our common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume, general market and economic conditions, and other corporate considerations. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by our board of directors.

The following table sets forth information with respect to the Company's repurchases of common stock during the quarter ended December 30, 2018:

<u>Period</u>	<u>Total Number of Shares Purchased<sup>(1)</sup></u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
October 1, 2018 to November 4, 2018 . . . . .	—	\$ —	—	1,402,642
November 5, 2018 to December 2, 2018 . . . . .	15,000	18.94	15,000	1,387,642
December 3, 2018 to December 30, 2018 . . . . .	—	—	—	1,387,642
<b>Total</b> . . . . .	<u>15,000</u>	\$18.94	<u>15,000</u>	

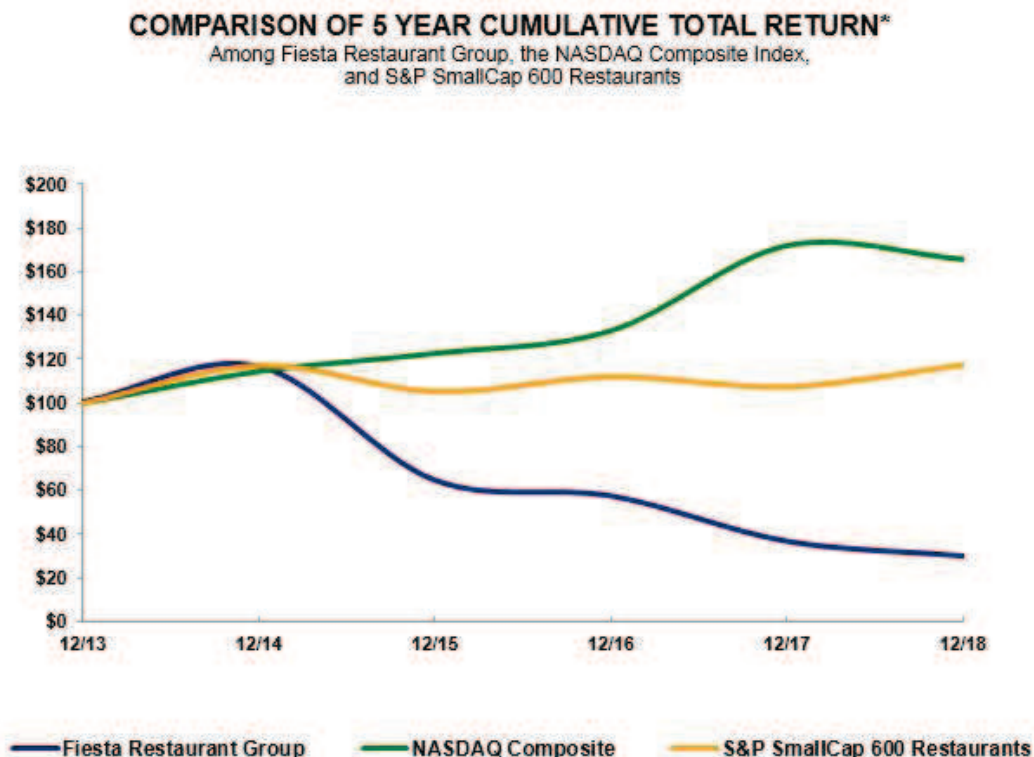
(1) Shares purchased in open market transactions.



## Stock Performance Graph

The following performance graph compares our cumulative total stockholder return on our common stock with the cumulative total returns of The NASDAQ Composite Index and a peer group, The S&P Small Cap 600 Restaurant Index. We have elected to use the S&P Small Cap 600 Restaurant Index in compiling our stock performance graph because we believe that index represents a comparison to competitors with similar market capitalization as us. The graph assumes that \$100 was invested on December 31, 2013, with dividends reinvested quarterly.

The trading price of our common stock on December 31, 2013 was \$52.24 and the closing price of our common stock on December 28, 2018, the last trading day before our fiscal year end date of December 30, 2018, was \$15.24.



\*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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### Total Cumulative Shareholder Returns

	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Fiesta Restaurant Group, Inc.....	\$100.00	\$116.39	\$ 64.32	\$ 57.14	\$ 36.37	\$ 29.69
NASDAQ Composite.....	100.00	114.62	122.81	133.19	172.11	165.84
S&P Small Cap 600 Restaurants.....	100.00	117.34	105.44	112.22	107.66	117.68

The graph and table above provide the cumulative change of \$100.00 invested on December 31, 2013, including reinvestment of dividends, if applicable, for the periods indicated.

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data derived from our audited consolidated financial statements for each of the years ended December 30, 2018, December 31, 2017, January 1, 2017, January 3, 2016 and December 28, 2014. The information in the following table should be read together with our audited consolidated financial statements and accompanying notes as of December 30, 2018 and December 31, 2017 and for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included under Item 7 of this Annual Report on Form 10-K. These historical results are not necessarily indicative of the results to be expected in the future. Our fiscal years ended December 30, 2018, December 31, 2017, January 1, 2017, and December 28, 2014 each contained 52 weeks. The fiscal year ended January 3, 2016 contained 53 weeks.

(Dollars in thousands, except share and per share data)	Year Ended				
	December 30, 2018	December 31, 2017	January 1, 2017	January 3, 2016	December 28, 2014
<b>Statement of operations data:</b>					
Revenues:					
Restaurant sales . . . . .	\$ 685,925	\$ 666,584	\$ 708,956	\$ 684,584	\$ 608,540
Franchise royalty revenues and fees . . . . .	2,672	2,548	2,814	2,808	2,603
Total revenues . . . . .	<u>688,597</u>	<u>669,132</u>	<u>711,770</u>	<u>687,392</u>	<u>611,143</u>
Costs and expenses:					
Cost of sales . . . . .	218,946	202,888	214,609	217,328	192,250
Restaurant wages and related expenses (including stock-based compensation expense of \$90, \$52, \$142, \$156, and \$71, respectively) . . . . .	188,131	184,742	185,305	174,222	155,140
Restaurant rent expense . . . . .	36,034	36,936	37,493	33,103	29,645
Other restaurant operating expenses . . . . .	100,828	98,927	96,457	87,285	78,921
Advertising expense . . . . .	23,695	26,091	26,800	21,617	19,493
General and administrative (including stock- based compensation expense of \$3,379, \$3,493, \$3,141, \$4,137, and \$3,426, respectively) . . . . .	54,525	59,633	54,826	54,156	48,924
Depreciation and amortization . . . . .	37,604	34,957	36,776	30,575	23,047
Pre-opening costs . . . . .	1,716	2,118	5,511	4,567	4,061
Impairment and other lease charges <sup>(1)</sup> . . . . .	21,144	61,760	25,644	2,382	363
Other expense (income), net <sup>(2)</sup> . . . . .	<u>(3,007)</u>	<u>2,190</u>	<u>1,130</u>	<u>(314)</u>	<u>(68)</u>
Total operating expenses . . . . .	<u>679,616</u>	<u>710,242</u>	<u>684,551</u>	<u>624,921</u>	<u>551,776</u>
Income (loss) from operations . . . . .	8,981	(41,110)	27,219	62,471	59,367
Interest expense . . . . .	<u>3,966</u>	<u>2,877</u>	<u>2,171</u>	<u>1,889</u>	<u>2,228</u>
Income (loss) before income taxes . . . . .	5,015	(43,987)	25,048	60,582	57,139
Provision for (benefit from) income taxes . . . . .	<u>(2,772)</u>	<u>(7,755)</u>	<u>8,336</u>	<u>22,046</u>	<u>20,963</u>
Net income (loss) . . . . .	<u>\$ 7,787</u>	<u>\$ (36,232)</u>	<u>\$ 16,712</u>	<u>\$ 38,536</u>	<u>\$ 36,176</u>
<b>Per share data:</b>					
Earnings (loss) per common share—basic . . . . .	\$ 0.29	\$ (1.35)	\$ 0.62	\$ 1.44	\$ 1.35
Earnings (loss) per common share—diluted . . . . .	0.29	(1.35)	0.62	1.44	1.35
<b>Weighted average shares outstanding:</b>					
Weighted average common shares outstanding—basic . . . . .	26,890,577	26,821,471	26,682,227	26,515,029	26,293,714
Weighted average common shares outstanding—diluted . . . . .	26,894,083	26,821,471	26,689,179	26,522,196	26,296,049
<b>Other financial data:</b>					
Net cash provided by operating activities . . . . .	\$ 53,803	\$ 50,820	\$ 80,679	\$ 81,352	\$ 64,106
Net cash used for investing activities . . . . .	(52,124)	(55,492)	(81,160)	(87,671)	(66,658)
Net cash provided by (used in) financing activities . . . . .	(20)	4,075	(604)	6,513	(3,339)
Total capital expenditures . . . . .	(57,850)	(55,866)	(82,365)	(87,570)	(74,079)

(Dollars in thousands)	Year Ended				
	December 30, 2018	December 31, 2017	January 1, 2017	January 3, 2016	December 28, 2014
<b>Balance sheet data:</b>					
Total assets . . . . .	\$ 418,659	\$ 423,313	\$ 441,565	\$ 415,645	\$ 357,956
Working capital . . . . .	(2,162)	(18,796)	(19,827)	(15,067)	(14,243)
Long-term debt:					
Revolving credit facility . . . . .	78,000	75,000	69,900	71,000	66,000
Lease financing obligations . . . . .	—	—	1,664	1,663	1,660
Capital leases . . . . .	<u>1,744</u>	<u>1,523</u>	<u>1,612</u>	<u>1,681</u>	<u>1,325</u>
Total long-term debt . . . . .	<u>\$ 79,744</u>	<u>\$ 76,523</u>	<u>\$ 73,176</u>	<u>\$ 74,344</u>	<u>\$ 68,985</u>
Stockholders' equity . . . . .	<u>\$ 240,059</u>	<u>\$ 231,516</u>	<u>\$ 264,175</u>	<u>\$ 243,982</u>	<u>\$ 199,587</u>
<b>Operating statistics:</b>					
<b>Consolidated:</b>					
Restaurant-level Adjusted EBITDA <sup>(3)</sup> . . . . .	\$ 118,381	\$ 117,462	\$ 148,434	\$ 151,185	\$ 133,162
Restaurant-level Adjusted EBITDA margin <sup>(3)</sup> . . . . .	17.3%	17.6%	20.9%	22.1%	21.9%
Adjusted EBITDA <sup>(3)</sup> . . . . .	67,962	67,445	96,567	101,040	85,670
Adjusted EBITDA margin <sup>(3)</sup> . . . . .	9.9%	10.1%	13.6%	14.7%	14.0%
Total company-owned restaurants (at end of period) . . . . .	301	312	343	317	291
<b>Pollo Tropical:</b>					
Company-owned restaurants (at end of period) . . . . .	139	146	177	155	124
Average number of company-owned restaurants . . . . .	148.5	159.7	169.8	138.5	112.3
Revenues:					
Restaurant sales . . . . .	\$ 374,381	\$ 372,328	\$ 399,736	\$ 364,544	\$ 305,404
Franchise royalty revenues and fees . . . . .	<u>1,815</u>	<u>1,787</u>	<u>2,062</u>	<u>2,197</u>	<u>2,072</u>
Total revenues . . . . .	376,196	374,115	401,798	366,741	307,476
Average annual sales per company-owned restaurant <sup>(4)</sup> . . . . .	2,521	2,331	2,354	2,585	2,720
Restaurant-level Adjusted EBITDA <sup>(3)</sup> . . . . .	82,066	78,371	90,294	90,374	78,960
Restaurant-level Adjusted EBITDA margin <sup>(3)</sup> . . . . .	21.9%	21.0%	22.6%	24.8%	25.9%
Adjusted EBITDA <sup>(3)</sup> . . . . .	54,903	50,937	58,286	61,265	52,794
Adjusted EBITDA margin <sup>(3)</sup> . . . . .	14.6%	13.6%	14.5%	16.7%	17.2%
Change in comparable company-owned restaurant sales <sup>(5)</sup> . . . . .	2.2%	(6.5)%	(1.6)%	3.8%	6.6%

(Dollars in thousands)	Year Ended				
	December 30, 2018	December 31, 2017	January 1, 2017	January 3, 2016	December 28, 2014
<b>Taco Cabana:</b>					
Company-owned restaurants (at end of period) . . . . .	162	166	166	162	167
Average number of company-owned restaurants . . . . .	168.8	167.2	163.3	163.9	165.6
Revenues: . . . . .					
Restaurant sales . . . . .	\$311,544	\$ 294,256	\$ 309,220	\$320,040	\$303,136
Franchise royalty revenues and fees . . . . .	857	761	752	611	531
Total revenues . . . . .	312,401	295,017	309,972	320,651	303,667
Average annual sales per company-owned restaurant <sup>(5)</sup> . . . . .	1,846	1,760	1,894	1,920	1,831
Restaurant-level Adjusted EBITDA <sup>(3)</sup> . . . . .	36,315	39,091	58,140	60,811	54,202
Restaurant-level Adjusted EBITDA margin <sup>(3)</sup> . . . . .	11.7%	13.3%	18.8%	19.0%	17.9%
Adjusted EBITDA <sup>(3)</sup> . . . . .	13,059	16,508	38,281	39,775	32,876
Adjusted EBITDA margin <sup>(3)</sup> . . . . .	4.2%	5.6%	12.3%	12.4%	10.8%
Change in comparable company-owned restaurant sales <sup>(6)</sup> . . . . .	4.5%	(7.3)%	(2.5)%	4.4%	3.3%

- (1) Impairment charges for the year ended December 30, 2018, primarily include impairment charges for 14 Pollo Tropical restaurants that were closed in 2018, two of which were initially impaired in 2017, nine Taco Cabana locations that were closed in 2018, one of which was initially impaired in 2017, and one Pollo Tropical and six Taco Cabana locations that we continue to operate. Other lease charges, net of recoveries, for the year ended December 30, 2018 were primarily related to restaurants that closed in 2018 and net recoveries related to restaurants and an office location that closed in prior years. Impairment charges for the year ended December 31, 2017, primarily include impairment charges for 40 Pollo Tropical restaurants that were closed in 2017, seven of which were initially impaired in 2016, six Taco Cabana restaurants that were closed in 2017, four of which were initially impaired in 2016, two Pollo Tropical restaurants and five Taco Cabana restaurants which we continued to operate and an office location that was closed in December 2017. Other lease charges, net of recoveries, for the year ended December 31, 2017 were related primarily to restaurants and an office location that were closed in 2017 as well as previously closed restaurants. Impairment and other lease charges for the year ended January 1, 2017 primarily include impairment charges for 17 Pollo Tropical restaurants that were closed in 2016 and 2017, and seven Taco Cabana restaurants, four of which were subsequently closed in 2017 and three of which we continued to operate. Other lease charges, net of recoveries, for the year ended January 31, 2017 were related to restaurants closed in 2016 as well as previously closed restaurants. Impairment and other lease charges for the year ended January 3, 2016 primarily include charges related to the closure of two restaurants as well as previously closed restaurants.
- (2) Other expense (income), net for the year ended December 30, 2018, primarily includes \$3.5 million in insurance recoveries related to the Hurricanes and total gains of \$1.2 million on the sale of three restaurant properties, partially offset by the write-off of site development costs of \$0.6 million and severance related to the closure of restaurants and costs for the removal, transfer and storage of equipment from closed restaurants of \$1.1 million. Other expense (income), net for the year ended December 31, 2017, primarily includes \$2.1 million in costs for the removal of signs and equipment and equipment transfers and storage related to the closure of restaurants and severance for closed restaurant employees, and \$0.5 million in food donated to charitable organizations, partially offset by \$0.4 million in additional proceeds received related to two Taco Cabana locations as a result of eminent domain proceedings, \$0.3 million in expected insurance proceeds related to a Taco Cabana restaurant that was temporarily closed due to a fire, and \$0.2 million in estimated insurance recoveries related to a restaurant closed due to Hurricane Harvey damage. Other income for the year ended January 1, 2017, includes additional proceeds related to a location that closed in 2015 as a result of an eminent domain proceeding, partially offset by costs for the removal of signs and equipment related to the closure of 10 Pollo Tropical restaurants in the fourth quarter of 2016. Other income for the year ended January 3, 2016 consisted primarily of a previously deferred gain of \$0.4 million 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 proceeds of \$0.3 million related to a Pollo Tropical that was temporarily closed due to a fire. Other income for the year ended December 28, 2014 consisted primarily of a gain of \$0.6 million from a condemnation award resulting from an eminent domain proceeding related to a location that closed in 2014.
- (3) Consolidated Adjusted EBITDA and margin and Restaurant-level Adjusted EBITDA and margin, are non-GAAP financial measures. 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 Plan and uses an Adjusted EBITDA measure for the purpose of assessing performance and allocating resources to segments. The new 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 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. 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 revenue and fees, pre-opening costs and general and administrative expense (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 non-GAAP 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.

A reconciliation from consolidated net income (loss) to Consolidated Adjusted EBITDA and Restaurant-level Adjusted EBITDA is presented below:

(Dollars in thousands)	Year Ended				
	December 30, 2018	December 31, 2017	January 1, 2017	January 3, 2016	December 28, 2014
Net income (loss)	\$ 7,787	\$ (36,232)	\$ 16,712	\$ 38,536	\$ 36,176
Provision for (benefit from) income taxes	(2,772)	(7,755)	8,336	22,046	20,963
Income (loss) before taxes	5,015	(43,987)	25,048	60,582	57,139
Add:					
Non-general and administrative expense adjustments:					
Depreciation and amortization	37,604	34,957	36,776	30,575	23,047
Impairment and other lease charges	21,144	61,760	25,644	2,382	363
Interest expense	3,966	2,877	2,171	1,889	2,228
Other (income) expense, net	(3,007)	2,190	1,130	(314)	(68)
Stock-based compensation expense in restaurant wages	90	52	142	156	71
Unused pre-production costs in advertising expense <sup>(a)</sup>	—	410	—	—	—
Total Non-general and administrative expense adjustments	59,797	102,246	65,863	34,688	25,641
General and administrative expense adjustments:					
Stock-based compensation expense	3,379	3,493	3,141	4,137	3,426
Terminated capital project <sup>(b)</sup>	—	849	—	—	—
Board and shareholder matter costs <sup>(c)</sup>	(597)	3,049	1,580	—	—
Strategic Renewal Plan restructuring costs and retention bonuses <sup>(d)</sup>	545	2,420	86	—	—
Office restructuring and relocation costs <sup>(e)</sup>	—	(152)	539	—	—
Legal settlements and related costs <sup>(f)</sup>	(177)	(473)	310	1,633	(536)
Total general and administrative expense adjustments	3,150	9,186	5,656	5,770	2,890
Consolidated Adjusted EBITDA	67,962	67,445	96,567	101,040	85,670
Add:					
Pre-opening costs	1,716	2,118	5,511	4,567	4,061
General and administrative <sup>(g)</sup>	51,375	50,447	49,170	48,386	46,034
Less:					
Franchise royalty revenue and fees	2,672	2,548	2,814	2,808	2,603
Restaurant-level Adjusted EBITDA:					
Pollo Tropical	82,066	78,371	90,294	90,374	78,960
Taco Cabana	36,315	39,091	58,140	60,811	54,202
Consolidated	\$118,381	\$117,462	\$148,434	\$151,185	\$133,162

(a) Unused pre-production costs for the year ended December 31, 2017, include costs for advertising pre-production that will not be used.

(b) Terminated capital project costs for the year ended December 31, 2017, include costs related to the write-off of a capital project that was terminated in the first quarter of 2017.

(c) Board and shareholder matter costs for the twelve months ended December 30, 2018 include fee reductions and final insurance recoveries related to 2017 shareholder activism costs. Board and shareholder matter costs for the year ended December 31, 2017, include fees related to shareholder activism and CEO and board member searches. Board and shareholder matter costs for the year ended January 1, 2017, primarily include fees related to the previously proposed and terminated separation transaction, and costs related to shareholder activism.

