UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended October 3, 2021

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)

DE	**90-0712224**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
14800 Landmark Boulevard, Suite 500	**75254**
Dallas TX	**(Zip Code)**
(Address of principal executive office)	

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	FRGI	NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-accelerated Filer	☐	Smaller Reporting Company	☒
		Emerging Growth Company	☐

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

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

As of November 5, 2021, Fiesta Restaurant Group, Inc. had 25,961,408 shares of its common stock, $0.01 par value, outstanding.

FIESTA RESTAURANT GROUP, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED OCTOBER 3, 2021

PART I. FINANCIAL INFORMATION

ITEM 1. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	October 3, 2021	January 3, 2021
ASSETS		
Current assets:		
Cash	$ 51,978	$ 49,778
Restricted cash	3,837	3,584
Accounts receivable	5,829	4,933
Inventories	2,371	2,101
Prepaid rent	110	107
Income tax receivable	4,151	9,399
Prepaid expenses and other current assets	5,912	5,646
Current assets held for sale	—	8,478
Total current assets	74,188	84,026
Property and equipment, net	92,807	97,867
Operating lease right-of-use assets	155,809	164,665
Goodwill	56,307	56,307
Other assets	5,838	5,855
Non-current assets held for sale	—	160,023
Total assets	$ 384,949	$ 568,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 72	$ 816
Accounts payable	12,100	8,325
Accrued payroll, related taxes and benefits	8,332	9,738
Accrued real estate taxes	3,989	1,735
Other current liabilities	18,852	17,070
Current liabilities held for sale	—	27,225
Total current liabilities	43,345	64,909
Long-term debt, net of current portion	788	71,588
Operating lease liabilities	165,113	174,116
Deferred tax liabilities	2,075	2,269
Other non-current liabilities	9,640	9,757
Non-current liabilities held for sale	—	98,323
Total liabilities	220,961	420,962
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 20,000,000 shares authorized, no shares issued	—	—
Common stock, $0.01 par value; 100,000,000 shares authorized, 28,448,709 and 28,278,320 shares issued, respectively, and 25,343,973 and 25,293,149 shares outstanding, respectively	277	273
Additional paid-in capital	181,651	176,614
Retained earnings (accumulated deficit)	6,763	(8,327)
Treasury stock, at cost; 2,331,718 and 1,993,495 shares, respectively	(24,703)	(20,779)
Total stockholders' equity	163,988	147,781
Total liabilities and stockholders' equity	$ 384,949	$ 568,743

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

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED OCTOBER 3, 2021 AND SEPTEMBER 27, 2020
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Revenues:				
Restaurant sales	$ 88,014	$ 77,604	$ 266,618	$ 226,617
Franchise royalty revenues and fees	578	336	1,344	886
Total revenues	88,592	77,940	267,962	227,503
Costs and expenses:				
Cost of sales	26,984	24,614	81,843	72,666
Restaurant wages and related expenses (including stock-based compensation expense of $13, $15, $44, and $53, respectively)	24,648	18,051	66,888	54,196
Restaurant rent expense	5,924	5,585	17,625	16,885
Other restaurant operating expenses	14,740	12,228	42,260	35,575
Advertising expense	2,757	814	8,030	5,492
General and administrative (including stock-based compensation expense of $1,097, $486, $3,137, and $1,834, respectively)	11,167	9,134	32,883	28,592
Depreciation and amortization	5,328	5,425	15,291	16,373
Impairment and other lease charges	30	2,395	(224)	8,023
Closed restaurant rent expense, net of sublease income	710	934	2,426	3,315
Other expense (income), net	138	(1,353)	431	(426)
Total operating expenses	92,426	77,827	267,453	240,691
Income (loss) from operations	(3,834)	113	509	(13,188)
Interest expense	160	83	282	209
Income (loss) from continuing operations before income taxes	(3,994)	30	227	(13,397)
Provision for (benefit from) income taxes	(763)	(4,382)	1,473	(7,494)
Income (loss) from continuing operations	(3,231)	4,412	(1,246)	(5,903)
Income (loss) from discontinued operations, net of tax	20,493	181	16,336	(5,164)
Net income (loss)	$ 17,262	$ 4,593	$ 15,090	$ (11,067)
Earnings (loss) per common share:				
Continuing operations – basic	$ (0.12)	$ 0.17	$ (0.05)	$ (0.23)
Discontinued operations – basic	0.78	0.01	0.62	(0.21)
Basic	$ 0.66	$ 0.18	$ 0.57	$ (0.44)
Continuing operations – diluted	$ (0.12)	$ 0.17	$ (0.05)	$ (0.23)
Discontinued operations – diluted	0.78	0.01	0.62	(0.21)
Diluted	$ 0.66	$ 0.18	$ 0.57	$ (0.44)
Weighted average common shares outstanding:				
Basic	25,508,930	25,290,357	25,443,341	25,359,004
Diluted	25,508,930	25,291,719	25,443,341	25,359,004

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

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE AND NINE MONTHS ENDED OCTOBER 3, 2021 AND SEPTEMBER 27, 2020
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
Balance at December 29, 2019	25,612,597	$ 271	$ 173,132	$ 1,884	$ (17,051)	$ 158,236
Stock-based compensation	—	—	812	—	—	812
Vesting of restricted shares	73,998	—	—	—	—	—
Purchase of treasury stock	(500,000)	—	—	—	(3,728)	(3,728)
Net loss	—	—	—	(7,317)	—	(7,317)
Balance at March 29, 2020	25,186,595	271	173,944	(5,433)	(20,779)	148,003
Stock-based compensation	—	—	1,028	—	—	1,028
Vesting of restricted shares	101,661	2	(2)	—	—	—
Net loss	—	—	—	(8,343)	—	(8,343)
Balance at June 28, 2020	25,288,256	273	174,970	(13,776)	(20,779)	140,688
Stock-based compensation	—	—	644	—	—	644
Vesting of restricted shares	3,685	—	—	—	—	—
Net income	—	—	—	4,593	—	4,593
Balance at September 27, 2020	25,291,941	$ 273	$ 175,614	$ (9,183)	$ (20,779)	$ 145,925
Balance at January 3, 2021	25,293,149	$ 273	$ 176,614	$ (8,327)	$ (20,779)	$ 147,781
Stock-based compensation	—	—	1,163	—	—	1,163
Vesting of restricted shares	109,528	1	(1)	—	—	—
Net loss	—	—	—	(2,089)	—	(2,089)
Balance at April 4, 2021	25,402,677	274	177,776	(10,416)	(20,779)	146,855
Stock-based compensation	—	—	1,241	—	—	1,241
Vesting of restricted shares	126,791	1	(1)	—	—	—
Net loss	—	—	—	(83)	—	(83)
Balance at July 4, 2021	25,529,468	275	179,016	(10,499)	(20,779)	148,013
Stock-based compensation	—	—	2,637	—	—	2,637
Vesting of restricted shares	152,728	2	(2)	—	—	—
Purchase of treasury stock	(338,223)	—	—	—	(3,924)	(3,924)
Net income	—	—	—	17,262	—	17,262
Balance at October 3, 2021	25,343,973	$ 277	$ 181,651	$ 6,763	$ (24,703)	$ 163,988

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

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED OCTOBER 3, 2021 AND SEPTEMBER 27, 2020
(In thousands)
(Unaudited)

	Nine Months Ended	
	October 3, 2021	September 27, 2020
Operating activities:		
Net income (loss)	$ 15,090	$ (11,067)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on disposals of property and equipment, net	(217)	(1,047)
Stock-based compensation	5,041	2,484
Impairment and other lease charges (recoveries)	(92)	8,922
Loss on extinguishment of debt	5,307	212
Gain on sale of Taco Cabana	(24,066)	—
Depreciation and amortization	23,090	28,427
Amortization of deferred financing costs	506	261
Deferred income taxes	(3,325)	552
Changes in other operating assets and liabilities	(1,564)	18,230
Net cash provided by operating activities	19,770	46,974
Investing activities:		
Capital expenditures:		
New restaurant development	—	(1,846)
Restaurant remodeling	(2,020)	(1,087)
Other restaurant capital expenditures	(11,848)	(5,847)
Corporate and restaurant information systems	(1,645)	(3,136)
Total capital expenditures	(15,513)	(11,916)
Proceeds from sale of Taco Cabana	74,910	—
Proceeds from disposals of properties	1,307	2,864
Proceeds from sale-leaseback transactions	3,083	6,284
Net cash provided by (used in) investing activities	63,787	(2,768)
Financing activities:		
Borrowings on revolving credit facility	—	154,143
Repayments on revolving credit facility	—	(189,225)
Borrowings of unsecured debt	—	15,000
Repayments of unsecured debt	—	(15,000)
Repayment of secured debt	(75,000)	—
Principal payments on finance leases	(199)	(166)
Financing costs associated with debt	—	(646)
Premium associated with debt extinguishment	(2,238)	—
Payments to purchase treasury stock	(3,924)	(3,728)
Net cash used in financing activities	(81,361)	(39,622)
Net change in cash and restricted cash	2,196	4,584
Cash and restricted cash, beginning of period	53,362	13,089
Cash and restricted cash of discontinued operations, beginning of period	257	324
Cash and restricted cash of discontinued operations, end of period	—	(278)
Cash and restricted cash, end of period	$ 55,815	$ 17,719

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

FIESTA RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

1. Basis of Presentation

Business Description. Fiesta Restaurant Group, Inc. ("Fiesta Restaurant Group" or "Fiesta") owns, operates and franchises Pollo Tropical restaurants through its wholly-owned subsidiaries Pollo Operations, Inc. and Pollo Franchise, Inc. (collectively "Pollo Tropical"). Fiesta owned, operated and franchised Taco Cabana restaurants through its wholly-owned subsidiary, Taco Cabana, Inc. and its subsidiaries (collectively "Taco Cabana") through August 15, 2021. Unless the context otherwise requires, Fiesta and its subsidiaries are collectively referred to as the "Company." At October 3, 2021, the Company owned and operated 138 Pollo Tropical® restaurants located in Florida and franchised a total of 31 Pollo Tropical restaurants. The franchised Pollo Tropical restaurants include 17 in Puerto Rico, two in Panama, one in Guyana, two in Ecuador, one in the Bahamas, one in the U.S. Virgin Islands, five on college campuses in Florida, and locations at one hospital and one sports and entertainment stadium in Florida.

Discontinued Operations. On July 1, 2021, the Company entered into a stock purchase agreement for the sale of Taco Cabana, Inc. and its subsidiaries (collectively "Taco Cabana"). On August 16, 2021, the Company completed the sale of Taco Cabana. The Company has classified the revenues, costs and expenses and income taxes attributable to the Taco Cabana business segment, together with certain costs related to the transaction, within income (loss) from discontinued operations, net of tax, on the condensed consolidated statements of operations for all periods presented. See Note 2—Dispositions. Unless otherwise noted, amounts and disclosures throughout these notes to the condensed consolidated financial statements relate to the Company's continuing operations.

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

Fiscal Year. The Company uses a 52–53 week fiscal year ending on the Sunday closest to December 31. The fiscal year ended January 3, 2021 contained 53 weeks. The three and nine months ended October 3, 2021 and September 27, 2020 each contained thirteen weeks. The fiscal year ending January 2, 2022 will contain 52 weeks.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements for the three and nine months ended October 3, 2021 and September 27, 2020 have been prepared without an audit pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain information and footnotes required by U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and nine months ended October 3, 2021 and September 27, 2020 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended January 3, 2021 included in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2021. The January 3, 2021 balance sheet data is derived from those audited financial statements.

Reclassification. Certain reclassifications have been made in the 2020 condensed consolidated financial statements to conform with current year presentation related to the discontinued operations of Taco Cabana. See Note 2—Dispositions.

Guidance Adopted in 2021. In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740)* ("ASU No. 2019-12"), which is a part of the Simplification Initiative being undertaken by the FASB to reduce complexity of accounting standards. The amendments in this update simplify the accounting for income taxes by removing certain exceptions, the most notable for the Company being the exception to the general methodology for calculating income taxes in an interim period when the year-to-date loss exceeds the anticipated loss for the full year. The Company adopted this new accounting standard on January 4, 2021, and will apply it prospectively in each period after the date of adoption. The impact of the standard is largely dependent on interim and anticipated profit or loss in a given period, however the Company does not expect ASU No. 2019-12 to have a significant impact on its financial statements.

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

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

- *Current Assets and Liabilities.* The carrying values reported on the condensed consolidated balance sheets of cash and restricted cash, accounts receivable and accounts payable approximate fair value because of the short maturity of those financial instruments.
- *Term Loan Borrowings.* The fair value of outstanding term loan borrowings under the Company's new senior credit facility, which is considered Level 2, is based on current LIBOR rates. The fair value of the Company's senior credit facility was approximately $74.4 million at January 3, 2021. The carrying value of the Company's senior credit facility was $71.5 million at January 3, 2021.

Long-Lived Assets. The Company assesses the recoverability of property and equipment and definite-lived intangible assets, including right-of-use ("ROU") lease assets, by determining whether the carrying value of these assets can be recovered over their respective remaining lives through undiscounted future operating cash flows. Impairment is reviewed whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. See Note 4—Impairment of Long-Lived Assets and Other Lease Charges.

Leases. The Company assesses whether an agreement contains a lease at inception. All leases are reviewed for finance or operating classification once control is obtained. The majority of the Company's leases are operating leases. Operating leases are included within operating lease right-of-use assets, other current liabilities, and operating lease liabilities in the condensed consolidated balance sheets. Finance leases are included within property and equipment, net, current portion of long-term debt, and long-term debt, net of current portion in the condensed consolidated balance sheets. Operating and financing leases related to discontinued operations are included within non-current assets held for sale, current liabilities held for sale, and non-current liabilities held for sale in the condensed consolidated balance sheet as of January 3, 2021.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The operating lease ROU asset also includes any lease payments made in advance and is reduced by lease incentives received. As most leases do not provide an implicit rate, the Company uses its incremental borrowing rate at commencement date in determining the present value of lease payments. Lease terms include options to extend the lease when it is reasonably certain that the Company will exercise that option. The Company assumes options are reasonably certain to be exercised when such options are required to achieve a minimum 20-year lease term for new restaurant properties and when it incurs significant leasehold improvement costs near the end of a lease term. The Company uses judgment and available data to allocate consideration in a contract when it leases land and a building. The Company also uses judgment in determining its incremental borrowing rate, which includes selecting a yield curve based on a synthetic credit rating determined using a valuation model. Lease expense for lease payments is recognized on a straight-line basis over the lease term unless the related ROU asset has been adjusted for an impairment charge. The Company has real estate lease agreements with lease and non-lease components, which are accounted for as a single lease component.

