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Fiesta Restaurant Group, Inc.

Form 10-K

February 27, 2017

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xbrli:shares xbrli:pure frgi:restaurant xbrli:shares frgi:plaintiff frgi:hour

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

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

For the fiscal year ended January 1, 2017

OR

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

Commission File Number: 001-35373

FIESTA RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

14800 Landmark Boulevard, Suite 500 **75254**

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange

Act. Yes No

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if smaller reporting

company)

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

As of February 23, 2017, Fiesta Restaurant Group, Inc. had 26,884,992 shares of its common stock, \$.01 par value, outstanding. The aggregate market value of the common stock held by non-affiliates as of July 3, 2016 of Fiesta Restaurant Group, Inc. was \$582,150,821.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for Fiesta Restaurant Group, Inc.'s 2017 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 January 1, 2017 are incorporated by reference into Part III of this annual report.

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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.

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”). Prior to May 7, 2012, we were indirectly owned by Carrols Restaurant Group, Inc. (“Carrols”). On that date, Carrols completed a spin-off of Fiesta, and Fiesta became an independent public company, through the distribution of all of the outstanding shares of Fiesta’s common stock to the stockholders of Carrols. 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 30, 2012, December 29, 2013, December 28, 2014 and January 1, 2017 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.

In this Annual Report on Form 10-K, we refer to information, forecasts and statistics regarding the restaurant industry. Unless otherwise indicated, all restaurant industry data in this Annual Report on Form 10-K refers to the U.S. restaurant industry and is taken from or based upon the Technomic, Inc. (“Technomic”) report titled “2016 Technomic Top 500 Chain Restaurant Report.” The information, forecasts and statistics we have used from Technomic may reflect rounding adjustments.

Use of Non-GAAP Financial Measures

Adjusted EBITDA, Adjusted EBITDA margin, Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA margin are all non-GAAP financial measures. Adjusted EBITDA is defined as earnings before interest, loss on extinguishment of debt, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. 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 Pollo Tropical and Taco Cabana segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain accounting, legal, supply chain, human resources, development and other administrative functions. Adjusted EBITDA margin represents Adjusted EBITDA divided by total revenues. Restaurant-Level Adjusted EBITDA represents Adjusted EBITDA excluding franchise royalty revenues and fees and general and administrative expenses (including corporate-level general and administrative expenses). Restaurant-Level Adjusted EBITDA margin represents Restaurant-Level Adjusted EBITDA divided 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 Restaurant-Level Adjusted EBITDA and Adjusted EBITDA to net income (i) provide useful information about our operating performance and period-over-period growth, (ii) provide additional information that is useful for evaluating the operating performance of our business and (iii) permit investors to gain an understanding of the factors and trends affecting our ongoing earnings, from which capital investments are made and debt is serviced. However, such measures are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income or cash flow from operating activities as indicators of operating performance or liquidity. Also these measures may not be comparable to similarly titled captions of other companies.

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

- such financial information does not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;

-

such financial information does not reflect interest expense or the cash used to repay outstanding borrowings under our senior credit facility;
although depreciation and amortization are non-cash charges, the assets that we currently depreciate and amortize will likely have to be replaced in the future, and such financial information does not reflect the cash required to fund such replacements; and
such financial information does not reflect the effect of earnings or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges (such as impairment and other lease charges, other income and expense and stock-based compensation expense) have recurred and may recur.

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

Forward-Looking Statements

This 2016 Annual Report on Form 10-K contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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

- Increases in food and other commodity costs;
- Risks associated with the expansion of our business, including increasing construction costs;
- Risks associated with food borne illness or other food safety issues, including negative publicity through traditional and social media;
- Our ability to manage our growth and successfully implement our business strategy;
 - Labor and employment benefit costs, including the impact of increases in federal and state minimum wages, increases in exempt status salary levels and healthcare costs imposed by the Affordable Care Act;
- Cyber security breaches;
- General economic conditions, particularly in the retail sector;
- Competitive conditions;
- Weather conditions;
- Significant disruptions in service or supply by any of our suppliers or distributors;
- Increases in employee injury and general liability claims;
- Changes in consumer perception of dietary health and food safety;
- Regulatory factors;
- Fuel prices;
- The outcome of pending or future legal claims or proceedings;
- Environmental conditions and regulations;
- Our borrowing costs;
- The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties;
- The risk of an act of terrorism or escalation of any insurrection or armed conflict involving the United States or any other national or international calamity;
- Factors that affect the restaurant industry generally, including product recalls, liability if our products cause injury, ingredient disclosure and labeling laws and regulations; and
- Other factors discussed under Item 1A—"Risk Factors" and elsewhere herein.