- (d) Plan restructuring costs and retention bonuses for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, include severance related to the Plan and reduction in force and bonuses paid to certain employees for retention purposes.
  - (e) Office restructuring and relocation costs for the years ended December 31, 2017 and January 1, 2017, include severance and relocation adjustments and costs associated with the prior-year restructuring of Pollo Tropical brand and corporate offices.
  - (f) Legal settlements and related costs for the year ended December 30, 2018 include reductions to final settlement amounts related to litigation matters. Legal settlements and related costs for the years ended December 31, 2017, January 1, 2017, January 3, 2016 and December 28, 2014, include benefits or costs related to litigation matters.
  - (g) Excludes general and administrative adjustments included in Adjusted EBITDA.
- (4) Average annual sales per company-owned restaurant are derived by dividing restaurant sales for the applicable segment by the average number of company-owned and operated restaurants. For comparative purposes, the calculation of average annual sales per company-owned restaurant is based on a 52-week fiscal year. Restaurant sales data for the extra week in the fiscal year ended January 3, 2016 have been excluded for purposes of calculating average annual sales per company-owned restaurant.
- (5) Restaurants are included in comparable restaurant sales after they have been open for 18 months. For comparative purposes, the calculation of the changes in comparable restaurant sales is based on a 52-week fiscal year. Restaurant sales for the extra week in the fiscal year ended January 3, 2016 have been excluded for purposes of calculating the change in comparable company-owned restaurant sales.

## ITEM 7. 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 audited consolidated financial statements and the accompanying notes. Any reference to restaurants refers to company-owned restaurants unless otherwise indicated.

We use a 52–53 week fiscal year ending on the Sunday closest to December 31. The fiscal years ended December 30, 2018, December 31, 2017 and January 1, 2017 each contained 52 weeks.

### Company Overview

We own, operate and franchise two restaurant brands, Pollo Tropical® and Taco Cabana®, which this year celebrated 30<sup>th</sup> and 40<sup>th</sup> 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. As of December 30, 2018, our restaurants included 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, we had 24 franchised Pollo Tropical restaurants located in Puerto Rico, the Bahamas, Panama and Guyana and five on college campuses and one at a hospital in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets.

As of December 30, 2018, we had six franchised Taco Cabana restaurants located in New Mexico and two non-traditional Taco Cabana licensed locations on college campuses in Texas.

### Events Affecting our Results of Operations

#### *The Strategic Renewal Plan (the “Plan”)*

In 2017, 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 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.

The items detailed below reflect some of the related accomplishments of the Plan and areas of focus as we enter 2019:

#### *Revitalizing the Restaurant Brands in Core Markets*

- We comprehensively implemented refined recipes that improved food quality with higher quality fresh ingredients, impacting approximately 90% of menu items at both brands. We vertically integrated our chicken supply chain, allowing us to control the feed, breed, and size of all chickens purchased.
- New products with broad appeal have been introduced at both brands. Pollo Tropical has added a Crispy Chicken platform and new sides and desserts while Taco Cabana has added a variety of loaded tacos, applewood smoked brisket, alcoholic beverage promotions and shareable appetizers.
- Comprehensive research validated our new menu direction, including identifying new and future opportunities to further enhance our menu and appeal to our guests.
- Both brands rolled out digital menu boards that we believe enhance the presentation of our menus and communicates food offerings and promotions more effectively, to further differentiate our brands in a competitive marketplace.

- Multiple operational initiatives were put in place to deliver high quality execution with consistency, including the implementation of incremental labor and technology to improve speed of service, transaction flow, and the quality and consistency of hospitality.
- We upgraded our restaurant facilities and equipment to address deferred maintenance needs and, in some cases, added signage and exterior lighting to improve visibility. We believe these material upgrades add to the clean, safe and appealing environment for our guests and our team members, and further provide cooking platforms to produce quality menu items with consistency.

#### *Managing Capital and Financial Discipline*

- We restructured our organization in 2017 and eliminated field and corporate positions to mitigate the impact of investments made to enhance the guest experience.
- We are continuing to develop a preventative maintenance program to improve the longevity of our restaurant base.
- In late 2018, we began rolling out portable point-of-sale tablets which accept payment. These tablets will improve speed of service and throughput in our drive-thrus.
- We are planning to test kiosks in early 2019 which could increase our average guest check, improve accuracy and potentially mitigate increasing labor costs.
- In 2019, we will resume restaurant remodels with approximately ten at each brand.

#### *Establishing Platforms for Long Term Growth*

- We established an external call center to respond to guest inquiries and handle catering orders that we will bring in-house in 2019. In 2018, we began investing in infrastructure to support a robust catering business, including dedicated leadership, operational support and sales managers. We anticipate catering will be a significant source of future growth at both brands.

#### *Optimizing our Restaurant Portfolio*

- In December 2018, we completed a comprehensive review of our restaurant portfolio at both brands with the closure of a number of unprofitable restaurants.

#### *Store Closures*

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. We also closed two Taco Cabana restaurants in the second quarter of 2018. Additionally, we closed 30 Pollo Tropical restaurants in the second quarter of 2017, ten Pollo Tropical restaurants in the third quarter of 2017 and six Taco Cabana restaurants in the third and fourth quarters of 2017. Six Pollo Tropical restaurants that were closed in 2016 and 2017 in Texas were rebranded as Taco Cabana restaurants in 2017 and 2018 and one Pollo Tropical restaurant will be rebranded as a Taco Cabana restaurant in 2019.

Impairment and other lease charges for the twelve months ended December 30, 2018 were \$21.1 million and included (i) impairment charges of \$17.1 million and lease and other charges of \$2.1 million primarily with respect to the 23 restaurants that were closed in the fourth quarter of 2018, three of which were initially impaired in 2017, and adjustments to estimates of future lease costs for certain previously closed restaurants, and (ii) impairment charges of \$1.9 million related to seven underperforming Pollo Tropical and Taco Cabana restaurants that we continue to operate.

Impairment and other lease charges for the twelve months ended December 31, 2017 were \$61.8 million and included impairment charges of \$54.2 million and lease and other charges of \$7.5 million primarily with respect to the 46 restaurants that were closed in 2017, an office location that was closed in 2017 and two Pollo Tropical restaurants and five Taco Cabana restaurants that we continued to operate.

For the twelve months ended December 30, 2018, the 14 closed Pollo Tropical restaurants and nine closed Taco Cabana restaurants contributed approximately \$15.8 million and \$9.5 million in restaurant sales, respectively, and \$5.2 million and \$1.7 million in restaurant-level operating losses to income from operations, respectively, including depreciation expense of \$2.2 million and \$0.7 million for Pollo Tropical and Taco Cabana, respectively.



## Hurricanes

During the third quarter of 2017, Texas and Florida were struck by Hurricanes Harvey and Irma (the “Hurricanes”). Forty-three Taco Cabana and two Company-owned Pollo Tropical restaurants in the Houston metropolitan area and all 149 Company-owned Pollo Tropical restaurants in Florida and the Atlanta metropolitan area were closed and affected by the Hurricanes to varying degrees (e.g. property preparation and damage, inventory losses, payment of hourly restaurant employees while restaurants were closed, lost business related to temporary closures, limited menu and modified hours of operations). Other Texas markets where we operate Company-owned restaurants including San Antonio were also affected by Hurricane Harvey, but to a lesser degree.

We estimate that the Hurricanes negatively impacted Adjusted EBITDA and income (loss) from operations by approximately \$2.5 million to \$3.5 million for Pollo Tropical, net of \$0.7 million in estimated insurance recoveries, and approximately \$0.5 million to \$1.5 million for Taco Cabana, net of \$0.2 million in estimated insurance recoveries, and negatively impacted comparable restaurant sales and transactions by approximately 1.0% to 2.0% for Pollo Tropical, and approximately 0.5% to 1.0% for Taco Cabana for the twelve months ended December 31, 2017.

In 2018, we received business interruption and property damage insurance settlement proceeds of \$2.8 million and \$1.7 million for Pollo Tropical and Taco Cabana, respectively, and recognized other income of \$2.1 million and \$1.4 million for Pollo Tropical and Taco Cabana, respectively, related to the Hurricanes.

## Change in Tax Law

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”), which includes a provision that reduces the federal corporate income tax rate from 35.0% to 21.0% effective January 1, 2018, was signed into law. In addition, the Act limits net operating loss deductions generated in 2018 and future years and modifies net operating loss carryover terms. In accordance with generally accepted accounting principles, the enactment of this new tax legislation required us to revalue our net deferred income tax assets at the new corporate statutory rate of 21.0% as of the enactment date in 2017, which resulted in a one-time adjustment to our deferred income taxes of \$9.0 million with a corresponding non-cash increase to the provision for income taxes as a discrete item during the fourth quarter of 2017. The change in the corporate tax rate reduced the nominal value of our deferred tax assets, but it did not reduce the future tax deductions they represent. In 2018, in conjunction with a cost segregation study conducted prior to filing our 2017 federal income tax return, we changed the depreciation method for certain assets for federal income tax purposes to accelerate tax deductions. Changes in our 2017 federal income tax return from the amounts recorded as of December 31, 2017 were primarily the result of changing the depreciable lives of assets for federal income tax purposes. These changes allowed us to record an incremental benefit of \$4.0 million for 2018.

## **Executive Summary—Consolidated Operating Performance for the Year Ended December 30, 2018**

Our fiscal year 2018 results include the following:

- We recognized net income of \$7.8 million in 2018, or \$0.29 per diluted share, compared to net loss of \$(36.2) million, or \$(1.35) per diluted share in 2017, due primarily to a decrease in impairment and other lease charges from \$61.8 million in 2017 to \$21.1 million in 2018, the effect of changing the depreciation method for certain assets for federal income tax purposes in 2018 and the impact of the Act in 2017, lower general and administrative expenses, the impact of the Hurricanes in 2017 and insurance recoveries associated with the Hurricanes in 2018 and higher advertising expenses for Pollo Tropical in 2017 during the relaunch as part of the Plan. In addition, growth in comparable restaurant sales at both brands positively contributed to the increase in net income in 2018. The positive impact was offset by higher cost of sales at both brands in part attributable to the initiatives under the Plan to improve the guest experience and higher advertising expenses for Taco Cabana as a result of the reduction of advertising in 2017 during the early stages of the Plan.
- Total revenues increased 2.9% in 2018 to \$688.6 million from \$669.1 million in 2017, driven primarily by an increase in comparable restaurant sales at both brands, and the net impact of opening new restaurants and closing underperforming restaurants in 2017. Comparable restaurant sales increased 4.5% for our Taco Cabana restaurants resulting primarily from an increase in average check of 10.4%, partially offset by a decrease in comparable restaurant transactions of 5.9%. Comparable restaurant sales increased 2.2% for our Pollo Tropical restaurants resulting primarily from an increase in average check of 4.3%, partially offset by a decrease in comparable restaurant transactions of 2.1%.

- During 2018, we opened seven new Pollo Tropical restaurants and seven new Taco Cabana restaurants and permanently closed 14 Pollo Tropical restaurants and 11 Taco Cabana restaurants.
- Consolidated Adjusted EBITDA increased \$0.5 million for the twelve months ended December 30, 2018 to \$68.0 million compared to \$67.4 million for the twelve months ended December 31, 2017, driven primarily by higher comparable restaurant sales at both brands in 2018 and higher advertising expenses at Pollo Tropical in 2017 during the relaunch as part of the Plan, partially offset by higher costs associated with the Plan to improve the guest experience to drive incremental transactions and higher advertising expenses at Taco Cabana in 2018. Consolidated Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Consolidated Adjusted EBITDA and a reconciliation from net income (loss) to Consolidated Adjusted EBITDA, see “Management’s Use of Non-GAAP Financial Measures.”

## 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 in each fiscal year:

	2018			2017			2016		
	Owned	Franchised	Total	Owned	Franchised	Total	Owned	Franchised	Total
<b>Pollo Tropical:</b>									
Beginning of year . . . . .	146	31	177	177	35	212	155	35	190
New . . . . .	7	—	7	9	3	12	32	4	36
Closed . . . . .	(14)	(1)	(15)	(40)	(7)	(47)	(10)	(4)	(14)
End of year . . . . .	<u>139</u>	<u>30</u>	<u>169</u>	<u>146</u>	<u>31</u>	<u>177</u>	<u>177</u>	<u>35</u>	<u>212</u>
<b>Taco Cabana:</b>									
Beginning of year . . . . .	166	7	173	166	7	173	162	6	168
New . . . . .	7	1	8	6	—	6	4	1	5
Closed . . . . .	(11)	—	(11)	(6)	—	(6)	—	—	—
End of year . . . . .	<u>162</u>	<u>8</u>	<u>170</u>	<u>166</u>	<u>7</u>	<u>173</u>	<u>166</u>	<u>7</u>	<u>173</u>

The following table sets forth, for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, selected consolidated operating results as a percentage of consolidated restaurant sales and selected segment operating results as a percentage of applicable segment restaurant sales:

	Year Ended								
	December 30, 2018	December 31, 2017	January 1, 2017	December 30, 2018	December 31, 2017	January 1, 2017	December 30, 2018	December 31, 2017	January 1, 2017
	Pollo Tropical			Taco Cabana			Consolidated		
Restaurant sales:									
Pollo Tropical . . . . .							54.58%	55.86%	56.38%
Taco Cabana . . . . .							<u>45.42%</u>	<u>44.14%</u>	<u>43.62%</u>
Consolidated restaurant sales . . . . .							100.0%	100.0%	100.0%
Costs and expenses:									
Cost of sales . . . . .	32.9%	31.6%	31.7%	30.8%	29.0%	28.5%	31.9%	30.4%	30.3%
Restaurant wages and related expenses . . . . .	23.2%	23.8%	23.5%	32.5%	32.7%	29.5%	27.4%	27.7%	26.1%
Restaurant rent expense . . . . .	4.7%	5.1%	5.0%	6.0%	6.1%	5.7%	5.3%	5.5%	5.3%
Other restaurant operating expenses . . . . .	13.8%	14.2%	13.6%	15.8%	15.7%	13.7%	14.7%	14.8%	13.6%
Advertising expense . . . . .	3.5%	4.4%	3.7%	3.4%	3.3%	3.9%	3.5%	3.9%	3.8%
Pre-opening costs . . . . .	0.2%	0.3%	1.2%	0.3%	0.3%	0.2%	0.3%	0.3%	0.8%

*Consolidated Revenues.* Revenues include restaurant sales and franchise royalty revenues and fees. Restaurant sales consist of food and beverage sales, net of discounts, at our restaurants. Franchise royalty revenues and fees 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 2.9% to \$688.6 million in 2018 from \$669.1 million in 2017, while the 2017 total revenues represent a decrease of 6.0% from \$711.8 million in 2016. Restaurant sales also increased 2.9% to \$685.9 million in 2018 from \$666.6 million in 2017, while 2017 restaurant sales represent a decrease of 6.0% from \$709.0 million in 2016.

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

	<u>2018 vs. 2017</u>	<u>2017 vs. 2016</u>
<b>Pollo Tropical:</b>		
Increase (decrease) in comparable restaurant sales . . . . .	\$ 7.6	\$(22.4)
Decrease in sales related to closed restaurants, net of new restaurants . . . . .	<u>(5.5)</u>	<u>(5.0)</u>
Total increase (decrease) . . . . .	<u>\$ 2.1</u>	<u>\$(27.4)</u>
<b>Taco Cabana:</b>		
Increase (decrease) in comparable restaurant sales . . . . .	\$12.7	\$(21.9)
Incremental sales related to new restaurants, net of closed restaurants . . . . .	<u>4.6</u>	<u>6.9</u>
Total increase (decrease) . . . . .	<u>\$17.3</u>	<u>\$(15.0)</u>

Restaurants are included in comparable restaurant sales after they have been open for 18 months. Comparable restaurant sales in 2017 for both brands were negatively impacted by the Hurricanes.

Comparable restaurant sales increased 2.2% and 4.5% for Pollo Tropical and Taco Cabana restaurants, respectively, in 2018. Increases or decreases in comparable restaurant sales result primarily from an increase or decrease in comparable restaurant transactions and in average check. The increase in average check is primarily driven by menu price increases. For Pollo Tropical, an increase in average check of 4.3% driven by menu price increases of 4.2% was partially offset by a decrease in comparable restaurant transactions of 2.1% in 2018 as compared to 2017. For Taco Cabana, an increase in average check of 10.4% driven by menu price increases of 6.7% and positive sales mix associated with higher priced promotions and new menu items related to brand repositioning was partially offset by a decrease in comparable restaurant transactions of 5.9% in 2018 as compared to 2017.

As a result of new restaurant openings, sales cannibalization of existing restaurants negatively impacted comparable restaurant sales for Pollo Tropical by 0.4% in 2018.

Comparable restaurant sales decreased 6.5% and 7.3% for Pollo Tropical and Taco Cabana restaurants, respectively, in 2017. For Pollo Tropical, a decrease in comparable restaurant transactions of 8.8% was partially offset by menu price increases that drove an increase in restaurant sales of 2.1% in 2017 as compared to 2016. For Taco Cabana, a decrease in comparable restaurant transactions of 8.7% was partially offset by menu price increases that drove an increase in restaurant sales of 2.3% in 2017 as compared to 2016.

The decrease in comparable sales for both brands in 2017 compared to 2016 was partially attributable to temporary closures, limited menu offerings and modified hours of operations as a result of the Hurricanes, which we estimate negatively impacted comparable restaurant sales and transactions for Pollo Tropical by approximately 1.0% to 2.0% and Taco Cabana by approximately 0.5% to 1.0% in 2017 compared to 2016. As a result of new restaurant openings, sales cannibalization of existing restaurants negatively impacted comparable restaurant sales for Pollo Tropical by 0.6% and 1.5% in 2017 and 2016, respectively.

Restaurant sales for Pollo Tropical in 2018 compared to 2017 and in 2017 compared to 2016 were also negatively impacted by the restaurant closures that occurred in the fourth quarter of 2016 and in 2017.

Franchise revenues increased by \$0.1 million to \$2.7 million in 2018 as compared to 2017 due to higher sales at franchised restaurants in 2018. Franchise revenues decreased by \$0.3 million to \$2.5 million in 2017 as compared to 2016 due to the closure of seven franchised Pollo Tropical restaurants in 2017.

*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.

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. All percentages are stated as a percentage of applicable segment restaurant sales.

	<u>2018 vs. 2017</u>	<u>2017 vs. 2016</u>
<b>Pollo Tropical:</b>		
Cost of sales <sup>(1)</sup> :		
Menu offering improvement costs and impact of commodity costs .....	1.2%	0.5%
Sales mix .....	1.1%	(0.1)%
Operating inefficiencies .....	0.3%	0.3%
Menu price increases .....	(1.4)%	(0.8)%
Other .....	<u>0.1%</u>	<u>—%</u>
Net increase (decrease) in cost of sales as a percentage of restaurant sales .....	<u>1.3%</u>	<u>(0.1)%</u>
Restaurant wages and related expenses:		
Higher labor costs for comparable restaurants <sup>(1)(2)(3)</sup> .....	0.3%	1.1%
Higher medical benefit costs <sup>(3)</sup> .....	—%	0.2%
Lower labor costs due to restaurant closures, net of new restaurants <sup>(4)</sup> .....	(0.8)%	(0.9)%
Other .....	<u>(0.1)%</u>	<u>(0.1)%</u>
Net increase (decrease) in restaurant wages and related expenses as a percentage of restaurant sales .....	<u>(0.6)%</u>	<u>0.3%</u>
Other operating expenses:		
Higher repairs and maintenance costs <sup>(1)(3)</sup> .....	—%	0.6%
Hurricane preparation and repair cost recovery .....	(0.2)%	0.2%
Higher utility expenses <sup>(3)</sup> .....	—%	0.2%
Lower real estate taxes <sup>(3)(4)</sup> .....	(0.1)%	(0.2)%
Lower insurance .....	—%	(0.2)%
Other <sup>(3)</sup> .....	<u>(0.1)%</u>	<u>—%</u>
Net increase (decrease) in other restaurant operating expenses as a percentage of restaurant sales .....	<u>(0.4)%</u>	<u>0.6%</u>
Advertising expense:		
Increase (decrease) in advertising <sup>(5)</sup> .....	(0.9)%	<u>0.7%</u>
Net increase (decrease) in advertising expense as a percentage of restaurant sales ..	<u>(0.9)%</u>	<u>0.7%</u>
Pre-opening costs:		
Decrease in number of restaurants opened .....	<u>(0.1)%</u>	<u>(0.9)%</u>
Net decrease in pre-opening costs as a percentage of restaurant sales .....	<u>(0.1)%</u>	<u>(0.9)%</u>

(1) Includes costs related to the Plan.