Use of Estimates. The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements. Estimates also affect the reported amounts of expenses during the reporting periods. Significant items subject to such estimates and assumptions include: insurance liabilities, evaluation for impairment of goodwill and long-lived assets, lease accounting matters, and deferred income tax assets. Actual results could differ from those estimates. Due to the uncertainty associated with the unprecedented nature of the COVID-19 pandemic and the impact it will have on the Company's operations and future cash flows, it is reasonably possible that the estimates of future cash flows used in impairment assessments will change in the near term and the effect of the change could be material.

2. Dispositions

On June 30, 2021, the Company's Board of Directors approved a stock purchase agreement, which was subsequently entered into by the Company on July 1, 2021, for the sale of all of the outstanding capital stock of Taco Cabana, Inc., including nearly all related assets and liabilities, for a cash purchase price of $85.0 million subject to reduction for (i) closing adjustments of approximately $4.6 million and (ii) certain other working capital adjustments as set forth in the stock purchase agreement. The transaction was completed August 16, 2021, and the Company recognized a gain on the sale of Taco Cabana of $24.1 million during the three months ended October 3, 2021, which is included within income from discontinued operations, net of tax, in the condensed consolidated statements of operations. Working capital adjustments are expected to be finalized in the fourth quarter of 2021.

The assets and liabilities of Taco Cabana that were sold are classified as current assets held for sale, non-current assets held for sale, current liabilities held for sale, and non-current liabilities held for sale, respectively, in the condensed consolidated balance sheet as of January 3, 2021.

All revenues, costs and expenses and income taxes attributable to Taco Cabana, together with certain costs related to the transaction, have been aggregated within income (loss) from discontinued operations, net of tax, in the condensed consolidated statements of operations for all periods presented. No amounts for shared general and administrative operating support expense were allocated to discontinued operations. Depreciation and amortization related to Taco Cabana property and equipment and lease ROU assets was not recorded after June 30, 2021, when Taco Cabana was classified as held for sale. As required by the terms of the senior credit facility, the proceeds from the sale were used to fully repay Fiesta's outstanding term loan borrowings on August 16, 2021. The early repayment was subject to a 103% loan prepayment premium. Interest expense and amortization of discount and debt issuance costs related to the term loan portion of the senior credit facility are included within income (loss) from discontinued operations, net of tax.

Upon completion of the sale of Taco Cabana, the Company began providing certain services to Taco Cabana subject to a transition services agreement which is expected to continue for up to 120 days. The Company recognized $0.3 million in income under the transition services agreement for the three months ended October 3, 2021, which was recorded as a reduction to general and administrative expense. The Company retained certain closed Taco Cabana restaurant leases, including the associated operating lease right-of-use assets and operating lease liabilities. The Company also retained liability for Taco Cabana's accrued worker's compensation and general liability claims for periods prior to the sale. These liabilities are recognized in other current liabilities and other non-current liabilities in the condensed consolidated balance sheets. As there are estimates and assumptions inherent in recording these insurance liabilities, including the ability to estimate the future development of incurred claims based on historical trends or the severity of the claims, differences between actual future events and prior estimates and assumptions could result in adjustments to these liabilities.

(Dollars in thousands, except per share data)

A summary of assets and liabilities of the discontinued operations is as follows:

		January 3, 2021
Carrying amount of major classes of assets included as part of discontinued operations:		
Accounts receivable	$	3,951
Inventories		2,104
Prepaid expenses and other current assets		2,423
Total current assets of the disposal group classified as held for sale		8,478
Property and equipment, net		63,214
Operating lease right-of-use assets		96,639
Other assets		170
Total non-current assets of the disposal group classified as held for sale		160,023
Total assets of the disposal group classified as held for sale	$	168,501
Carrying amount of major classes of liabilities included as part of discontinued operations:		
Current portion of long-term debt	$	199
Accounts payable		5,014
Accrued liabilities		9,363
Other current liabilities		12,649
Total current liabilities of the disposal group classified as held for sale		27,225
Long-term debt, net of current portion		740
Operating lease liabilities		93,970
Deferred tax liabilities		1,840
Other non-current liabilities		1,773
Total non-current liabilities of the disposal group classified as held for sale		98,323
Total liabilities of the disposal group classified as held for sale	$	125,548

(Dollars in thousands, except per share data)

A summary of the results of the discontinued operations is as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Major classes of line items constituting pretax loss of discontinued operations:				
Revenues:				
Total revenues	$ 29,463	$ 59,392	$ 152,339	$ 178,396
Costs and expenses:				
Cost of sales	8,872	17,138	43,480	53,169
Restaurant wages and related expenses (including stock-based compensation expense of $122, $32, $172, and $99, respectively)	10,054	17,494	48,399	55,591
Restaurant rent expense	1,582	5,589	12,995	16,907
Other restaurant operating expenses	5,364	8,910	24,814	26,063
General and administrative (including stock-based compensation expense of $1,405, $111, $1,688, and $498, respectively)	3,451	2,721	11,442	9,935
Depreciation and amortization	—	4,007	7,799	12,054
Pre-opening costs	—	—	—	69
Other income and expense items that are not major	490	1,824	4,871	7,808
Total operating expenses	29,813	57,683	153,800	181,596
Income (loss) from operations	(350)	1,709	(1,461)	(3,200)
Interest expense	810	1,089	4,678	3,161
Gain on sale of Taco Cabana	(24,066)	—	(24,066)	—
Loss on extinguishment of debt	5,307	212	5,307	212
Income (loss) from discontinued operations before income taxes	17,599	408	12,620	(6,573)
Provision for (benefit from) income taxes	(2,894)	227	(3,716)	(1,409)
Income (loss) from discontinued operations, net of tax	$ 20,493	$ 181	$ 16,336	$ (5,164)

(Dollars in thousands, except per share data)

A summary of significant investing activity and non-cash operating, investing, and financing activity of the discontinued operations from the condensed consolidated statements of cash flows is as follows:

	Nine Months Ended	
	October 3, 2021	September 27, 2020
Non-cash operating activities:		
Gain on disposals of property and equipment, net	$ (217)	$ (50)
Stock-based compensation	1,860	597
Impairment and other lease charges	132	899
Loss on extinguishment of debt	5,307	212
Gain on sale of Taco Cabana	(24,066)	—
Depreciation and amortization	7,799	12,054
Investing activities:		
Capital expenditures:		
New restaurant development	$ —	$ (854)
Restaurant remodeling	(1,283)	(730)
Other restaurant capital expenditures	(5,050)	(2,621)
Corporate and restaurant information systems	(169)	(1,139)
Total capital expenditures	(6,502)	(5,344)
Proceeds from sale of Taco Cabana	74,910	—
Proceeds from disposals of properties	1,307	1,193
Proceeds from sale-leaseback transactions	3,083	—
Net cash provided by (used in) investing activities – discontinued operations	$ 72,798	$ (4,151)
Supplemental cash flow disclosures:		
Interest paid on long-term debt	$ 4,338	$ 2,891
Supplemental cash flow disclosures of non-cash investing and financing activities:		
Accruals for capital expenditures	$ 410	$ 735
Accruals for financing costs associated with debt amendment	—	154
Right-of-use assets obtained in exchange for lease liabilities:		
Operating lease ROU assets	5,156	14,225
Finance lease ROU assets	—	33
Right-of-use assets and lease liabilities reduced for terminated leases:		
Operating lease ROU assets	2,695	628
Operating lease liabilities	3,443	872

(Dollars in thousands, except per share data)

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	October 3, 2021	January 3, 2021
Prepaid contract expenses	$ 3,834	$ 4,138
Other	2,078	1,508
	$ 5,912	$ 5,646

4. Impairment of Long-Lived Assets and Other Lease Charges

The Company reviews its long-lived assets, principally property and equipment and lease ROU assets, for impairment at the restaurant level. The Company has elected to exclude operating lease payments and liabilities from future cash flows and carrying values, respectively, in its impairment review. In addition to considering management's plans, known regulatory or governmental actions and damage due to acts of God (hurricanes, tornadoes, etc.), the Company considers a triggering event to have occurred related to a specific restaurant if the restaurant's cash flows, exclusive of operating lease payments, for the last twelve months are less than a minimum threshold or if consistent levels of cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. If an indicator of impairment exists for any of its assets, an estimate of undiscounted future cash flows, exclusive of operating lease payments, over the life of the primary asset for each restaurant is compared to that long-lived asset group's carrying value, excluding operating lease liabilities. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. There is uncertainty in the projected undiscounted future cash flows used in the Company's impairment review analysis. If actual performance does not achieve the projections, the Company may recognize impairment charges in future periods, and such charges could be material.

A summary of impairment of long-lived assets and other lease charges (recoveries) is as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Impairment of long-lived assets	$ 30	$ 2,555	$ 172	$ 7,318
Other lease charges (recoveries)	—	(160)	(396)	705
	$ 30	$ 2,395	$ (224)	$ 8,023

Impairment and other lease charges for the three and nine months ended October 3, 2021 include impairment charges related primarily to impairment of equipment from previously impaired and closed restaurants. Additionally, impairment and other lease charges for the nine months ended October 3, 2021 include gains from lease terminations of $(0.4) million.

Impairment charges for the three months ended September 27, 2020 related primarily to the write-down of saucing islands and self-service soda machines that were removed from dining rooms as a result of COVID-19. For the nine months ended September 27, 2020, impairment charges also include the impairment of assets from three underperforming Pollo Tropical restaurants, two of which were closed in the third quarter of 2020, for which continued sales declines coupled with the impact of expected sales declines resulted in a decrease in the estimated future cash flows and the write-down of assets held for sale to their fair value less costs to sell. For the three months ended September 27, 2020, other lease charges related primarily to a gain from lease terminations of $(0.2) million. For the nine months ended September 27, 2020, other lease charges also included lease termination charges of $0.9 million for restaurant locations the Company decided not to develop.

(Dollars in thousands, except per share data)

The Company determines the fair value of restaurant equipment, for those restaurants reviewed for impairment, based on current economic conditions, the Company's history of using these assets in the operation of its business and the Company's expectation of how a market participant would value the assets. In addition, for those restaurants reviewed for impairment where the Company owns the land and building, the Company utilizes third-party information such as a broker quoted value to determine the fair value of the property, when applicable. The Company also utilizes discounted future cash flows to determine the fair value of assets for certain leased restaurants with positive discounted projected future cash flows. The Company utilizes current market lease rent and discount rates to determine the fair value of right-of-use lease assets. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. Impairment charges for the nine months ended October 3, 2021 related primarily to impairment of equipment from previously impaired restaurants.

5. Other Liabilities

Other current liabilities consist of the following:

	October 3, 2021	January 3, 2021
Operating lease liabilities	$ 10,189	$ 9,715
Accrued workers' compensation and general liability claims	3,354	3,619
Sales and property taxes	1,411	1,209
Accrued occupancy costs[1]	212	269
Other	3,686	2,258
	$ 18,852	$ 17,070

[1] Accrued occupancy costs primarily consisted of obligations pertaining to closed restaurant locations.

Other non-current liabilities consist of the following:

	October 3, 2021	January 3, 2021
Accrued workers' compensation and general liability claims	$ 6,791	$ 6,791
Accrued payroll taxes[1]	1,530	1,318
Deferred compensation	293	491
Other	1,026	1,157
	$ 9,640	$ 9,757

[1] Includes employer Social Security payroll tax deferred as a result of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act").

The following table presents the activity in the closed restaurant reserve, which is included within other current liabilities on the condensed consolidated balance sheets at October 3, 2021 and January 3, 2021.

	Nine Months Ended October 3, 2021	Year Ended January 3, 2021
Balance, beginning of period	$ 163	$ 528
Payments, net	(14)	(178)
Other adjustments	(50)	(187)
Balance, end of period	$ 99	$ 163

6. Stockholders' Equity

Purchase of Treasury Stock

In 2018, the Company's board of directors approved a share repurchase program for up to 1,500,000 shares of the Company's common stock. In 2019, the Company's board of directors approved increases to the share repurchase program of an additional 1,500,000 shares of the Company's common stock for an aggregate approval of 3,000,000 shares of the Company's common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by the Company's board of directors. The Company repurchased 338,223 shares of common stock valued at approximately $3.9 million and 500,000 shares of common stock valued at approximately $3.7 million during the nine months ended October 3, 2021 and September 27, 2020, respectively. The shares repurchased in 2020 were purchased on or before March 12, 2020. The repurchased shares are held as treasury stock at cost.

Stock-Based Compensation

On April 28, 2021, the stockholders of the Company approved the Fiesta Restaurant Group, Inc. 2021 Stock Incentive Plan (the "2021 Plan"). Following a grant of a total 37,874 shares to non-employee directors under the Company's 2012 Stock Incentive Plan (the "2012 Plan") on April 28, 2021, no additional shares will be granted under the 2012 Plan. During the nine months ended October 3, 2021, the Company did not grant any shares under the 2021 Plan.

During the nine months ended October 3, 2021, the Company granted certain employees and non-employee directors a total of 191,872 non-vested restricted shares under the 2012 Plan, of which 37,820 non-vested restricted shares related to discontinued operations. The shares granted to employees vest and become non-forfeitable over a four-year vesting period. The shares granted to non-employee directors vest and become non-forfeitable over a one-year vesting period. The weighted average fair value at grant date for non-vested shares issued during the nine months ended October 3, 2021 and September 27, 2020 was $16.83 and $8.27 per share, respectively.

During the nine months ended October 3, 2021, the Company also granted certain employees a total of 64,089 restricted stock units under the 2012 Plan subject to performance conditions, of which 4,619 restricted stock units related to discontinued operations. The restricted stock units vest and become non-forfeitable at the end of a three-year vesting period. The number of shares into which these restricted stock units convert is based on the attainment of certain financial performance conditions and ranges from no shares, if the minimum performance condition is not met, to 128,178 shares if the maximum performance condition is met. The weighted average fair value at grant date for the restricted stock units granted in the nine months ended October 3, 2021 was $17.43 per share.

During the nine months ended October 3, 2021, vested and released shares include restricted shares and restricted stock units that vested as a result of the Taco Cabana sale in the third quarter of 2021.

Stock-based compensation expense for the three and nine months ended October 3, 2021 was $1.1 million and $3.2 million, respectively, and for the three and nine months ended September 27, 2020 was $0.5 million and $1.9 million, respectively. Stock-based compensation expense from discontinued operations for the three and nine months ended October 3, 2021 was $1.5 million and $1.9 million, respectively, and for the three and nine months ended September 27, 2020 was $0.1 million and $0.6 million, respectively. At October 3, 2021, the total unrecognized stock-based compensation expense related to non-vested restricted shares and restricted stock units was approximately $6.9 million. At October 3, 2021, the remaining weighted average vesting period for non-vested restricted shares was 1.9 years and restricted stock units was 2.4 years.