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ITEM 1. BUSINESS

Overview

Our Company

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical® and Taco Cabana®, which have almost 30 and 40 years, respectively, of operating history and loyal customer bases. Our Pollo Tropical restaurants offer a wide variety of freshly prepared Caribbean inspired food, while our Taco Cabana restaurants offer a broad selection of freshly prepared Mexican inspired food. We believe that both brands are differentiated from other restaurant concepts and offer a unique dining experience. Our brands are positioned within the value-oriented fast-casual restaurant segment and nearly all of our restaurants offer the convenience of drive-thru windows. For the fiscal year ended January 1, 2017, the average annual sales per restaurant was approximately \$2.4 million for our company-owned Pollo Tropical restaurants and approximately \$1.9 million for our company-owned Taco Cabana restaurants, which we believe are among the highest in the fast-casual and quick-service segments based on industry data from Technomic. As of January 1, 2017, we owned and operated 177 Pollo Tropical restaurants in the southeast and south central United States, and 166 Taco Cabana restaurants primarily located in Texas, for a total of 343 restaurants across five states. We franchise our Pollo Tropical restaurants primarily in international markets, and as of January 1, 2017, we had 29 franchised Pollo Tropical restaurants outside the United States. In addition, as of January 1, 2017, we had five domestic non-traditional licensed locations on college campuses and one location in a hospital in Florida. As of January 1, 2017, we had five Taco Cabana franchised restaurants in New Mexico and two non-traditional Taco Cabana licensed domestic locations on college campuses in Texas. For the fiscal year ended January 1, 2017, we generated consolidated revenues of \$711.8 million, and comparable restaurant sales decreased 1.6% for Pollo Tropical and 2.5% for Taco Cabana.

On September 30, 2016, Timothy P. Taft, Chief Executive Officer, President and a member of the Company's Board of Directors, retired as the Company's Chief Executive Officer and President, and resigned as a member of the Company's Board of Directors. Danny Meisenheimer, Chief Operating Officer, Pollo Tropical, was appointed interim Chief Executive Officer and President effective September 30, 2016.

On February 27, 2017, the Company announced that Richard C. Stockinger has been appointed Chief Executive Officer and President of the Company, effective February 28, 2017. Also, the Company announced that Danny Meisenheimer, the Interim Chief Executive Officer and President of the Company and Chief Operating Officer, Pollo Tropical through February 27, 2017 was appointed Chief Operating Officer and Senior Vice President of the Company effective February 28, 2017.

In 2016, we decided to suspend additional development of Pollo Tropical restaurants outside of Florida and to review our development strategy while we continue to build brand awareness, affinity and off premise consumption through several initiatives. Based on a restaurant portfolio examination, we closed ten Pollo Tropical restaurants in the fourth quarter of 2016 including eight restaurants in Texas, one restaurant in Nashville, Tennessee and one restaurant in Atlanta, Georgia. We plan to convert up to three of the closed restaurants in Texas to Taco Cabana restaurants in 2017.

In 2016, we recognized impairment charges with respect to ten closed restaurants and seven additional Pollo Tropical restaurants and seven Taco Cabana restaurants that we continue to operate. Impairment and other lease charges for the twelve months ended January 1, 2017 were \$25.6 million and included impairment charges of \$22.7 million and lease and other charges related to closed restaurants of \$2.9 million. The ten closed restaurants contributed approximately \$5.3 million in operating losses to income from operations for the twelve months ended January 1, 2017.

The restaurant industry experienced a continued general slowdown in 2016, that further declined in the fourth quarter. We believe the challenging market and industry conditions and, in the case of Pollo Tropical, sales cannibalization from new restaurants on existing restaurants contributed to a decline in comparable restaurant transactions and sales in 2016.

In the latter part of 2016 we reevaluated the previously announced separation of Taco Cabana and decided not to move forward with the separation transaction, concluding that continued ownership of the Taco Cabana brand was in our stockholders' best interest.

Our Brands. Our restaurants operate in the fast-casual restaurant segment, combining the convenience and value of quick-service restaurants in an appealing atmosphere with the menu variety, use of fresh ingredients, food quality and decor more typical of casual dining restaurants with limited table service and competitive pricing.

Pollo Tropical. Our Pollo Tropical restaurants offer Caribbean inspired menu items, featuring our bone-in chicken marinated in a proprietary blend of tropical fruit juices and spices and grilled over an open flame. Our menu also includes a line of TropiChops® (a create your own casserole bowl of grilled chicken breast, roast pork or grilled vegetables, or in some markets beef, served over white, brown or yellow rice and red or black beans and vegetables), a variety of sandwiches, wraps and salads offered with an array of Caribbean style made-from-scratch side dishes, including black beans and rice, fried yuca and sweet plantains, as well as more traditional menu items such as waffle

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fries, Caesar salad and corn. We also offer a self-service "Saucing Island" which includes a wide selection of made-from-scratch salsas, sauces, jalapeños, cilantro, onions and other items which allows our guests to further customize their orders. Our restaurants offer Caribbean dessert favorites, such as guava cheesecake and tres leche cake. Our beverage offerings 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. We also offer catering for parties and corporate events.