(2) Includes the impact of higher wage rates.

(3) Includes the impact of lower sales on fixed and semi-fixed costs for 2017 compared to 2016.

(4) Includes the impact of restaurant closures in 2018 compared to 2017 and 2017 compared to 2016.

(5) Includes the impact of a one-time write-off of unused pre-production costs in 2017.

**Taco Cabana:**Cost of sales<sup>(1)</sup>:

Menu offering improvement costs and impact of commodity costs . . . . .	2.5%	0.4%
Sales mix . . . . .	0.8%	0.8%
Operating inefficiencies . . . . .	0.6%	0.4%
Lower rebates and discounts . . . . .	0.2%	0.1%
Lower promotions and discounts . . . . .	(0.2)%	(0.4)%
Menu price increases . . . . .	(2.2)%	(0.6)%
Other . . . . .	<u>0.1%</u>	<u>(0.2)%</u>
Net increase in cost of sales as a percentage of restaurant sales . . . . .	<u>1.8%</u>	<u>0.5%</u>

## Restaurant wages and related expenses:

Impact of higher sales at comparable restaurants <sup>(2)(3)</sup> . . . . .	(0.5)%	—%
Higher incentive bonus costs . . . . .	0.3%	—%
Higher medical benefit costs <sup>(2)</sup> . . . . .	0.1%	0.3%
Higher labor costs <sup>(1)(2)(3)</sup> . . . . .	—%	2.7%
Other <sup>(2)</sup> . . . . .	<u>(0.1)%</u>	<u>0.2%</u>
Net increase (decrease) in restaurant wages and related expenses as a percentage of restaurant sales . . . . .	<u>(0.2)%</u>	<u>3.2%</u>

## Other operating expenses:

High (lower) utility costs <sup>(2)</sup> . . . . .	(0.2)%	0.3%
Higher repairs and maintenance costs <sup>(1)(2)</sup> . . . . .	—%	0.9%
Lower insurance costs . . . . .	(0.1)%	—%
Higher real estate taxes <sup>(2)</sup> . . . . .	0.1%	0.3%
Higher operating supplies <sup>(1)(2)</sup> . . . . .	0.2%	0.2%
Other <sup>(2)</sup> . . . . .	<u>0.1%</u>	<u>0.3%</u>
Net increase in other restaurant operating expenses as a percentage of restaurant sales . . . . .	<u>0.1%</u>	<u>2.0%</u>

## Advertising expense:

Increased (reduced) advertising . . . . .	<u>0.1%</u>	<u>(0.6)%</u>
Net increase (decrease) in advertising expense as a percentage of restaurant sales . .	<u>0.1%</u>	<u>(0.6)%</u>

## Pre-opening costs:

Increase in restaurant openings . . . . .	<u>—%</u>	<u>0.1%</u>
Net increase in pre-opening costs as a percentage of restaurant sales . . . . .	<u>—%</u>	<u>0.1%</u>

(1) Includes costs related to the Plan.

(2) Includes the impact of lower sales on fixed and semi-fixed costs for 2017 compared to 2016.

(3) Includes the impact of higher wage rates and an increase in overtime hours.

*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, decreased to 5.3% in 2018 from 5.5% in 2017, primarily due to the closure of underperforming restaurants in 2017, which generally had higher rent and lower sales and the impact of higher comparable restaurant sales. Restaurant rent expense, as a percentage of total restaurant sales, was 5.5% in 2017 compared to 5.3% in 2016, primarily as a result of 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 decreased to \$54.5 million in 2018 from \$59.6 million in 2017 and as a percentage of total revenues, were 7.9% in 2018 and 8.9% in 2017 due primarily to lower board and shareholder matter costs, incentive compensation and Plan restructuring costs and retention bonuses. General and administrative expenses in 2018 included \$0.5 million related to Plan restructuring costs and retention bonuses, \$0.4 million related to discontinuing certain services, \$1.0 million related to system implementation and project-oriented advisory services and \$1.0 million related to severance costs and executive and board member searches, partially offset by the benefit of fee reductions and final insurance recoveries totaling \$0.6 million related to 2017 shareholder activism matters and reductions to final settlement amounts related to a litigation matter of \$0.2 million. General and administrative expenses in 2017 included \$3.0 million of costs related to shareholder activism matters and Chief Executive Officer and board member searches, \$2.4 million related to Plan restructuring costs and retention bonuses, and \$0.8 million in charges for terminated capital projects, partially offset by a benefit of \$0.5 million related to litigation matters and a \$0.2 million favorable adjustment related to costs associated with the prior-year restructuring of Pollo Tropical brand and corporate offices.

General and administrative expenses increased to \$59.6 million in 2017 from \$54.8 million in 2016, and as a percentage of total revenues, were 8.9% in 2017 and 7.7% in 2016 due primarily to the impact of lower sales, higher board and shareholder matter costs, Plan restructuring costs and retention bonuses, higher incentive compensation costs related to new executives and retention incentive plans, and charges for terminated capital projects, partially offset by legal settlement and related costs and office restructuring and relocation costs. General and administrative expenses in 2016 include \$1.6 million in financial and legal advisory fees, primarily related to a review of strategic alternatives, a charge for estimated costs related to a class action litigation settlement plus legal and other fees incurred in defending the action totaling \$0.9 million, and \$0.5 million of costs associated with restructuring Pollo Tropical management in Miami, Florida and Dallas, Texas, partially offset by the benefit of \$0.6 million related to litigation matters.

*Adjusted EBITDA.* Adjusted EBITDA, which is the primary measure 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 expense (income), net and certain significant items that management believes are related to strategic changes and/or are not related to the ongoing operation of our restaurants.

Adjusted EBITDA may not necessarily be 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 finance, legal, supply chain, human resources, development and other administrative functions. Consolidated Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and Consolidated Adjusted EBITDA and a reconciliation from net income (loss) to Consolidated Adjusted EBITDA, see the heading entitled “Management’s Use of Non-GAAP Financial Measures.”

Adjusted EBITDA for Pollo Tropical restaurants increased to \$54.9 million in 2018 from \$50.9 million in 2017 due primarily to the impact of the Hurricanes, higher advertising expenses during the relaunch as part of the Plan and closing unprofitable restaurants in 2017, and higher comparable restaurant sales, partially offset by an increase in cost of sales as a percentage of restaurant sales in 2018. Adjusted EBITDA for our Taco Cabana restaurants decreased to \$13.1 million in 2018 from \$16.5 million in 2017 due primarily to the impact of higher cost of sales as a percentage of restaurant sales and higher repair and maintenance costs primarily driven by the initiatives under the Plan, higher advertising expenses during the relaunch as part of the Plan, and higher operating supplies and real estate taxes, partially offset by higher comparable restaurant sales.

Adjusted EBITDA for Pollo Tropical restaurants decreased to \$50.9 million in 2017 from \$58.3 million in 2016 due primarily to the impact of lower comparable restaurant sales including the negative impact of the Hurricanes, higher operating expenses including higher repair and maintenance costs driven by initiatives under the Plan, and higher advertising expenses during the relaunch as part of the Plan, partially offset by the impact of closing

unprofitable restaurants and a decrease in pre-opening costs. Adjusted EBITDA for our Taco Cabana restaurants decreased to \$16.5 million in 2017 from \$38.3 million in 2016 due primarily to the impact of lower comparable restaurant sales, higher restaurant wages, higher cost of sales as a percentage of restaurant sales and higher operating expenses including higher repair and maintenance costs related to initiatives under the Plan, and higher general and administrative costs, partially offset by lower advertising expenses while we implemented the Plan.

*Restaurant-level Adjusted EBITDA.* We also use Restaurant-level Adjusted EBITDA, a non-GAAP financial measure, as a supplemental measure to evaluate the performance and profitability of our restaurants in the aggregate, which 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 for Pollo Tropical was \$82.1 million, \$78.4 million and \$90.3 million in 2018, 2017 and 2016, respectively. Restaurant-level Adjusted EBITDA for Taco Cabana was \$36.3 million, \$39.1 million and \$58.1 million in 2018, 2017 and 2016, respectively. The changes in Restaurant-level Adjusted EBITDA were primarily due to the foregoing. For a reconciliation from Adjusted EBITDA to Restaurant-level Adjusted EBITDA, see the heading entitled “Management’s Use of Non-GAAP Financial Measures.”

*Depreciation and Amortization.* Depreciation and amortization expense increased to \$37.6 million in 2018 from \$35.0 million in 2017 primarily as a result of increased depreciation related to new restaurant openings and ongoing reinvestment and enhancements to our restaurants, partially offset by a decrease in depreciation as a result of impairing closed restaurant assets. Depreciation and amortization expense decreased to \$35.0 million in 2017 from \$36.8 million in 2016 primarily as a result of impairing closed restaurant assets, partially offset by increased depreciation related to new restaurant openings.

*Impairment and Other Lease Charges.* Impairment and other lease charges decreased to \$21.1 million in 2018 from \$61.8 million in 2017. Impairment and other lease charges in 2018 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$13.1 million and \$6.0 million, respectively, and lease and other charges for Pollo Tropical and Taco Cabana restaurants (as well as a Taco Cabana office location) of \$0.5 million and \$1.6 million, respectively, net of recoveries. Impairment charges in 2018 were related primarily to 14 Pollo Tropical restaurants that were closed in 2018, two of which were initially impaired in 2017, nine Taco Cabana restaurants that were closed in 2018, one of which was initially impaired in 2017, and one Pollo Tropical restaurant and six Taco Cabana restaurants that we continue to operate. Other lease charges, net of recoveries, in 2018 were related primarily to restaurants and an office location that were closed in 2018 as well as previously closed restaurants. There is uncertainty in the estimates of future lease costs and sublease recoveries. Actual costs and sublease recoveries could vary significantly from the estimated amounts and result in additional charges, and such amounts could be material.

Impairment and other lease charges increased to \$61.8 million in 2017 from \$25.6 million in 2016. Impairment and other lease charges in 2017 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants and an office location of \$52.1 million, \$1.9 million and \$0.2 million, respectively, and lease and other charges for Pollo Tropical and Taco Cabana restaurants and an office location of \$5.4 million, \$1.6 million and \$0.5 million, respectively, net of recoveries. Impairment charges in 2017 were related primarily to 40 Pollo Tropical restaurants that were closed in 2017, seven of which were initially impaired in 2016, six Taco Cabana restaurants that were closed in 2017, four of which were initially impaired in 2016, and two Pollo Tropical restaurants and five Taco Cabana restaurants which we continued to operate. Impairment charges in 2017 also included charges with respect to an office location that was closed in December 2017. Other lease charges, net of recoveries, in 2017 were related primarily to restaurants and an office location that were closed in 2017 as well as previously closed restaurants.

Impairment and other lease charges in 2016 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$21.6 million and \$1.1 million, respectively, and lease and other charges for Pollo Tropical and Taco Cabana restaurants of \$2.8 million and \$0.2 million, respectively, net of recoveries. Impairment charges in 2016 were related primarily to 17 Pollo Tropical restaurants that were closed in 2016 and 2017, and seven Taco Cabana restaurants, four of which were subsequently closed in 2017 and three of which we continued to operate. Other lease charges, net of recoveries, in 2016 were related to restaurants closed in 2016 as well as previously closed restaurants.

Each quarter we assess the potential impairment of any long-lived assets that have experienced a triggering event, including restaurants for which the related trailing twelve-month cash flows are below a certain threshold. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends,



labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material.

For two Taco Cabana restaurants with combined carrying values of \$1.0 million, projected cash flows are not substantially in excess of their carrying values. In addition, three Taco Cabana restaurants with combined carrying values of \$4.7 million have initial sales volumes lower than expected, but do not have significant operating history to form a good basis for future projections. 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, Net.* Other (income) expense, net was \$(3.0) million in 2018 and primarily consisted of \$3.5 million in insurance recoveries related to the Hurricanes and total gains of \$1.2 million on the sale of three restaurant properties, partially offset by the write-off of site development costs of \$0.6 million and severance costs related to the closure of restaurants and costs for the removal, transfer and storage of equipment from closed restaurants of \$1.1 million. Other (income) expense in 2017 consisted primarily of \$2.1 million in costs for the removal of signs and equipment and equipment transfers and storage related to the closure of restaurants and severance for closed restaurant employees, and \$0.5 million in food donated to charitable organizations, partially offset by \$0.4 million in additional proceeds received related to two Taco Cabana locations as a result of eminent domain proceedings, \$0.3 million in expected insurance proceeds related to a Taco Cabana restaurant that was temporarily closed due to a fire, and \$0.2 million in estimated insurance recoveries related to a Taco Cabana restaurant closed due to Hurricane Harvey damages. Other income in 2016 consisted primarily of additional proceeds related to a location that closed in 2015 as a result of an eminent domain proceeding, partially offset by costs for the removal of signs and equipment related to the closure of 10 Pollo Tropical restaurants in the fourth quarter of 2016.

*Interest Expense.* Interest expense increased \$1.1 million to \$4.0 million in 2018 from 2017 due primarily to higher interest rates and a higher borrowing level under our senior credit facility in 2018. Interest expense increased \$0.7 million to \$2.9 million in 2017 from 2016 also due primarily to higher interest rates in 2017.

*Provision for (Benefit from) Income Taxes.* The effective tax rate was (55.3)% for the year ended December 30, 2018 and 17.6% for the year ended December 31, 2017. The change in the effective tax rate is primarily as a result of the change in the federal corporate income tax rate from 35.0% in 2017 to 21.0% in 2018, changing the depreciation method for certain assets for federal income tax purposes to accelerate tax deductions in 2018 and revaluing our net deferred income tax assets as a result of the Act in 2017 as discussed under “Events Affecting our Results of Operations—Changes in Tax Law” above.

The effective tax rate for 2017 of 17.6% decreased as compared to an effective tax rate for 2016 of 33.3%, due primarily to the impact of revaluing our net deferred income tax assets as a result of the Act.

*Net Income (Loss).* As a result of the foregoing, we had net income of \$7.8 million in 2018 compared to net loss of \$(36.2) million in 2017, and net income of \$16.7 million in 2016.

## **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 and availability of borrowings under our senior credit facility 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 for 2018, 2017 and 2016 was \$53.8 million, \$50.8 million and \$80.7 million, respectively. The \$3.0 million increase in net cash provided by operating activities in 2018 compared to 2017 was driven primarily by the increase in Adjusted EBITDA and timing of payments and receipts including the receipt of insurance proceeds related to the Hurricanes. The \$29.9 million decrease in net cash provided by operating activities in 2017 compared to 2016 was driven primarily by the decrease in Adjusted EBITDA and the timing of payments.

*Investing Activities.* Net cash used in investing activities in 2018, 2017 and 2016 was \$52.1 million, \$55.5 million and \$81.2 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 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 (dollars in thousands):

	<u>Pollo Tropical</u>	<u>Taco Cabana</u>	<u>Other</u>	<u>Consolidated</u>
<b>Year ended December 30, 2018:</b>				
New restaurant development .....	\$12,340	\$ 9,105	\$ —	\$21,445
Restaurant remodeling .....	51	531	—	582
Other restaurant capital expenditures <sup>(1)</sup> .....	12,157	15,307	—	27,464
Corporate and restaurant information systems.....	3,119	3,943	1,297	8,359
Total capital expenditures.....	<u>\$27,667</u>	<u>\$28,886</u>	<u>\$1,297</u>	<u>\$57,850</u>
Number of new restaurant openings .....	7	7		14
<b>Year ended December 31, 2017:</b>				
New restaurant development .....	\$18,288	\$ 8,439	\$ —	\$26,727
Restaurant remodeling .....	2,919	101	—	3,020
Other restaurant capital expenditures <sup>(1)</sup> .....	8,335	9,075	—	17,410
Corporate and restaurant information systems.....	2,244	3,166	3,299	8,709
Total capital expenditures.....	<u>\$31,786</u>	<u>\$20,781</u>	<u>\$3,299</u>	<u>\$55,866</u>
Number of new restaurant openings .....	9	6		15
<b>Year ended January 1, 2017:</b>				
New restaurant development .....	\$58,325	\$ 7,791	\$ —	\$66,116
Restaurant remodeling .....	2,755	—	—	2,755
Other restaurant capital expenditures <sup>(1)</sup> .....	2,823	4,302	—	7,125
Corporate and restaurant information systems.....	1,886	1,113	3,370	6,369
Total capital expenditures.....	<u>\$65,789</u>	<u>\$13,206</u>	<u>\$3,370</u>	<u>\$82,365</u>
Number of new restaurant openings .....	32	4		36

(1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the years ended December 30, 2018, December 31, 2017 and January 1, 2017, total restaurant repair and maintenance expenses were approximately \$23.4 million, \$22.7 million and \$18.9 million, respectively.

Cash used in investing activities in 2018 included net proceeds from the sales of three restaurant properties of \$4.7 million. Additionally, we received property damage insurance proceeds totaling \$1.0 million related to a closed Taco Cabana restaurant that suffered flood damages due to Hurricane Harvey and a Taco Cabana restaurant that was temporarily closed due to a fire.

Total capital expenditures in 2019 are expected to be \$45.0 million to \$55.0 million including \$11.0 million to \$13.0 million for the development of new restaurants.

In 2017, investing activities also included \$0.4 million in additional proceeds received related to two Taco Cabana locations as a result of eminent domain proceedings.

In 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.* Financing activities in 2018 consisted of offsetting sources and uses of cash. Net cash provided by financing activities in 2017 was \$4.1 million and net cash used in financing activities in 2016 was \$0.6 million.

Net cash used in financing activities in 2018 included \$2.8 million in payments to repurchase our common stock and \$0.2 million in payment of debt issuance costs associated with our new senior credit facility, offset by net borrowings under our senior credit facility of \$3.0 million.

Net cash provided by financing activities in 2017 included net borrowings under our senior credit facility of \$5.1 million partially offset by \$0.9 million in payment of debt issuance costs associated with our new senior credit facility.

Net cash used in financing activities in 2016 included net repayments of revolving credit borrowings under our senior credit facility of \$1.1 million and the excess tax benefit from vesting of restricted shares of \$0.6 million.

*New Senior Credit Facility.* In November 2017, we terminated our former senior credit facility and entered into a new senior credit facility. The new 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 November 30, 2022. The new senior credit facility also provides for potential incremental increases of up to \$50 million to the revolving credit borrowings available under the new senior credit facility. On December 30, 2018, there were \$78.0 million in outstanding borrowings under our new senior credit facility.

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

- 1) the Alternate Base Rate plus the applicable margin of 0.75% to 1.50% based on our Adjusted Leverage Ratio (with a margin of 1.25% as of December 30, 2018), or
- 2) the LIBOR Rate plus the applicable margin of 1.75% to 2.50% based on our Adjusted Leverage Ratio (with a margin of 2.25% at December 30, 2018).