(Dollars in thousands, except per share data)

A summary of all non-vested restricted shares and restricted stock units activity for the nine months ended October 3, 2021 is as follows:

	Non-Vested Shares		Restricted Stock Units	
	Shares	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Outstanding at January 3, 2021	991,676	$ 10.26	150,585	$ 9.49
Granted	191,872	16.83	64,089	17.43
Vested and released	(387,017)	11.45	(2,030)	20.75
Forfeited	(23,513)	12.90	(148,469)	9.32
Outstanding at October 3, 2021	773,018	$ 11.21	64,175	$ 17.45

The fair value of non-vested restricted shares and restricted stock units granted during the nine months ended October 3, 2021, is based on the closing stock price on the date of grant.

7. Business Segment Information

Prior to the sale of our Taco Cabana brand on August 16, 2021, the Company owned, operated and franchised two restaurant brands, Pollo Tropical® and Taco Cabana®, each of which was an operating segment. Pollo Tropical restaurants feature fire-grilled and crispy citrus marinated chicken and other freshly prepared menu items, while Taco Cabana restaurants specialize in Mexican-inspired food with most items made fresh. Following the sale of the Taco Cabana operating segment, Pollo Tropical is the only operating segment.

The segment's accounting policies are described in the summary of significant accounting policies in Note 1 to the Company's audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2021. The primary measure of segment profit or loss used by the chief operating decision maker to assess performance and allocate resources is Adjusted EBITDA, which is defined as earnings attributable to the applicable operating segments before interest expense, income taxes, depreciation and amortization, impairment and other lease charges, goodwill impairment, closed restaurant rent expense, net of sublease income, stock-based compensation expense, other expense (income), net, and certain significant items for each segment that management believes are related to strategic changes and/or are not related to the ongoing operation of the Company's restaurants as set forth in the reconciliation table below.

The "Other" column includes corporate-related items not allocated to the reportable segment and consists primarily of corporate-owned property and equipment, lease assets, miscellaneous prepaid costs, capitalized costs associated with the issuance of indebtedness, corporate cash accounts, and a current income tax receivable. The "Other" column also includes corporate costs that were previously allocated to Taco Cabana and are not included in discontinued operations.

(Dollars in thousands, except per share data)

Three Months Ended	Pollo Tropical	Other	Continuing Operations
October 3, 2021:			
Restaurant sales	$ 88,014	$ —	$ 88,014
Franchise revenue	578	—	578
Cost of sales	26,984	—	26,984
Restaurant wages and related expenses(1)	24,648	—	24,648
Restaurant rent expense	5,924	—	5,924
Other restaurant operating expenses	14,671	69	14,740
Advertising expense	2,757	—	2,757
General and administrative expense(2)	8,341	2,826	11,167
Adjusted EBITDA	6,324	(2,649)	3,675
Depreciation and amortization	5,060	268	5,328
Capital expenditures	3,357	48	3,405
September 27, 2020:			
Restaurant sales	$ 77,604	$ —	$ 77,604
Franchise revenue	336	—	336
Cost of sales	24,614	—	24,614
Restaurant wages and related expenses(1)	18,051	—	18,051
Restaurant rent expense	5,585	—	5,585
Other restaurant operating expenses	12,125	103	12,228
Advertising expense	815	(1)	814
General and administrative expense(2)	6,604	2,530	9,134
Adjusted EBITDA	10,621	(2,451)	8,170
Depreciation and amortization	5,171	254	5,425
Capital expenditures	1,457	72	1,529

FIESTA RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share data)

Nine Months Ended	Pollo Tropical	Other	Continuing Operations
October 3, 2021:			
Restaurant sales	$ 266,618	$ —	$ 266,618
Franchise revenue	1,344	—	1,344
Cost of sales	81,843	—	81,843
Restaurant wages and related expenses[1]	66,888	—	66,888
Restaurant rent expense	17,625	—	17,625
Other restaurant operating expenses	41,955	305	42,260
Advertising expense	8,030	—	8,030
General and administrative expense[2]	24,556	8,327	32,883
Adjusted EBITDA	30,620	(8,144)	22,476
Depreciation and amortization	14,842	449	15,291
Capital expenditures	8,418	593	9,011
September 27, 2020:			
Restaurant sales	$ 226,617	$ —	$ 226,617
Franchise revenue	886	—	886
Cost of sales	72,666	—	72,666
Restaurant wages and related expenses[1]	54,196	—	54,196
Restaurant rent expense	16,885	—	16,885
Other restaurant operating expenses	35,225	350	35,575
Advertising expense	5,497	(5)	5,492
General and administrative expense[2]	20,630	7,962	28,592
Adjusted EBITDA	24,394	(7,478)	16,916
Depreciation and amortization	15,682	691	16,373
Capital expenditures	5,501	1,071	6,572
Identifiable Assets:			
October 3, 2021	$ 314,824	$ 70,125	$ 384,949
January 3, 2021	311,942	88,300	400,242

(1) Continuing operations includes stock-based compensation expense of $13 and $44 for the three and nine months ended October 3, 2021, respectively, and $15 and $53 for the three and nine months ended September 27, 2020, respectively.

(2) Continuing operations includes stock-based compensation expense of $1,097 and $3,137 for the three and nine months ended October 3, 2021, respectively, and $486 and $1,834 for the three and nine months ended September 27, 2020, respectively.

(Dollars in thousands, except per share data)

A reconciliation of consolidated net loss to Adjusted EBITDA follows:

Three Months Ended	Pollo Tropical	Other	Continuing Operations
October 3, 2021:			
Net income			$ 17,262
Income from discontinued operations, net of tax			(20,493)
Benefit from income taxes			(763)
Loss before taxes	$ (1,011)	$ (2,983)	$ (3,994)
Add:			
Non-general and administrative adjustments:			
Depreciation and amortization	5,060	268	5,328
Impairment and other lease charges	30	—	30
Interest expense	502	(342)	160
Closed restaurant rent expense, net of sublease income	566	144	710
Other expense (income), net	120	18	138
Stock-based compensation expense	13	—	13
Total non-general and administrative adjustments	6,291	88	6,379
General and administrative adjustments:			
Stock-based compensation expense	670	427	1,097
Restructuring costs and retention bonuses	60	(60)	—
Digital and brand repositioning costs	193	—	193
Transaction costs	121	(121)	—
Total general and administrative adjustments	1,044	246	1,290
Adjusted EBITDA	$ 6,324	$ (2,649)	$ 3,675
September 27, 2020:			
Net income			$ 4,593
Income from discontinued operations, net of tax			(181)
Benefit from income taxes			(4,382)
Income (loss) before taxes	$ 3,035	$ (3,005)	$ 30
Add:			
Non-general and administrative adjustments:			
Depreciation and amortization	5,171	254	5,425
Impairment and other lease charges	2,395	—	2,395
Interest expense	593	(510)	83
Closed restaurant rent expense, net of sublease income	356	578	934
Other expense (income), net	(1,404)	51	(1,353)
Stock-based compensation expense	15	—	15
Total non-general and administrative adjustments	7,126	373	7,499
General and administrative adjustments:			
Stock-based compensation expense	307	179	486
Restructuring costs and retention bonuses	99	2	101
Digital and brand repositioning costs	54	—	54
Total general and administrative adjustments	460	181	641
Adjusted EBITDA	$ 10,621	$ (2,451)	$ 8,170

FIESTA RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share data)

Nine Months Ended	Pollo Tropical	Other	Continuing Operations
October 3, 2021:			
Net income			$ 15,090
Income from discontinued operations, net of tax			(16,336)
Provision for income taxes			1,473
Income (loss) before taxes	$ 8,260	$ (8,033)	$ 227
Add:			
Non-general and administrative adjustments:			
Depreciation and amortization	14,842	449	15,291
Impairment and other lease charges	(192)	(32)	(224)
Interest expense	2,466	(2,184)	282
Closed restaurant rent expense, net of sublease income	1,373	1,053	2,426
Other expense (income), net	316	115	431
Stock-based compensation expense	44	—	44
Total non-general and administrative adjustments	18,849	(599)	18,250
General and administrative adjustments:			
Stock-based compensation expense	1,912	1,225	3,137
Restructuring costs and retention bonuses	78	(60)	18
Digital and brand repositioning costs	844	—	844
Transaction costs	677	(677)	—
Total general and administrative adjustments	3,511	488	3,999
Adjusted EBITDA	$ 30,620	$ (8,144)	$ 22,476
September 27, 2020:			
Net loss			$ (11,067)
Loss from discontinued operations, net of tax			5,164
Benefit from income taxes			(7,494)
Loss before taxes	$ (3,978)	$ (9,419)	$ (13,397)
Add:			
Non-general and administrative adjustments:			
Depreciation and amortization	15,682	691	16,373
Impairment and other lease charges	8,023	—	8,023
Interest expense	1,701	(1,492)	209
Closed restaurant rent expense, net of sublease income	1,629	1,686	3,315
Other expense (income), net	(653)	227	(426)
Stock-based compensation expense	53	—	53
Total non-general and administrative adjustments	26,435	1,112	27,547
General and administrative adjustments:			
Stock-based compensation expense	1,140	694	1,834
Restructuring costs and retention bonuses	551	135	686
Digital and brand repositioning costs	246	—	246
Total general and administrative adjustments	1,937	829	2,766
Adjusted EBITDA	$ 24,394	$ (7,478)	$ 16,916

(Dollars in thousands, except per share data)

8. Earnings (Loss) Per Share

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

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

All outstanding restricted stock units in the three months ended October 3, 2021 were performance based awards. For the nine months ended October 3, 2021 and September 27, 2020, all shares of outstanding restricted stock units were excluded from the computation of diluted EPS because including these restricted stock units would have been antidilutive as a result of the loss from continuing operations in the nine months ended October 3, 2021 and September 27, 2020. For the three months ended September 27, 2020, no shares of outstanding restricted stock units were excluded from the computation of diluted EPS because none were antidilutive.

The computation of basic and diluted EPS is as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Basic and diluted EPS:				
Income (loss) from continuing operations	$ (3,231)	$ 4,412	$ (1,246)	$ (5,903)
Income (loss) from discontinued operations	20,493	181	16,336	(5,164)
Net income (loss)	$ 17,262	$ 4,593	$ 15,090	$ (11,067)
Less: income allocated to participating securities	542	112	523	—
Net income (loss) available to common shareholders	$ 16,720	$ 4,481	$ 14,567	$ (11,067)
Weighted average common shares—basic	25,508,930	25,290,357	25,443,341	25,359,004
Restricted stock units	—	1,362	—	—
Weighted average common shares—diluted	25,508,930	25,291,719	25,443,341	25,359,004
Earnings (loss) from continuing operations per common share—basic	$ (0.12)	$ 0.17	$ (0.05)	$ (0.23)
Earnings (loss) from discontinued operations per common share—basic	0.78	0.01	0.62	(0.21)
Earnings (loss) per common share—basic	$ 0.66	$ 0.18	$ 0.57	$ (0.44)
Earnings (loss) from continuing operations per common share—diluted	$ (0.12)	$ 0.17	$ (0.05)	$ (0.23)
Earnings (loss) from discontinued operations per common share—diluted	0.78	0.01	0.62	(0.21)
Earnings (loss) per common share—diluted	$ 0.66	$ 0.18	$ 0.57	$ (0.44)

9. Commitments and Contingencies

Lease Assignments. Pollo Tropical assigned two leases to third parties on properties where it no longer operates with lease terms expiring in 2033 and 2036. Although the assignees are responsible for making the payments required by the lease, the Company is a guarantor under the leases.

The maximum potential liability for future rental payments that the Company could be required to make under these leases at October 3, 2021 was $4.8 million. The Company could also be obligated to pay property taxes and other lease-related costs. The obligations under these leases will generally continue to decrease over time as the operating leases expire. The Company does not believe it is probable that it will be ultimately responsible for the obligations under these leases.

Indemnity of Lease Guarantees. As discussed in Note 2—Dispositions, Taco Cabana, Inc., a former wholly-owned subsidiary of the Company, was sold in 2021 to YTC Enterprises through a stock purchase agreement. The Company's previous owners, Carrols Restaurant Group, Inc. ("Carrols") remains a guarantor under 14 Taco Cabana restaurant property leases with lease terms expiring on various dates through 2030, of which all but one are still operating, as of October 3, 2021. The Company has indemnified Carrols for all obligations under the guarantees per the terms of the Separation and Distribution Agreement entered into in connection with the spin-off of Fiesta. The Company remains liable for all obligations under the terms of the leases in the event YTC Enterprises fails to pay any sums due under the lease, subject to indemnification provisions under the stock purchase agreement.

The maximum potential amount of future undiscounted rental payments the Company could be required to make under these leases at October 3, 2021 was $11.8 million. The obligations under these leases will generally continue to decrease over time as these operating leases expire, except for any execution of renewal options that exist under the original leases. No payments related to these guarantees have been made by the Company to date and none are expected to be required to be made in the future. YTC Enterprises has indemnified the Company for all such obligations and the Company does not believe it is probable it will be required to perform under any of the guarantees or direct obligations.

Legal Matters. The Company is a party to various litigation matters incidental to the conduct of business. The Company does not believe that the outcome of any of these matters will have a material effect on its condensed consolidated financial statements. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability.

Insurance Matter. The Company filed an insurance claim for winter storm damages in Texas and will record the insurance proceeds when the claim is resolved.

10. Income Taxes

Tax Law Changes. On March 27, 2020, the CARES Act was signed into law. The CARES Act includes provisions that allow net operating losses in 2018, 2019, and 2020 to be carried back for up to five years and eliminates the 80% taxable income limitation on net operating loss deductions for 2018 through 2020. These changes allowed the Company to record an incremental benefit of $1.8 million during the first quarter of 2020 and $0.1 million during the third quarter of 2020, which represents the impact of carrying net operating losses from 2018 and 2019 back to years with a higher federal corporate income tax rate.

The CARES Act also includes technical amendments that are retroactive to 2018 which permit certain assets to be classified as qualified improvement property and expensed immediately. Reclassifying certain assets as qualified improvement property and other changes to depreciation methods for certain assets made in conjunction with a cost segregation study conducted prior to filing the Company's 2019 federal income tax return resulted in an incremental benefit of $1.9 million, which was recorded in the third quarter of 2020.

