Fiesta Restaurant Group, Inc.
Form 10-K
February 27, 2017

false--01-01FY20160001534992YesLarge Accelerated
FilerNoYes8000007000001000P5YP1Y100000100000P20YP20YP0Y6MP0Y4M3000.010.0110000000001000000000268292220
0001534992 2016-01-04 2017-01-01 0001534992 2016-07-03 0001534992 2017-02-23 0001534992 2017-01-01
0001534992 2016-01-03 0001534992 2014-12-29 2016-01-03 0001534992 2013-12-30 2014-12-28 0001534992
frgi:RestaurantWagesAndRelatedExpensesMember 2013-12-30 2014-12-28 0001534992
us-gaap:GeneralAndAdministrativeExpenseMember 2013-12-30 2014-12-28 0001534992
us-gaap:GeneralAndAdministrativeExpenseMember 2016-01-04 2017-01-01 0001534992
frgi:RestaurantWagesAndRelatedExpensesMember 2016-01-04 2017-01-01 0001534992
us-gaap:GeneralAndAdministrativeExpenseMember 2014-12-29 2016-01-03 0001534992
frgi:RestaurantWagesAndRelatedExpensesMember 2014-12-29 2016-01-03 0001534992
us-gaap:CommonStockMember 2016-01-03 0001534992 us-gaap:CommonStockMember 2013-12-30 2014-12-28
0001534992 us-gaap:RetainedEarningsMember 2014-12-28 0001534992 us-gaap:AdditionalPaidInCapitalMember
2016-01-04 2017-01-01 0001534992 us-gaap:AdditionalPaidInCapitalMember 2013-12-30 2014-12-28 0001534992
us-gaap:RetainedEarningsMember 2016-01-04 2017-01-01 0001534992 us-gaap:AdditionalPaidInCapitalMember
2014-12-28 0001534992 us-gaap:AdditionalPaidInCapitalMember 2013-12-29 0001534992
us-gaap:AdditionalPaidInCapitalMember 2017-01-01 0001534992 us-gaap:CommonStockMember 2014-12-28
0001534992 us-gaap:AdditionalPaidInCapitalMember 2014-12-29 2016-01-03 0001534992
us-gaap:AdditionalPaidInCapitalMember 2016-01-03 0001534992 us-gaap:RetainedEarningsMember 2014-12-29
2016-01-03 0001534992 us-gaap:RetainedEarningsMember 2013-12-30 2014-12-28 0001534992 2014-12-28
0001534992 2013-12-29 0001534992 us-gaap:RetainedEarningsMember 2017-01-01 0001534992
us-gaap:CommonStockMember 2014-12-29 2016-01-03 0001534992 us-gaap:CommonStockMember 2017-01-01
0001534992 us-gaap:CommonStockMember 2013-12-29 0001534992 us-gaap:CommonStockMember 2016-01-04
2017-01-01 0001534992 us-gaap:RetainedEarningsMember 2013-12-29 0001534992
us-gaap:RetainedEarningsMember 2016-01-03 0001534992 us-gaap:EntityOperatedUnitsMember
frgi:PolloTropicalMember stpr:FL 2017-01-01 0001534992 us-gaap:EntityOperatedUnitsMember
frgi:PolloTropicalMember 2017-01-01 0001534992 us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember
2017-01-01 0001534992 us-gaap:FairValueInputsLevel2Member 2017-01-01 0001534992
us-gaap:EntityOperatedUnitsMember frgi:PolloTropicalMember stpr:GA 2017-01-01 0001534992
us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember country:PR 2017-01-01 0001534992
us-gaap:EntityOperatedUnitsMember frgi:TacoCabanaMember 2017-01-01 0001534992
us-gaap:FairValueInputsLevel2Member 2016-01-03 0001534992 us-gaap:EntityOperatedUnitsMember
frgi:PolloTropicalMember stpr:TX 2017-01-01 0001534992 us-gaap:EntityOperatedUnitsMember
frgi:TacoCabanaMember stpr:TX 2017-01-01 0001534992 us-gaap:ComputerEquipmentMember
us-gaap:MinimumMember 2016-01-04 2017-01-01 0001534992 us-gaap:MachineryAndEquipmentMember
us-gaap:MinimumMember 2016-01-04 2017-01-01 0001534992 us-gaap:BuildingAndBuildingImprovementsMember
us-gaap:MinimumMember 2016-01-04 2017-01-01 0001534992 us-gaap:MachineryAndEquipmentMember
us-gaap:MaximumMember 2016-01-04 2017-01-01 0001534992 us-gaap:ComputerEquipmentMember
us-gaap:MaximumMember 2016-01-04 2017-01-01 0001534992
us-gaap:BuildingAndBuildingImprovementsMember us-gaap:MaximumMember 2016-01-04 2017-01-01
0001534992 us-gaap:EntityOperatedUnitsMember frgi:PolloTropicalMember stpr:TN 2017-01-01 0001534992
us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember country:PA 2017-01-01 0001534992
us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember country:GT 2017-01-01 0001534992
us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember stpr:FL 2017-01-01 0001534992
us-gaap:MaximumMember 2016-01-04 2017-01-01 0001534992 us-gaap:MinimumMember 2016-01-04 2017-01-01
0001534992 us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember country:TT 2017-01-01 0001534992
us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember country:BS 2017-01-01 0001534992
us-gaap:FranchisedUnitsMember frgi:TacoCabanaMember 2017-01-01 0001534992 us-gaap:FranchisedUnitsMember
frgi:TacoCabanaMember stpr:TX 2017-01-01 0001534992 us-gaap:EntityOperatedUnitsMember