In addition, the new senior credit facility requires us to pay (i) a commitment fee based on the applicable Commitment Fee rate of 0.25% to 0.35%, based on our Adjusted Leverage Ratio, (with a rate of 0.30% at December 30, 2018) and the unused portion of the facility and (ii) a letter of credit participation fee based on the applicable LIBOR margin and the dollar amount of outstanding letters of credit.

All obligations under the new senior credit facility are guaranteed by all of our material domestic subsidiaries. In general, our obligations under our new 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.

The outstanding borrowings under the new senior credit facility are prepayable subject to breakage costs as defined in the new senior credit facility agreement. The new 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 (subject to certain exceptions), (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 new 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 new senior credit facility agreement).

Our new 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 December 30, 2018, we were in compliance with the covenants under our new senior credit facility. After reserving \$4.0 million for letters of credit, \$68.0 million was available for borrowing under the new senior credit facility at December 30, 2018.

*Former Senior Credit Facility.* We had a senior secured credit facility providing for aggregate revolving credit borrowings of up to \$150 million (including \$15 million available for letters of credit), which was terminated on November 30, 2017.

### **Initial Share Repurchase Plan**

On February 26, 2018, we announced that our board of directors has approved a share repurchase program for up to 1.5 million shares of our common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume, general market and economic conditions, and other corporate considerations. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by our board of directors.

### **Contractual Obligations**

The following table summarizes our contractual obligations and commitments as of December 30, 2018 (in thousands):

	Payments due by period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
<b>Contractual Obligations</b>					
Credit facility debt obligations, including interest <sup>(1)</sup> . . . . .	\$ 93,274	\$ 3,885	\$ 7,845	\$ 81,544	\$ —
Capital lease obligations, including interest <sup>(2)</sup> . . . . .	3,329	323	669	691	1,646
Operating lease obligations <sup>(3)</sup> . . . . .	471,473	44,427	85,540	76,802	264,704
Purchase obligations <sup>(4)</sup> . . . . .	11,030	3,243	5,397	2,390	—
<b>Total contractual obligations</b> . . . . .	<u>\$579,106</u>	<u>\$51,878</u>	<u>\$99,451</u>	<u>\$161,427</u>	<u>\$266,350</u>

(1) Our credit facility debt obligations at December 30, 2018 totaled \$78.0 million. Total interest payments on the obligations of \$14.1 million for all years presented are included at a weighted average interest rate of 4.59%. Total credit facility fees of \$1.2 million for all years presented are included based on December 30, 2018 rates and balances. Actual interest and fee payments will vary based on our outstanding credit facility balances and the rates in effect during those years. Refer to Note 8 of the consolidated financial statements included in this Annual Report on Form 10-K for details of our debt.

(2) Includes total interest of \$1.6 million for all years presented.

(3) Represents the aggregate minimum lease payments under operating leases. Many of our leases also require contingent rent based on a percentage of sales in addition to the minimum base rent and require expenses incidental to the use of the property, all of which have been excluded from this table.

(4) Represents contractual obligations under various agreements to purchase goods or services that are enforceable and legally binding and include \$9.6 million related to the master subscription agreement for a new ERP system through April 27, 2024.

We have not included in the contractual obligations table payments we may make for workers' compensation, general liability and employee health care claims for which we pay all claims, subject to some annual stop-loss limitations both for individual claims and claims in the aggregate. The majority of our recorded liabilities related to employee health and insurance plans represent estimated reserves for incurred claims that have yet to be filed or settled. We are also party to various service and supply contracts that generally extend approximately twelve months. These arrangements are primarily individual contracts for routine goods and services that are part of our normal operations and are reflected in historical operating cash flow trends. These contract obligations are generally short-term in nature and can be canceled within a reasonable time period, at our option. We do not believe such arrangements will adversely affect our liquidity position.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements other than our operating leases, which are primarily for our restaurant properties.

## ***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 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 “Basis of Presentation” footnote in the Notes to our Consolidated Financial Statements. 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.

Sales recognition at our restaurants is straightforward as customers pay for products at the time of sale and inventory turns over very quickly. Payments to vendors for products sold in the restaurants are generally settled within 30 days. The earnings reporting process is covered by our system of internal controls and generally does not require significant management estimates and judgments. However, critical accounting estimates and judgments, as noted below, are inherent in the assessment and recording of accrued occupancy costs, insurance liabilities, the valuation of goodwill for impairment, assessing impairment of long-lived assets, lease accounting matters and the valuation of deferred income tax assets. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions.

*Accrued occupancy costs.* We make estimates of accrued occupancy costs pertaining to closed restaurant locations on an ongoing basis. These estimates require assessment and continuous evaluation of a number of factors such as the remaining contractual period under our lease obligations, the amount of sublease income we are able to realize on a particular property and estimates of other costs such as property taxes. Actual costs and sublease recoveries could vary significantly from the estimated amounts and result in future charges, and such amounts could be material. Total accrued occupancy costs pertaining to closed restaurant locations was \$8.8 million at December 30, 2018. Beginning in 2019, we will no longer record accrued occupancy costs pertaining to closed restaurants. Leases pertaining to closed restaurant locations will be recognized as right-of-use lease assets and lease liabilities on our balance sheet and the right-of-use lease assets will be assessed for impairment. See New Accounting Pronouncements below.

*Insurance liabilities.* We are insured for workers’ compensation, general liability and medical insurance claims under policies where we pay all claims, subject to annual stop-loss limitations both for individual claims and for general liability, medical insurance and certain workers’ compensation claims in the aggregate. At December 30, 2018, we had \$11.7 million accrued for these insurance claims. We record insurance liabilities based on historical and industry trends, which are continually monitored, with the assistance of actuaries, and adjust accruals as warranted by changing circumstances. Since there are estimates and assumptions inherent in recording these insurance liabilities, including the ability to estimate the future development of incurred claims based on historical trends or the severity of the claims, differences between actual future events and prior estimates and assumptions could result in adjustments to these liabilities.

*Evaluation of Goodwill.* We must evaluate our recorded goodwill for impairment on an ongoing basis. We have elected to conduct our annual impairment review of goodwill assets as of the last day of our fiscal year. Our review at December 30, 2018 indicated there was no impairment as of that date. In reviewing goodwill for impairment, we compare the net book values of our reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, we employ a combination of a discounted cash flow analysis based on management’s best estimates of future cash flows and a market-based approach. The results of these analyses are corroborated with other value indicators where available, such as comparable company earnings multiples. This annual evaluation of goodwill requires us to make estimates and assumptions to determine the fair value of our reporting units including

projections regarding future operating results, anticipated growth rates, the weighted average cost of capital used to discount projected cash flows, and market values. We had two reporting units with goodwill balances as of our most recent measurement date, including \$56.3 million and \$67.2 million for our Pollo Tropical and Taco Cabana reporting units, respectively. For our Pollo Tropical segment, the fair value exceeded the carrying value of the reporting unit by a substantial amount. For our Taco Cabana segment, the fair value exceeded the carrying value of the reporting unit, but not by a substantial amount. The estimates and assumptions used to determine fair value may differ from actual future events and if these estimates or related projections change in the future, we may be required to record material impairment charges for these goodwill assets.

The fair value and related discounted cash flow projections for our Taco Cabana reporting unit have declined from the prior year driven primarily by a decrease in expected sales because of unfavorable industry sales trends and an increase in the weighted average cost of capital used to discount future cash flows. In addition, the net book value of the Taco Cabana reporting unit increased as a result of new restaurant development. It is possible that goodwill impairment charges may be recognized in future periods for our Taco Cabana reporting unit due to changes in the expected performance of the reporting unit if we do not achieve our forecasted future cash flows, changes in factors or circumstances such as a deterioration in the fast-casual restaurant industry, the macroeconomic environment or the equity markets.

*Impairment of Long-lived Assets.* We assess the potential impairment of long-lived assets, principally property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition to considering management's plans, known regulatory/governmental actions and damage due to acts of God (hurricanes, tornadoes, etc.), we consider an event indicating that the carrying value may not be recoverable 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. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material.

For two Taco Cabana restaurants with combined carrying values of \$1.0 million, projected cash flows are not substantially in excess of their carrying values. In addition, three Taco Cabana restaurants with combined carrying values of \$4.7 million have initial sales volumes lower than expected, but do not have significant operating history to form a good basis for future projections. 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.

*Lease Accounting.* Judgments made by management for our lease obligations include the length of the lease term, which includes the determination of renewal options that are reasonably assured. The lease term can affect the classification of a lease as capital or operating for accounting purposes, the term over which related leasehold improvements for each restaurant are amortized, and any rent holidays and/or changes in rental amounts for recognizing rent expense over the term of the lease. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

We also must evaluate sales of our restaurants which occur in sale-leaseback transactions to determine the proper accounting for the proceeds of such sales either as a sale or a financing. This evaluation requires certain judgments in determining whether or not clauses in the lease or any related agreements constitute continuing involvement. For those sale-leasebacks that are accounted for as financing transactions, we must estimate our incremental borrowing rate, or another rate in cases where the incremental borrowing rate is not appropriate to utilize, for purposes of determining interest expense and the resulting amortization of the lease financing obligation. Changes in the determination of the incremental borrowing rates or other rates utilized in connection with the accounting for lease financing transactions could have a significant effect on the interest expense and underlying balance of the lease financing obligations.

*Valuation of Deferred Income Tax Assets.* Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the years in which those differences are expected to be recovered or settled. Deferred tax assets are recognized to the extent we believe these assets will more likely than not be realized. In evaluating the realizability of our net deferred tax assets, we perform an assessment of positive and negative evidence. The weight given to negative and positive evidence is commensurate only to the extent that such evidence can be objectively verified. Objective historical evidence is given greater weight than subjective evidence such as forecasts of future taxable income. In evaluating the objective evidence that historical results provide, we considered three years of cumulative operating income. We considered the nature of the events that led to the charges that resulted in the loss before income taxes for the twelve months ended December 31, 2017, our strong earnings history exclusive of the charges that resulted from exiting new markets and our historical cash flows from operations in evaluating the historical results. Based on our evaluation of all available positive and negative evidence, we determined that it is more likely than not that our deferred tax assets will be realized in future periods. We will continue to monitor and evaluate the positive and negative evidence considered in arriving at the above conclusion in order to assess whether such conclusion remains appropriate in future periods. It is possible that some of our deferred tax assets may not be realized if we do not generate sufficient taxable income in the future. If in the future we are unable to determine that it is more likely than not that our deferred tax assets will be realized in future periods, we will be required to establish a valuation allowance to reduce our deferred tax assets, which would materially increase our tax expense in the period the determination is made.

### ***New 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 supersedes the guidance in former Topic 605, *Revenue Recognition*, and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted this new accounting standard and all the related amendments as of January 1, 2018 using the modified retrospective method, and recognized a total cumulative effect adjustment to increase retained earnings by less than \$0.1 million, which consisted of a \$0.3 million increase related to gift card breakage and a \$0.3 million decrease related to initial franchise and area development fees, as a result of adopting the standard. The new standard did not impact the Company’s recognition of revenue from Company-owned and operated restaurants or its recognition of sale-based royalties from restaurants operated by franchisees. The comparative period information has not been restated and continues to be reported under the accounting standard in effect for those periods. When compared to the previous accounting policies, the impact of adopting the new standard was immaterial to current and non-current other liabilities and retained earnings at January 1, 2018 and to net income for the twelve months ended December 30, 2018. The adoption of the new standard had no impact on the Company’s consolidated statements of cash flows.

In February 2016, and in subsequent updates, 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 Company intends to elect the transition method that allows it to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The comparative period information will not be restated and will continue to be reported under the accounting standard in effect for those periods. The Company expects to recognize right-of-use lease assets and lease liabilities for most of the leases it currently accounts for as operating leases including leases related to closed restaurant properties. The initial right-of-use assets will be calculated as the present value of the remaining operating lease payments using the Company’s incremental borrowing rate as of December 31, 2018. See Note 7 to the Consolidated Financial Statements for remaining undiscounted operating lease payments. The right-of-use lease assets to be recognized will be reduced by accrued occupancy costs such as certain closed-restaurant lease reserves, accrued rent (including accruals to expense operating lease payments on a straight-line basis) and unamortized lease incentives. See Note 6 to the Consolidated Financial Statements for accrued occupancy costs. Upon the adoption of Topic 842, the Company will no longer record closed restaurant lease reserves, and right-of-use lease assets will be reviewed for impairment with its long-lived assets. Management intends to elect the transition practical expedient package as well as the practical expedient to combine lease and non-lease components of the contracts, which it expects to result in reclassification of certain occupancy related expenses to restaurant rent expenses in the consolidated statement of operations. The Company also expects to separately present

rent expense related to its closed restaurant locations and any sublease income related to these closed restaurant locations in the consolidated statement of operations. In addition, the Company will be required to record an initial adjustment to retained earnings associated with previously deferred gains on sale-leaseback transactions and will no longer receive the benefit to rent expense from amortizing such previously deferred gains on sale-leaseback transactions beginning in 2019. For any future sale-leaseback transactions, the gain (adjusted for any off-market terms) will be recognized immediately. Currently, the Company amortizes sale-leaseback gains over the lease term. The Company has not assessed the potential impact of Topic 842 on its covenant financial ratios as the Company's senior credit facility does not give effect to any change in GAAP arising out of Topic 842. The Company is continuing to evaluate the impact of Topic 842 on its financial statements and may identify other impacts.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill if the fair value of a reporting unit is less than the carrying amount of the reporting unit. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The guidance will be effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. This standard may have an impact on our financial statements if goodwill impairment is recognized in future periods.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance will be effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company does not expect the standard to have a material effect on its financial statements.

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

Consolidated Adjusted EBITDA is a non-GAAP financial measure. We use Consolidated Adjusted EBITDA 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 this measure is an important indicator of our operational strength and the performance of our business. Consolidated 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.

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 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.

We also use Restaurant-level Adjusted EBITDA as a supplemental measure to evaluate the performance and profitability of our restaurants in the aggregate, which 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 is also a non-GAAP financial measure.



Management believes that Adjusted EBITDA for our segments, Consolidated Adjusted EBITDA and Restaurant-level Adjusted EBITDA, when viewed with our results of operations calculated in accordance with GAAP and our reconciliation of net income (loss) to Consolidated Adjusted EBITDA and Adjusted EBITDA to 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.

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.

A reconciliation from consolidated net income (loss) to Consolidated Adjusted EBITDA follows (in thousands):

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Net income (loss) . . . . .	\$ 7,787	\$ (36,232)	\$16,712
Provision for (benefit from) income taxes . . . . .	<u>(2,772)</u>	<u>(7,755)</u>	<u>8,336</u>
Income (loss) before taxes . . . . .	5,015	(43,987)	25,048
Add:			
Non-general and administrative expense adjustments:			
Depreciation and amortization . . . . .	37,604	34,957	36,776
Impairment and other lease charges . . . . .	21,144	61,760	25,644
Interest expense . . . . .	3,966	2,877	2,171
Other expense (income), net . . . . .	(3,007)	2,190	1,130
Stock-based compensation expense in restaurant wages . . . . .	90	52	142
Unused pre-production costs in advertising expense <sup>(1)</sup> . . . . .	<u>—</u>	<u>410</u>	<u>—</u>
Total non-general and administrative expense adjustments . . . . .	59,797	102,246	65,863
General and administrative expense adjustments:			
Stock-based compensation expense . . . . .	3,379	3,493	3,141
Terminated capital project <sup>(2)</sup> . . . . .	—	849	—
Board and shareholder matter costs <sup>(3)</sup> . . . . .	(597)	3,049	1,580
Plan restructuring costs and retention bonuses <sup>(4)</sup> . . . . .	545	2,420	86
Office restructuring and relocation costs <sup>(5)</sup> . . . . .	—	(152)	539
Legal settlements and related costs <sup>(6)</sup> . . . . .	<u>(177)</u>	<u>(473)</u>	<u>310</u>
Total general and administrative expense adjustments . . . . .	3,150	9,186	5,656
Consolidated Adjusted EBITDA . . . . .	<u>\$67,962</u>	<u>\$ 67,445</u>	<u>\$96,567</u>

(1) Unused pre-production costs for the twelve months ended December 31, 2017, include costs for advertising pre-production that will not be used.

- (2) Terminated capital project costs for the twelve months ended December 31, 2017, include costs related to the write-off of a capital project that was terminated in the first quarter of 2017.
- (3) Board and shareholder matter costs for the twelve months ended December 30, 2018, include fee reductions and final insurance recoveries related to 2017 shareholder activism costs. Board and shareholder matter costs for the twelve months ended December 31, 2017 include fees related to shareholder activism and CEO and board member searches. Board and shareholder matter costs for the twelve months ended January 1, 2017, primarily include fees related to the previously proposed and terminated separation transaction, and costs related to shareholder activism.
- (4) Plan restructuring costs and retention bonuses for the twelve months ended December 30, 2018 and December 31, 2017, include severance related to the Plan and reduction in force and bonuses paid to certain employees for retention purposes.
- (5) Office restructuring and relocation costs for the twelve months ended December 31, 2017 and January 1, 2017, include severance and relocation adjustments and costs associated with the 2016 restructuring of Pollo Tropical brand and corporate offices.
- (6) Legal settlements and related costs for the twelve months ended December 30, 2018 include reductions to final settlement amounts and benefits related to litigation matters. Legal settlements and related costs for the twelve months ended December 31, 2017 and January 1, 2017, include benefits and costs related to litigation matters.

A reconciliation from Adjusted EBITDA to Restaurant-level Adjusted EBITDA follows (in thousands):

<u>Twelve Months Ended</u>	<u>Pollo Tropical</u>	<u>Taco Cabana</u>
<b>December 30, 2018:</b>		
Adjusted EBITDA . . . . .	\$54,903	\$13,059
Restaurant-level adjustments:		
Add: Pre-opening costs . . . . .	933	783
Add: Other general and administrative expense <sup>(1)</sup> . . . . .	28,045	23,330
Less: Franchise royalty revenue and fees. . . . .	<u>1,815</u>	<u>857</u>
Restaurant-level Adjusted EBITDA . . . . .	<u>\$82,066</u>	<u>\$36,315</u>
<b>December 31, 2017:</b>		
Adjusted EBITDA . . . . .	\$50,937	\$16,508
Restaurant-level adjustments:		
Add: Pre-opening costs . . . . .	1,167	951
Add: Other general and administrative expense <sup>(1)</sup> . . . . .	28,054	22,393
Less: Franchise royalty revenue and fees. . . . .	<u>1,787</u>	<u>761</u>
Restaurant-level Adjusted EBITDA . . . . .	<u>\$78,371</u>	<u>\$39,091</u>
<b>January 1, 2017:</b>		
Adjusted EBITDA . . . . .	\$58,286	\$38,281
Restaurant-level adjustments:		
Add: Pre-opening costs . . . . .	4,837	674
Add: Other general and administrative expense <sup>(1)</sup> . . . . .	29,233	19,937
Less: Franchise royalty revenue and fees. . . . .	<u>2,062</u>	<u>752</u>
Restaurant-level Adjusted EBITDA . . . . .	<u>\$90,294</u>	<u>\$58,140</u>

(1) Excludes general and administrative adjustments included in Adjusted EBITDA.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Interest Rate Risk**

We are exposed to market risk associated with fluctuations in interest rates, primarily limited to our senior credit facility, under which we had outstanding borrowings of \$78.0 million as of December 30, 2018. Borrowings under the new senior credit facility bear interest at a per annum rate, at our option, of either (all terms as defined in the senior credit facility):

- 1) the Alternate Base Rate plus the applicable margin of 0.75% to 1.50% based on our Adjusted Leverage Ratio (with a margin of 1.25% as of December 30, 2018), or
- 2) the LIBOR Rate plus the applicable margin of 1.75% to 2.50% based on our Adjusted Leverage Ratio (with a margin of 2.25% at December 30, 2018).