The Company is currently under examination by the Internal Revenue Service for the tax years 2014–2017 and 2019. It is not currently under examination by any other taxing jurisdictions. The tax years 2013–2020 remain open to examination by the taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to uncertainties regarding the timing of any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

(Dollars in thousands, except per share data)

11. Related Party Transactions

The Company engaged Jefferies LLC ("Jefferies"), an affiliate of one of the current members of Fiesta's board of directors, and a subsidiary of Jefferies Financial Group, Inc, a holder of more than 20 percent of the total outstanding shares of Fiesta, in the third quarter of 2020 in connection with a refinancing of the Company's former amended senior credit facility in 2020 and advisory services related to the sale of Taco Cabana. The engagement of Jefferies and the corresponding engagement letter was approved by the Audit Committee in accordance with the Company's Related Party Transaction Policy as disclosed in its most recent proxy statement for the Annual Meeting of Stockholders. The Company paid fees of $1.7 million to Jefferies and reimbursed Jefferies for reasonable out of pocket and ancillary expenses of less than $0.1 million when the refinancing was completed in the fourth quarter of 2020. The Company paid Jefferies a transaction advisory fee of $2.0 million upon the sale of Taco Cabana. As of October 3, 2021 and January 3, 2021, there were no amounts due to the related party recognized on the condensed consolidated balance sheets.

12. Supplemental Cash Flow Information

The following table details supplemental cash flow disclosures of non-cash investing and financing activities from continuing operations:

	Nine Months Ended	
	October 3, 2021	September 27, 2020
Supplemental cash flow disclosures:		
Interest paid on long-term debt	$ 178	$ 204
Income tax payments (refunds), net	(6,253)	(2,155)
Supplemental cash flow disclosures of non-cash investing and financing activities:		
Accruals for capital expenditures	$ 2,357	$ 1,091
Right-of-use assets obtained in exchange for lease liabilities:		
Operating lease ROU assets	2,956	14,573
Right-of-use assets and lease liabilities reduced for terminated leases:		
Operating lease ROU assets	2,288	1,759
Operating lease liabilities	2,793	1,971
Cash and restricted cash reconciliation:		
Beginning of period		
Cash	$ 49,778	$ 13,089
Restricted cash	3,584	—
Cash and restricted cash, beginning of period	$ 53,362	$ 13,089
End of period		
Cash	$ 51,978	$ 17,719
Restricted cash	3,837	—
Cash and restricted cash, end of period	$ 55,815	$ 17,719

13. Recent Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)* ("ASU No. 2020-04"), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update are effective as of March 12, 2020 through December 31, 2022. As of October 3, 2021, the Company's only exposure to LIBOR rates was the undrawn $10.0 million revolving credit facility under its senior credit facility. Upon cessation of the LIBOR, the new senior credit facility would use a benchmark replacement rate. According to ASU No. 2020-04, modifications of contracts within the scope of Topic 470 *Debt* should be accounted for by prospectively adjusting the effective interest rate. The Company does not expect ASU No. 2020-04 to have a significant impact on its financial statements.

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

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

We use a 52–53 week fiscal year ending on the Sunday closest to December 31. The fiscal year ended January 3, 2021 contained 53 weeks. The three and nine months ended October 3, 2021 and September 27, 2020 each contained thirteen weeks. The fiscal year ending January 2, 2022 will contain 52 weeks.

Company Overview

Prior to the sale of our Taco Cabana brand on August 16, 2021, we owned, operated and franchised two restaurant brands, Pollo Tropical® and Taco Cabana®, which have over 30 and 40 years, respectively, of operating history and loyal customer bases. Our Pollo Tropical restaurants feature fire-grilled and crispy citrus marinated chicken and other freshly prepared menu items, while Taco Cabana restaurants specialize in Mexican-inspired food with most items made fresh. The Taco Cabana brand is included in discontinued operations in the condensed consolidated financial statements for all periods presented. We believe that Pollo Tropical offers a distinct and unique flavor with broad appeal at a compelling value, which differentiates it in the competitive fast-casual and quick-service restaurant segments. Nearly all of our restaurants offer the convenience of drive-thru windows. As of October 3, 2021, we operated 138 Pollo Tropical Company-owned restaurants, all of which are located in Florida.

We franchise our Pollo Tropical restaurants primarily internationally and as of October 3, 2021, we had 24 franchised Pollo Tropical restaurants located in Puerto Rico, Panama, Guyana, Ecuador, the Bahamas, and the U.S. Virgin Islands, five on college campuses in Florida, and locations at a hospital and a sports and entertainment stadium in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets.

Recent Events Affecting Our Results of Operations

Sale of Taco Cabana

On July 1, 2021, we entered into a stock purchase agreement for the sale of all outstanding capital stock of Taco Cabana, Inc., the parent company of the Taco Cabana business, for a cash purchase price of $85.0 million, subject to reduction for (i) closing adjustments of approximately $4.6 million related to maintenance and repair work at the Taco Cabana restaurants and landscaping replacement as a result of Winter Storm Uri, and (ii) certain other working capital adjustments as set forth in the stock purchase agreement (the "Taco Cabana Divestiture"). The transaction was completed August 16, 2021, and the Company recognized a gain on the sale of Taco Cabana of $24.1 million during the three months ended October 3, 2021, which is included within income from discontinued operations, net of tax, in the condensed consolidated statements of operations. See Note 2—Dispositions in our unaudited condensed consolidated financial statements.

Proceeds from the sale were used to fully repay Fiesta's approximately $74.6 million of outstanding term loan borrowings under our senior credit facility and to pay divestiture transaction fees and a loan prepayment premium totaling approximately $4.2 million, comprised of a loan prepayment fee of 3.0% of the principal repaid of $2.2 million and divestiture transaction fees estimated at approximately $2.0 million.

All revenues, costs and expenses and income taxes attributable to Taco Cabana, together with the gain on the sale of Taco Cabana and certain costs related to the transaction, have been aggregated within income (loss) from discontinued operations, net of tax, in the condensed consolidated statements of operations for all periods presented. No amounts for shared general and administrative operating support expense were allocated to discontinued operations. Interest expenses, the amortization of premiums and debt issuance costs of the senior credit facility and the loss on extinguishment of the senior credit facility are included within income (loss) from discontinued operations, net of tax. The results from discontinued operations are presented separately from the results from continuing operations within MD&A. Unless otherwise noted, amounts and disclosures throughout the MD&A relate to the Company's continuing operations.

COVID-19 Pandemic

The novel coronavirus (COVID-19) pandemic has affected and is continuing to affect the restaurant industry and the economy. In response to COVID-19 and in compliance with governmental restrictions, we closed the dining room seating areas in all restaurants, limiting service to take-out, drive-thru, and delivery operations beginning in mid-March 2020. We re-opened certain dining rooms with limited capacity and hours during certain times in the second half of 2020. In 2021, we re-opened substantially all remaining dining rooms with limited hours by the end of February.

We currently do not expect sales trends to significantly deteriorate further, although there can be no assurance that sales trends will not deteriorate further, and we have implemented measures to control or mitigate costs.

Labor Challenges

Hours of operations have been limited due to labor shortages which are affecting our brand and the restaurant industry. In the third quarter of 2021, we estimate that operating hours were reduced by approximately 3.8% as a result of labor shortages. Additionally, we experienced increased overtime due to training and staffing shortages. In response to these labor shortages and competition for labor, we implemented special incentive pay for our hourly restaurant employees from May 2021 through August 2021, provided sign-on and referral bonuses, and made permanent increases to hourly wage rates in late August 2021. To mitigate these additional labor costs, we increased menu prices by 3.7% in late August 2021 and are planning price increases in the fourth quarter of 2021. This phased approach to price increases trails the wage rate increases and will result in improved labor margins in future quarters compared to the third quarter of 2021. In addition, we believe that approximately $0.9 million of the labor cost increases in the third quarter of 2021 for overtime and staffing-related incentives are short term in nature. We have intensified our focus on accelerating labor optimization efforts to improve staffing efficiency, which we believe will increase both staff availability and margins.

Executive Summary—Consolidated Operating Performance for the Three Months Ended October 3, 2021

Our third quarter 2021 results and highlights include the following:

- We recognized net income of $17.3 million, or $0.66 per diluted share, in the third quarter of 2021 compared to a net income of $4.6 million, or $0.18 per diluted share, in the third quarter of 2020 due primarily to the impact of income from discontinued operations of $20.5 million in the third quarter of 2021 compared to $0.2 million in the third quarter of 2020 due primarily to the gain on the sale of Taco Cabana. Higher Pollo Tropical labor costs, advertising costs, general and administrative expenses, repair and maintenance costs and delivery fees in the third quarter of 2021 were partially offset by increased comparable restaurant sales at Pollo Tropical and lower impairment and other lease charges in the third quarter of 2021. In addition, a gain on the sale-leaseback of owned properties in the third quarter of 2020 and an income tax benefit related to reducing our deferred tax asset valuation allowance and reclassifying certain assets as qualified improvement property and other changes to depreciation methods for certain assets in conjunction with filing our 2019 federal income tax return in 2020 contributed to lower income from continuing operations in the third quarter of 2021 compared to the third quarter of 2020.
- We recognized a loss from continuing operations of $(3.2) million, or $(0.12) per diluted share, in the third quarter of 2021 compared to income from continuing operations of $4.4 million, or $0.17 per diluted share, in the third quarter of 2020 primarily as a result of the foregoing.
- Total revenues increased 13.7% in the third quarter of 2021 to $88.6 million compared to $77.9 million in the third quarter of 2020, driven by an increase in comparable restaurant sales at Pollo Tropical due in part to lapping the impact of the pandemic in 2020. Comparable restaurant sales increased 13.8% for our Pollo Tropical restaurants resulting from an increase in comparable restaurant transactions of 4.2% and an increase in the net impact of product/channel mix and pricing of 9.6%.
- Continuing Operations Consolidated Adjusted EBITDA decreased $4.5 million in the third quarter of 2021 to $3.7 million compared to $8.2 million in the third quarter of 2020, driven primarily by higher labor costs, advertising costs, general and administrative expenses, repair and maintenance costs and delivery fees, partially offset by higher restaurant sales. Continuing Operations Consolidated Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Continuing Operations Consolidated Adjusted EBITDA and a reconciliation from net income to Continuing Operations Consolidated Adjusted EBITDA, see "Management's Use of Non-GAAP Financial Measures."
- Within discontinued operations, the impact of the gain on the sale of Taco Cabana, the impact of classifying Taco Cabana as held for sale—including the absence of depreciation and amortization related to property and equipment and lease ROU assets—in the third quarter of 2021, and higher Taco Cabana restaurant sales were partially offset by a loss on extinguishment of the outstanding term loan borrowings under our senior credit facility, higher interest costs and additional costs related to the sale of Taco Cabana.

Results of Operations

Unless otherwise noted, this discussion of operating results relates to our continuing operations.

The following table summarizes the changes in the number and mix of Pollo Tropical Company-owned and franchised restaurants.

	Pollo Tropical		
	Owned	Franchised	Total
January 3, 2021	138	29	167
New	—	—	—
Closed	—	—	—
April 4, 2021	138	29	167
New	—	—	—
Closed	—	—	—
July 4, 2021	138	29	167
New	—	2	2
Closed	—	—	—
October 3, 2021	138	31	169
December 29, 2019	142	32	174
New	—	1	1
Closed	(1)	—	(1)
March 29, 2020	141	33	174
New	—	—	—
Closed	—	—	—
June 28, 2020	141	33	174
New	—	—	—
Closed	(3)	—	(3)
September 27, 2020	138	33	171

Three Months Ended October 3, 2021 Compared to Three Months Ended September 27, 2020

The following table sets forth, for the three months ended October 3, 2021 and September 27, 2020, selected operating results as a percentage of restaurant sales.

	Three Months Ended	
	October 3, 2021	September 27, 2020
	Pollo Tropical	
Costs and expenses:		
Cost of sales	30.7 %	31.7 %
Restaurant wages and related expenses	28.0 %	23.3 %
Restaurant rent expense	6.7 %	7.2 %
Other restaurant operating expenses	16.7 %	15.6 %
Advertising expense	3.1 %	1.1 %

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

Total revenues increased 13.7% to $88.6 million in the third quarter of 2021 from $77.9 million in the third quarter of 2020. Restaurant sales increased 13.4% to $88.0 million in the third quarter of 2021 from $77.6 million in the third quarter of 2020.

The following table presents the primary drivers of the increase in restaurant sales for Pollo Tropical for the third quarter of 2021 compared to the third quarter of 2020 (in millions).

Pollo Tropical:		
Increase in comparable restaurant sales	$	10.6
Decrease in sales related to closed restaurants, including a temporary closure		(0.2)
Total increase	$	10.4

Restaurants are included in comparable restaurant sales after they have been open for 18 months. Restaurants are excluded from comparable restaurant sales for any fiscal month in which the restaurant was closed for more than five days. Comparable restaurant sales are compared to the same period in the prior year. As a result of the 53rd week in fiscal 2020, our 2021 fiscal year began one week later than our 2020 fiscal year. Changes in comparable restaurant sales are impacted by the shift in weeks as the thirteen weeks ended October 3, 2021 are not directly comparable on a calendar basis to the thirteen weeks ended September 27, 2020.

Comparable restaurant sales increased 13.8% for Pollo Tropical restaurants in the third quarter of 2021 compared to the third quarter of 2020. Increases or decreases in comparable restaurant sales result primarily from an increase or decrease in comparable restaurant transactions and in average check. Changes in average check are primarily driven by changes in sales channel and sales mix, and to a lesser extent, menu price increases net of discounts and promotions.

For Pollo Tropical, an increase in the net impact of product/channel mix and pricing of 9.6% was coupled with an increase in comparable restaurant transactions of 4.2% in the third quarter of 2021 compared to the third quarter of 2020. The increase in product/channel mix and pricing was driven primarily by increases in dine-in, delivery, and drive-thru average check, and menu price increases of 5.7%. Comparable restaurant sales in the third quarter of 2020 for Pollo Tropical were negatively impacted by governmental restrictions at the onset of the COVID-19 pandemic. Comparable restaurant sales for Pollo Tropical in the third quarter of 2021 increased 0.9% compared to the same fiscal period in 2019. The third quarter of 2019 was negatively affected by the impact of Hurricane Dorian. We believe restaurant sales were negatively impacted by reduced operating hours due to labor shortages.

Franchise revenues increased by $0.2 million to $0.6 million in the third quarter of 2021 compared to the third quarter of 2020 due to higher sales at franchised restaurants in 2021 primarily as a result of the impact of COVID-19 in 2020.