Our Pollo Tropical restaurants feature dining areas 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. In some locations, delivery is available. Our Pollo Tropical restaurants are generally open for lunch, dinner and late night seven days a week. As of January 1, 2017, substantially all of our company-owned 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 January 1, 2017, the average sales transaction at our company-owned Pollo Tropical restaurants was \$10.94, with dinner representing the largest day-part at 52.9%. For the year ended January 1, 2017, our Pollo Tropical brand generated total revenues of \$401.8 million and Adjusted EBITDA of \$55.5 million, including pre-opening costs of \$4.8 million (which include costs incurred prior to opening a new 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).

Pollo Tropical opened its first restaurant in 1988 in Miami, Florida. As of January 1, 2017, we owned and operated a total of 177 Pollo Tropical restaurants, of which 128 were located in Florida, 30 were located in Texas, 16 were located in Georgia and three were located in Tennessee. In 2014, we introduced a new building design that we believe better differentiates our Pollo Tropical brand with a bolder, more Caribbean inspired look while continuing to utilize the elevated, limited table service and menu format that has been in place in certain locations outside of our core South Florida markets since 2009. We believe the new design will more effectively position the brand for a broader target audience and growth. In addition, in 2015 we began a reimagining program to conform select existing Pollo Tropical restaurants to the new building design. As of January 1, 2017, we had reimaged 30 Pollo Tropical restaurants located in the Orlando, Nashville, South Florida and Atlanta markets.

We are franchising our Pollo Tropical restaurants primarily internationally, and as of January 1, 2017, we had 29 franchised Pollo Tropical restaurants located in Puerto Rico, Panama, Trinidad & Tobago, Guatemala, the Bahamas, Venezuela, 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, including flame-grilled steak and chicken fajitas served on sizzling iron skillet, quesadillas, hand-rolled flautas, enchiladas, burritos, tacos, fresh-made flour tortillas, customizable salads served in our Cabana Bowl[®], and our popular breakfast tacos. We also offer a self-service salsa bar which includes a wide selection of made-from-scratch salsas, sauces, sliced jalapeños, chopped cilantro, chopped onions and other items which allow our guests to further customize their orders. Our beverage offerings include 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. Additionally, we provide our guests the option of take-out, including the ability to order on-line in advance, as well as the convenience of drive-thru windows and catering. In some locations, delivery is available. 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 January 1, 2017, substantially all of our company-owned

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 January 1, 2017, we owned and operated 166 Taco Cabana restaurants, of which 165 were located in Texas and one was located in Oklahoma. As of January 1, 2017, we also had five Taco Cabana franchised restaurants located in New Mexico and two non-traditional Taco Cabana licensed locations located on college campuses in Texas. A majority of our Taco Cabana restaurants are open 24 hours a day, generating guest traffic and restaurant sales balanced across multiple day-parts. For the year ended January 1, 2017, dinner sales represented the largest day-part at 24.9% and

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the average sales transaction at our company-owned Taco Cabana restaurants was \$9.27. For the year ended January 1, 2017, our Taco Cabana brand generated total revenues of \$310.0 million and Adjusted EBITDA of \$38.1 million, including pre-opening costs of \$0.7 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 in the Fast Growing Fast-Casual Segment. As of January 1, 2017, we owned, operated and franchised 385 fast-casual restaurants under our Pollo Tropical and Taco Cabana brands which have almost 30 and 40 years, respectively, of operating history. According to Technomic, the fast-casual segment had sales growth of 11.5% in 2015 over 2014 for fast-casual chains in the Technomic Top 500 restaurant chains as compared to 5.0% growth for the overall Top 500 restaurant chains. In addition, at \$2.4 million and \$1.9 million, respectively, we believe Pollo Tropical and Taco Cabana have compelling average annual sales per restaurant within the fast-casual segment.

However, average annual sales per restaurant for our Pollo Tropical restaurants will generally decrease as we open restaurants in newer markets, which have lower annual sales per restaurant than our mature markets. We believe our brands are well positioned to continue to benefit from the growing consumer demand for fast-casual restaurants because of our high quality, freshly-prepared food, value and differentiation of flavor profiles. In addition, we believe our brand elevation initiatives and reimagining programs have enhanced our Pollo Tropical and Taco Cabana restaurants in certain existing and new markets by providing our guests with an elevated fast-casual experience while better positioning 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 healthful 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 with regional taste profiles 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. Pollo Tropical's menu offers dishes inspired from various regions throughout the Caribbean, including our featured bone-in chicken marinated in a proprietary blend of tropical fruit juices and spices and grilled over an open flame. Taco Cabana's menu offers favorites such as sizzling fajitas served hot on an iron skillet and other Mexican inspired dishes. In order to provide variety to our guests and to address changes in consumer preferences, we frequently enhance our menu with seasonal offerings at our Pollo Tropical and Taco Cabana restaurants. We also selectively use promotions and limited time offers which are intended to reinforce our value proposition and to introduce new products. Additionally, our menus include a number of options to address consumers' increasing focus on healthful eating, and we offer our guests drive-thru service at the majority of our restaurants in order to provide a fast, convenience option including home meal replacement and family meals.