For variable rate debt instruments, market risk is defined as the potential change in earnings resulting from a hypothetical adverse change in interest rates. As of December 30, 2018, we had primarily elected to be charged interest on borrowings under our new senior credit facility at the LIBOR Rate plus the applicable margin. We elected a one-month LIBOR Rate for \$78.0 million of borrowings under the new senior credit facility as of December 30, 2018. The weighted average interest rate applicable to these borrowings as of December 30, 2018 was 4.59%, which would result in interest expense in 2019 of \$3.6 million assuming that outstanding borrowings and interest rates remain unchanged during the year. A hypothetical increase of 100 basis points in the variable interest rate would increase interest expense in 2019 by \$0.8 million.

### **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.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and supplementary data of Fiesta Restaurant Group, Inc. required by this Item are described in Item 15 of this Annual Report on Form 10-K and are presented beginning on page F-1.

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

Not applicable.

## **ITEM 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* Our senior management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 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 Interim Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 30, 2018.

*Changes in Internal Control over Financial Reporting.* No change occurred in our internal control over financial reporting during the fourth quarter of 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Report on Internal Control Over Financial Reporting**

Our senior management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under 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.

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

Management has evaluated the effectiveness of its internal control over financial reporting as of December 30, 2018 based on the criteria set forth in a report entitled *Internal Control-Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, we have concluded that, as of December 30, 2018, our internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on the effectiveness of our internal control over financial reporting and their report is included herein.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the stockholders and the Board of Directors of Fiesta Restaurant Group, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Fiesta Restaurant Group, Inc. and subsidiaries (the “Company”) as of December 30, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), consolidated statements of operations, changes in stockholders’ equity, and cash flows for the year ended December 30, 2018, of the Company and our report dated February 25, 2019, expressed an unqualified opinion on those financial statements.

### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on internal control over Financial Reporting under Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

/s/ Deloitte & Touche LLP  
Dallas, Texas  
February 25, 2019

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2019 Annual Meeting of Stockholders.

We have adopted a written code of ethics applicable to our directors, officers and employees in accordance with the rules of The NASDAQ Stock Market and the SEC. We make our code of ethics available free of charge through our internet website, [www.frgi.com](http://www.frgi.com). We will disclose on our website amendments to or waivers from our code of ethics in accordance with all applicable laws and regulations.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2019 Annual Meeting of Stockholders.

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

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2019 Annual Meeting of Stockholders.

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

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2019 Annual Meeting of Stockholders.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2019 Annual Meeting of Stockholders.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a) (1) Financial Statements - Fiesta Restaurant Group, Inc. and Subsidiaries**

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**(a) (2) Financial Statement Schedules**

<u>Schedule</u>	<u>Description</u>	<u>Page</u>
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Schedules other than those listed are omitted for the reason that they are not required, not applicable, or the required information is shown in the financial statements or notes thereto.

**(a) (3) Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Fiesta Restaurant Group, Inc. (“Fiesta”) (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to Fiesta’s Form 10, File No. 001-35373, filed on April 5, 2012)
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Fiesta (incorporated by reference to Exhibit 3.1 of Fiesta’s Quarterly Report on Form 10-Q for the period ended July 2, 2017)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Fiesta (incorporated by reference to Exhibit 3.1 of Fiesta’s Quarterly Report on Form 10-Q for the period ended April 1, 2018)
3.4	Amended and Restated Bylaws of Fiesta (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to Fiesta’s Form 10, File No. 001-35373, filed on January 26, 2012)
3.5	Amendment to Amended and Restated Bylaws of Fiesta (incorporated by reference to Exhibit 3.2 of Fiesta’s Quarterly Report on Form 10-Q for the period ended July 2, 2017)
3.6	Amendment to Amended and Restated ByLaws of Fiesta (incorporated by reference to Exhibit 3.2 of Fiesta’s Quarterly Report on Form 10-Q for the period ended April 1, 2018)
4.1	Form of Stock Certificate for Common Stock (incorporated by reference to Exhibit 4.4 to Amendment No.2 to Fiesta’s Form 10, File No. 001-35373, filed on March 14, 2012)
10.1	Form of Separation and Distribution Agreement among Fiesta, Carrols Restaurant Group, Inc. (“Carrols Restaurant Group”) and Carrols Corporation (“Carrols”) (incorporated by reference to Exhibit 10.1 to Amendment No. 3 to Fiesta’s Form 10, File No. 001-35373, filed on April 5, 2012)

Exhibit No.	Description
10.2	Form of Tax Matters Agreement between Fiesta, Carrols and Carrols Restaurant Group (incorporated by reference to Exhibit 10.2 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012)
10.3	Form of Employee Matters Agreement between Fiesta, Carrols and Carrols Restaurant Group (incorporated by reference to Exhibit 10.3 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012)
10.4	Form of Transition Services Agreement among Fiesta, Carrols Restaurant Group and Carrols (incorporated by reference to Exhibit 10.4 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012)
10.5	Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Fiesta's Current Report on Form 8-K filed on May 8, 2012)+
10.6	Agreement dated as of November 4, 2016 between Fiesta and Danny K. Meisenheimer (incorporated by reference to Exhibit 10.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended October 2, 2016)+
10.7	Agreement dated as of November 4, 2016 between Fiesta and Lynn Schweinfurth (incorporated by reference to Exhibit 10.2 of Fiesta's Quarterly Report on Form 10-Q for the period ended October 2, 2016)+
10.8	Agreement dated as of November 4, 2016 between Fiesta and Joseph A. Zirkman (incorporated by reference to Exhibit 10.3 of Fiesta's Quarterly Report on Form 10-Q for the period ended October 2, 2016)+
10.9	Executive Employment Agreement, dated as of February 24, 2017, between Fiesta and Richard Stockinger (incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on February 27, 2017)+
10.10	Retention Bonus Agreement dated as of November 9, 2016 between Joseph Brink and Fiesta (incorporated by reference to Exhibit 10.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended July 2, 2017)+
10.11	Offer letter dated September 24, 2017 between Fiesta and Charles Locke (incorporated by reference to Exhibit 10.11 of Fiesta's Annual Report on Form 10-K for the year ended December 31, 2017)+
10.12	Agreement dated as of October 12, 2017 between Charles Locke and Fiesta (incorporated by reference to Exhibit 10.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended October 1, 2017)+
10.13	Conditional Separation Agreement and General Release dated as of June 7, 2017 between Fiesta and Joseph Zirkman (incorporated by reference to Exhibit 10.13 of Fiesta's Annual Report on Form 10-K for the year ended December 31, 2017)+
10.14	Offer letter dated September 25, 2017 between Fiesta and Maria Mayer (incorporated by reference to Exhibit 10.14 of Fiesta's Annual Report on Form 10-K for the year ended December 31, 2017)+
10.15	Agreement dated as of November 15, 2017 between Fiesta and Maria Mayer (incorporated by reference to Exhibit 10.15 of Fiesta's Annual Report on Form 10-K for the year ended December 31, 2017)+



Exhibit No.	Description
10.16	Offer letter dated September 23, 2017 between Fiesta and Anthony Dinkins (incorporated by reference to Exhibit 10.16 of Fiesta's Annual Report on Form 10-K for the year ended December 31, 2017)+
10.17	Agreement dated as of February 27, 2018 between Fiesta and Danny K. Meisenheimer (incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on March 5, 2018)+
10.18	Agreement dated as of August 3, 2018 by and between Fiesta and Anthony Dinkins (incorporated by reference to Exhibit 10.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended July 1, 2018)+
10.19	Amendment to Agreement dated as of August 3, 2018 by and between Fiesta and Maria Mayer (incorporated by reference to Exhibit 10.2 of Fiesta's Quarterly Report on Form 10-Q for the period ended July 1, 2018)+
10.20	Amendment to Agreement dated as of August 3, 2018 by and between Fiesta and Charles Locke (incorporated by reference to Exhibit 10.3 of Fiesta's Quarterly Report on Form 10-Q for the period ended July 1, 2018)+
10.21	Fiesta Restaurant Group, Inc. and Subsidiaries Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 of Fiesta's Amendment No. 1 to Registration Statement on Form 10 filed on January 26, 2012)+
10.22	Offer letter between Fiesta and Lynn S. Schweinfurth (incorporated by reference to Exhibit 10.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended July 1, 2012)+
10.23	Credit Agreement, dated as of December 11, 2013, between Fiesta, the guarantors named therein, the lenders named therein and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on December 12, 2013)
10.24	Security Agreement, dated as of December 11, 2013, between Fiesta, the guarantors named therein and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.2 of Fiesta's Current Report on Form 8-K filed on December 12, 2013)
10.25	Credit Agreement, dated as of November 30, 2017, among Fiesta, the guarantors named therein, the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on December 4, 2017)
10.26	Pledge and Security Agreement, dated as of November 30, 2017, among Fiesta, the guarantors named therein and JP Morgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 of Fiesta's Current Report on Form 8-K filed on December 4, 2017)
10.27	Amendment to Credit Agreement, dated as of March 9, 2018. among Fiesta, the guarantors named therein, the lenders named therein and JPMorgan Chase Bank, N.A., individually as a lender and as administrative agent (incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on March 12, 2018)
10.28	Amendment to Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of Fiesta's Annual Report on Form 10-K filed on February 19, 2015)+

Exhibit No.	Description
21.1	Subsidiaries of Fiesta#
23.1	Consent of Deloitte & Touche LLP#
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	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document

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# Filed herewith.

+ Compensatory plan or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Fiesta Restaurant Group, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fiesta Restaurant Group, Inc. and subsidiaries (the “Company”) as of December 30, 2018 and December 31, 2017, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows, for each of the three years in the period ended December 30, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP  
Dallas, Texas  
February 25, 2019

We have served as the Company’s auditor since 2011.

**FIESTA RESTAURANT GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 30, 2018 and December 31, 2017**  
**(In thousands, except share and per share data)**

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
<b>ASSETS</b>		
Current assets:		
Cash . . . . .	\$ 5,258	\$ 3,599
Accounts receivable . . . . .	8,505	9,830
Inventories . . . . .	2,842	2,880
Prepaid rent . . . . .	3,375	3,300
Income tax receivable . . . . .	17,857	11,334
Prepaid expenses and other current assets . . . . .	<u>6,562</u>	<u>10,105</u>
Total current assets . . . . .	44,399	41,048
Property and equipment, net . . . . .	231,328	234,561
Goodwill . . . . .	123,484	123,484
Deferred income taxes . . . . .	10,383	17,232
Other assets . . . . .	<u>9,065</u>	<u>6,988</u>
Total assets . . . . .	<u>\$ 418,659</u>	<u>\$ 423,313</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt . . . . .	\$ 108	\$ 98
Accounts payable . . . . .	16,410	20,293
Accrued payroll, related taxes and benefits . . . . .	10,086	11,776
Accrued real estate taxes . . . . .	5,871	5,860
Other current liabilities . . . . .	<u>14,086</u>	<u>21,817</u>
Total current liabilities . . . . .	46,561	59,844
Long-term debt, net of current portion . . . . .	79,636	76,425
Deferred income—sale-leaseback of real estate . . . . .	19,899	23,466
Other non-current liabilities . . . . .	<u>32,504</u>	<u>32,062</u>
Total liabilities . . . . .	178,600	191,797
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized, no shares issued . .	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized, 27,259,212 and 27,086,958 shares issued, respectively, and 26,858,988 and 26,847,458 shares outstanding, respectively . . . . .	270	268
Additional paid-in capital . . . . .	170,290	166,823
Retained earnings . . . . .	72,268	64,425
Treasury stock, at cost; 112,358 shares . . . . .	<u>(2,769)</u>	<u>—</u>
Total stockholders' equity . . . . .	<u>240,059</u>	<u>231,516</u>
Total liabilities and stockholders' equity . . . . .	<u>\$ 418,659</u>	<u>\$ 423,313</u>

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

**FIESTA RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(In thousands, except share and per share data)

	Years Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Revenues:			
Restaurant sales . . . . .	\$ 685,925	\$ 666,584	\$ 708,956
Franchise royalty revenues and fees . . . . .	2,672	2,548	2,814
Total revenues . . . . .	<u>688,597</u>	<u>669,132</u>	<u>711,770</u>
Costs and expenses:			
Cost of sales . . . . .	218,946	202,888	214,609
Restaurant wages and related expenses (including stock-based compensation expense of \$90, \$52, and \$142, respectively) . . .	188,131	184,742	185,305
Restaurant rent expense . . . . .	36,034	36,936	37,493
Other restaurant operating expenses . . . . .	100,828	98,927	96,457
Advertising expense . . . . .	23,695	26,091	26,800
General and administrative (including stock-based compensation expense of \$3,379, \$3,493, and \$3,141, respectively) . . . . .	54,525	59,633	54,826
Depreciation and amortization . . . . .	37,604	34,957	36,776
Pre-opening costs . . . . .	1,716	2,118	5,511
Impairment and other lease charges . . . . .	21,144	61,760	25,644
Other expense (income), net . . . . .	<u>(3,007)</u>	<u>2,190</u>	<u>1,130</u>
Total operating expenses . . . . .	<u>679,616</u>	<u>710,242</u>	<u>684,551</u>
Income (loss) from operations . . . . .	8,981	(41,110)	27,219
Interest expense . . . . .	3,966	2,877	2,171
Income (loss) before income taxes . . . . .	5,015	(43,987)	25,048
Provision for (benefit from) income taxes . . . . .	<u>(2,772)</u>	<u>(7,755)</u>	<u>8,336</u>
Net income (loss) . . . . .	<u>\$ 7,787</u>	<u>\$ (36,232)</u>	<u>\$ 16,712</u>
Earnings (loss) per common share:			
Basic . . . . .	<u>\$ 0.29</u>	<u>\$ (1.35)</u>	<u>\$ 0.62</u>
Diluted . . . . .	<u>0.29</u>	<u>(1.35)</u>	<u>0.62</u>
Weighted average common shares outstanding:			
Basic . . . . .	<u>26,890,577</u>	<u>26,821,471</u>	<u>26,682,227</u>
Diluted . . . . .	<u>26,894,083</u>	<u>26,821,471</u>	<u>26,689,179</u>

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

**FIESTA RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
Balance at January 3, 2016 . . . . .	26,571,602	\$266	\$159,724	\$ 83,992	\$ —	\$243,982
Stock-based compensation . . . . .	—	—	3,283	—	—	3,283
Vesting of restricted shares . . . . .	184,038	1	(1)	—	—	—
Tax benefit from stock-based compensation . .	—	—	198	—	—	198
Net income . . . . .	—	—	—	16,712	—	16,712
Balance at January 1, 2017 . . . . .	26,755,640	267	163,204	100,704	—	264,175
Stock-based compensation . . . . .	—	—	3,545	—	—	3,545
Vesting of restricted shares . . . . .	91,818	1	—	—	—	1
Cumulative effect of adopting a new accounting standard . . . . .	—	—	74	(47)	—	27
Net loss . . . . .	—	—	—	(36,232)	—	(36,232)
Balance at December 31, 2017 . . . . .	<u>26,847,458</u>	<u>268</u>	<u>166,823</u>	<u>64,425</u>	<u>—</u>	<u>231,516</u>
Stock-based compensation . . . . .	—	—	3,469	—	—	3,469
Vesting of restricted shares . . . . .	123,888	2	(2)	—	—	—
Cumulative effect of adopting a new accounting standard (Note 1) . . . . .	—	—	—	56	—	56
Purchase of treasury stock . . . . .	(112,358)	—	—	—	(2,769)	(2,769)
Net income . . . . .	—	—	—	7,787	—	7,787
Balance at December 30, 2018 . . . . .	<u>26,858,988</u>	<u>\$270</u>	<u>\$170,290</u>	<u>\$ 72,268</u>	<u>\$(2,769)</u>	<u>\$240,059</u>

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

**FIESTA RESTAURANT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017, AND JANUARY 1, 2017**  
(In thousands)

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Operating activities:			
Net income (loss) . . . . .	\$ 7,787	\$(36,232)	\$ 16,712
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
(Gain) loss on disposals of property and equipment . . . . .	(757)	815	779
Stock-based compensation . . . . .	3,469	3,545	3,283
Impairment and other lease charges . . . . .	21,144	61,760	25,644
Depreciation and amortization . . . . .	37,604	34,957	36,776
Amortization of deferred financing costs . . . . .	270	352	309
Amortization of deferred gains from sale-leaseback transactions . . . . .	(3,564)	(3,602)	(3,583)
Deferred income taxes . . . . .	6,830	(2,828)	(5,880)
Other . . . . .	—	—	1
Changes in other operating assets and liabilities:			
Accounts receivable . . . . .	805	(1,171)	446
Prepaid expenses and other current assets . . . . .	894	(2,015)	(412)
Other assets - long term . . . . .	(1,491)	(552)	(2,796)
Accounts payable . . . . .	(1,797)	1,046	3,330
Accrued payroll, related taxes and benefits . . . . .	(1,690)	(499)	(3,339)
Accrued real estate taxes . . . . .	11	(311)	803
Other liabilities - current . . . . .	(10,583)	(590)	(780)
Other liabilities - long term . . . . .	1,358	3,887	6,498
Income tax receivable/payable . . . . .	(6,523)	(8,030)	4,144
Other . . . . .	36	288	(1,256)
Net cash provided by operating activities . . . . .	<u>53,803</u>	<u>50,820</u>	<u>80,679</u>
Investing activities:			
Capital expenditures:			
New restaurant development . . . . .	(21,445)	(26,727)	(66,116)
Restaurant remodeling . . . . .	(582)	(3,020)	(2,755)
Other restaurant capital expenditures . . . . .	(27,464)	(17,410)	(7,125)
Corporate and restaurant information systems . . . . .	(8,359)	(8,709)	(6,369)
Total capital expenditures . . . . .	<u>(57,850)</u>	<u>(55,866)</u>	<u>(82,365)</u>
Properties purchased for sale-leaseback . . . . .	—	—	(2,663)
Proceeds from disposals of properties . . . . .	4,743	374	226
Proceeds from insurance recoveries . . . . .	983	—	—
Proceeds from sale-leaseback transactions . . . . .	—	—	3,642
Net cash used in investing activities . . . . .	<u>(52,124)</u>	<u>(55,492)</u>	<u>(81,160)</u>
Financing activities:			
Excess tax benefit from vesting of restricted shares . . . . .	—	—	566
Borrowings on revolving credit facility . . . . .	26,000	91,000	18,400
Repayments on revolving credit facility . . . . .	(23,000)	(85,900)	(19,500)
Principal payments on capital leases . . . . .	(101)	(88)	(70)
Financing costs associated with issuance of debt . . . . .	(150)	(937)	—
Payments to purchase treasury stock . . . . .	(2,769)	—	—
Net cash provided by (used in) financing activities . . . . .	<u>(20)</u>	<u>4,075</u>	<u>(604)</u>
Net change in cash . . . . .	1,659	(597)	(1,085)
Cash, beginning of year . . . . .	3,599	4,196	5,281
Cash, end of year . . . . .	<u>\$ 5,258</u>	<u>\$ 3,599</u>	<u>\$ 4,196</u>
Supplemental disclosures:			
Interest paid on long-term debt (including capitalized interest of \$377, \$256 and \$255, respectively) . . . . .	\$ 3,508	\$ 2,363	\$ 1,867
Interest paid on lease financing obligations . . . . .	—	83	141
Accruals for capital expenditures . . . . .	6,191	8,409	5,288
Income tax payments (refunds), net . . . . .	(3,081)	3,103	9,873
Capital lease obligations incurred . . . . .	322	—	—
Non-cash reduction of lease financing obligations . . . . .	—	1,664	—
Non-cash reduction of assets under lease financing obligations . . . . .	—	1,193	—

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

**FIESTA RESTAURANT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(Dollars in thousands, except per share data)

**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 December 30, 2018, the Company owned and operated 139 Pollo Tropical® restaurants and 162 Taco Cabana® restaurants. All of the Company-owned Pollo Tropical restaurants are located in Florida, and all of the Company-owned Taco Cabana restaurants are located in Texas. At December 30, 2018, Fiesta franchised a total of 30 Pollo Tropical restaurants and eight Taco Cabana restaurants. The franchised Pollo Tropical restaurants include 17 in Puerto Rico, four in Panama, two in Guyana, one in the Bahamas and five on college campuses and one at a hospital in Florida. The franchised Taco Cabana restaurants include six in New Mexico and two on college campuses in Texas.