frgi:TacoCabanaMember stpr:OK 2017-01-01 0001534992 us-gaap:FranchisedUnitsMember frgi:TacoCabanaMember stpr:NM 2017-01-01 0001534992 us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember country:GY 2017-01-01 0001534992 us-gaap:FranchisedUnitsMember frgi:PolloTropicalMember country:VE 2017-01-01 0001534992 us-gaap:LeaseholdImprovementsMember 2016-01-03 0001534992 us-gaap:AssetsHeldUnderCapitalLeasesMember 2017-01-01 0001534992 us-gaap:LeaseholdImprovementsMember 2017-01-01 0001534992 us-gaap:LandMember 2016-01-03 0001534992 us-gaap:EquipmentMember 2017-01-01 0001534992 us-gaap:BuildingMember 2016-01-03 0001534992 us-gaap:AssetsHeldUnderCapitalLeasesMember 2016-01-03 0001534992 us-gaap:BuildingMember 2017-01-01 0001534992 us-gaap:LandMember 2017-01-01 0001534992 us-gaap:EquipmentMember 2016-01-03 0001534992 frgi:PolloTropicalMember 2017-01-01 0001534992 frgi:TacoCabanaMember 2017-01-01 0001534992 frgi:TacoCabanaMember 2016-01-03 0001534992 frgi:PolloTropicalMember 2016-01-03 0001534992 frgi:PolloTropicalMember 2016-01-04 2017-01-01 0001534992 frgi:PolloTropicalMember 2014-12-29 2016-01-03 0001534992 frgi:TacoCabanaMember 2016-01-04 2017-01-01 0001534992 frgi:PolloTropicalMember 2013-12-30 2014-12-28 0001534992 frgi:TacoCabanaMember 2013-12-30 2014-12-28 0001534992 us-gaap:FairValueInputsLevel3Member 2017-01-01 0001534992 frgi:TacoCabanaMember 2014-12-29 2016-01-03 0001534992 frgi:RestaurantsClosedMember frgi:PolloTropicalMember stpr:TX 2017-01-01 0001534992 frgi:RestaurantsOpenMember frgi:TacoCabanaMember 2017-01-01 0001534992 frgi:RestaurantsClosedMember frgi:PolloTropicalMember 2017-01-01 0001534992 frgi:RestaurantsBrandConversionMember us-gaap:ScenarioForecastMember 2017-12-31 0001534992 frgi:RestaurantsOpenMember frgi:PolloTropicalMember 2017-01-01 0001534992 frgi:RestaurantsClosedMember frgi:PolloTropicalMember stpr:TN 2017-01-01 0001534992 frgi:RestaurantsClosedMember frgi:PolloTropicalMember stpr:GA 2017-01-01 0001534992 us-gaap:FacilityClosingMember 2017-01-01 0001534992 us-gaap:FacilityClosingMember 2016-01-04 2017-01-01 0001534992 us-gaap:FacilityClosingMember 2014-12-29 2016-01-03 0001534992 us-gaap:FacilityClosingMember 2014-12-28 0001534992 us-gaap:FacilityClosingMember 2016-01-03 0001534992 us-gaap:OtherNoncurrentLiabilitiesMember us-gaap:FacilityClosingMember 2017-01-01 0001534992 us-gaap:OtherNoncurrentLiabilitiesMember us-gaap:FacilityClosingMember 2016-01-03 0001534992 us-gaap:OperatingExpenseMember 2016-01-04 2017-01-01 0001534992 us-gaap:GeneralAndAdministrativeExpenseMember 2014-12-29 2016-01-03 0001534992 frgi:PreopeningexpenseMember 2016-01-04 2017-01-01 0001534992 us-gaap:GeneralAndAdministrativeExpenseMember 2016-01-04 2017-01-01 0001534992 us-gaap:GeneralAndAdministrativeExpenseMember 2013-12-30 2014-12-28 0001534992 frgi:PreopeningexpenseMember 2014-12-29 2016-01-03 0001534992 us-gaap:OperatingExpenseMember 2013-12-30 2014-12-28 0001534992 us-gaap:OperatingExpenseMember 2014-12-29 2016-01-03 0001534992 frgi:PreopeningexpenseMember 2013-12-30 2014-12-28 0001534992 frgi:SaleLeasebackTransactionsMember 2014-12-28 0001534992 frgi:SaleLeasebackTransactionsMember 2017-01-01 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:MaximumMember 2013-12-31 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember 2013-12-30 2014-12-28 0001534992 us-gaap:RevolvingCreditFacilityMember 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:MaximumMember us-gaap:BaseRateMember 2013-12-31 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember 2016-01-03 0001534992 us-gaap:RevolvingCreditFacilityMember 2017-01-01 0001534992 us-gaap:LetterOfCreditMember 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:MinimumMember 2013-12-31 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:MaximumMember 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:LondonInterbankOfferedRateLIBORMember 2016-01-04 2017-01-01 0001534992 us-gaap:RevolvingCreditFacilityMember 2016-01-04 2017-01-01 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:MinimumMember us-gaap:BaseRateMember 2013-12-31 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember 2014-12-29 2016-01-03 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:MaximumMember us-gaap:LondonInterbankOfferedRateLIBORMember 2013-12-31 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:BaseRateMember 2016-01-04 2017-01-01 0001534992 us-gaap:RevolvingCreditFacilityMember us-gaap:MinimumMember