Compelling Business Model and Strong Financial Results. We enjoy significant brand recognition due to high market penetration of company-owned restaurants in our core markets which provides operating, marketing and distribution efficiencies, convenience for our guests, and the ability to effectively manage and enhance brand awareness. As a result of this brand recognition and the three factors discussed above, we believe that our brands have enjoyed strong financial results in our core markets, which reinforces our compelling business model in those markets. Both of our brands enjoy segment-leading average annual sales volumes, as noted above, with compelling Restaurant-Level Adjusted EBITDA margins.

Growth Strategies

Since 2012, we have focused our strategy on growing both of our brands, although Pollo Tropical has been our primary growth vehicle. In 2016, we opened 36 new company-owned restaurants comprised of 32 Pollo Tropical restaurants and four Taco Cabana restaurants, and we closed 10 underperforming company-owned Pollo Tropical restaurants. For 2017, our new restaurant development will be more balanced across both brands and for 2017 we are planning to open 12 new company-owned Pollo Tropical restaurants in Florida and ten new company-owned Taco Cabana restaurants in Texas. In 2016, we decided to suspend additional development of Pollo Tropical restaurants

outside of Florida while we continue to build brand awareness, affinity and off premise consumption through several initiatives. Based on a restaurant portfolio examination as part of our strategic review process to enhance long-term shareholder value, we closed ten Pollo Tropical restaurants in the fourth quarter of 2016 including eight restaurants in Texas, one restaurant in Nashville, Tennessee and one restaurant in Atlanta, Georgia. We plan to convert three of the closed restaurants in Texas to Taco Cabana restaurants in 2017.

Our strategies for growth primarily include:

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 existing markets and into other regions of the United States that match our targeted demographic and site selection criteria. However, taking into account challenging

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market conditions and because company-owned restaurants in new markets that have not yet reached media efficiency have typically opened at lower sales volumes than restaurants opened in existing, media-efficient markets and have not achieved expected sales volumes at the pace we anticipated, we have suspended near-term new restaurant development of Pollo Tropical restaurants outside of Florida while we focus on implementing operational and transactional growth plans and drive improved performance in these markets.

In 2014, Pollo Tropical developed a new format that includes a new exterior design and a more upscale décor that we believe better differentiates our brand with a more Caribbean inspired look, while continuing to utilize the elevated, limited table service platform and format that has been in place in certain locations since 2009.

In 2016, we developed a new small Taco Cabana format with approximately 2,500 square feet intended for new smaller markets and existing markets in Texas. The new format offers the same menu and has the same look and feel as existing Taco Cabana restaurants, but has a smaller dining room and patio. The first two small format Taco Cabana restaurants are scheduled to open in 2017.

We target opening freestanding company-owned restaurants in order to provide drive-thru service which is an important convenience and sales component for our brands. We believe that the location of our restaurants is a critical component of each restaurant's success. We evaluate potential new sites on many critical 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 analyses prepared by our real estate, financial and operations professionals as well as a third party vendor that employs proprietary location research technology and performs site evaluations on our behalf. 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. Infrequently, we acquire land for which we may consider seeking to include the land and building in a sale and leaseback arrangement as a form of financing in order to reinvest the proceeds in additional restaurants.

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) and land if acquired.

	Pollo Tropical	Taco Cabana
Interior costs and signage	\$0.6 million to \$0.9 million	\$0.5 million to \$0.6 million
Exterior costs	\$0.7 million to \$1.4 million	\$1.2 million to \$1.3 million
Land	\$0.9 million to \$1.4 million	N/A

The cost of securing real estate and building and equipping new restaurants can vary significantly and depends on a number of factors, including the local economic conditions, geographic considerations, size of the restaurant and the characteristics of a particular site. Accordingly, the cost of opening new restaurants in the future may differ substantially from the historical cost of restaurants previously opened. The new smaller format Taco Cabana and Pollo Tropical Express locations will likely have lower interior and exterior costs than our recent larger format locations.

Increase Comparable Restaurant Sales. We experienced a decline in comparable restaurant sales in 2016, which we believe was attributable to challenging market and industry conditions and, in the case of Pollo Tropical, sales cannibalization from new restaurants on existing restaurants. However, we experienced an increase in comparable restaurant sales at each brand in 2011 through 2015 and we intend to increase comparable restaurant sales by attracting new customers and increasing guest frequency through the following strategies:

Focus on consistency of operations and food quality: We believe the quality, consistency and accuracy of our operations result in an enjoyable guest experience, which drives guest frequency. We will continue to refine our menu offerings, supply chain and food preparation processes 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 fresh, high 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. Maintaining a strong product pipeline is critical to keeping our offerings compelling, and we intend to introduce innovative new items and enhancements to existing menu favorites throughout the year to drive

further guest traffic and maximize guest frequency. Also, the addition of portable menu items, such as wraps, sandwiches, bowls and salads, as well as home meal replacement and family meals will continue to be a key focus for both brands as we look to capture more meal occasions for people on the go.