*Basis of Consolidation.* The 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 years ended December 30, 2018, December 31, 2017 and January 1, 2017 each contained 52 weeks.

*Use of Estimates.* The preparation of the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (“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.

*Reclassification.* Write-offs of site development costs were reclassified from general and administrative expense to other expense (income), net in the Consolidated Statements of Operations to conform with the current year presentation.

*Concentrations of Risk.* Food and supplies are ordered from approved suppliers and are shipped to the restaurants via distributors. Performance Food Group, Inc. is the primary distributor of food and beverage products and supplies for both Pollo Tropical and Taco Cabana. In the twelve months ended December 30, 2018 and December 31, 2017, Performance Food Group, Inc. accounted for approximately 74% of the supplies delivered to restaurants. The Company’s limited distributor relationships could have an adverse effect on the Company’s operations.

*Cash and Cash Equivalents.* The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

*Inventories.* Inventories, primarily consisting of food and paper, are stated at the lower of cost (first-in, first-out) or market.

*Property and Equipment.* The Company capitalizes all direct costs incurred to construct and substantially improve its restaurants. These costs are depreciated and charged to expense based upon their property classification when placed in service. Property and equipment is recorded at cost. Application development stage costs for significant internally developed software projects are capitalized and amortized. Repairs and maintenance activities are expensed as incurred. Depreciation and amortization is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements . . . . .	5 to 30 years
Equipment . . . . .	3 to 7 years
Computer hardware and software . . . . .	3 to 7 years
Assets subject to capital lease . . . . .	Shorter of useful life or lease term



**FIESTA RESTAURANT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(Continued)**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(Dollars in thousands, except per share data)

Leasehold improvements, including new buildings constructed on leased land, are depreciated over the shorter of their estimated useful lives or the underlying lease term. In circumstances where an economic penalty would be presumed by the non-exercise of one or more renewal options under the lease, the Company includes those renewal option periods when determining the lease term. For significant leasehold improvements made during the latter part of the lease term, the Company amortizes those improvements over the shorter of their useful life or an extended lease term. The extended lease term would consider the exercise of renewal options if the value of the improvements would imply that an economic penalty would be incurred without the renewal of the option. Building costs incurred for new restaurants on leased land are depreciated over the lease term, which is generally a twenty-year period.

*Cloud-Based Computing Arrangements.* The Company defers and amortizes application development stage costs for cloud-based computing arrangements over the life of the related service (subscription) agreement.

*Goodwill.* Goodwill represents the excess purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets acquired by Carrols Restaurant Group, Inc. (“Carrols”), Fiesta’s former parent company, from the acquisition of Pollo Tropical in 1998 and Taco Cabana in 2000. Goodwill is not amortized but is tested for impairment at least annually as of the last day of the fiscal year or more frequently if impairment indicators exist.

*Long-Lived Assets.* The Company assesses the recoverability of property and equipment and definite-lived intangible assets by determining whether the carrying value of these assets can be recovered over their respective remaining lives through undiscounted future operating cash flows. Impairment is reviewed whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. See Note 5 for results of the Company’s impairment review.

*Deferred Financing Costs.* Financing costs incurred in obtaining revolving credit facilities are capitalized and amortized over the life of the related obligation as interest expense on a straight-line basis.

*Leases.* All leases are reviewed for capital or operating classification at their inception. The majority of the Company’s leases are operating leases. Many of the lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. Rent expense for leases that contain scheduled rent increases or rent holidays is recognized on a straight-line basis over the lease term, including any option periods included in the determination of the lease term. Contingent rentals are generally based upon a percentage of sales or a percentage of sales in excess of stipulated amounts and are not considered minimum rent payments but are recognized as rent expense when incurred.

*Income Taxes.* Deferred income tax assets and liabilities are based on the difference between the financial statement and tax bases of assets and liabilities as measured by the tax rates that are anticipated to be in effect when those differences reverse. The deferred tax provision generally represents the net change in deferred tax assets and liabilities during the period. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is established when it is necessary to reduce deferred tax assets to amounts for which realization is more likely than not. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

*Advertising Costs.* All advertising costs are expensed as incurred.

*Cost of Sales.* The Company includes the cost of food, beverage and paper, net of any discounts, in cost of sales.

*Pre-opening Costs.* The Company’s pre-opening costs are generally incurred beginning four to six months prior to a restaurant opening and generally include 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.

*Insurance.* The Company is insured for workers’ compensation, general liability and medical insurance claims under policies where it pays all claims, subject to stop-loss limitations both for individual claims and for general

**FIESTA RESTAURANT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(Continued)**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(Dollars in thousands, except per share data)

liability, medical insurance and certain workers' compensation claims in the aggregate. Losses are accrued based upon estimates of the aggregate liability for claims based on the Company's experience and certain actuarial methods used to measure such estimates. The Company does not discount any of its self-insurance obligations.

*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 on 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 management's 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 Consolidated 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. The fair value of the Company's senior credit facility was approximately \$78.0 million at December 30, 2018 and \$75.0 million at December 31, 2017. The carrying value of the Company's senior credit facility was \$78.0 million at December 30, 2018 and \$75.0 million at December 31, 2017.

See Note 5 for discussion of the fair value measurement of non-financial assets.

*Guidance Adopted in 2018.* 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 supersedes the guidance in former Topic 605, *Revenue Recognition*, and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted this new accounting standard and all the related amendments as of January 1, 2018 using the modified retrospective method, and recognized a total cumulative effect adjustment to increase retained earnings by less than \$0.1 million, which consisted of a \$0.3 million increase related to gift card breakage and a \$0.3 million decrease related to initial franchise and area development fees, as a result of adopting the standard. The new standard did not impact the Company's recognition of revenue from Company-owned and operated restaurants or its recognition of sale-based royalties from restaurants operated by franchisees. The comparative period information has not been restated and continues to be reported under the accounting standard in effect for those periods. When compared to the previous accounting policies, the impact of adopting the new standard was immaterial to current and non-current other liabilities and retained earnings at January 1, 2018 and to net income for the twelve months ended December 30, 2018. The adoption of the new standard had no impact on the Company's consolidated statements of cash flows.

*Revenue Recognition.* Revenue is recognized upon transfer of promised products or services to customers in an amount that reflects the consideration the Company received in exchange for those products or services. Revenues from the Company's owned and operated restaurants are recognized when payment is tendered at the time of sale. Franchise royalty revenues are based on a percent of gross sales and are recorded as income when earned. Initial franchise fees and area development fees associated with new franchise agreements are not distinct from the continuing rights and services offered by the Company during the term of the related franchise agreements and are recognized as income over the term of the related franchise agreements. A portion of the initial franchise fee is allocated to training services and is recognized as revenue when the Company completes the training services. Prior to adopting Topic 606, the Company recognized initial franchise fees as revenue in the period that a franchised location opened for business. See Note 6—Business Segment Information.

*Gift cards.* The Company sells gift cards to its customers in its restaurants and through select third parties. The Company recognizes revenue from gift cards upon redemption by the customer. For unredeemed gift cards that the

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Company expects to be entitled to breakage, the Company recognizes expected breakage as revenue in proportion to the pattern of redemption by the customers. The gift cards have no stated expiration dates. Revenues from unredeemed gift cards and gift card liabilities, which are recorded in other current liabilities, are not material to the Company's financial statements. Prior to adopting Topic 606, the Company did not recognize breakage on its gift cards.

*Recent Accounting Pronouncements.* In February 2016, and in subsequent updates, 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 Company intends to elect the transition method that allows it to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The comparative period information will not be restated and will continue to be reported under the accounting standard in effect for those periods. The Company expects to recognize right-of-use lease assets and lease liabilities for most of the leases it currently accounts for as operating leases, including leases related to closed restaurant properties. The initial right-of-use assets will be calculated as the present value of the remaining operating lease payments using the Company's incremental borrowing rate as of December 31, 2018. See Note 7 for remaining undiscounted operating lease payments. The right-of-use lease assets to be recognized will be reduced by accrued occupancy costs such as certain closed-restaurant lease reserves, accrued rent (including accruals to expense operating lease payments on a straight-line basis) and unamortized lease incentives. See Note 6 for accrued occupancy costs. Upon the adoption of Topic 842, the Company will no longer record closed restaurant lease reserves, and right-of-use lease assets will be reviewed for impairment with the Company's long-lived assets. The Company intends to elect the transition practical expedient package as well as the practical expedient to combine lease and non-lease components of the contracts, which it expects to result in reclassification of certain occupancy related expenses to restaurant rent expenses in the consolidated statement of operations. The Company also expects to separately present rent expense related to its closed restaurant locations and any sublease income related to these closed restaurant locations in the consolidated statement of operations. In addition, the Company will be required to record an initial adjustment to retained earnings associated with previously deferred gains on sale-leaseback transactions and will no longer receive the benefit to rent expense from amortizing such previously deferred gains on sale-leaseback transactions beginning in 2019. For any future sale-leaseback transactions, the gain (adjusted for any off-market terms) will be recognized immediately. Currently, the Company amortizes sale-leaseback gains over the lease term. The Company has not assessed the potential impact of Topic 842 on its covenant financial ratios as the Company's senior credit facility does not give effect to any change in GAAP arising out of Topic 842. The Company is continuing to evaluate the impact of Topic 842 on its financial statements and may identify other impacts.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill if the fair value of a reporting unit is less than the carrying amount of the reporting unit. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The guidance will be effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. This standard may have an impact on the Company's financial statements if goodwill impairment is recognized in future periods.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance will be effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company does not expect the standard to have a material effect on its financial statements.

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**2. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets, consist of the following:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Prepaid contract expenses .....	\$4,232	\$ 3,681
Assets held for sale <sup>(1)</sup> .....	—	2,705
Other .....	<u>2,330</u>	<u>3,719</u>
	<u>\$6,562</u>	<u>\$10,105</u>

(1) Two closed Pollo Tropical restaurant properties owned by the Company that were classified as held for sale as of December 31, 2017 were sold in 2018 for a total of \$3.3 million.

**3. Property and Equipment**

Property and equipment consisted of the following:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Land and land improvements .....	\$ 20,428	\$ 20,502
Owned buildings .....	15,205	17,221
Leasehold improvements <sup>(1)</sup> .....	207,206	208,499
Equipment .....	214,674	206,436
Assets subject to capital leases .....	<u>1,905</u>	<u>2,057</u>
	459,418	454,715
Less accumulated depreciation and amortization .....	<u>(228,090)</u>	<u>(220,154)</u>
	<u>\$ 231,328</u>	<u>\$ 234,561</u>

(1) Leasehold improvements include the cost of new buildings constructed on leased land.

Assets subject to capital leases primarily pertain to buildings leased for certain restaurant locations and had accumulated amortization at December 30, 2018 and December 31, 2017 of \$1.1 million and \$1.1 million, respectively.

Depreciation and amortization expense for all property and equipment for the years ended December 30, 2018, December 31, 2017 and January 1, 2017 was \$37.6 million, \$35.0 million and \$36.8 million, respectively.

**4. Goodwill**

The Company is required to review goodwill for impairment annually or more frequently when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of goodwill is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of the last day of the fiscal year and has determined its reporting units to be its operating segments, Pollo Tropical and Taco Cabana.

In performing its goodwill impairment test, the Company compared the net book values of its reporting units to their estimated fair values, the latter determined by employing a discounted cash flow analysis, which was corroborated with other value indicators where available, such as comparable company earnings multiples.

There have been no changes in goodwill or goodwill impairment losses recorded during the years ended December 30, 2018, December 31, 2017, and January 1, 2017.

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Goodwill balances are summarized below:

	<u>Pollo Tropical</u>	<u>Taco Cabana</u>	<u>Total</u>
Balance, December 30, 2018 and December 31, 2017 .....	<u>\$56,307</u>	<u>\$67,177</u>	<u>\$123,484</u>

**5. Impairment of Long-Lived Assets and Other Lease Charges**

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. There is uncertainty in the projected undiscounted future cash flows used in the Company’s impairment review analysis. If actual performance does not achieve the projections, the Company may recognize impairment charges in future periods, and such charges could be material. For closed restaurant locations, the Company reviews the future minimum lease payments and 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. There is uncertainty in the estimates of future lease costs and sublease recoveries. Actual costs and sublease recoveries could vary significantly from the estimated amounts and result in additional charges, and such amounts could be material.

A summary of impairment on long-lived assets and other lease charges recorded by segment is as follows:

	<u>Year Ended</u>		
	<u>December 30, 2018</u>	<u>December 31, 2017</u>	<u>January 1, 2017</u>
Pollo Tropical .....	\$13,587	\$57,947	\$24,419
Taco Cabana .....	<u>7,557</u>	<u>3,813</u>	<u>1,225</u>
	<u>\$21,144</u>	<u>\$61,760</u>	<u>\$25,644</u>

In 2016, the Company reviewed its strategy for development and decided to suspend additional development of Pollo Tropical restaurants outside of its core Florida markets. The Company closed ten Pollo Tropical restaurants in the fourth quarter of 2016 in Texas, Nashville, Tennessee and Atlanta, Georgia.

On April 24, 2017, the Company announced a Strategic Renewal Plan (the “Plan”) to drive long-term shareholder value creation that included the closure of 30 Pollo Tropical restaurants outside its core Florida markets. In September 2017, the Company also closed the six remaining Pollo Tropical restaurants in south Texas. In December 2017, the Company closed four additional underperforming Pollo Tropical restaurants in Atlanta, Georgia. Six Pollo Tropical restaurants that were closed in 2016 and 2017 in Texas were rebranded as Taco Cabana restaurants in 2017 and 2018 and one Pollo Tropical restaurant will be rebranded as a Taco Cabana location in 2019. In December 2018, based on the completion a restaurant portfolio examination, the Company closed 14 Pollo Tropical restaurants including all the remaining restaurants in Atlanta, Georgia, and nine Taco Cabana restaurants. The Company also closed two Taco Cabana restaurants in the second quarter of 2018 and six Taco Cabana restaurants in 2017.

Impairment and other lease charges for the twelve months ended December 30, 2018 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$13.1 million and \$6.0 million, respectively, and lease and other charges for Pollo Tropical and Taco Cabana restaurants (as well as a Taco Cabana office location) of \$0.5 million and \$1.6 million, respectively, net of recoveries. Impairment charges in 2018 were related primarily to 14 Pollo Tropical restaurants that were closed in 2018, two of which were initially impaired in 2017, nine Taco

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Cabana restaurants that were closed in 2018, one of which was initially impaired in 2017, and one Pollo Tropical restaurant and six Taco Cabana restaurants that the Company continues to operate. Other lease charges, net of recoveries, in 2018 were related primarily to restaurants and an office location that were closed in 2018 as well as previously closed restaurants.

Impairment and other lease charges for the twelve months ended December 31, 2017 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants and an office location of \$52.1 million, \$1.9 million, and \$0.2 million, respectively, and lease and other charges for Pollo Tropical and Taco Cabana restaurants and an office location of \$5.4 million, \$1.6 million, and \$0.5 million, respectively, net of recoveries. Impairment charges in 2017 were related primarily to 40 Pollo Tropical restaurants that were closed in 2017, seven of which were initially impaired in 2016, six Taco Cabana restaurants that were closed in 2017, four of which were initially impaired in 2016, and two Pollo Tropical restaurants and five Taco Cabana restaurants the Company continued to operate. Impairment charges in 2017 also included charges with respect to an office location that was closed in December 2017. Other lease charges, net of recoveries, in 2017 were related primarily to restaurants and an office location that were closed in 2017 as well as previously closed restaurants.

Impairment and other lease charges for the twelve months ended January 1, 2017 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$21.6 million and \$1.1 million, respectively, and lease and other charges for Pollo Tropical and Taco Cabana restaurants of \$2.8 million and \$0.2 million, respectively, net of recoveries. Impairment charges in 2016 were related primarily to 17 Pollo Tropical restaurants that were closed in 2016 and 2017 and seven Taco Cabana restaurants, four of which were subsequently closed in 2017 and three of which the Company continued to operate. Other lease charges, net of recoveries, for the twelve months ended January 1, 2017 were related to restaurants closed in 2016 as well as previously closed restaurants.

The Company determined the fair value of restaurant equipment, for those restaurants reviewed for impairment, based on current economic conditions, the Company's history of using these assets in the operation of its business and the Company's expectation of how a market participant would value the assets. In addition, for those restaurants reviewed for impairment where the Company owns the land and building, the Company utilized third-party information such as a broker quoted value to determine the fair value of the property. The Company also utilized discounted future cash flows to determine the fair value of assets for certain leased restaurants with positive discounted projected future cash flows. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. The Level 3 assets measured at fair value associated with impairment charges recorded during the twelve months ended December 30, 2018 and December 31, 2017 totaled \$8.0 million and \$13.8 million.

At December 31, 2017, the Company owned four of the Pollo Tropical restaurants that were closed in 2017. Two of these properties were available for sale and the Company intended to lease the other two properties. Two of these restaurants with a total carrying value of \$2.7 million at December 31, 2017 were classified as held for sale. The Company subsequently sold both of the owned properties held for sale in 2018. At December 30, 2018, the Company owned three Pollo Tropical and two Taco Cabana locations that were closed in 2017 and 2018.

**6. Other Liabilities**

Other liabilities, current, consist of the following:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Accrued workers' compensation and general liability claims. . . . .	\$ 4,886	\$ 5,083
Sales and property taxes. . . . .	1,958	2,279
Accrued occupancy costs . . . . .	4,554	7,813
Other . . . . .	<u>2,688</u>	<u>6,642</u>
	<u>\$14,086</u>	<u>\$21,817</u>

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

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Accrued occupancy costs . . . . .	\$21,534	\$20,985
Deferred compensation . . . . .	867	1,029
Accrued workers' compensation and general liability claims . . . . .	6,808	6,102
Other . . . . .	<u>3,295</u>	<u>3,946</u>
	<u>\$32,504</u>	<u>\$32,062</u>

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 \$4.4 million and \$5.3 million are included in long-term accrued occupancy costs at December 30, 2018 and December 31, 2017, respectively, with the remainder in other current liabilities.

	<u>Year Ended</u>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Balance, beginning of period . . . . .	\$12,994	\$ 4,912
Provisions for restaurant closures . . . . .	2,228	8,767
Additional lease charges, net of (recoveries) . . . . .	(152)	(1,301)
Payments, net . . . . .	(6,778)	(5,528)
Other adjustments . . . . .	<u>527</u>	<u>6,144</u>
Balance, end of period . . . . .	<u>\$ 8,819</u>	<u>\$12,994</u>

**7. Leases**

The Company utilizes land and buildings in its operations under various lease agreements. The Company does not consider any one of these individual leases material to the Company's operations. Initial lease terms are generally for twenty years and, in many cases, provide for renewal options and in most cases rent escalations. Certain leases require contingent rent, determined as a percentage of sales as defined by the terms of the applicable lease agreement. For most locations, the Company is obligated for occupancy related costs including payment of property taxes, insurance and utilities.