us-gaap:LondonInterbankOfferedRateLIBORMember 2013-12-31 2013-12-31 0001534992 us-gaap:RevolvingCreditFacilityMember 2013-12-31 2013-12-31 0001534992 us-gaap:RestrictedStockMember us-gaap:ExecutiveOfficerMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2013-12-30 2014-12-28 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2014-12-29 2016-01-03 0001534992 us-gaap:RestrictedStockUnitsRSUMember us-gaap:ExecutiveOfficerMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockUnitsRSUMember us-gaap:MaximumMember us-gaap:ExecutiveOfficerMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockMember 2014-12-29 2016-01-03 0001534992 us-gaap:RestrictedStockMember 2013-12-30 2014-12-28 0001534992 us-gaap:ChiefExecutiveOfficerMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockMember us-gaap:ExecutiveOfficerMember 2014-12-29 2016-01-03 0001534992 us-gaap:RestrictedStockUnitsRSUMember us-gaap:ExecutiveOfficerMember 2014-12-29 2016-01-03 0001534992 us-gaap:RestrictedStockUnitsRSUMember us-gaap:MaximumMember us-gaap:ExecutiveOfficerMember 2014-12-29 2016-01-03 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2016-01-03 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2017-01-01 0001534992 us-gaap:RestrictedStockMember 2016-01-03 0001534992 us-gaap:RestrictedStockMember 2017-01-01 0001534992 us-gaap:RestrictedStockMember us-gaap:DirectorMember 2014-12-29 2016-01-03 0001534992 us-gaap:RestrictedStockMember us-gaap:DirectorMember 2013-12-30 2014-12-28 0001534992 us-gaap:RestrictedStockMember us-gaap:DirectorMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockUnitsRSUMember us-gaap:MinimumMember us-gaap:ExecutiveOfficerMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockUnitsRSUMember us-gaap:MinimumMember us-gaap:ExecutiveOfficerMember 2014-12-29 2016-01-03 0001534992 us-gaap:CorporateNonSegmentMember 2014-12-29 2016-01-03 0001534992 us-gaap:CorporateNonSegmentMember 2013-12-30 2014-12-28 0001534992 us-gaap:OperatingSegmentsMember frgi:TacoCabanaMember 2016-01-04 2017-01-01 0001534992 us-gaap:OperatingSegmentsMember frgi:PolloTropicalMember 2016-01-03 0001534992 us-gaap:OperatingSegmentsMember frgi:PolloTropicalMember 2016-01-04 2017-01-01 0001534992 us-gaap:OperatingSegmentsMember frgi:TacoCabanaMember 2013-12-30 2014-12-28 0001534992 us-gaap:OperatingSegmentsMember frgi:TacoCabanaMember 2014-12-29 2016-01-03 0001534992 us-gaap:CorporateNonSegmentMember 2016-01-04 2017-01-01 0001534992 us-gaap:OperatingSegmentsMember frgi:TacoCabanaMember 2014-12-28 0001534992 us-gaap:OperatingSegmentsMember frgi:PolloTropicalMember 2014-12-29 2016-01-03 0001534992 us-gaap:CorporateNonSegmentMember 2014-12-28 0001534992 us-gaap:OperatingSegmentsMember frgi:TacoCabanaMember 2016-01-03 0001534992 us-gaap:OperatingSegmentsMember frgi:PolloTropicalMember 2013-12-30 2014-12-28 0001534992 us-gaap:CorporateNonSegmentMember 2016-01-03 0001534992 us-gaap:OperatingSegmentsMember frgi:TacoCabanaMember 2017-01-01 0001534992 us-gaap:CorporateNonSegmentMember 2017-01-01 0001534992 us-gaap:OperatingSegmentsMember frgi:PolloTropicalMember 2017-01-01 0001534992 us-gaap:OperatingSegmentsMember frgi:PolloTropicalMember 2014-12-28 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2016-01-04 2017-01-01 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2013-12-30 2014-12-28 0001534992 us-gaap:RestrictedStockUnitsRSUMember 2014-12-29 2016-01-03 0001534992 frgi:FairLaborStandardsActLegalDemandLetterMember 2016-09-30 2016-09-30 0001534992 us-gaap:MaximumMember 2014-12-29 2016-01-03 0001534992 2016-07-04 2016-10-02 0001534992 2016-10-03 2017-01-01 0001534992 2015-09-28 2016-01-03 0001534992 2016-04-04 2016-07-03 0001534992 2014-12-29 2015-03-29 0001534992 2016-01-04 2016-04-03 0001534992 2015-03-30 2015-06-28 0001534992 2015-06-29 2015-09-27 0001534992 us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2014-12-29 2016-01-03 0001534992 us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2016-01-03 0001534992 us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2013-12-30 2014-12-28 0001534992 us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2013-12-29 0001534992 us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2014-12-28 0001534992 us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2016-01-04 2017-01-01 0001534992 us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2017-01-01 iso4217:USD frgi:segment iso4217:USD xbrli:shares xbrli:pure frgi:restaurant xbrli:shares frgi:plaintiff frgi:hour