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 chain-wide promotions, direct mail, outdoor

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marketing including billboards, in-restaurant promotions, local store marketing, social media marketing and web-based and other strategies, including the use of radio and television advertising and limited-time offer menu item promotions. The type, mix and volume of advertising spend is heavily influenced by the number of restaurants in each market, so that in new markets we achieve certain restaurant penetration levels prior to launching more expensive and broad-based radio and television advertising. We plan to continue to refine our advertising and media strategies to continue 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. We have experienced success emphasizing the attractive price points of our menu. We also provide guests with the opportunity to sign up for our respective eClubs to stay informed regarding product and promotional launches. In addition, we introduced a loyalty program at Pollo Tropical to further connect with our repeat guests, and we plan to pilot a loyalty program at Taco Cabana in 2017. As a percentage of Pollo Tropical restaurant sales, Pollo Tropical's advertising expenditures were 3.7% in 2016, 2.6% in 2015 and 2.5% in 2014. As a percentage of Taco Cabana restaurant sales, Taco Cabana's advertising expenditures were 3.9% in 2016, 3.8% in 2015 and 3.9% in 2014.

Grow our off premise sales: While both Pollo Tropical and Taco Cabana offer family meals and catering, we believe both brands have significant opportunities to grow their off premise sales. We redesigned the Pollo Tropical on-line catering order site in 2016 to improve the on-line catering order experience and expect to complete a redesign of the Taco Cabana on-line catering order site in 2017. In addition to launching a redesigned website with enhanced on-line ordering capabilities and a smart phone app, we are also offering delivery in certain markets and plan to increase our delivery capabilities in 2017.

Continue our brand elevation and reimage program: We believe that our elevated brand position continues to resonate with guests by enhancing the quality of the guest experience at our restaurants by aligning our image and service with our high quality food offerings. We continue to implement restaurant enhancement initiatives to elevate the dining experience at our Pollo Tropical and Taco Cabana restaurants in select markets. We believe these enhancements improve our brands' positioning in the fast-casual segment while appealing to a broader demographic. Our restaurant enhancements create an updated, contemporary look that we believe is more relevant to today's consumers and include changes to both the interior and exterior of our restaurants with the addition of new tables and chairs, upgraded salsa bars and the addition of photos and murals to create a more inviting feel and highlight our fresh ingredients. Our Pollo Tropical and Taco Cabana elevated formats also feature limited table service, Wi-Fi and new menu items, as well as hand-held menus and real plates and silverware in certain locations. Additionally, we plan to continue our restaurant reimagining efforts as we refresh and upgrade our entire system. As of January 1, 2017, we have reimaged 30 Pollo Tropical restaurants, and plan to continue to reimage additional Pollo Tropical restaurants, which we believe will further differentiate our Pollo Tropical brand with a more Caribbean inspired look, help us maintain a quality restaurant environment, and further drive incremental sales and profitability.

Improve Profitability and Optimize Our Infrastructure. We believe our Restaurant-Level Adjusted EBITDA margins, at 22.6% for Pollo Tropical and 18.8% for Taco Cabana, are competitive within the fast-casual segment. However, through new restaurant development, growing comparable restaurant sales and emerging market new Pollo Tropical restaurant sales, we believe we will grow our Restaurant-Level Adjusted EBITDA and related margins. We also 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 for our existing restaurants while concurrently growing our restaurant base. We continue to focus on maximizing cost efficiencies, including implementing profit enhancement initiatives focused on food and labor costs and leveraging our scale, as well as enhancing our supply chain expertise with the result of reduced costs and improved food quality, consistency and yield.

However, because our company-owned restaurants in new markets have lower sales than our company-owned restaurants in markets that have achieved media efficiency and require regional support structures in advance of new company-owned restaurant openings, our average annual sales per restaurant and Adjusted EBITDA margins, which include general and administrative costs, have been and could continue to be impacted by company-owned restaurants in newer markets. In 2017, we will implement a plan to improve sales and profitability in our new Pollo Tropical restaurants in new markets that includes retraining staff at all restaurants, operational investments in batch cooking,

ensuring that each restaurant is adequately staffed to provide a great guest experience, improving brand awareness through promotions and advertising and adding new menu offerings.

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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 restaurant chains, as well as locally owned restaurants, offering low and medium-priced fare. We also compete with convenience stores, delicatessens and prepared food counters in supermarkets, grocery stores, cafeterias and other purveyors of moderately priced and quickly prepared foods.

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 most important competitive factors in the fast-casual restaurant segment and that our two concepts effectively compete in that category. Pollo Tropical's competitors include national and regional chicken-based concepts, as well as other concepts. Taco Cabana's restaurants compete with Mexican concepts.