During the year ended January 1, 2017, the Company sold one restaurant property in a sale-leaseback transaction for net proceeds of \$3.6 million. The lease was classified as an operating lease and contained a twenty-year initial term plus renewal options. A deferred gain on the sale-leaseback transaction of \$0.7 million was recognized during the year ended January 1, 2017 and is being amortized over the term of the lease.

The amortization of deferred gains on sale-leaseback transactions was \$3.6 million for each of the years ended December 30, 2018, December 31, 2017 and January 1, 2017.

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Minimum rent commitments due under capital and non-cancelable operating leases at December 30, 2018 were as follows:

	<u>Capital</u>	<u>Operating</u>
2019.....	\$ 323	\$ 44,427
2020.....	327	44,144
2021.....	342	41,396
2022.....	342	40,215
2023.....	349	36,587
Thereafter .....	<u>1,646</u>	<u>264,704</u>
Total minimum lease payments <sup>(1)</sup> .....	3,329	<u>\$471,473</u>
Less amount representing interest .....	<u>(1,585)</u>	
Total obligations under capital leases .....	1,744	
Less current portion .....	<u>(108)</u>	
Long-term debt under capital leases .....	<u>\$ 1,636</u>	

(1) Minimum operating lease payments include contractual rent payments for closed restaurants for which the Company is still obligated under the lease agreements and have not been reduced by minimum sublease rentals of \$41.4 million due in the future under non-cancelable subleases. See Note 6—Other Liabilities.

Total rent expense on operating leases, including contingent rentals, was as follows:

	<u>Year Ended</u>		
	<u>December 30, 2018</u>	<u>December 31, 2017</u>	<u>January 1, 2017</u>
Minimum rent on real property, excluding rent included in pre-opening costs .....	\$35,881	\$36,760	\$37,180
Additional rent based on percentage of sales.....	<u>153</u>	<u>176</u>	<u>313</u>
Restaurant rent expense.....	36,034	36,936	37,493
Rent included in pre-opening costs .....	861	856	2,066
Administrative and equipment rent.....	<u>850</u>	<u>988</u>	<u>1,119</u>
	<u>\$37,745</u>	<u>\$38,780</u>	<u>\$40,678</u>

## 8. Long-term Debt

Long term debt at December 30, 2018 and December 31, 2017 consisted of the following:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Revolving credit facility.....	\$78,000	\$75,000
Capital leases .....	<u>1,744</u>	<u>1,523</u>
	79,744	76,523
Less: current portion of long-term debt.....	<u>(108)</u>	<u>(98)</u>
	<u>\$79,636</u>	<u>\$76,425</u>

*New Senior Credit Facility.* In November 2017, the Company terminated its former senior secured revolving credit facility, referred to as the “former senior credit facility,” and entered into a new senior secured revolving credit facility with a syndicate of lenders, which is referred to as the “new senior credit facility.” The new 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 November 30, 2022. The new senior credit facility also provides for potential



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incremental increases of up to \$50 million to the revolving credit borrowings available under the new senior credit facility. On December 30, 2018, there were \$78.0 million in outstanding borrowings under the new senior credit facility.

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

- 1) the Alternate Base Rate plus the applicable margin of 0.75% to 1.50% based on the Company's Adjusted Leverage Ratio (with a margin of 1.25% as of December 30, 2018), or
- 2) the LIBOR Rate plus the applicable margin of 1.75% to 2.50% based on the Company's Adjusted Leverage Ratio (with a margin of 2.25% at December 30, 2018)

In addition, the new senior credit facility requires the Company to pay (i) a commitment fee based on the applicable Commitment Fee rate of 0.25% to 0.35%, based on the Company's Adjusted Leverage Ratio, (with a rate of 0.30% at December 30, 2018) and the unused portion of the facility and (ii) a letter of credit participation fee based on the applicable LIBOR margin and the dollar amount of outstanding letters of credit.

All obligations under the Company's new senior credit facility are guaranteed by all of the Company's material domestic subsidiaries. In general, the Company's obligations under the new senior credit facility and its subsidiaries' obligations under the guarantees are secured by a first priority lien and security interest on substantially all of its assets and the assets of its material subsidiaries (including a pledge of all of the capital stock and equity interests of its material subsidiaries), other than certain specified assets, including real property owned by the Company or its subsidiaries.

The outstanding borrowings under the Company's new senior credit facility are prepayable subject to breakage costs as defined in the new senior credit facility. The new senior credit facility requires the Company to comply with customary affirmative, negative and financial covenants, including, without limitation, those limiting the Company's and its 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 (subject to certain exceptions), (vi) conduct asset and restaurant sales and other dispositions (subject to certain exceptions), (vii) conduct transactions with affiliates and (viii) change its business. In addition, the new senior credit facility requires the Company to maintain certain financial ratios, including minimum Fixed Charge Coverage and maximum Adjusted Leverage Ratios (all as defined under the new senior credit facility).

The Company's new 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 the Company's indebtedness having an outstanding principal amount of \$5 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 December 30, 2018, the Company was in compliance with the covenants under its new senior credit facility. After reserving \$4.0 million for letters of credit, \$68.0 million was available for borrowing under the new senior credit facility at December 30, 2018.

At December 30, 2018, principal payments required on borrowings under the new senior credit facility were \$78.0 million in 2022. The weighted average interest rate on the borrowings under the new senior credit facility and former senior credit facility was 4.59% and 3.73% at December 30, 2018 and December 31, 2017, respectively. Interest expense on the Company's long-term debt, excluding lease financing obligations, was \$3.9 million, \$2.7 million and \$1.9 million for the years ended December 30, 2018, December 31, 2017, and January 1, 2017, respectively.

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**9. Income Taxes**

The Company's income tax provision (benefit) was comprised of the following:

	<u>Year Ended</u>		
	<u>December 30, 2018</u>	<u>December 31, 2017</u>	<u>January 1, 2017</u>
Current:			
Federal .....	\$(10,378)	\$(5,718)	\$11,979
Foreign .....	355	346	372
State .....	421	445	1,865
	<u>(9,602)</u>	<u>(4,927)</u>	<u>14,216</u>
Deferred:			
Federal .....	6,591	(1,059)	(4,908)
State .....	297	(1,649)	(792)
	<u>6,888</u>	<u>(2,708)</u>	<u>(5,700)</u>
Valuation allowance .....	<u>(58)</u>	<u>(120)</u>	<u>(180)</u>
	<u>\$ (2,772)</u>	<u>\$ (7,755)</u>	<u>\$ 8,336</u>

Deferred income taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred income tax assets and liabilities at December 30, 2018 and December 31, 2017 were as follows:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Deferred income tax assets:		
Accrued vacation benefits .....	\$ 1,017	\$ 1,051
Incentive compensation .....	959	924
Other accruals .....	2,976	3,187
Deferred income on sale-leaseback of real estate .....	4,591	5,422
Occupancy costs .....	6,038	6,669
Tax credit carryforwards .....	1,534	883
Property and equipment depreciation .....	—	1,665
Federal net operating loss .....	1,040	—
Other .....	839	1,073
Gross deferred income tax assets .....	18,994	20,874
Deferred income tax liabilities:		
Property and equipment depreciation .....	(5,438)	—
Amortization of other intangibles, net .....	(2,121)	(2,094)
Other .....	(374)	(812)
Gross deferred income tax liabilities .....	<u>(7,933)</u>	<u>(2,906)</u>
Less: Valuation allowance .....	<u>(678)</u>	<u>(736)</u>
Net deferred income tax assets .....	<u>\$10,383</u>	<u>\$17,232</u>

The Company establishes a valuation allowance to reduce the carrying amount of deferred income tax assets when it is more likely than not that it will not realize some portion or all of the tax benefit of its deferred tax assets. The Company evaluates whether its deferred income tax assets are probable of realization on a quarterly basis. In performing this analysis, the Company considers all available evidence including historical operating results, the

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estimated timing of future reversals of existing taxable temporary differences and estimated future taxable income exclusive of reversing temporary differences and carryforwards. At December 30, 2018 and December 31, 2017, the Company had a valuation allowance of \$678 and \$736 respectively, against net deferred income tax assets due to foreign income tax credit carryforwards where it was determined to be more likely than not that the deferred income tax asset amounts would not be realized. The valuation allowance decreased \$58 and \$120 in 2018 and 2017, respectively, primarily due to expired foreign income tax credits and utilization of foreign tax credit carryforwards. The estimation of future taxable income for federal and state purposes and the Company’s ability to realize deferred income tax assets can significantly change based on future events and operating results.

The Company’s effective tax rate was (55.3)%, 17.6%, and 33.3% for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, respectively. A reconciliation of the statutory federal income tax provision (benefit) to the effective tax provision (benefit) was as follows:

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Statutory federal income tax provision (benefit) . . . . .	\$ 1,053	\$(15,394)	\$8,767
State income taxes, net of federal benefit . . . . .	552	(734)	689
Change in valuation allowance . . . . .	(58)	(120)	(180)
Change in federal income tax rate and tax methods . . . . .	(3,977)	8,952	—
Net share-based compensation-tax benefit deficiencies . . . . .	178	228	—
Non-deductible expenses . . . . .	53	84	(3)
Foreign taxes . . . . .	355	346	372
Employment tax credits . . . . .	(897)	(914)	(905)
Foreign tax credits/deductions . . . . .	(75)	(121)	(372)
Other . . . . .	44	(82)	(32)
	<u>\$ (2,772)</u>	<u>\$ (7,755)</u>	<u>\$8,336</u>

*Tax Law Changes.* On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”), which includes a provision that reduced the federal corporate income tax rate from 35.0% to 21.0% effective January 1, 2018, was signed into law. In accordance with generally accepted accounting principles, the enactment of this new tax legislation required the Company to revalue its net deferred income tax assets at the new corporate statutory rate of 21.0% as of the enactment date, which resulted in an adjustment to its deferred income taxes of \$9.0 million with a corresponding increase to the provision for income taxes as a discrete item during the fourth quarter of 2017. In 2018, in conjunction with a cost segregation study conducted prior to filing its 2017 federal income tax return, the Company changed the depreciation method for certain assets for federal income tax purposes to accelerate tax deductions. Changes in the Company’s 2017 federal income tax return from the amounts recorded as of December 31, 2017 were primarily the result of changing the depreciable lives of assets for federal income tax purposes. These changes allowed the Company to record an incremental benefit of \$4.0 million during the twelve months ended December 30, 2018.

On December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for the impact of the Act, that, in effect, allows entities to use a methodology similar to the measurement period in a business combination. At December 30, 2018, the Company had completed the accounting for all of the enactment-date income tax effects of the Act. The Company did not make any measurement period adjustments related to the Act in the twelve months ended December 30, 2018.

The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expense. As of December 30, 2018, and December 31, 2017, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions.

The Company has deferred tax benefits that it expects to realize in future years of \$1.0 million related to a 2018 federal net operating loss carryforward that has no expiration date and \$0.9 million related to employment tax credits that will expire in 2038.

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The Company also has a deferred tax benefit of \$0.2 million related to a Florida net operating loss carryforward that will expire in 2037.

The Company is not currently under examination by any taxing jurisdictions. The tax years 2015–2018 remain open to examination by the taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to uncertainties regarding the timing of any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

## **10. Stockholders' Equity**

### *Purchase of Treasury Stock*

On February 26, 2018, the Company announced that its board of directors approved a share repurchase program for up to 1,500,000 shares of the Company's common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by the Company's board of directors. The Company repurchased 112,358 shares of its common stock under the program in open market transactions during the twelve months ended December 30, 2018 for \$2.8 million. The repurchased shares are held as treasury stock at cost.

### *Stock-Based Compensation*

The Company established the Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan (the "Fiesta Plan") in order to be able to compensate its employees and directors by issuing stock options, stock appreciation rights, or stock awards to them under this plan. The aggregate number of shares of stock authorized for distribution under the Fiesta Plan is 3,300,000. As of December 30, 2018, there were 1,615,389 shares available for future grants under the Fiesta Plan.

During the years ended December 30, 2018, December 31, 2017 and January 1, 2017, the Company granted certain employees, and in 2018 a consultant, in the aggregate 161,791, 182,522 and 50,087 non-vested restricted shares, respectively, under the Fiesta Plan. Shares granted to employees during the years ended December 30, 2018, December 31, 2017 and January 1, 2017 vest and become non-forfeitable over a four-year vesting period. The shares granted to the consultant vest over a three-year vesting period. The weighted average fair value at the grant date for restricted non-vested shares issued during the years ended December 30, 2018, December 31, 2017 and January 1, 2017 was \$18.70, \$20.75 and \$35.25, respectively.

During the years ended December 30, 2018, December 31, 2017 and January 1, 2017, the Company granted non-employee directors 31,146, 38,596 and 14,081 non-vested restricted shares, respectively, under the Fiesta Plan. The weighted average fair value at the grant date for restricted non-vested shares issued to directors during the twelve months ended December 30, 2018, December 31, 2017 and January 1, 2017 was \$20.71, \$21.25 and \$33.39, respectively. These shares vest and become non-forfeitable over a one year vesting period, or for certain grants to new directors, over a five year vesting period.

During the years ended December 31, 2017 and January 1, 2017, the Company granted certain employees 11,745 and 5,762 restricted stock units, respectively, under the Fiesta Plan. Certain of the restricted stock units vest and become non-forfeitable over a four year vesting period and certain of the restricted stock units vest and become non-forfeitable at the end of a four year vesting period. The weighted average fair value at grant date for the restricted stock units issued to employees during the years ended December 31, 2017 and January 1, 2017 was \$20.75 and \$35.25.

Also during the years ended December 30, 2018 and December 31, 2017, the Company granted certain employees 112,169 and 92,171 restricted stock units, respectively, under the Fiesta Plan subject to continued service requirements and market performance conditions.

- During the year ended December 31, 2017, the Company granted its Chief Executive Officer 72,290 restricted stock units, which vest in four tranches over a four-year vesting period subject to continued service and

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attainment of specified share prices of the Company's common stock during 20 consecutive trading days at any point during each year. Each tranche vests by the end of a one-year period if the specified target stock price condition for that year is met. If the specified target stock price condition for any tranche is not met for the year, the cumulative unearned units will be rolled over to subsequent tranches on a pro rata basis. The number of shares into which these restricted stock units convert ranges from no shares, if the service and market performance conditions are not met, to 72,290 shares, if the service and market performance conditions are met in the fourth year. The weighted average fair value at grant date for these restricted stock units was \$12.90.

- During the years ended December 30, 2018 and December 31, 2017, the Company granted certain executives 112,169 and 19,881 restricted stock units, respectively, which vest in three tranches over a three-year vesting period subject to continued service and attainment of specified share price of the Company's common stock. Each tranche vests by the end of a one-year period if the specified target stock price condition for that year is met. If the specified target stock price condition for any tranche is not met for the year, the cumulative unearned units will be rolled over to subsequent tranches on a pro rata basis. The number of shares into which these restricted stock units convert ranges from no shares, if the service and market performance conditions are not met, to 112,169 and 19,881 shares, if the service and market performance conditions are met in the third year. The weighted average fair value at grant date for the restricted stock units granted to executives in the years ended December 30, 2018 and December 31, 2017 was \$6.96 and \$9.31 per share, respectively.

During the year ended January 1, 2017, the Company granted 33,691 non-vested restricted shares and 33,691 restricted stock units, 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 financial 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 based on the attainment of certain financial performance conditions and for the restricted stock units granted during the year ended January 1, 2017, ranges from no shares, if the minimum financial performance condition is not met, to 67,382 shares, if the maximum financial performance condition is met. The weighted average fair value at grant date for both restricted non-vested shares and restricted stock units subject to financial performance conditions granted during the year ended January 1, 2017 was \$35.25.

Stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable requisite service period of the award (the vesting period) using the straight-line method, or for restricted stock units subject to market performance conditions using the accelerated method. Stock-based compensation expense for the years ended December 30, 2018, December 31, 2017 and January 1, 2017 was \$3.5 million, \$3.5 million and \$3.3 million, respectively. As of December 30, 2018, the total unrecognized stock-based compensation expense related to non-vested shares and restricted stock units was approximately \$4.9 million. At December 30, 2018, the remaining weighted average vesting period for non-vested restricted shares was 2.4 years and restricted stock units was 1.1 years.

A summary of all non-vested restricted shares and restricted stock units activity for the year ended December 30, 2018 is as follows:

	<u>Non-Vested Shares</u>		<u>Restricted Stock Units</u>	
	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
<b>Outstanding at December 31, 2017</b> . . . . .	239,500	\$24.81	143,946	\$23.11
Granted. . . . .	192,937	19.02	112,169	6.96
Vested/Released . . . . .	(113,548)	25.15	(10,385)	45.82
Forfeited. . . . .	<u>(31,023)</u>	22.08	<u>(14,618)</u>	51.86
<b>Outstanding at December 30, 2018</b> . . . . .	<u>287,866</u>	\$20.70	<u>231,112</u>	\$12.44

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The fair value of the non-vested restricted shares and all other restricted stock units is based on the closing price on the date of grant. The fair value of the restricted stock units subject to market conditions was estimated using the Monte Carlo simulation method. The assumptions used to value grant restricted stock units subject to market conditions are detailed below:

	<u>2018</u>	<u>2017</u>	
	<u>Non-CEO Grant</u>	<u>Non-CEO Grant</u>	<u>CEO Grant</u>
Grant date stock price.....	\$18.70	\$17.60	\$22.55
Fair value at grant date.....	\$ 6.96	\$ 9.31	\$12.90
Risk free interest rate.....	2.40%	1.51%	1.52%
Expected term (in years).....	3	2.5	3.8
Dividend yield.....	—%	—%	—%
Expected volatility.....	41.49%	41.72%	39.06%

The fair value of the shares vested and released during the years ended December 30, 2018, December 31, 2017 and January 1, 2017 was \$2.5 million, \$2.1 million and \$5.2 million, respectively.

### **11. Business Segment Information**

The Company owns, operates and franchises two restaurant brands, Pollo Tropical<sup>®</sup> and Taco Cabana<sup>®</sup>, each of which is an operating segment. Pollo Tropical restaurants feature fire-grilled and crispy citrus marinated chicken and other freshly prepared tropical inspired menu items, while Taco Cabana restaurants specialize in Mexican inspired food made fresh by hand.

Each segment's accounting policies are the same as those described in the summary of significant accounting policies in Note 1. Prior to the second quarter of 2017, the primary measures of segment profit or loss used to assess performance and allocate resources were income (loss) before taxes and an Adjusted EBITDA measure, which was 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.

In 2017, the Company's board of directors appointed a new Chief Executive Officer who initiated the Plan and uses an Adjusted EBITDA measure for the purpose of assessing performance and allocating resources to segments. The new 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 the Company's 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 the Company's restaurants as set forth in the reconciliation table below. The Company has included the presentation of Adjusted EBITDA for all periods presented.

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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 previously proposed and terminated separation transaction.