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

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

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

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

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

The following table presents the primary drivers of the changes in the components of restaurant operating margins for the third quarter of 2021 compared to the third quarter of 2020. All percentages are stated as a percentage of restaurant sales:

Pollo Tropical:	
Cost of sales:	
Menu price increases	(1.0)%
Sales mix	(0.7)%
Lower promotions and discounts	(0.3)%
Higher commodity cost	0.7 %
Operating inefficiency	0.4 %
Other	(0.1)%
Net decrease in cost of sales as a percentage of restaurant sales	(1.0)%
Restaurant wages and related expenses:	
Higher labor costs due to higher wage rates and overtime[(1)]	3.1 %
Higher other labor costs including special incentive pay and sign-on bonuses	1.3 %
Higher payroll taxes due to higher wage rates and overtime[(1)]	0.4 %
Higher incentive bonus[(2)]	0.1 %
Lower medical benefits costs including the impact of higher sales	(0.4)%
Other	0.2 %
Net increase in restaurant wages and related costs as a percentage of restaurant sales	4.7 %
Other operating expenses:	
Higher repair and maintenance costs	0.6 %
Higher delivery fee expense due to increased delivery channel sales	0.6 %
Higher restaurant operating supplies	0.3 %
Impact of higher restaurant sales on utilities costs	(0.3)%
Other	(0.1)%
Net increase in other restaurant operating expenses as a percentage of restaurant sales	1.1 %
Advertising expense:	
Increased advertising	2.0 %
Net increase in advertising expense as a percentage of restaurant sales	2.0 %

(1) Higher wage rates, overtime pay and payroll taxes due in part to labor shortages in 2021.
(2) Primarily due to guaranteed bonus payments.

Restaurant Rent Expense. Restaurant rent expense includes base rent, contingent rent and common area maintenance and property taxes related to our leases characterized as operating leases. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 6.7% in the third quarter of 2021 from 7.2% in the third quarter of 2020 due primarily to the impact of higher restaurant sales which were partially offset by higher rental costs related to sale-leasebacks and renewed leases.

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

General and administrative expenses were $11.2 million for the third quarter of 2021 and $9.1 million for the third quarter of 2020, and as a percentage of total revenues, general and administrative expenses increased to 12.6% in the third quarter of 2021 compared to 11.7% in the third quarter of 2020, due primarily to continuing mobile app development and maintenance costs and higher incentive—primarily stock-based compensation—and other support costs. General and administrative expenses include corporate overhead costs allocated to Taco Cabana that are not included in discontinued operations. General and administrative expenses for the third quarter of 2021 included $0.6 million related to digital and brand repositioning costs. General and administrative expenses for the third quarter of 2020 included $0.1 million related to severance costs associated with positions eliminated in response to the COVID-19 pandemic and $0.1 million related to digital and brand repositioning costs.

Adjusted EBITDA. Adjusted EBITDA is the primary measure of segment profit or loss used by our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance and is defined as earnings attributable to the applicable segment before interest expense, income taxes, depreciation and amortization, impairment and other lease charges, goodwill impairment, closed restaurant rent expense, net of sublease income, stock-based compensation expense, other expense (income), net and certain significant items that management believes are related to strategic changes and/or are not related to the ongoing operation of our restaurants.

Adjusted EBITDA may not necessarily be comparable to other similarly titled captions of other companies due to differences in methods of calculation. Adjusted EBITDA includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain finance, legal, supply chain, human resources, development, and other administrative functions. Consolidated Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and Consolidated Adjusted EBITDA and a reconciliation from net income (loss) to Consolidated Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Adjusted EBITDA. Adjusted EBITDA for Pollo Tropical decreased to $6.3 million, or 7.1% of total revenues, in the third quarter of 2021 from $10.6 million, or 13.6% of total revenues, in the third quarter of 2020 due primarily to higher labor costs, advertising costs, repair and maintenance costs, and delivery fees, partially offset by the impact of higher restaurant sales and improved cost of sales margins. Continuing Operations Consolidated Adjusted EBITDA, a non-GAAP financial measure, decreased to $3.7 million in the third quarter of 2021 from $8.2 million in the third quarter of 2020. For a reconciliation from net income to Continuing Operations Consolidated Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Restaurant-level Adjusted EBITDA. We also use Restaurant-level Adjusted EBITDA, a non-GAAP financial measure, as a supplemental measure to evaluate the performance and profitability of our restaurants in the aggregate, which is defined as Adjusted EBITDA excluding franchise royalty revenues and fees, pre-opening costs and general and administrative expenses (including corporate-level general and administrative expenses).

Restaurant-level Adjusted EBITDA for Pollo Tropical decreased to $13.0 million, or 14.8% of restaurant sales, in the third quarter of 2021 from $16.4 million, or 21.2% of restaurant sales, in the third quarter of 2020 primarily due to the foregoing. For a reconciliation from Adjusted EBITDA to Restaurant-level Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Depreciation and Amortization. Depreciation and amortization expense decreased to $5.3 million in the third quarter of 2021 from $5.4 million in the third quarter of 2020 due primarily to decreased depreciation as a result of entering into sale-leaseback transactions for several owned restaurant locations and impairing closed restaurant assets, partially offset by an increase in depreciation related to ongoing reinvestment and enhancements to our restaurants that have been made since the third quarter of 2020. s

Impairment and Other Lease Charges. Impairment and other lease charges was less than $0.1 million in the third quarter of 2021 compared to charges of $2.4 million in the third quarter of 2020.

Impairment and other lease charges for the three months ended September 27, 2020 for Pollo Tropical include impairment charges of $2.6 million related primarily to the write-down of saucing islands and self-service soda machines that were removed from dining rooms as a result of COVID-19 and a gain of $(0.2) million from lease terminations.

Each quarter we assess the potential impairment of any long-lived assets that have experienced a triggering event, including restaurants for which the related trailing twelve-month cash flows are below a certain threshold. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets, exclusive of operating lease payments, to their respective carrying values, excluding operating lease liabilities. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset group's carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, and for right-of-use lease assets, current market lease rent and discount rates, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material. Due to the uncertainty associated with the unprecedented nature of the COVID-19 pandemic and the impact it will have on our operations and future cash flows, it is reasonably possible that the estimates of future cash flows used in impairment assessments will change in the near term and the effect of the change could be material.

For ten Pollo Tropical restaurants with combined carrying values (excluding right-of-use lease assets) of $6.6 million, projected cash flows are not substantially in excess of their carrying values. If the performance of these restaurants deteriorates from current projections, an impairment charge could be recognized in future periods, and such charge could be material.

Closed Restaurant Rent Expense, Net of Sublease Income. Closed restaurant rent expense, net of sublease income was $0.7 million for the third quarter of 2021 and consisted of closed restaurant rent and ancillary lease costs of $2.3 million net of sublease income of $(1.6) million. Closed restaurant rent expense, net of sublease income was $0.9 million for the third quarter of 2020 and consisted of closed restaurant rent and ancillary lease costs of $2.3 million net of sublease income of $(1.4) million.

Other Expense (Income), Net. Other expense (income), net for the third quarter of 2021 primarily consisted of costs for the transfer and storage of equipment from closed restaurants and other closed restaurant related costs of $0.1 million. Other expense, net was $(1.4) million for the third quarter of 2020 and primarily consisted of total gains of $(1.6) million on the sale-leaseback of two restaurant properties and the sale of one restaurant property, partially offset by the costs for the removal, transfer, and storage of equipment from closed restaurants and other closed restaurant related costs of $0.2 million.

Interest Expense. Interest expense increased to $0.2 million in the third quarter of 2021 compared to $0.1 million the third quarter of 2020.

Benefit from Income Taxes. The effective tax rate was 19.1% and (14,606.7)% for the third quarter of 2021 and 2020, respectively. The benefit from income taxes for the third quarter of 2021 and 2020 was derived using the actual effective tax rate for the year-to-date period, which includes changes in the valuation allowance as a result of originating temporary differences during the year. The benefit from income taxes in the third quarter of 2020 includes a $1.9 million benefit as a result of reclassifying certain assets as qualified improvement property as permitted by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and other changes to depreciation methods for certain assets made in conjunction with a cost segregation study conducted prior to filing our 2019 federal income tax return and a $2.5 million adjustment to reduce our deferred tax valuation allowance related to this reclassification and filing our 2019 federal income tax returns.

The CARES Act includes provisions that eliminate the 80% of taxable income limitation for certain net operating loss carryforward deductions and allow net operating losses arising in 2018, 2019, and 2020 to be carried back for up to five years and includes technical amendments that are retroactive to 2018 which permit certain assets to be classified as qualified improvement property and expensed immediately.

Income from Discontinued Operations. All revenues, costs and expenses and income taxes attributable to Taco Cabana have been aggregated within income (loss) from discontinued operations, net of tax, in the consolidated statements of operations for all periods presented.

Taco Cabana results of operations are included through August 15, 2021 in the third quarter of 2021 compared to a full quarter in the third quarter of 2020 due to the sale of Taco Cabana on August 16, 2021.

A gain of $24.1 million was recognized on the sale of Taco Cabana in the third quarter of 2021. See Note 2—Dispositions in our unaudited condensed consolidated financial statements.

Net Income. As a result of the foregoing, we had net income of $17.3 million in the third quarter of 2021 compared to net income of $4.6 million in the third quarter of 2020.

Nine Months Ended October 3, 2021 Compared to Nine Months Ended September 27, 2020

The following table sets forth, for the nine months ended October 3, 2021 and September 27, 2020, selected operating results as a percentage of restaurant sales:

	Nine Months Ended	
	October 3, 2021	**September 27, 2020**
	Pollo Tropical	
Costs and expenses:		
Cost of sales	30.7 %	32.1 %
Restaurant wages and related expenses	25.1 %	23.9 %
Restaurant rent expense	6.6 %	7.5 %
Other restaurant operating expenses	15.7 %	15.5 %
Advertising expense	3.0 %	2.4 %

Revenues. Total revenues increased 17.8% to $268.0 million in the nine months ended October 3, 2021 from $227.5 million in the nine months ended September 27, 2020. Restaurant sales increased 17.7% to $266.6 million in the nine months ended October 3, 2021 from $226.6 million in the nine months ended September 27, 2020.

The following table presents the primary drivers of the increase in restaurant sales for Pollo Tropical for the nine months ended October 3, 2021 compared to the nine months ended September 27, 2020 (in millions):

Pollo Tropical:		
Increase in comparable restaurant sales	$	41.4
Decrease in sales related to closed restaurants, including a temporary closure		(1.4)
Total increase	$	40.0

Comparable restaurant sales for Pollo Tropical restaurants increased 18.6% in the nine months ended October 3, 2021. Comparable restaurant sales were significantly impacted by governmental restrictions, closed dining rooms, reductions in operating hours and reduced staffing as a result of COVID-19 in 2020.

For Pollo Tropical, an increase in the net impact of product/channel mix and pricing of 12.9% was coupled with an increase in comparable restaurant transactions of 5.7% in the nine months ended October 3, 2021 compared to the nine months ended September 27, 2020. The increase in product/channel mix and pricing was driven primarily by increases in delivery and drive-thru average check and sales channel penetration, and menu price increases of 3.6%. Comparable restaurant sales for Pollo Tropical in the nine months ended October 3, 2021 decreased 1.4% compared to the same fiscal period in 2019. Hurricane Dorian negatively impacted comparable restaurant sales in 2019. We believe restaurant sales were negatively impacted by reduced operating hours due to labor shortages.

Franchise revenues increased by $0.5 million to $1.3 million in the nine months ended October 3, 2021 compared to the nine months ended September 27, 2020 due to higher sales at franchised restaurants in 2021 primarily as a result of the impact of COVID-19 in 2020.

The following table presents the primary drivers of the changes in the components of restaurant operating margins for the nine months ended October 3, 2021 compared to the nine months ended September 27, 2020. All percentages are stated as a percentage of restaurant sales.

o Tropical:	
t of sales:	
›wer promotions and discounts	(0.8)%
enu price increases	(0.6)%
les mix	(0.6)%
gher commodity costs	0.5%
her	0.1%
decrease in cost of sales as a percentage of restaurant sales	(1.4)%
aurant wages and related expenses:	
gher labor costs due to higher wage rates and overtime partially offset by the impact of higher restaurant sales(1)	0.8%
gher incentive bonus(2)	0.4%
gher other labor costs including special incentive pay and sign-on bonuses	0.3%
›wer medical benefits costs	(0.5)%
her	0.2%
Net increase in restaurant wages and related costs as a percentage of restaurant sales	1.2%
er operating expenses:	
gher delivery fee expense due to increased delivery channel sales	0.8%
gher repair and maintenance costs	0.4%
pact of higher restaurant sales on utilities cost	(0.4)%
›wer insurance costs	(0.2)%
›wer sanitation costs	(0.1)%
her(3)	(0.3)%
Net increase in other restaurant operating expenses as a percentage of restaurant sales	0.2%
ertising expense:	
creased advertising	0.6%
Net increase in advertising expense as a percentage of restaurant sales	0.6%

(1) Higher wage rates, overtime pay due in part to labor shortages in 2021.
(2) Primarily due to guaranteed bonus payments. Guaranteed bonus payments, which were lower in 2020, are included in other labor costs above in 2020.
(3) Consists of lower linen and uniform expense including masks, cleaning services and the impact of higher restaurant sales.

Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 6.6% in the nine months ended October 3, 2021 from 7.5% in the nine months ended September 27, 2020 due primarily to the impact of higher comparable restaurant sales which were partially offset by higher rental costs related to sale-leasebacks and renewed leases.

General and Administrative Expenses. General and administrative expenses were $32.9 million for the nine months ended October 3, 2021 and $28.6 million for the nine months ended September 27, 2020 and, as a percentage of total revenues, general and administrative expenses decreased to 12.3% in the nine months ended October 3, 2021 compared to 12.6% in the nine months ended September 27, 2020 due primarily to the impact of higher total revenues partially offset by higher continuing mobile app development and maintenance costs and higher incentive and other support costs. General and administrative expenses include corporate overhead costs allocated to Taco Cabana that are not included in discontinued operations. General and administrative expense for the nine months ended October 3, 2021 included $1.7 million related to digital and brand repositioning costs. General and administrative expenses for the nine months ended September 27, 2020 included $0.7 million related to severance costs associated with positions eliminated in response to the COVID-19 pandemic, $0.2 million related to digital and brand repositioning costs and $0.1 million related to search fees for senior executive positions.