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
ý **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 incorporation or organization)	**(I.R.S. Employer Identification No.)**
14800 Landmark Boulevard, Suite 500 Dallas, TX	**75254**
(Address of principal executive office)	**(Zip Code)**

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

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

Title of each class:	**Name on each exchange on which registered:**
Common Stock, par value $.01 per share	The NASDAQ Global Select Market

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

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

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 ý 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 ý 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	ý	Accelerated filer	¨
Non-accelerated filer (Do not check if smaller reporting	¨	Smaller reporting company	¨

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

Table of Contents

FIESTA RESTAURANT GROUP, INC.
FORM 10-K
YEAR ENDED JANUARY 1, 2017

Table of Contents

PART I

Presentation of Information

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

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.

Table of Contents

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," "estimat "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.

Table of Contents

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

Table of Contents

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 reimaging 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 skillets, 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

Table of Contents

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 reimaging 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 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

Table of Contents

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 reimaging 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.

Table of Contents

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 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, 2017	**January 3, 2016**	**December 28, 2014**
Pollo Tropical:			
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 %
Taco Cabana:			
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.

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

Table of Contents

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 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.

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.

Table of Contents

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 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 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:

Table of Contents

- 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 assets related to our information technology for the purpose of making claims of infringement in order to extract settlements. From time to time, we may receive threatening letters or notices or may be the subject of claims that technology or equipment we use infringe or violate the intellectual property rights of others. Responding to such claims, regardless of their merit, can be time consuming, costly to defend in litigation, divert management’s attention and resources, damage our reputation and brand, and cause us to incur significant expenses.

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.

Table of Contents

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.

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 quick-service 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 January 1, 2017, a total of 42 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 January 1, 2017, we had $73.2 million of outstanding indebtedness comprised of $69.9 million of revolving credit borrowings under our senior credit facility, lease financing obligations of $1.7 million and capital lease obligations of $1.6 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.

Our ability to renew our senior credit facility by December 11, 2018 at favorable rates and conditions may be impacted by adverse market conditions.

Our senior credit facility matures on December 11, 2018. Our ability to renew our senior credit facility at favorable rates and conditions is based on credit conditions and availability which may be impacted by adverse market conditions.

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 serve alcoholic beverages at our Taco Cabana restaurants and at some of our Pollo Tropical restaurant locations 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.

If one of our employees sells alcoholic beverages to a minor patron, we may be liable for significant fines or penalties including the suspension or loss of our liquor license.

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.

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.

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

The market price of our common stock may be highly volatile or may decline regardless of our operating performance.

The trading price of our common stock may fluctuate substantially. The price of our common stock that will prevail in the market may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. The fluctuations could cause a loss of all or part of an investment in our common stock. Factors that could cause fluctuation in the trading price of our common stock may include, but are not limited to the following:

- price and volume fluctuations in the overall stock market from time to time;

- significant volatility in the market price and trading volume of our company as well as companies generally or restaurant companies;
- actual or anticipated variations in the earnings or operating results of our company or our competitors;
- actual or anticipated changes in financial estimates by us or by any securities analysts who might cover our stock or the stock of other companies in our industry;
- market conditions or trends in our industry and the economy as a whole;

Table of Contents

- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures and our ability to complete any such transaction;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- capital commitments;
- changes in accounting principles;
- additions or departures of key personnel; and
- sales of our common stock, including sales of large blocks of our common stock or sales by our directors and officers.