Restaurant Operating Data

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

	Year ended			
	January 1, January 3, December			
	2017	2016	28, 2014	
<i>Pollo Tropical:</i>				
Average annual sales per company-owned restaurant (in thousands) ⁽¹⁾	\$2,354	\$2,585	\$2,720	
Average sales transaction	\$10.94	\$10.76	\$10.26	
Drive-through sales as a percentage of total sales	46.3	%45.7	%45.3	%
Day-part sales percentages:				
Lunch	47.1	%46.8	%46.5	%
Dinner and late night	52.9	%53.2	%53.5	%
<i>Taco Cabana:</i>				
Average annual sales per company-owned restaurant (in thousands) ⁽¹⁾	\$1,894	\$1,920	\$1,831	
Average sales transaction	\$9.27	\$9.16	\$8.75	
Drive-through sales as a percentage of total sales	55.7	%54.7	%53.9	%
Day-part sales percentages:				
Breakfast	22.3	%20.8	%19.8	%
Lunch	22.0	%22.4	%22.5	%
Dinner	24.9	%25.4	%25.8	%
Late night (9pm to midnight)	11.8	%12.1	%12.4	%
Afternoon (2pm to 5pm)	12.6	%12.7	%12.5	%
Overnight (midnight to 6am)	6.4	%6.6	%7.0	%

⁽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.

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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.

Seasonality

Our business is marginally seasonal due to regional weather conditions, particularly in Florida and Texas. Average restaurant sales are typically higher during the first and second quarters and typically lower in the third and fourth quarters. 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 marketing and operations support functions from our Pollo Tropical division headquarters in Dallas, Texas and Miami, Florida, and our Taco Cabana division headquarters in San Antonio, Texas. The management structure for Pollo Tropical consists of our Chief Operating Officer, Danny Meisenheimer, who also serves as our Interim Chief Executive Officer and President and has over 25 years of experience in the restaurant industry, and two Vice Presidents of Operations supported by six Regional Directors, 25 District Managers and three Assistant District Managers. The management structure of Taco Cabana consists of our Interim Chief Operating Officer, Mark Phillips, who has over 37 years of restaurant industry experience, and who also serves as the Vice President of Operations and is supported by four Regional Directors, one Senior District Manager and 28 District Managers. The Taco Cabana Interim Chief Operating Officer reports to our Interim Chief Executive Officer and President, who 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. Regional directors, 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 corporate headquarters in Dallas, Texas. Our management team is led by Danny Meisenheimer, who serves as our Interim Chief Executive Officer and President. Lynn Schweinfurth serves as our Chief Financial Officer and Treasurer, Joseph A. Zirkman serves as our General Counsel and Secretary and Joseph W. Brink serves as our Chief Procurement Officer.

Training

We maintain a comprehensive training and development program for all of our restaurant personnel and provide both classroom and in-restaurant training for our salaried and hourly personnel. The program emphasizes system-wide operating procedures, food preparation methods and guest service standards for each of the concepts. The first six months of a new manager's time is spent in initial training with close oversight and a limited span of control. This period covers basic shift control, team member supervision, procedural and technical skills and management development. Eight weeks of this time is spent under direct supervision of a dedicated field training manager. The ensuing four months contain intense classroom training with an emphasis on skills building. The next phase is an intensive, self-paced ongoing development program designed to prepare the participant for the next level of management.

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 to assist us in ensuring consistent execution of the brand standards at openings. Menu authenticity and knowledge, passion for our food and a culture of caring are our strengths in our traditional markets. Our opening processes help to instill these in 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 company-owned 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

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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 to make 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.

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 long-term 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 26, 2019. For our restaurants in the Southeast, Kelly Food Service is our primary chicken distributor under an agreement that expires on December 31, 2017. We also currently rely on six suppliers for chicken for our Pollo Tropical restaurants under agreements that expire on December 31, 2017.

Quality Assurance

Pollo Tropical and Taco Cabana are committed to obtaining quality ingredients and creating made-from-scratch, 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 in proper food handling and preparation techniques. In addition, our quality assurance team conducts unscheduled inspections of our restaurants, and restaurant managers conduct internal inspections for taste, quality, cleanliness and food safety on a regular basis.

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 our own in-house guest service representatives that handle guest inquiries and feedback.

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

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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.

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. In addition, changes to the salary level used to determine exempt status that may become effective in 2017 could increase our labor costs. Also, certain provisions of the comprehensive federal health care reform law enacted in 2010 became effective in 2015. We believe that a combination of labor management, cost reduction initiatives, technology and menu price increases can materially offset the potential increased costs associated with these regulations for 2017.

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. During 2016 certain of our Pollo Tropical restaurants served alcoholic beverages; however, we discontinued the sale of alcoholic beverages at Pollo Tropical restaurants in early 2017.

Employees

As of January 1, 2017, we employed approximately 12,080 persons, of which approximately 250 were corporate and administrative personnel, including personnel for our information technology help desk which was outsourced prior to 2016, and approximately 11,830 were restaurant operations and other supervisory personnel. None of our employees are covered by collective bargaining agreements. We believe that overall relations with our employees are good.