Adjusted EBITDA. Adjusted EBITDA for Pollo Tropical increased to $30.6 million, or 11.4% of total revenues, in the nine months ended October 3, 2021 from $24.4 million, or 10.7% of total revenues, in the nine months ended September 27, 2020 due primarily to the impact of higher restaurant sales and improved cost of sales margins, partially offset by higher labor costs and delivery fees. Continuing Operations Consolidated Adjusted EBITDA, a non-GAAP financial measure, increased to $22.5 million in the nine months ended October 3, 2021 from $16.9 million in the nine months ended September 27, 2020. For a reconciliation from net income to Continuing Operations Consolidated Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Restaurant-level Adjusted EBITDA. Restaurant-level Adjusted EBITDA, a non-GAAP financial measure, for Pollo Tropical increased to $50.3 million, or 18.9% of restaurant sales, in the nine months ended October 3, 2021 from $42.2 million, or 18.6% of restaurant sales, in the nine months ended September 27, 2020 due primarily to the foregoing. For a reconciliation from Adjusted EBITDA to Restaurant-level Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Depreciation and Amortization. Depreciation and amortization expense decreased to $15.3 million in the nine months ended October 3, 2021 from $16.4 million in the nine months ended September 27, 2020 due primarily to decreased depreciation as a result of entering into sale-leaseback transactions for several owned restaurant locations and impairing closed restaurant assets, partially offset by an increase in depreciation related to ongoing reinvestment and enhancements to our restaurants that have been made since the third quarter of 2020.

Impairment and Other Lease Charges. Impairment and other lease charges decreased to $(0.2) million in the nine months ended October 3, 2021 from $8.0 million in the nine months ended September 27, 2020.

Impairment and other lease charges for the nine months ended October 3, 2021 include net gains from lease terminations of $(0.4) million, partially offset by impairment charges of $0.2 million related primarily to impairment of equipment from previously impaired and closed restaurants.

Impairment and other lease charges for the nine months ended September 27, 2020 for Pollo Tropical include impairment charges of $7.3 million related primarily to the impairment of assets from three underperforming Pollo Tropical restaurants, two of which we closed in the third quarter of 2020, the write-down of assets held for sale to their fair value less costs to sell, and the write-down of saucing islands and self-service soda machines that were removed from dining rooms as a result of COVID-19, and lease termination charges of $0.9 million for restaurant locations we decided not to develop, net of a gain of $(0.2) million from a lease termination.

Closed Restaurant Rent Expense, Net of Sublease Income. Closed restaurant rent expense, net of sublease income was $2.4 million for the nine months ended October 3, 2021 and consisted of closed restaurant rent and ancillary lease costs of $6.9 million net of sublease income of $(4.5) million. Closed restaurant rent expense, net of sublease income was $3.3 million for the nine months ended September 27, 2020 and consisted of closed restaurant rent and ancillary lease costs of $6.9 million net of sublease income of $(3.6) million.

Other Expense (Income), Net. Other expense, net was $0.4 million for the nine months ended October 3, 2021 and primarily consisted of costs for the removal, transfer, and storage of equipment from closed restaurants and other closed restaurant related costs. Other income, net was $(0.4) million for the nine months ended September 27, 2020 and primarily consisted of total gains of $(1.6) million on the sale-leaseback of two restaurant properties and the sale of one restaurant property, partially offset by $0.6 million for the write-off of site development costs and $0.5 million in costs for the removal, transfer, and storage of equipment from closed restaurants.

Interest Expense. Interest expense increased to $0.3 million for the nine months ended October 3, 2021 compared to $0.2 million for the nine months ended September 27, 2020.

Provision for (Benefit from) Income Taxes. The effective tax rate was 648.9% and 55.9% for the nine months ended October 3, 2021 and September 27, 2020, respectively. The provision for income taxes for the nine months ended October 3, 2021 was derived using the actual effective tax rate for the year to date period, which includes changes in the valuation allowance as a result of originating temporary differences during the year and excludes an out-of-period adjustment that increased our income tax provision. The benefit from income taxes for the nine months ended September 27, 2020 was derived using the actual effective tax rate for the year to date period which includes a benefit of $1.9 million related to the carryback of net operating losses as a result of the CARES Act, a $1.9 million benefit as a result reclassifying certain assets as qualified improvement property as permitted by the CARES Act and other changes to depreciation methods for certain assets made in conjunction with a cost segregation study conducted prior to filing our 2019 federal income tax return, a $2.5 million adjustment to reduce our deferred tax valuation allowance related to this reclassification and filing our 2019 federal income tax returns.

Income (Loss) from Discontinued Operations. Taco Cabana results of operations are included through August 15, 2021 in the nine months ended October 3, 2021 compared to the full period in the nine months ended September 27, 2020 due to the sale of Taco Cabana on August 16, 2021.

A gain of $24.1 million was recognized on the sale of Taco Cabana in the nine months ended October 3, 2021. See Note 2—Dispositions in our unaudited condensed consolidated financial statements.

Net Income (Loss). As a result of the foregoing, we had net income of $15.1 million for the nine months ended October 3, 2021 compared to a net loss of $(11.1) million for the nine months ended September 27, 2020.

Liquidity and Capital Resources

Unless otherwise noted, this discussion of liquidity and capital resources relates to our combined operations.

We do not have significant receivables or inventory and receive trade credit based upon negotiated terms in purchasing food products and other supplies. Although, as a result of our substantial cash balance, we did not have a working capital deficit at October 3, 2021, we have the ability to operate with a substantial working capital deficit (and we have historically operated with a working capital deficit) because:

- restaurant operations are primarily conducted on a cash basis;
- rapid turnover results in a limited investment in inventories; and
- cash from sales is usually received before related liabilities for supplies and payroll become due.

Capital expenditures and payments related to our lease obligations represent significant liquidity requirements for us. We believe our cash reserves, cash generated from our operations, and availability of borrowings under our senior credit facility will provide sufficient cash availability to cover our anticipated working capital needs and capital expenditures for the next twelve months. We used the proceeds from the sale of Taco Cabana to repay the outstanding term loan under our senior credit facility in the third quarter of 2021.

Operating Activities. Net cash provided by operating activities in the first nine months of 2021 and 2020 was $19.8 million and $47.0 million, respectively. The decrease in net cash provided by operating activities in the nine months ended October 3, 2021 was primarily driven by the timing of payments, including the impact of vendor and landlord payment term renegotiations in 2020.

Investing Activities. Net cash provided by investing activities in the first nine months of 2021 was $63.8 million compared to net cash used in investing activities in the same period of 2020 of $2.8 million. Capital expenditures are generally the largest component of our investing activities and include: (1) new restaurant development, which may include the purchase of real estate; (2) restaurant remodeling/reimaging, which includes the renovation or rebuilding of the interior and exterior of our existing restaurants; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants; and (4) corporate and restaurant information systems.

The following table sets forth our capital expenditures from continuing operations for the periods presented (dollars in thousands).

	Pollo Tropical	Other	Continuing Operations
Nine Months Ended October 3, 2021:			
New restaurant development	$ —	$ —	$ —
Restaurant remodeling	737	—	737
Other restaurant capital expenditures[(1)]	6,798	—	6,798
Corporate and restaurant information systems	883	593	1,476
Total capital expenditures	$ 8,418	$ 593	$ 9,011
Number of new restaurant openings	—		—
Nine Months Ended September 27, 2020:			
New restaurant development	$ 992	$ —	$ 992
Restaurant remodeling	357	—	357
Other restaurant capital expenditures[(1)]	3,226	—	3,226
Corporate and restaurant information systems	926	1,071	1,997
Total capital expenditures	$ 5,501	$ 1,071	$ 6,572
Number of new restaurant openings	—		—

(1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our unaudited condensed consolidated financial statements. For the nine months ended October 3, 2021 and September 27, 2020, total restaurant repair and maintenance expenses were approximately $8.6 million and $6.6 million, respectively.

The following table sets forth our capital expenditures from discontinued operations for the periods presented (dollars in thousands).

	Taco Cabana
ine Months Ended October 3, 2021:	
New restaurant development	$ —
Restaurant remodeling	1,283
Other restaurant capital expenditures[(1)]	5,050
Corporate and restaurant information systems	169
Total capital expenditures	$ 6,502
Number of new restaurant openings	—
ine Months Ended September 27, 2020:	
New restaurant development	$ 854
Restaurant remodeling	730
Other restaurant capital expenditures[(1)]	2,621
Corporate and restaurant information systems	1,139
Total capital expenditures	$ 5,344
Number of new restaurant openings	1

(1) Excludes restaurant repair and maintenance expenses included in discontinued operations in our unaudited condensed consolidated financial statements. For the nine months ended October 3, 2021 and September 27, 2020, total restaurant repair and maintenance expenses from discontinued operations were approximately $5.5 million and $6.2 million, respectively. For the nine months ended October 3, 2021, costs associated with repairs from Winter Storm Uri were approximately $1.5 million.

Net cash used in investing activities from continuing operations in the first nine months of 2020 included net proceeds of $6.3 million from the sale-leaseback of two restaurant properties and $1.7 million from the sale of an additional restaurant property.

Net cash provided by investing activities from discontinued operations in the first nine months of 2021 included net proceeds of $74.9 million from the sale of Taco Cabana, $3.1 million from the sale-leaseback of two restaurant properties and $1.3 million from the sale of an additional restaurant property. Net cash used in investing activities from discontinued operations in the first nine months of 2020 included net proceeds of $1.2 million from the sale of one restaurant property.

Total capital expenditures in 2021 are expected to be between $25.0 million and 30.0 million, including approximately $6.5 million related to Taco Cabana prior to the sale on August 16, 2021.

Financing Activities. Net cash used in financing activities in the first nine months of 2021 was $81.4 million and included term loan borrowing repayments under our new senior credit facility of $75.0 million, $3.9 million in payments to repurchase our common stock, and a $2.2 million payment for a premium associated with extinguishment of the term loan under our new senior credit facility. Net cash used in financing activities in the first nine months of 2020 included net revolving credit borrowing repayments under our former senior credit facility of $35.1 million and $3.7 million in payments to repurchase our common stock, as well as borrowings and subsequent repayment of funds pursuant to the Paycheck Protection Program under the CARES Act.

New Senior Credit Facility. On November 23, 2020, we terminated our former amended senior secured revolving credit facility, referred to as the "former senior credit facility," and entered into a new senior secured credit facility, which is referred to as the "new senior credit facility." The new senior credit facility is comprised of a term loan facility (the "term loan facility") of $75.0 million and a revolving credit facility (the "revolving credit facility") of up to $10.0 million and matures on November 23, 2025. The new senior credit facility also provides for potential incremental term loan borrowing increases of up to $37.5 million in the aggregate, subject to, among other items, compliance with a minimum Total Leverage Ratio and other terms specified in the new senior credit facility. As required by the terms of the new senior credit facility, the proceeds from the sale of Taco Cabana were used to fully repay our outstanding term loan borrowings on August 16, 2021. The early repayment was subject to a 103% loan prepayment premium.

The new senior credit facility provides that we must maintain minimum Liquidity (as defined in the new senior credit facility) of $20.0 million (the "Liquidity Threshold") until January 3, 2022. The new senior credit facility also provides that we are not required to be in compliance with the Total Leverage Ratio under the new senior credit facility until the earlier of January 3, 2022, or the date on which Liquidity is less than the Liquidity Threshold. We will be permitted to exercise equity cure rights with respect to compliance with the Total Leverage Ratio subject to certain restrictions as set forth in the new senior credit facility.

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

1) the Base Rate plus the Applicable Margin of 6.75% with a minimum Base Rate of 2.00%, or
2) the LIBOR (or Benchmark Replacement) Rate plus the Applicable Margin of 7.75%, with a minimum LIBOR (or Benchmark Replacement) Rate of 1.00%.

In addition, the new senior credit facility requires us to pay a commitment fee of 0.50% per annum on the daily amount of the unused portion of the revolving credit facility.

The outstanding borrowings under the revolving credit facility are prepayable without penalty or premium (other than customary breakage costs). The outstanding borrowings under the term loan facility were voluntarily prepayable by us, and the term loan facility provided that each of the following required a mandatory prepayment of outstanding term loan borrowings by us as follows: (i) 100% of any cash Net Proceeds (as defined in the new senior credit facility) in excess of $2.0 million individually or in the aggregate over the term of the new senior credit facility in respect of any Casualty Event (as defined in the new senior credit facility) affecting collateral provided that we were permitted to reinvest such Net Proceeds in accordance with the new senior credit facility, (ii) 100% of any Net Proceeds of a Specified Equity Contribution (as defined in the new senior credit facility), (iii) 100% of any cash Net Proceeds from the issuance of debt issued by us or our subsidiaries other than Permitted Debt (as defined in the new senior credit facility), (iv) 100% of any Net Proceeds from the Disposition (as defined in the new senior credit facility) of certain assets individually, or in the aggregate, in excess of $2.0 million in any fiscal year provided that we were permitted to reinvest such Net Proceeds in accordance with the new senior credit facility and (v) beginning with the fiscal year ending January 2, 2022, an amount equal to the Excess Cash Flow (as defined in the new senior credit facility) in accordance with the new senior credit facility.

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

The new senior credit facility contains certain covenants, including, without limitation, those limiting our ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of our business in any material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends.

Our obligations under the new senior credit facility are secured by all of our and our subsidiaries' assets (including a pledge of all of the capital stock and equity interests of our subsidiaries).

Under the new senior credit facility, the lenders may terminate their obligation to advance and may declare the unpaid balance of borrowings, or any part thereof, immediately due and payable upon the occurrence and during the continuance of customary defaults which include, without limitation, payment default, covenant defaults, bankruptcy type defaults, defaults on other indebtedness, certain judgments or upon the occurrence of a change of control (as specified in the new senior credit facility).

As of October 3, 2021, we were in compliance with the financial covenants under our new senior credit facility. At October 3, 2021, $10.0 million was available for borrowing under the revolving credit facility.

Former Senior Credit Facility. On July 10, 2020, we entered into the Second Amendment to Credit Agreement (as previously defined as the "former senior credit facility") among Fiesta and a syndicate of lenders. Pursuant to the former senior credit facility, the available revolving credit borrowings under the former senior credit facility were reduced from $150.0 million to $95.0 million in a phased reduction beginning with a $30.0 million permanent reduction that occurred on July 10, 2020. The former senior secured credit facility was terminated on November 23, 2020.

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements.

Except for the repayment of the outstanding term loan and removal of Taco Cabana lease obligations, there have been no significant changes outside the ordinary course of business to our contractual obligations since January 3, 2021. Information regarding our contractual obligations is included under "Contractual Obligations" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2021.

Inflation

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

Application of Critical Accounting Policies

Our unaudited interim condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the "Basis of Presentation" footnote in the notes to our consolidated financial statements for the year ended January 3, 2021 included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2021. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. There have been no material changes affecting our critical accounting policies for the nine months ended October 3, 2021.