In addition, if the market for restaurant company stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry or related industries even if these events do not directly affect us.

In the past, following periods of volatility in the market price of a company's securities, class action securities litigation has often been brought against that company. Due to the potential volatility of our stock price, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

Proxy contests threatened or commenced against us could be disruptive and costly, cause uncertainty about the strategic direction of our business and adversely affect our business, operating results and financial condition.

On January 26, 2017, JCP Investment Partnership, LLC, and other joint filers to a Schedule 13D filed with the SEC (collectively, "JCP"), notified us of their intention to nominate three persons for election as directors at our 2017 Annual Meeting of Stockholders. If JCP continues to pursue a proxy contest and related actions at our 2017 Annual Meeting of Stockholders to elect directors other than those recommended by our Board of Directors, or takes other actions that conflict with our strategic direction, such actions could have a material and adverse effect on us for the following reasons:

- Responding to proxy contests and related actions by activist stockholders such as JCP 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 condition.
- Perceived uncertainties as to our future direction as a result of potential changes to the composition of the Board of Directors 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.
- Proxy contests and related actions by activist stockholders such as JCP 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.

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.

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;
- divided our board into three classes of directors, with each class serving a staggered 3-year term, which generally increases the difficulty of replacing a majority of the directors;
- provide that directors only may be removed for cause by a majority of the board and/or by a supermajority of our stockholders; 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 January 1, 2017, we owned or leased the following operating restaurant properties:

	Owned	Leased (1)	Total (2)
Restaurants:			
Pollo Tropical	11	166	177
Taco Cabana	9	157	166
Total operating restaurants	20	323	343

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

(2) Excludes restaurants operated by our Pollo Tropical and Taco Cabana franchisees. In addition, as of January 1, 2017, we had six restaurants under development, six properties subleased to third parties and seven properties available for sublease.

As of January 1, 2017, we leased 94% of our Pollo Tropical restaurants and 95% 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, including options, was approximately 27 years as of January 1, 2017. 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.

Table of Contents

In addition to the restaurant locations, we lease approximately 21,000 square feet at 14800 Landmark Boulevard, Suite 500, Dallas, Texas and 18,700 square feet at 3220 Keller Springs Road, Suite 108, Carrollton, Texas which house our executive offices and certain of our administrative functions, including some of our administrative operations for our Pollo Tropical restaurants. We also lease approximately 10,400 square feet at 7255 Corporate Center Drive, Miami, Florida, which houses some of our administrative operations for our Pollo Tropical restaurants. In addition, we lease approximately 17,700 square feet of office space at 8918 Tesoro Drive, Suite 200, San Antonio, Texas, which houses most of our administrative operations for our Taco Cabana restaurants.

ITEM 3. LEGAL PROCEEDINGS

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 will allow current and former assistant managers to receive notice and opt-in to the settlement. Pollo Tropical denies any liability or unlawful conduct. The Company has recorded a charge of $0.8 million to cover the estimated costs related to the settlement, including estimated payments to individuals that opt-in to the settlement, premium payments to named individuals, attorneys’ fees for the individuals' counsel, and related settlement administration costs. The charge does not include legal fees incurred by Pollo Tropical in defending the action. The settlement, which is subject to approval by an arbitrator and a judicial body, will result in dismissal with prejudice for the named individuals and all individuals that opt-in to the settlement.

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

ITEM 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 23, 2017, there were 26,884,992 shares of our common stock outstanding held by 542 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 23, 2017 was $26.95.

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:

	Common Stock Price	
	High	Low
Year Ended January 1, 2017		
First Quarter	$38.42	$31.38
Second Quarter	$35.70	$21.01
Third Quarter	$26.48	$21.93
Fourth Quarter	$30.50	$23.74
Year Ended January 3, 2016		
First Quarter	$66.99	$55.32
Second Quarter	$62.32	$46.45
Third Quarter	$58.47	$46.35
Fourth Quarter	$45.71	$32.01

Dividends

We did not pay any cash dividends during 2016 or 2015. 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.

Stock Performance Graph

The following graph compares, from May 8, 2012 (the date on which our common stock began "regular way" trading on The NASDAQ Global Select Market), the 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 the S&P Small Cap 600 Restaurant Index represents a comparison to competitors with similar market capitalization as us.

The initial trading price of our common stock on May 8, 2012 was $11.10 and the closing price of our common stock on December 30, 2016, the last trading day before our fiscal year end date of January 1, 2017, was $29.85. The following graph is based upon the closing price of our common stock from May 8, 2012 through January 1, 2017.