Availability of Information

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

We make available through our internet website (www.frgi.com) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after electronically filing such material with the SEC. The reference to our website address is a textual reference only, meaning that it does not constitute incorporation by reference of the information contained on the website and should not be considered part of this document. In addition,

at our website you may also obtain, free of charge, copies of our corporate governance materials, including the charters for the committees of our Board of Directors and copies of various corporate policies including our Code of Business Ethics and Conduct, Code of Ethics for Executives and our "Whistle Blower" policy.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, as well as other information and data included in this Annual Report on Form 10-K. Any of the following risks, as well as additional risks and uncertainties not currently known to us, could materially adversely affect our business, consolidated financial condition or results of operations and could also adversely affect the trading price of our common stock.

Risks Related to Our Business

Intense competition in the restaurant industry could make it more difficult to grow our business and could also have a negative impact on our operating results if guests favor our competitors or we are forced to change our pricing and other marketing strategies.

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 convenience stores, delicatessens and prepared food counters in grocery stores, supermarkets, cafeterias and other purveyors of moderately priced and quickly prepared food.

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.

To remain competitive, we, as well as certain of the other major fast-casual chains, 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 fast-casual restaurant segment may adversely affect our results of operations, which may cause a decrease in earnings and revenues.

The fast-casual restaurant segment is 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;
- increased labor costs, including escalating wages due to competition for employees, unemployment insurance, minimum wage 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;
- the availability of hourly-paid employees and experienced restaurant managers; and
- regional weather conditions.

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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.

Our continued growth 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.

We cannot ensure that our growth and development plans can be achieved. 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.

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 markets, and there can be no assurance that we will be able to successfully grow our market presence beyond our more mature markets. 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.

We could be adversely affected by food-borne or local illnesses, as well as widespread negative publicity regarding food quality, illness, injury or other health concerns.

Negative publicity about food quality, illness, injury or other health concerns (including health implications of obesity) or similar issues stemming from one restaurant or a number of restaurants could materially adversely affect us, regardless of whether they pertain to our own restaurants, restaurants operated by our franchisees or to restaurants owned or operated by other companies. For example, outbreaks of e-coli, norovirus, salmonella, lysteria and other illnesses or health concerns about the consumption of beef or chicken or by specific events such as the outbreak of “mad cow” disease or “avian” flu could lead to changes in consumer preferences, reduce consumption of our products and adversely affect our financial performance. These events could also reduce

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the available supply of beef, chicken or other key commodities, such as eggs or produce, or significantly raise the price of these key commodities.

In addition, we cannot guarantee that our operational controls and employee training will be effective in preventing food-borne illnesses, food tampering and other food safety issues that may affect our restaurants. Food-borne or local illness or food tampering incidents could be caused by guests, employees, food suppliers or distributors and, therefore, could be outside of our control. Any publicity relating to health concerns or the perceived or specific outbreaks of food-borne illnesses, food tampering or other food safety issues attributed to one or more of our restaurants, could result in a significant decrease in guest traffic in all of our restaurants and could have a material adverse effect on our results of operations. In addition, similar publicity or occurrences with respect to other restaurants or restaurant chains could also decrease our guest traffic and have a similar material adverse effect on our business.

Changes in consumer tastes and purchasing habits could negatively impact our business.

We obtain a significant portion of our revenues from the sale of foods that are characterized as Caribbean and Mexican and if consumer preferences for these types of foods change, it could have a material adverse effect on our operating results. The fast-casual segment is characterized by the frequent introduction of new products, often accompanied by substantial promotional campaigns and are subject to changing consumer preferences, tastes, and eating and purchasing habits. Our success depends on our ability to anticipate and respond to changing consumer preferences, tastes and dining and purchasing habits, as well as other factors affecting the restaurant industry, including new market entrants and demographic changes. The fast-casual segment is characterized by the frequent introductions of new products, often accompanied by substantial promotional campaigns and is subject to changing consumer preferences and tastes and demographic changes. In addition, consumer dining and purchasing habits may shift due to competing alternatives and services including grab-and-go kiosks and home delivery of meals and groceries, and other factors affecting the restaurant industry. We may find it necessary to make changes to our menu items in order to respond to changes in consumer tastes or dining patterns, and we may lose guests who do not prefer the new menu items. In recent years, numerous companies in the fast-casual segment 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, low in calories and low in fat content. If we do not continually develop and successfully introduce new menu offerings that appeal to changing consumer preferences or if we do not timely capitalize on new products, our operating results could suffer. In addition, any significant event that adversely affects consumption of our products, such as cost, changing tastes or health concerns, could adversely affect our financial performance.

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. Our food distributors or suppliers also may be affected by higher costs to produce and transport commodities used in our restaurants, including higher minimum wage and benefit costs and other expenses that they pass through to their customers, which could result in higher costs for goods and services supplied to us. 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 of longer than one month. Currently, we have contracts of varying lengths with several of our distributors and suppliers, including our distributors and suppliers of poultry and beef. 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.