Management's Use of Non-GAAP Financial Measures

Consolidated Adjusted EBITDA (including Consolidated Continuing Operations Adjusted EBITDA, Continuing Operations Adjusted EBITDA, and Discontinued Operations Adjusted EBITDA) is a non-GAAP financial measure. We use Consolidated Adjusted EBITDA in addition to net income and income from operations to assess our performance, and we believe it is important for investors to be able to evaluate us using the same measures used by management. We believe this measure is an important indicator of our operational strength and the performance of our business and it provides a view of operations absent non-cash activity and items that are not related to the ongoing operation of our restaurants or affect comparability period over period. Consolidated Adjusted EBITDA as calculated by us is not necessarily comparable to similarly titled measures reported by other companies, and should not be considered as an alternative to net income (loss), earnings (loss) per share, cash flows from operating activities or other financial information determined under GAAP.

The primary measure of segment profit or loss used by the chief operating decision maker to assess performance and allocate resources is Adjusted EBITDA, which is defined as earnings attributable to the applicable operating segments before interest expense, income taxes, depreciation and amortization, impairment and other lease charges, goodwill impairment, closed restaurant rent expense, net of sublease income, stock-based compensation expense, other expense (income), net, and certain significant items for each segment that management believes are related to strategic changes and/or are not related to the ongoing operation of our restaurants as set forth in the reconciliation table below. Adjusted EBITDA for each of our segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain finance, legal, supply chain, human resources, construction and other administrative functions. See Note 7 to our unaudited condensed consolidated financial statements.

We also use Restaurant-level Adjusted EBITDA as a supplemental measure to evaluate the performance and profitability of our restaurants in the aggregate, which is defined as Adjusted EBITDA for the applicable segment excluding franchise royalty revenues and fees, pre-opening costs, and general and administrative expenses (including corporate-level general and administrative expenses). Restaurant-level Adjusted EBITDA margin is derived by dividing Restaurant-level Adjusted EBITDA by restaurant sales. Restaurant-level Adjusted EBITDA is also a non-GAAP financial measure.

Management believes that Consolidated Adjusted EBITDA and Restaurant-level Adjusted EBITDA, when viewed with our results of operations calculated in accordance with GAAP and our reconciliation of net income (loss) to Consolidated Adjusted EBITDA and Restaurant-level Adjusted EBITDA (i) provide useful information about our operating performance and period-over-period changes, (ii) provide additional information that is useful for evaluating the operating performance of our business and (iii) permit investors to gain an understanding of the factors and trends affecting our ongoing earnings, from which capital investments are made and debt is serviced. However, such measures are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income or cash flow from operating activities as indicators of operating performance or liquidity. Also these measures may not be comparable to similarly titled captions of other companies.

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

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

A reconciliation from consolidated net loss to Continuing Operations Consolidated Adjusted EBITDA follows (in thousands). All amounts are from continuing operations unless otherwise indicated.

	Three Months Ended		Nine Months Ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Net income (loss)	$ 17,262	$ 4,593	$ 15,090	$ (11,067)
Loss (income) from discontinued operations, net of tax	(20,493)	(181)	(16,336)	5,164
Provision for (benefit from) income taxes	(763)	(4,382)	1,473	(7,494)
Income (loss) from continuing operations before income taxes	(3,994)	30	227	(13,397)
Add:				
Non-general and administrative adjustments:				
Depreciation and amortization	5,328	5,425	15,291	16,373
Impairment and other lease charges	30	2,395	(224)	8,023
Interest expense	160	83	282	209
Closed restaurant rent expense, net of sublease income	710	934	2,426	3,315
Other expense (income), net	138	(1,353)	431	(426)
Stock-based compensation expense	13	15	44	53
Total non-general and administrative adjustments	6,379	7,499	18,250	27,547
General and administrative adjustments:				
Stock-based compensation expense	1,097	486	3,137	1,834
Restructuring costs and retention bonuses[(1)]	—	101	18	686
Digital and brand repositioning costs[(2)]	193	54	844	246
Total general and administrative adjustments	1,290	641	3,999	2,766
Continuing Operations Consolidated Adjusted EBITDA	$ 3,675	$ 8,170	$ 22,476	$ 16,916
Total revenues	$ 88,592	$ 77,940	$ 267,962	$ 227,503
Continuing Operations Consolidated Adjusted EBITDA as a percentage of total revenues	4.1 %	10.5 %	8.4 %	7.4 %

(1) Restructuring costs and retention bonuses for the three and nine months ended September 27, 2020 include severance costs related to terminations in response to the COVID-19 pandemic.

(2) Digital and brand repositioning costs for the three and nine months ended October 3, 2021 and September 27, 2020 include consulting costs related to repositioning the digital experience for our customers.

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

Three Months Ended	**Pollo Tropical**	**Other**	**Continuing Operations**
October 3, 2021:			
Adjusted EBITDA[1]	$ 6,324	$ (2,649)	$ 3,675
Restaurant-level adjustments:			
Add: Other general and administrative expense[2]	7,297	2,580	9,877
Less: Franchise royalty revenue and fees	578	—	578
Restaurant-level Adjusted EBITDA[1]	$ 13,043	$ (69)	$ 12,974
Restaurant sales	$ 88,014		$ 90,764
Restaurant-level Adjusted EBITDA as a percentage of restaurant sales	14.8 %		14.7 %
September 27, 2020:			
Adjusted EBITDA[1]	$ 10,621	$ (2,451)	$ 8,170
Restaurant-level adjustments:			
Add: Pre-opening costs	—	—	—
Add: Other general and administrative expense[2]	6,145	2,348	8,493
Less: Franchise royalty revenue and fees	336	—	336
Restaurant-level Adjusted EBITDA[1]	$ 16,430	$ (103)	$ 16,327
Restaurant sales	$ 77,604		$ 77,604
Restaurant-level Adjusted EBITDA as a percentage of restaurant sales	21.2 %		21.0 %

Nine Months Ended	**Pollo Tropical**	**Other**	**Continuing Operations**
October 3, 2021:			
Adjusted EBITDA[1][3]	$ 30,620	$ (8,144)	$ 22,476
Restaurant-level adjustments:			
Add: Pre-opening costs	—	—	—
Add: Other general and administrative expense[2]	21,045	7,839	28,884
Less: Franchise royalty revenue and fees	1,344	—	1,344
Restaurant-level Adjusted EBITDA[1][3]	$ 50,321	$ (305)	$ 50,016
Restaurant sales	$ 266,618		$ 266,618
Restaurant-level Adjusted EBITDA as a percentage of restaurant sales	18.9 %		18.8 %
September 27, 2020:			
Adjusted EBITDA[1]	$ 24,394	$ (7,478)	$ 16,916
Restaurant-level adjustments:			
Add: Pre-opening costs	—	—	—
Add: Other general and administrative expense[2]	18,694	7,132	25,826
Less: Franchise royalty revenue and fees	886	—	886
Restaurant-level Adjusted EBITDA[1]	$ 42,202	$ (346)	$ 41,856
Restaurant sales	$ 226,617		$ 226,617
Restaurant-level Adjusted EBITDA as a percentage of restaurant sales	18.6 %		18.5 %

(1) Corporate overhead that was previously allocated to Taco Cabana is now included within "Other" because it is not a component of discontinued operations.

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

Forward Looking Statements

Matters discussed in this report and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, express or implied, regarding our anticipated growth, operating results, future earnings per share, plans, objectives, the impact of our other business initiatives, the impact of our initiatives designed to strengthen our liquidity and cash position, including those related to working capital efficiency initiatives and sales of real property and the impact of the COVID-19 pandemic and our initiatives designed to respond to the COVID-19 pandemic on future sales, margins, earnings and liquidity, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). These statements are often identified by the words "believe," "positioned," "estimate," "project," "plan," "goal," "target," "assumption," "continue," "intend," "expect," "future," "anticipate," and other similar expressions, whether in the negative or the affirmative, that are not statements of historical fact. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict, and you should not place undue reliance on our forward-looking statements. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this report and in our other public filings with the United States Securities and Exchange Commission ("SEC"). All forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this report or other periodic reports represent our estimates as of the date made and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we expressly disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

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

There were no material changes from the information presented in Item 7A included in our Annual Report on Form 10-K for the year ended January 3, 2021 with respect to our market risk sensitive instruments.

ITEM 4. CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures. We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 3, 2021.

Changes in Internal Control over Financial Reporting. No change occurred in our internal control over financial reporting during the third quarter of 2021 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Part 1—Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 3, 2021, describes important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time-to-time. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 3, 2021 other than the following risks set forth below.

Risks Related to Our Business

The novel coronavirus (COVID-19) pandemic has adversely affected, and could continue to adversely affect, our operations and results of operations.

As a result of the novel coronavirus (COVID-19) pandemic, customer traffic has been, and could continue to be, negatively impacted at our restaurants and has made, and could continue to make, it more difficult to staff our restaurants and, in more severe cases, cause a temporary inability to obtain supplies, increase commodity costs or cause full and partial closures of our affected restaurants, sometimes for prolonged periods of time. We temporarily shifted to a "to-go" only operating model at many of our Pollo Tropical in Florida, suspending sit-down dining and serving our guests through take-out, drive-thru and delivery. We also implemented closures, modified hours or reductions in on-site staff, resulting in canceled shifts for some of our employees. COVID-19 has also adversely affected our ability to implement our growth plans, including delays in construction of new restaurants. These changes and any additional changes have, and may continue to, materially adversely affect our business or results of operations, liquidity or financial condition. While we have opened our dining rooms, there can be no assurance that conditions will permit us to continue to provide sit-down dining in all of our restaurants or that we will not be required to close our restaurants again in the future if the COVID-19 pandemic worsens.

In addition, our operations have been, and could continue to be, disrupted by employees who are unable or unwilling to work, whether because of illness, quarantine, fear of contracting COVID-19 or caring for family members due to a COVID-19 illness. Restaurant closures, menu changes or modified hours of operation due to staffing shortages could materially adversely affect our business or results of operations, liquidity or financial condition. To protect the health and safety of our employees and guests, we provide face coverings for all restaurant employees, provided temporary wage increases during the initial onset of the pandemic, provide paid emergency leave for COVID-related concerns, paid discretionary bonuses to restaurant managers, purchased additional sanitation supplies and personal protective materials, as well as tamper evident packaging seals for all digital orders and implemented improvements to our restaurants, such as tempered glass shields at the counter. These measures have increased our operating costs and adversely affected our liquidity. In addition, the COVID-19 pandemic has negatively impacted our suppliers, and we have faced, and could face additional, shortages of food items or other supplies at our restaurants and our operations and sales could be adversely impacted by such supply interruptions.

We cannot predict how long the COVID-19 pandemic will last or if it will reoccur even after the vaccines are widely administered, when government restrictions and mandates will be imposed or lifted, or how quickly, if at all, guests will return to their pre-COVID-19 purchasing behaviors, so we cannot predict how long our results of operations and financial performance will be adversely impacted.

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

The restaurant industry is highly competitive. In each of our markets, our restaurants compete with a large number of national and regional restaurant chains, as well as locally owned restaurants, offering low- and medium-priced fare. We also compete with delivered meal solutions, convenience stores, grocery stores and other restaurant retailers, including "ghost" or dark kitchens, where meals are prepared at separate premises rather than at a restaurant. Competition from food delivery services has also increased in recent years, particularly during COVID-19.

Pollo Tropical's competitors include national and regional chicken-based concepts as well as other types of quick-service and fast-casual restaurants. Many of our competitors or potential competitors have greater financial and other resources than we do, which may allow them to react to changes in pricing, marketing, and trends in the restaurant industry more quickly or effectively than we can. Additionally, to remain competitive, we have increasingly offered selected food items and combination meals at discounted prices. These pricing and other marketing strategies have had, and in the future may have, a negative impact on our sales and earnings. If our marketing efforts are unsuccessful, or if our restaurants are unable to compete effectively, our operations and financial performance could be adversely impacted.

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

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

- changes in local, regional or national economic conditions;
- changes in demographic trends;
- changes in consumer tastes;
- changes in traffic patterns;
- increases in fuel prices and utility costs;
- consumer concerns about health, diet and nutrition;
- instances of food-borne or localized illnesses or other food safety issues;
- increases in the number of, and particular locations of, competing restaurants;
- changes in discretionary consumer spending;
- inflation;
- availability of key commodities such as beef, chicken, eggs and produce;
- increases in the cost of key commodities, such as beef, chicken, eggs and produce as well as the cost of paper goods and packaging;
- the availability of hourly-paid employees and experienced restaurant managers including a decrease in the labor supply due to changes in immigration policy such as barriers for entry into, working in, or remaining in the United States;
- increased labor costs, including higher wages, unemployment insurance, unionization of restaurant employees and overtime requirements;
- increases in the cost of providing healthcare and related benefits to employees, including the impact of the Affordable Care Act;
- costs related to remaining competitive and current with regard to new technologies in our restaurants such as loyalty programs, gift cards, online ordering and credit card security; and
- regional weather conditions including hurricanes, windstorms and flooding, and other natural disasters.

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

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

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

Our long-term development plans will require additional management, operational and financial resources. For example, we will be required to recruit managers and other personnel for each new restaurant. We cannot ensure that we will be able to manage our expanding operations effectively and our failure to do so could adversely affect our results of operations.

In addition, to maintain our competitive positioning and improve our sales and overall performance, we continue to look at ways to improve our existing restaurants through remodels, upgrades and regular maintenance. If the costs associated with these activities are higher than projected, restaurants are closed for periods longer than anticipated or such remodels do not perform as forecasted, we may not realize an acceptable return on investment, which could have a negative effect on 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 new senior credit facility may reduce our ability to develop new restaurants.

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

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

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

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

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

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

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

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

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

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

Our restaurants depend on frequent deliveries of ingredients and other products. For our Pollo Tropical restaurants, we have service agreements with our primary distributors of food and paper products. Performance Food Group, Inc., is our primary distributor of food and beverage products and supplies for our Pollo Tropical restaurants under a distribution services agreement that expires on July 27, 2024. We also currently rely on five suppliers for chicken for our Pollo Tropical restaurants under agreements that expire on December 31, 2021. There are many factors which could cause shortages or interruptions in the supply of our ingredients and products, including adverse weather, unanticipated demand, labor or distribution problems, food safety issues by our suppliers or distributors, cost, and the financial health of our suppliers. If we cannot replace or engage distributors or suppliers who meet our specifications in a short period of time, this could increase our expenses and cause shortages of food and other items at our restaurants, which could cause a restaurant to remove items from its menu. If such actions were to occur, customers could change their dining habits and affected restaurants could experience significant reductions in sales during the shortage or thereafter.

A substantial portion of our senior management team is new, which may pose challenges, and our success may depend on the continued service and availability of key personnel.