<u>Year Ended</u>	<u>Pollo Tropical</u>	<u>Taco Cabana</u>	<u>Other</u>	<u>Consolidated</u>
<b>December 30, 2018:</b>				
Restaurant sales . . . . .	\$374,381	\$311,544	\$ —	\$685,925
Franchise revenue . . . . .	1,815	857	—	2,672
Cost of sales . . . . .	123,042	95,904	—	218,946
Restaurant wages and related expenses <sup>(1)</sup> . . . . .	87,025	101,106	—	188,131
Restaurant rent expense . . . . .	17,457	18,577	—	36,034
Other restaurant operating expenses . . . . .	51,757	49,071	—	100,828
Advertising expense . . . . .	13,068	10,627	—	23,695
General and administrative expense <sup>(2)</sup> . . . . .	29,621	24,904	—	54,525
Adjusted EBITDA . . . . .	54,903	13,059	—	67,962
Depreciation and amortization . . . . .	21,372	16,232	—	37,604
Capital expenditures . . . . .	27,667	28,886	1,297	57,850
<b>December 31, 2017:</b>				
Restaurant sales . . . . .	\$372,328	\$294,256	\$ —	\$666,584
Franchise revenue . . . . .	1,787	761	—	2,548
Cost of sales . . . . .	117,493	85,395	—	202,888
Restaurant wages and related expenses <sup>(1)</sup> . . . . .	88,587	96,155	—	184,742
Restaurant rent expense . . . . .	18,949	17,987	—	36,936
Other restaurant operating expenses . . . . .	52,848	46,079	—	98,927
Advertising expense . . . . .	16,397	9,694	—	26,091
General and administrative expense <sup>(2)</sup> . . . . .	33,025	26,608	—	59,633
Adjusted EBITDA . . . . .	50,937	16,508	—	67,445
Depreciation and amortization . . . . .	21,758	13,199	—	34,957
Capital expenditures . . . . .	31,786	20,781	3,299	55,866
<b>January 1, 2017:</b>				
Restaurant sales . . . . .	\$399,736	\$309,220	\$ —	\$708,956
Franchise revenue . . . . .	2,062	752	—	2,814
Cost of sales . . . . .	126,539	88,070	—	214,609
Restaurant wages and related expenses <sup>(1)</sup> . . . . .	93,958	91,347	—	185,305
Restaurant rent expense . . . . .	19,998	17,495	—	37,493
Other restaurant operating expenses . . . . .	54,198	42,259	—	96,457
Advertising expense . . . . .	14,819	11,981	—	26,800
General and administrative expense <sup>(2)</sup> . . . . .	32,638	21,366	822	54,826
Adjusted EBITDA . . . . .	58,286	38,281	—	96,567
Depreciation and amortization . . . . .	23,587	13,189	—	36,776
Capital expenditures . . . . .	65,789	13,206	3,370	82,365
<b>Identifiable Assets:</b>				
December 30, 2018 . . . . .	\$207,435	\$174,681	\$36,543	\$418,659
December 31, 2017 . . . . .	227,194	167,237	28,882	423,313
January 1, 2017 . . . . .	263,868	165,195	12,502	441,565

(1) Includes stock-based compensation expense of \$90, \$52 and \$142 for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, respectively.

(2) Includes stock-based compensation expense of \$3,379, \$3,493 and \$3,141 for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, respectively.

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A reconciliation of consolidated net income (loss) to Adjusted EBITDA follows:

<u>Year Ended</u>	<u>Pollo Tropical</u>	<u>Taco Cabana</u>	<u>Other</u>	<u>Consolidated</u>
<b>December 30, 2018:</b>				
Net income . . . . .				\$ 7,787
Benefit from income taxes . . . . .				(2,772)
Income (loss) before taxes . . . . .	\$ 17,639	\$(12,624)	\$—	\$ 5,015
Add:				
Non-general and administrative expense adjustments:				
Depreciation and amortization . . . . .	21,372	16,232	—	37,604
Impairment and other lease charges . . . . .	13,587	7,557	—	21,144
Interest expense . . . . .	1,920	2,046	—	3,966
Other expense (income), net . . . . .	(1,225)	(1,782)	—	(3,007)
Stock-based compensation expense in restaurant wages . . . . .	34	56	—	90
Total non-general and administrative expense adjustments . . . . .	35,688	24,109	—	59,797
General and administrative expense adjustments:				
Stock-based compensation expense . . . . .	1,885	1,494	—	3,379
Board and shareholder matter costs . . . . .	(328)	(269)	—	(597)
Strategic Renewal Plan restructuring costs and retention bonuses . . . . .	196	349	—	545
Legal settlements and related costs . . . . .	(177)	—	—	(177)
Total general and administrative expense adjustments . . . . .	1,576	1,574	—	3,150
Adjusted EBITDA . . . . .	<u>\$ 54,903</u>	<u>\$ 13,059</u>	<u>\$—</u>	<u>\$ 67,962</u>
<b>December 31, 2017:</b>				
Net loss . . . . .				\$(36,232)
Benefit from income taxes . . . . .				(7,755)
Loss before taxes . . . . .	\$(37,831)	\$ (6,156)	\$—	\$(43,987)
Add:				
Non-general and administrative expense adjustments:				
Depreciation and amortization . . . . .	21,758	13,199	—	34,957
Impairment and other lease charges . . . . .	57,947	3,813	—	61,760
Interest expense . . . . .	1,348	1,529	—	2,877
Other expense (income), net . . . . .	2,427	(237)	—	2,190
Stock-based compensation expense in restaurant wages . . . . .	(4)	56	—	52
Unused pre-production costs in advertising expense . . . . .	322	88	—	410
Total non-general and administrative expense adjustments . . . . .	83,798	18,448	—	102,246
General and administrative expense adjustments:				
Stock-based compensation expense . . . . .	1,983	1,510	—	3,493
Terminated capital project . . . . .	484	365	—	849
Board and shareholder matter costs . . . . .	1,738	1,311	—	3,049
Strategic Renewal Plan restructuring costs and retention bonuses . . . . .	1,390	1,030	—	2,420
Office restructuring and relocation costs . . . . .	(152)	—	—	(152)
Legal settlements and related costs . . . . .	(473)	—	—	(473)
Total general and administrative expense adjustments . . . . .	4,970	4,216	—	9,186
Adjusted EBITDA . . . . .	<u>\$ 50,937</u>	<u>\$ 16,508</u>	<u>\$—</u>	<u>\$ 67,445</u>



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<u>Year Ended</u>	<u>Pollo Tropical</u>	<u>Taco Cabana</u>	<u>Other</u>	<u>Consolidated</u>
<b>January 1, 2017:</b>				
Net income .....				\$16,712
Provision for income taxes .....				8,336
Income (loss) before taxes .....	\$ 4,639	\$21,231	\$(822)	\$25,048
Add:				
Non-general and administrative expense adjustments:				
Depreciation and amortization .....	23,587	13,189	—	36,776
Impairment and other lease charges .....	24,419	1,225	—	25,644
Interest expense .....	930	1,241	—	2,171
Other expense (income), net .....	1,236	(106)	—	1,130
Stock-based compensation expense in restaurant wages .....	69	73	—	142
Total non-general and administrative expense adjustments .....	50,241	15,622	—	65,863
General and administrative expense adjustments:				
Stock-based compensation expense .....	1,793	1,348	—	3,141
Board and shareholder matter costs .....	432	326	822	1,580
Strategic Renewal Plan restructuring costs and retention bonuses .....	45	41	—	86
Office restructuring and relocation costs .....	539	—	—	539
Legal settlements and related costs .....	597	(287)	—	310
Total general and administrative expense adjustments .....	3,406	1,428	822	5,656
Adjusted EBITDA .....	<u>\$58,286</u>	<u>\$38,281</u>	<u>\$ —</u>	<u>\$96,567</u>

## 12. Earnings (Loss) Per Share

Basic earnings (loss) per share (“EPS”) is computed by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding during each period. 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 EPS pursuant to the two-class method. The two-class method of computing EPS 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. EPS is 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 EPS reflects the potential dilution that could occur if the restricted stock units were to be converted into common shares. Restricted stock units with performance conditions are only included in the diluted EPS calculation to the extent that performance conditions have been met at the measurement date. Diluted EPS is computed 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 560 and 9,379 shares were not included in the computation of diluted earnings per share for the twelve months ended December 30, 2018 and January 1, 2017, respectively, because including them would have been antidilutive. For the twelve months ended December 31, 2017, all restricted stock units outstanding were excluded from the computation of diluted earnings per share because including them would have been antidilutive as a result of the net loss in the period.

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The computation of basic and diluted EPS is as follows:

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
<b>Basic and diluted EPS:</b>			
Net income (loss) . . . . .	\$ 7,787	\$ (36,232)	\$ 16,712
Less: income allocated to participating securities . . . . .	85	—	135
Net income (loss) available to common stockholders . . . . .	<u>\$ 7,702</u>	<u>\$ (36,232)</u>	<u>\$ 16,577</u>
Weighted average common shares—basic . . . . .	26,890,577	26,821,471	26,682,227
Restricted stock units . . . . .	3,506	—	6,952
Weighted average common shares—diluted . . . . .	<u>26,894,083</u>	<u>26,821,471</u>	<u>26,689,179</u>
<b>Earnings (loss) per common share—basic . . . . .</b>	<u>\$ 0.29</u>	<u>\$ (1.35)</u>	<u>\$ 0.62</u>
<b>Earnings (loss) per common share—diluted . . . . .</b>	<u>\$ 0.29</u>	<u>\$ (1.35)</u>	<u>\$ 0.62</u>

**13. Commitments and Contingencies**

*Lease Assignments.* Taco Cabana has assigned three leases to various parties on properties where it no longer operates restaurants with lease terms expiring on various dates through 2029. The assignees are responsible for making the payments required by the leases. The Company is a guarantor under one of the leases, and it remains secondarily liable as a surety with respect to two of the leases. Pollo Tropical assigned one lease to a third party on a property where it no longer operates with a lease term expiring in 2033. The assignee is responsible for making the payments required by the lease. The Company is a guarantor under the lease.

The maximum potential liability for future rental payments that the Company could be required to make under these leases at December 30, 2018 was \$3.6 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 will 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.

On November 24, 2015, Pollo Tropical received a legal demand letter alleging that assistant managers were misclassified as exempt from overtime wages under the Fair Labor Standards Act. On September 30, 2016, prior to any suit being filed, Pollo Tropical reached a settlement with seven named individuals and a proposed collective action class that allowed current and former assistant managers to receive notice and opt-in to the settlement. Pollo Tropical denies any liability or unlawful conduct. The settlement was approved by a Florida state judge on December 27, 2017 which resulted in dismissal with prejudice for the named individuals and all individuals that opted-in to the settlement. The Company reserved \$0.8 million in 2016 to cover the estimated costs related to the settlement. During the second quarter of 2018, the Company paid all settlement claims costs and recognized a reduction in legal settlement costs of \$0.2 million.

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.

**FIESTA RESTAURANT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(Continued)**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(Dollars in thousands, except per share data)

*Contingency Related to Insurance Recoveries.* During the third quarter of 2017, Texas and Florida were struck by Hurricane Harvey and Irma (the “Hurricanes”). Forty-three Taco Cabana and two Pollo Tropical restaurants in the Houston metropolitan area and all Pollo Tropical restaurants in Florida and the Atlanta metropolitan area were temporarily closed and affected by the Hurricanes to varying degrees (e.g. property preparation and damages, inventory losses, payments of hourly employees while restaurants were closed and lost business related to temporary closures). In 2017, the Company recorded expected insurance proceeds of \$0.7 million and \$0.4 million for Pollo Tropical and Taco Cabana, respectively. In the twelve months ended December 30, 2018, the Company received business interruption and property damage insurance settlement proceeds of \$2.8 million and \$1.7 million, respectively, and recognized other income of \$2.1 million and \$1.4 million for Pollo Tropical and Taco Cabana, respectively, related to the Hurricanes. The Company has received a final settlement related to the Hurricanes as of December 30, 2018.

#### **14. Retirement Plans**

Fiesta offers the Company’s salaried employees the option to participate in the Fiesta Corporation Retirement Savings Plan (the “Retirement Plan”). The Retirement Plan includes a savings option pursuant to section 401(k) of the Internal Revenue Code in addition to a post-tax savings option. Fiesta may elect to contribute to the Retirement Plan on an annual basis. Contributions made by Fiesta to the Retirement Plan for the Company’s employees are made after the end of each plan year. For 2018, 2017 and 2016, Fiesta’s discretionary annual contribution is equal to 50% of the employee’s contribution up to the first 6% of eligible compensation for a maximum Fiesta contribution of 3% of eligible compensation per participating employee. Under the Retirement Plan, Fiesta contributions begin to vest after 1 year and fully vest after 5 years of service. A year of service is defined as a plan year during which an employee completes at least 1,000 hours of service. Participating employees may contribute up to 50% of their salary annually to either of the savings options, subject to other limitations. The employees have various investment options available under a trust established by the Retirement Plan. Retirement Plan employer matching expense for the years ended December 30, 2018, December 31, 2017 and January 1, 2017 was \$0.5 million, \$0.4 million and \$0.3 million respectively.

Fiesta also has a Deferred Compensation Plan which permits employees not eligible to participate in the Retirement Plan because they have been excluded as “highly compensated” employees (as so defined in the Retirement Plan) to voluntarily defer portions of their base salary and annual bonus. All amounts deferred by the participants earn interest at 8% per annum. There is no Company matching on any portion of the funds. At December 30, 2018 and December 31, 2017, a total of \$0.9 million and \$1.0 million, respectively, was deferred by the Company’s employees under the Deferred Compensation Plan, including accrued interest.

**FIESTA RESTAURANT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(Continued)**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(Dollars in thousands, except per share data)

**15. Selected Quarterly Financial and Earnings Data (Unaudited)**

	<b>Year Ended December 30, 2018</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenue . . . . .	\$169,484	\$176,827	\$174,648	\$167,638
Income (loss) from operations <sup>(1)</sup> . . . . .	6,878	13,500	(1,921)	(9,476)
Net income (loss) . . . . .	4,184	9,493	2,047	(7,937)
Earnings (loss) per common share—basic . . . . .	\$ 0.15	\$ 0.35	\$ 0.08	\$ (0.30)
Earnings (loss) per common share—diluted . . . . .	0.15	0.35	0.08	(0.30)

	<b>Year Ended December 31, 2017</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenue . . . . .	\$175,607	\$172,624	\$158,691	\$162,210
Loss from operations <sup>(1)</sup> . . . . .	(23,118)	(2,278)	(12,412)	(3,302)
Net loss <sup>(2)</sup> . . . . .	(15,060)	(2,160)	(8,257)	(10,755)
Loss per common share—basic . . . . .	\$ (0.56)	\$ (0.08)	\$ (0.31)	\$ (0.40)
Loss per common share—diluted . . . . .	(0.56)	(0.08)	(0.31)	(0.40)

(1) The Company recognized impairment and other lease charges of \$(0.7) million, \$0.8 million, \$6.4 million and \$14.6 million in the first, second, third and fourth quarters of 2018, respectively, and \$32.4 million, \$10.8 million, \$15.9 million and \$2.7 million in the first, second, third and fourth quarters of 2017, respectively. See Note 5—Impairment of Long-lived Assets and Other Lease Charges.

(2) On December 22, 2017, the Act, which includes a provision to reduce the federal corporate income tax rate from 35.0% to 21.0% effective January 1, 2018, was signed into law. In accordance with generally accepted accounting principles, the enactment of this new tax legislation required the Company to revalue its net deferred income tax assets at the new corporate statutory rate of 21.0% as of the enactment date, which resulted in a one-time adjustment to its deferred income taxes of \$9.0 million with a corresponding increase to the provision for income taxes as a discrete item during the fourth quarter of 2017. In 2018, in conjunction with a cost segregation study conducted prior to filing its 2017 federal income tax return, the Company changed the depreciation method for certain assets for federal income tax purposes to accelerate tax deductions. Changes in the Company's 2017 federal income tax return from the amounts recorded as of December 31, 2017 were primarily the result of changing the depreciable lives of assets for federal income tax purposes. These changes allowed the Company to record an incremental benefit of \$3.9 million during the third quarter of 2018. For fiscal years after 2017, the Company's federal statutory tax rate will be 21%. See Note 9 for further information regarding income taxes.

**FIESTA RESTAURANT GROUP, INC.**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**YEARS ENDED DECEMBER 30, 2018, DECEMBER 31, 2017 AND JANUARY 1, 2017**  
(In thousands of dollars)

<u>Description</u>	<u>Column B</u> Balance at beginning of period	<u>Column C</u> Charged to costs and expenses		<u>Column D</u> Deduction	<u>Column E</u> Balance at end of period
Year ended December 30, 2018:					
Deferred income tax valuation allowance. . . . .	\$ 736	\$ (58)	\$—	\$—	\$678
Year ended December 31, 2017:					
Deferred income tax valuation allowance. . . . .	856	(120)	—	—	736
Year ended January 1, 2017:					
Deferred income tax valuation allowance. . . . .	1,036	(180)	—	—	856

## SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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 on the 25<sup>th</sup> day of February 2019.

### FIESTA RESTAURANT GROUP, INC.

Date: February 25, 2019

/S/ RICHARD C. STOCKINGER

(Signature)

**Richard C. Stockinger**  
**Chief Executive Officer**

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ STACEY RAUCH</u> <b>Stacey Rauch</b>	Director and Chairman of the Board of Directors	February 25, 2019
<u>/s/ RICHARD C. STOCKINGER</u> <b>Richard C. Stockinger</b>	Chief Executive Officer, President and Director	February 25, 2019
<u>/s/ CHERI L. KINDER</u> <b>Cheri L. Kinder</b>	Interim Chief Financial Officer and Treasurer, Vice President, Corporate Controller and Chief Accounting Officer	February 25, 2019
<u>/s/ BARRY J. ALPERIN</u> <b>Barry J. Alperin</b>	Director	February 25, 2019
<u>/s/ NICHOLAS DARAVIRAS</u> <b>Nicholas Daraviras</b>	Director	February 25, 2019
<u>/s/ STEPHEN P. ELKER</u> <b>Stephen P. Elker</b>	Director	February 25, 2019
<u>/s/ BRIAN P. FRIEDMAN</u> <b>Brian P. Friedman</b>	Director	February 25, 2019
<u>/s/ NICHOLAS P. SHEPHERD</u> <b>Nicholas P. Shepherd</b>	Director	February 25, 2019
<u>/s/ PAUL E. TWOHIG</u> <b>Paul E. Twohig</b>	Director	February 25, 2019
<u>/s/ SHERRILL KAPLAN</u> <b>Sherrill Kaplan</b>	Director	February 25, 2019

## **STOCKHOLDER INFORMATION**

Fiesta Restaurant Group, Inc.'s common stock is traded on the NASDAQ Global Select Market under the symbol "FRGI".

### **STOCK TRANSFER AGENT**

American Stock Transfer & Trust Company, LLC  
6201 15<sup>th</sup> Ave  
Brooklyn, NY 11219

### **FORM 10-K REPORT**

The Company's 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission is fully reproduced in this annual report. You may obtain additional copies of this report by writing to Investor Relations, Fiesta Restaurant Group, Inc., 14800 Landmark Boulevard, Suite 500, Dallas, Texas 75254.

Certain statements contained herein and in our public disclosures, whether written, oral or otherwise made, relating to future events or future performance, including any discussion, express or implied regarding our anticipated growth, plans, objectives and the impact of our investments in our renewal plan 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. These statements are often identified by the words "may," "might," "believes," "thinks," "anticipates," "plans," "positioned," "target," "continue," "expects," "intends" 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 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 discussed from time to time in our reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended December 30, 2018 and our quarterly reports on Form 10-Q. All forward-looking statements and the internal projections and beliefs upon which we base our expectations included herein are made only as of the date of hereof and may change. 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.

## **DIRECTORS**

Stacey Rauch, Chairman  
Barry J. Alperin  
Nicholas Daraviras  
Stephen P. Elker  
Brian P. Friedman  
Nicholas P. Shepherd  
Richard C. Stockinger  
Paul E. Twohig  
Sherrill Kaplan

## **EXECUTIVE OFFICERS**

Richard C. Stockinger  
Chief Executive Officer and President  
  
Cheri Kinder  
Interim Chief Financial Officer and Treasurer, Vice President, Corporate Controller and Chief Accounting Officer  
  
Danny K. Meisenheimer  
Senior Vice President, Chief Operating Officer and President of Pollo Tropical  
  
Louis DiPietro  
Senior Vice President, General Counsel and Secretary  
  
Anthony Dinkins  
Senior Vice President of Human Resources  
  
Charles Locke  
President of Taco Cabana

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP  
Dallas, Texas

## **OUTSIDE GENERAL COUNSEL**

Akerman LLP  
New York, New York