Total Cumulative Shareholder Returns

	5/8/2012	06/30/2012	12/31/2012	06/30/2013	12/31/2013	06/30/2014	12/31/2014	6/30/2015	1/3/2016	6/30/2016	1/1/2017
Fiesta Restaurant Group, Inc.	$ 100.00	$ 115.04	$ 133.22	$ 298.75	$ 454.26	$ 403.57	$ 528.70	$ 434.78	$ 292.17	$ 189.65	$ 259.57
NASDAQ Composite	$ 100.00	$ 96.66	$ 99.81	$ 113.79	$ 141.87	$ 150.29	$ 161.78	$ 170.84	$ 171.75	$ 166.99	$ 185.66
S&P Small Cap 600 Restaurants	$ 100.00	$ 101.27	$ 111.87	$ 145.62	$ 168.52	$ 167.71	$ 185.65	$ 191.84	$ 170.87	$ 166.36	$ 183.14

The graph and table above provide the cumulative change of $100.00 invested on May 8, 2012, including reinvestment of dividends, if applicable, for the periods indicated.

Table of Contents

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 January 1, 2017, January 3, 2016, December 28, 2014, December 29, 2013 and December 30, 2012. The information in the following table should be read together with our consolidated financial statements and accompanying notes as of January 1, 2017, January 3, 2016 and December 28, 2014 and for the years ended January 1, 2017, January 3, 2016 and December 28, 2014, and “Management's Discussion and Analysis of Financial Condition and Results of Operations” included under Item 7 of this Annual Report. These historical results are not necessarily indicative of the results to be expected in the future. Our fiscal years ended January 1, 2017, December 28, 2014, December 29, 2013, and December 30, 2012 each contained 52 weeks. The fiscal year ended January 3, 2016 contained 53 weeks.

	Year ended				
(Dollars in thousands, except share and per share data)	**January 1, 2017**	**January 3, 2016**	**December 28, 2014**	**December 29, 2013**	**December 30, 2012**
Statement of operations data:					
Revenues:					
Restaurant sales	$708,956	$684,584	$608,540	$548,980	$507,351
Franchise royalty revenues and fees	2,814	2,808	2,603	2,357	2,375
Total revenues	711,770	687,392	611,143	551,337	509,726
Costs and expenses:					
Cost of sales	214,609	217,328	192,250	176,123	163,514
Restaurant wages and related expenses (including stock-based compensation expense of $142, $156, $71, $2 and $11, respectively)	185,305	174,222	155,140	143,392	136,265
Restaurant rent expense	37,493	33,103	29,645	26,849	21,595
Other restaurant operating expenses	96,457	87,285	78,921	69,021	63,813
Advertising expense	26,800	21,617	19,493	17,138	16,791
General and administrative (including stock-based compensation expense of $3,141, $4,137, $3,426, $2,296 and $2,025, respectively)	56,084	54,521	49,414	48,521	43,870
Depreciation and amortization	36,776	30,575	23,047	20,375	18,278
Pre-opening costs	5,511	4,567	4,061	2,767	1,673
Impairment and other lease charges	25,644	2,382	363	199	7,039
Other (income) expense, net[1]	(128)	(679)	(558)	(554)	(92)
Total operating expenses	684,551	624,921	551,776	503,831	472,746
Income from operations	27,219	62,471	59,367	47,506	36,980
Interest expense	2,171	1,889	2,228	18,043	24,424
Loss on extinguishment of debt[2]	—	—	—	16,411	—
Income before income taxes	25,048	60,582	57,139	13,052	12,556
Provision for income taxes	8,336	22,046	20,963	3,795	4,289
Net income	$16,712	$38,536	$36,176	$9,257	$8,267
Per share data:					
Basic net income per share	$0.62	$1.44	$1.35	$0.39	$0.35
Diluted net income per share	$0.62	$1.44	$1.35	$0.39	$0.35
Weighted average shares outstanding:					
Basic weighted average shares outstanding	26,682,227	26,515,029	26,293,714	23,271,431	22,890,018
Diluted weighted average shares outstanding	26,689,179	26,522,196	26,296,049	23,271,431	22,890,018
Other financial data:					
Net cash provided from operating activities	$80,679	$81,352	$64,106	$36,176	$37,975
Net cash used for investing activities	(81,160)	(87,671)	(66,658)	(34,067)	(32,718)

Net cash (used for) provided from financing activities	(604)	6,513	(3,339)	(6,664)	(3,394)
Total capital expenditures	(82,365)	(87,570)	(74,079)	(47,025)	(40,996)