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 financial performance is dependent on our continuing ability to offer fresh, quality food at competitive prices. If a significant disruption in service or supply by 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 us.

We negotiate 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 long-term 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 26, 2019. For our restaurants in the Southeast, Kelly Food Service is our

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primary chicken distributor under an agreement that expires on December 31, 2017. We also currently rely on six suppliers for chicken for our Pollo Tropical restaurants under agreements that expire on December 31, 2017. If our distributors or suppliers were unable to service us, this could lead to a material disruption of service or supply until a new distributor or supplier is engaged, which could have a material adverse effect on our business.

If labor costs increase, we may not be able to make a corresponding increase in our prices and our operating results may be adversely affected.

Wage rates for a substantial number of our employees are above the federal and or state minimum wage rates. As federal and/or state minimum wage rates increase, we may need to increase not only the wage rates of our minimum wage employees but also the wages paid to other employees at wage rates which are above the minimum wage, which will increase our costs. To the extent that we are not able to raise our prices to compensate for increases in wage rates, including increases in state unemployment insurance costs, overtime costs or other costs including mandated health insurance, this could have a material adverse effect on our operating results. In addition, even if minimum wage rates do not increase, we may still be required to raise wage rates in order to compete for an adequate supply of labor for our restaurants.

Additionally, while we do not currently have any unionized employees, union organizers have engaged in efforts to organize employees of other restaurant companies. If a significant portion of our employees were to become union organized, our labor costs could increase. Potential changes in labor laws, including the possible passage of legislation designed to make it easier for employees to unionize, 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 efficiency and quality of our competitors' advertising and promotional programs and the extent and cost of our advertising could have a material adverse effect on our results of operations and financial condition.

If our competitors increase spending on advertising and promotions, or the cost of television or radio advertising increases, or our advertising and promotions are less effective than our competitors, there could be a material adverse effect on our results of operations and financial condition.

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 January 1, 2017, excluding our franchised locations, all but 19 of our Pollo Tropical restaurants were located in Florida and Texas and all but one of our Taco Cabana restaurants were located in Texas. Therefore, the economic conditions, state and local government regulations, weather conditions or other conditions affecting Florida and Texas, the tourism industry affecting Florida and other unforeseen events 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. As a result, adverse weather conditions in any of these areas could damage these restaurants, and/or result in fewer guest visits to these restaurants and otherwise have a material adverse impact on our business. 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.

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.

We cannot ensure that the current locations of our existing restaurants will continue to be economically viable or that additional locations will be acquired at reasonable costs.

The location of our restaurants has significant influence on their success. We cannot ensure that current locations will continue to be economically viable or that additional locations can be acquired at reasonable costs. In addition, the economic environment where restaurants are located could decline in the future, which could result in reduced sales in those locations. We cannot ensure that new sites will be profitable or as profitable as existing sites.

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

We are subject to extensive laws and regulations relating to the development and operation of restaurants, including regulations relating to the following:

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health care;
employer/employee relationships, including minimum wage requirements, overtime, working and safety conditions, family leave mandates, immigration and citizenship or work authorization or related requirements;
federal and state laws that prohibit discrimination and laws regulating design and operation of, and access to, facilities, such as the Americans With Disabilities Act of 1990;
requirements relating to labeling of caloric and other nutritional information on menu boards, advertising and food packaging;
the preparation and sale of food;
liquor licenses which allow us to serve alcoholic beverages at our Taco Cabana restaurants;
zoning; and
federal and state regulations governing the operations of franchises, including rules promulgated by the Federal Trade Commission.

In the event that legislation has a negative impact on our business, it could have a material adverse impact. For example, substantial increases in the minimum wage or state or Federal unemployment taxes could adversely affect our financial condition and results of operations. Local zoning or building codes or regulations and liquor license approvals can cause substantial delays in our ability to build and open new restaurants. Local authorities may revoke, suspend or deny renewal of our liquor licenses if they determine that our conduct violates applicable regulations. Any failure to obtain and maintain required licenses, permits and approvals could adversely affect our operating results. Complying with these rules and regulations subjects us to substantial expense and can expose us to liabilities from claims for non-compliance. We could suffer losses from, and we incur legal costs to defend, these claims and the amount of such losses could be significant.

The effect of recent 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 are dependent on information technology, and any material failure of that technology could impair our ability to efficiently operate our business.

We rely on information systems across our operations, including, for example, point-of-sale processing in our restaurants, management of our supply chain, collection of cash, and payment of obligations and various other processes and procedures. Our ability to efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrading or transitioning to replacement systems or a breach in security of these systems could cause delays in guest service and reduce efficiency in our operations. Significant capital investments might be required to remediate any problems. In recent years, individuals and groups that are non-practicing entities, commonly referred to as “patent trolls”, have purchased technology related patents and other intellectual property asset