Table of Contents

	Year ended				
(Dollars in thousands)	**January 1, 2017**	**January 3, 2016**	**December 28, 2014**	**December 29, 2013**	**December 30, 2012**
Balance sheet data:					
Total assets	$441,565	$415,645	$357,956	$318,785	$303,729
Working capital	(19,827)	(15,067)	(14,243)	(8,180)	(12,370)
Long-term debt:					
8.875% Senior Secured Second Lien Notes(2)	$—	$—	$—	$—	$200,000
Revolving credit facility	69,900	71,000	66,000	71,000	—
Lease financing obligations	1,664	1,663	1,660	1,657	3,029
Capital leases	1,612	1,681	1,325	1,385	949
Total long-term debt	$73,176	$74,344	$68,985	$74,042	$203,978
Stockholders' equity	$264,175	$243,982	$199,587	$158,306	$10,504
Operating statistics:					
Consolidated:					
Restaurant-Level Adjusted EBITDA(3)	$148,434	$151,185	$133,162	$116,459	$105,384
Restaurant-Level Adjusted EBITDA margin(3)	20.9%	22.1%	21.9%	21.2%	20.8%
Adjusted EBITDA(3)	92,794	99,042	85,716	69,824	64,241
Adjusted EBITDA margin(3)	13.0%	14.4%	14.0%	12.7%	12.6%
Total company-owned restaurants (at end of period)	343	317	291	267	251
Pollo Tropical:					
Company-owned restaurants (at end of period)	177	155	124	102	91
Average number of company-owned restaurants	169.8	138.5	112.3	96.7	89.6
Revenues:					
Restaurant sales	$399,736	$364,544	$305,404	$257,837	$227,428
Franchise royalty revenues and fees	2,062	2,197	2,072	1,865	1,915
Total revenues	401,798	366,741	307,476	259,702	229,343
Average annual sales per company-owned restaurant(4)	2,354	2,585	2,720	2,666	2,538
Restaurant-Level Adjusted EBITDA(3)	90,294	90,374	78,960	67,785	58,184
Restaurant-Level Adjusted EBITDA margin(3)	22.6%	24.8%	25.9%	26.3%	25.6%
Adjusted EBITDA(3)	55,535	59,335	52,721	43,738	38,592
Adjusted EBITDA margin(3)	13.8%	16.2%	17.1%	16.8%	16.8%
Change in comparable company-owned restaurant sales(5)	(1.6)%	3.8%	6.6%	5.9%	8.1%

Table of Contents

	Year ended				
(Dollars in thousands)	**January 1, 2017**	**January 3, 2016**	**December 28, 2014**	**December 29, 2013**	**December 30, 2012**
Taco Cabana:					
Company-owned restaurants (at end of period)	166	162	167	165	160
Average number of company-owned restaurants	163.3	163.9	165.6	163.3	158.3
Revenues:					
Restaurant sales	$309,220	$320,040	$303,136	$291,143	$279,923
Franchise royalty revenues and fees	752	611	531	492	460
Total revenues	309,972	320,651	303,667	291,635	280,383
Average annual sales per company-owned restaurant(5)	1,894	1,920	1,831	1,783	1,768
Restaurant-Level Adjusted EBITDA(3)	58,140	60,811	54,202	48,674	47,200
Restaurant-Level Adjusted EBITDA margin(3)	18.8 %	19.0 %	17.9 %	16.7 %	16.9 %
Adjusted EBITDA(3)	38,081	39,707	32,995	26,086	25,649
Adjusted EBITDA margin(3)	12.3 %	12.4 %	10.9 %	8.9 %	9.1 %
Change in comparable company-owned restaurant sales(5)	(2.5)%	4.4 %	3.3 %	0.5 %	4.7 %

(1) Other (income) expense, net 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. Other income for the year ended December 29, 2013 resulted primarily from a gain of $0.5 million from the sale of a non-operating Pollo Tropical restaurant property. Other income for the year ended December 30, 2012 also resulted from a gain of $0.1 million from the sale of a non-operating Pollo Tropical restaurant property.

(2) In the year ended December 29, 2013, we completed a tender offer and consent solicitation for all of our outstanding $200.0 million 8.875% Senior Secured Second Lien Notes due 2016 ("Notes") and called for redemption and redeemed all of our Notes that were not validly tendered and accepted for payment in the tender offer. We recognized a loss on extinguishment of debt of $16.4 million in the fourth quarter of 2013 related to the repurchase and redemption of the Notes. The loss on extinguishment of debt includes the write-off of $3.9 million in deferred financing costs related to the Notes and $12.5 million of debt redemption premiums, consent payments, additional interest and other fees related to the redemption of the Notes.

(3) 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 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 is derived by dividing Adjusted EBITDA by total revenues.

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.

Adjusted EBITDA, Adjusted EBITDA margin, Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA margin are non-GAAP financial measures. 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.

Table of Contents

A reconciliation from consolidated net income to Restaurant-Level Adjusted EBITDA and Adjusted EBITDA is presented below:

	Year ended				
(Dollars in thousands)	**January 1, 2017**	**January 3, 2016**	**December 28, 2014**	**December 29, 2013**	**December 30, 2012**
Net income	$16,712	$38,536	$36,176	$9,257	$8,267
Add:					
Depreciation and amortization	36,776	30,575	23,047	20,375	18,278
Impairment and other lease charges	25,644	2,382	363	199	7,039
Interest expense	2,171	1,889	2,228	18,043	24,424
Loss on extinguishment of debt	—	—	—	16,411	—
Provision for income taxes	8,336	22,046	20,963	3,795	4,289
Stock-based compensation expense	3,283	4,293	3,497	2,298	2,036
Other (income) expense, net	(128)	(679)	(558)	(554)	(92)
Adjusted EBITDA:					
Pollo Tropical	$55,535	$59,335	$52,721	$43,738	$38,592
Taco Cabana	38,081	39,707	32,995	26,086	25,649
Fiesta	(822)	—	—	—	—
Consolidated	92,794	99,042	85,716	69,824	64,241
Add:					
Pre-opening costs	5,511	4,567	4,061	2,767	1,673
General and administrative (excluding stock-based compensation expense of $3,141, $4,137, $3,426, $2,296 and $2,025, respectively)	52,943	50,384	45,988	46,225	41,845
Less:					
Franchise royalty revenue and fees	2,814	2,808	2,603	2,357	2,375
Restaurant-Level Adjusted EBITDA:					
Pollo Tropical	$90,294	$90,374	$78,960	$67,785	$58,184
Taco Cabana	58,140	60,811	54,202	48,674	47,200
Consolidated	148,434	151,185	133,162	116,459	105,384

(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.

Table of Contents

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 consolidated financial statements and the accompanying financial statement notes. Any reference to restaurants refers to company-owned restaurants unless otherwise indicated.

On May 7, 2012, Carrols Restaurant Group, Inc. ("Carrols") completed the spin-off of Fiesta into an independent public company, through the distribution of all of the outstanding shares of Fiesta Restaurant Group's common stock to the stockholders of Carrols ("the Spin-off"). As a result of the Spin-off, we became an independent public company whose common stock is traded on The NASDAQ Global Select Market under the symbol "FRGI."

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. The fiscal years ended January 1, 2017 and December 28, 2014 each contained 52 weeks. The fiscal year ended January 3, 2016 contained 53 weeks.

Company Overview

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical® and Taco Cabana®, which have almost 30 years and 40 years, respectively, of operating history and loyal customer bases in their core markets. Our Pollo Tropical restaurants offer a wide variety of freshly prepared Caribbean inspired food, while our Taco Cabana restaurants offer a broad selection of freshly prepared Mexican inspired food. We believe that both brands are differentiated from other restaurant concepts and offer a unique dining experience. We are positioned within the value-oriented fast-casual restaurant segment, which combines the convenience and value of quick-service restaurants with the variety, food quality, décor and atmosphere more typical of casual dining restaurants. Our open display kitchen format allows guests to view and experience our food being freshly-prepared and cooked to order. Additionally, nearly all of our restaurants offer the convenience of drive-thru windows. As of January 1, 2017, our company-owned restaurants included 177 Pollo Tropical restaurants and 166 Taco Cabana restaurants.

We franchise our Pollo Tropical restaurants primarily internationally and as of January 1, 2017, we had 29 franchised Pollo Tropical restaurants located in Puerto Rico, Trinidad & Tobago, the Bahamas, Venezuela, Panama, Guatemala and Guyana and six licensed locations on college campuses and 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 January 1, 2017, we had five 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

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 the 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.

Executive Summary-Consolidated Operating Performance for the Year Ended January 1, 2017

Our fiscal year 2016 results include the following:

•

Net income decreased $21.8 million to $16.7 million in 2016, or $0.62 per diluted share, compared to net income of $38.5 million, or $1.44 per diluted share in 2015, due primarily to impairment and other lease charges, new restaurant performance, lower comparable restaurant sales and the extra week in our 2015 fiscal year.

- Total revenues increased 3.5% in 2016 to $711.8 million from $687.4 million in 2015, driven primarily by a net increase in the number of company-owned restaurants, partially offset by a decrease in comparable restaurant sales of 1.6% for our Pollo Tropical restaurants and 2.5% for our Taco Cabana restaurants and the extra week in our 2015 fiscal year. The

Table of Contents

decrease in comparable restaurant sales resulted primarily from a decrease in comparable restaurant transactions of 3.6% at Taco Cabana and 3.1% at Pollo Tropical, partially offset by an increase in average check of 1.1% at Taco Cabana and 1.5% at Pollo Tropical. Comparable restaurant transactions at Pollo Tropical was negatively impacted by sales cannibalization as a result of opening new restaurants in close proximity to existing restaurants of 1.5%.

- During 2016, we opened 32 new company-owned Pollo Tropical restaurants and four new company-owned Taco Cabana restaurants and permanently closed ten company-owned Pollo Tropical restaurants.

Results of Operations

The following table sets forth, for the years ended January 1, 2017, January 3, 2016 and December 28, 2014, 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								
	January 1, 2017	January 3, 2016	December 28, 2014	January 1, 2017	January 3, 2016	December 28, 2014	January 1, 2017	January 3, 2016	December 28, 2014
	Pollo Tropical			Taco Cabana			Consolidated		
Restaurant sales:									
Pollo Tropical									