Dirk Montgomery and Hope Diaz joined us as Chief Financial Officer and Chief Marketing Officer, respectively, in September 2019, and we added a new Chief Information Officer, John Doyle in December 2019, and Louis DiPietro, our Chief Legal and People Officer, in December 2018. This followed the hiring of our current Chief Executive Officer, Richard Stockinger, in March 2017. These officers have hired, and are expected in the future to hire, a number of new direct reports, and as a result, our senior management team is relatively new and may face challenges working together as a unit, aligning on strategic priorities and objectives, or integrating their new teams with one another. Failure to meet these challenges successfully may adversely impact our operations, business results or long-term growth prospects.

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

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

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

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

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

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have a material adverse impact on our business.

There has been a marked increase in the use of social media platforms and similar devices which allow individuals access to a broad audience of consumers and others. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects, or business. The harm may be immediate without affording us an opportunity for redress or correction. The dissemination of information online could harm our business, prospects, financial condition, and results of operations, regardless of the information's accuracy.

Many of our competitors are expanding their use of social media and new social media platforms are rapidly being developed, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our social media strategies in order to maintain broad appeal with guests and brand relevance. As part of our marketing efforts, going forward we expect to increasingly rely on social media platforms and search engine marketing to attract and retain guests. We will also increase our investment in other digital marketing initiatives that allow us to reach our guests across multiple digital channels and build their awareness of, engagement with, and loyalty to our brands. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues, increased employee engagement or brand recognition. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud, or out-of-date information. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

Cybersecurity breaches or other privacy or data security incidents that expose confidential guest, personal employee and other material, confidential information that is stored in our systems in connection with our electronic processing of credit and debit card transactions or security breaches of confidential employee information that is stored in our systems or by third parties on our behalf may adversely affect our business.

We rely heavily on information technology systems across our operations, including point-of-sale processing in our restaurants, gift and loyalty cards, online business, and various other processes and transactions. Our ability to effectively manage our business and coordinate the preparation and sale of our products depends significantly on the reliability and capacity of these systems. We expect to expand our utilization of technology throughout our business and the failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could cause reduced efficiency of our operations, and significant capital investments could be required to remediate the problem which could adversely affect our business. Any intentional attack or an unintentional event that results in unauthorized access to systems to disrupt operations, corrupt data or steal or expose confidential information or intellectual property that compromises the information of our guests or employees could result in widespread negative publicity, damage to our reputation, a loss of guests, disruption of our business and legal liabilities. As our reliance on technology has grown, the scope and severity of risks posed to our systems from cyber threats has increased. In addition, as more business activities have shifted online and more people are working remotely, including as a result of COVID-19, we have experienced an increase in cybersecurity threats and attempts to breach our security networks. The techniques and sophistication used to conduct cyber-attacks and breaches of information technology systems, as well as the sources and targets of these attacks, change frequently and are often not recognized until attacks are launched or have been in place for a period of time. We continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, malware and other events that could have a security impact; however there can be no assurance that these measures will be effective.

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.

From time to time we have been, and likely will continue to be, the target of cyber and other security threats. We may in the future become subject to other legal proceedings or governmental investigations for purportedly fraudulent transactions arising out of the actual or alleged theft of our consumers' credit or debit card information or if consumer or employee information is obtained by unauthorized persons or used inappropriately. Any such claim or proceeding, or any adverse publicity resulting from such an event, may have a material adverse effect on our business and we may incur significant remediation costs.

Such breaches also could result in a violation of applicable privacy and other laws, and subject us to private consumer, business partner, or securities litigation and governmental investigations and proceedings, any of which could result in our exposure to material civil or criminal liability. For example, many jurisdictions have adopted regulations which require companies to meet certain requirements regarding the handling of personal data and provide a private right of action for data breaches. These laws also typically require companies that process information on customers to make new disclosures to consumers about their data collection, use and sharing practices, allow consumers to opt out of certain data sharing with third parties and the right for consumers to request deletion of personal information. If we become subject to such laws in the markets in which we operate and we fail, or are perceived to have failed, to properly respond to security breaches of our or third party's information technology systems or fail to properly respond to consumer requests under such laws, we could experience reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.

Compliance with current and future applicable privacy, cybersecurity and related laws can be costly and time-consuming. We make significant investments in technology, third-party services and internal personnel to develop and implement systems and processes that are designed to anticipate cyber-attacks and to prevent or minimize breaches of our information technology systems or data loss, but these security measures cannot provide assurance that we will be successful in preventing such breaches or data loss. In addition, media or other reports of existing or perceived security vulnerabilities in our systems or those of our third-party business partners or service providers can also adversely impact our brand and reputation and materially impact our business, even if no breach has been attempted or has occurred.

Our digital business, which we expect to grow as a percentage of sales, is subject to risks.

In 2020, we saw an increase in the number of digital orders, which includes delivery and customer pickup. The growth in digital orders is, in part, attributable to more guests dining at home due to COVID-19, our expanded partnerships with multiple third-party delivery services and our investments in our overall digital strategies. Depending on which ordering platform a digital order is placed—our platform or the platform of a third-party delivery service—the delivery fee we collect from the guest may be less than the actual delivery cost, which has a negative impact on our profitability. While we have implemented a menu price increase to partially offset higher delivery costs, this higher menu prices may cause some guests to shift their purchases to other restaurants offered on the platform. As our digital business grows, we are increasingly reliant on third-party delivery companies, which maintain control over data regarding guests that use their platform and over the customer experience. If a third-party delivery company driver fails to make timely deliveries or fails to deliver the complete order, our guests may attribute the bad customer experience to our brands and could stop ordering from us. The ordering and payment platforms used by these third-parties, or our mobile app or online ordering system, could be interrupted by technological failures, user errors, cyber-attacks or other factors, which could adversely impact sales through these channels and negatively impact our overall sales and reputation. The third-party delivery business is intensely competitive, with a number of players competing for market share, online traffic capital, and delivery drivers. If the third-party delivery companies we utilize cease or curtail operations, increase their fees, or give greater priority or promotions on their platforms to our competitors, our delivery business and our sales may be negatively impacted. The delivery business has been consolidating and may continue to consolidate, and fewer third-party delivery companies may give them more leverage in negotiating the terms and pricing of contracts, which could negatively impact our profits from delivery orders.

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 October 3, 2021, all of our Company-owned Pollo Tropical restaurants were located in Florida. Furthermore, 68% of our Company-owned Pollo Tropical restaurants were located in three counties in Florida which represents a significant amount of the brand's sales and Restaurant-level Adjusted EBITDA. Therefore, events and conditions specific to these regions, including economic conditions, state and local government regulations, weather conditions or other conditions affecting Florida and the tourism industry in Florida may have a material impact on the success of our restaurants in those locations.

Adverse weather conditions have impacted, and could in the future impact, guest traffic at our restaurants, cause the temporary underutilization of outdoor patio seating and, in more severe cases such as hurricanes, tornadoes or other natural disasters, cause temporary closures, sometimes for prolonged periods, which would negatively impact our restaurant sales. Changes in weather could result in construction delays, interruptions to the availability of utilities, and shortages or interruptions in the supply of food items and other supplies, which could increase our costs and could adversely impact our business. Some climatologists predict that the long-term effects of climate change and global warming may result in more severe, volatile weather or extended droughts, which could increase the frequency and duration of weather impacts on our operations.

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 business is subject to factors which could reduce our guests' disposable income (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, social unrest, or other economic disruptions and governmental, political and budget concerns), 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. In addition, a new presidential and legislative administration recently took office and it is unknown what impact any changes made by this administration or policies implemented will have on the economy or restaurant spending.

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

We have encountered and may continue to encounter difficulties developing restaurants outside of our more mature core markets. For example, we closed all Pollo Tropical restaurants in Texas, Tennessee and Georgia over the last three years. We may be unable to find attractive locations or successfully market our products as we attempt to expand beyond our existing markets, as the competitive circumstances and consumer characteristics in these new areas may differ substantially from those in areas in which we currently operate. It may be more challenging for us to attract guests to our restaurants in areas where there is a limited or a lack of market awareness of the Pollo Tropical 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 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 operate our new restaurants successfully or profitably outside our existing markets.

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

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

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

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

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

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

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

Our failure to comply with various applicable federal and state employment and labor laws and regulations could have a material, adverse impact on our business.

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

Although we believe that compliance with these laws has not had a material adverse effect on our operations to date, we may experience material difficulties or failures with respect to compliance with such laws in the future. Complying with these laws and regulations subjects us to substantial expense and non-compliance could expose us to significant liabilities. For example, lawsuits have been filed against us alleging violations of federal and state laws regarding employee wages and payment of overtime, meal and rest breaks, employee classification, employee record-keeping and related practices with respect to our employees. We may incur legal costs to defend such lawsuits, and we could suffer losses from, these and similar cases, and the amount of such losses or costs could be significant.

In addition, the amount that we pay our restaurant employees will likely be impacted by minimum wage laws. To the extent implemented, federal, state, and local proposals that increase minimum wage requirements or mandates or impact other employee matters could, to the extent implemented, materially increase our labor and other costs. For example, the state of Florida recently approved a minimum wage increase effective in September of 2021 which will increase the minimum wage gradually over a period of five years. As other jurisdictions implement minimum wage increases, we expect our labor costs will continue to increase. Our ability to respond to minimum wage increases by increasing menu prices depends on the willingness of our guests to pay higher prices and recognize our perceived value relative to competitors. Our distributors and suppliers could also be affected by higher minimum wage, benefit standards and compliance costs, which could result in higher costs for goods and services supplied to us.

Additionally, while our employees are not currently covered by any collective bargaining agreements, union organizers have engaged in efforts to organize our employees and those of other restaurant companies. If a significant portion of our employees were to become covered by collective bargaining agreements, our labor costs could increase, and it could negatively impact our culture and reduce our flexibility to attract and retain top performing employees. Labor unions have attempted, and likely will continue to attempt, to attract media attention to their organizing efforts in our restaurants, and their organizing efforts include claims that we mistreat or undervalue our employees. Despite our efforts to provide more accurate information about our policies and practices, these messages may dissuade guests from patronizing our restaurants.

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

We serve alcoholic beverages at our restaurants and are subject to the "dram-shop" statutes of the jurisdictions in which we serve alcoholic beverages. "Dram-shop" statutes generally provide that serving alcohol to an intoxicated patron is a violation of the law.

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

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

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

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

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

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

Our franchisees or licensees could take actions that harm our reputation.

As of October 3, 2021, a total of 31 Pollo Tropical restaurants were owned and operated by our franchisees and licensees. We do not exercise control of the day-to-day operations of our franchisees and licensees and the number of franchised or licensed restaurants may increase in the future. While we attempt to ensure that franchisee-owned and licensee-owned restaurants maintain the same high operating standards as our Company-owned restaurants, one or more of these franchisees or licensees may fail to meet these standards. Any shortcomings at our franchisee-owned and licensee-owned restaurants could be attributed to our company as a whole and could adversely affect our reputation and damage our brands.

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

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

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

Major developments on trade relations could have a material adverse effect on our business.

The current political climate has introduced uncertainty with respect to trade policies, tariffs and government regulations impacting trade between the United States and other countries. We source several of our ingredients, paper products and other materials used within our business from suppliers outside of the United States, including Asia, Central America and Mexico.

Significant developments in trade relations, such as the imposition of tariffs on items imported by us, could increase our costs and materially and adversely affect our consolidated financial results.

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

The leases for our restaurant locations generally have initial terms of 10 to 20 years, and typically provide for renewal options in five-year increments as well as for rent escalations. Generally, our leases are "net" leases, which require us to pay all of the costs of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases.

From time to time we have, and may in the future, close or relocate a restaurant if a current location becomes less profitable as a result of adverse economic conditions or other factors. If the closures continue for a long period of time, we may not be able to recover our investment due to the high rental rates. Because substantially all of our restaurants operate in leased facilities, we may incur significant lease termination expenses when we close or relocate a restaurant and are often obligated to continue rent and other lease related payments after restaurant closure. We also may incur significant asset impairment and other charges in connection with closures and relocations. If the lease termination cost is significant, we may decide to keep underperforming restaurants open. Ongoing lease obligations at closed or underperforming restaurant locations could decrease our results of operations. 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 which could adversely affect our results of operations.

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 name and logo, 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.

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

During the years ended December 30, 2018, and December 29, 2019, our board of directors authorized the repurchase of an aggregate 3.0 million shares of our common stock through the following actions:

- 1.5 million shares of common stock were authorized for repurchase on February 26, 2018;
- an additional 0.5 million shares of common stock were authorized for repurchase on August 7, 2019; and
- an additional 1.0 million shares of common stock were authorized for repurchase on November 5, 2019.

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

The following table sets forth information with respect to the Company's repurchases of common stock during the quarter ended October 3, 2021:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 5, 2021 to August 1, 2021	—	$ —	—	1,006,505
August 2, 2021 to September 5, 2021	133,397	11.90	133,397	873,108
September 6, 2021 to October 3, 2021	204,826	11.38	204,826	668,282
Total	338,223	$ 11.58	338,223	

[1] Shares purchased in open market transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit No.	
10.1	Second Amendment to Stock Purchase Agreement dated as of November 10, 2021 among Yadav Enterprises, Inc. YTC Enterprises, LLC and Fiesta Restaurant Group, Inc.
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
32.1	Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
32.2	Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
101.INS	XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

FIESTA RESTAURANT GROUP, INC.

Date: November 12, 2021	/s/ RICHARD C. STOCKINGER
	(Signature)
	Richard C. Stockinger **Chief Executive Officer**
Date: November 12, 2021	/s/ DIRK MONTGOMERY
	(Signature)
	Dirk Montgomery **Senior Vice President, Chief Financial Officer and Treasurer**
Date: November 12, 2021	/s/ CHERI KINDER
	(Signature)
	Cheri Kinder **Vice President, Corporate Controller and Chief Accounting Officer**

SECOND AMENDMENT TO STOCK PURCHASE AGREEMENT

SECOND AMENDMENT TO STOCK PURCHASE AGREEMENT (the "Amendment"), dated as of November 10, 2021 and effective as of October 15, 2021 among Yadav Enterprises Inc. (the "Buyer Guarantor"), YTC Enterprises, LLC (the "Buyer") and Fiesta Restaurant Group, Inc. (the "Seller").

WHEREAS, Buyer Guarantor, Buyer and Seller entered into the Stock Purchase Agreement, dated as of July 1, 2021, as amended by the Amendment to Stock Purchase Agreement dated as of August 16, 2021 among Buyer Guarantor, Buyer and Seller (as amended, the "Purchase Agreement") and the letter agreement (the "Letter Agreement") dated as of August 5, 2021.

WHEREAS, Buyer Guarantor, Buyer and Seller desire to amend the Purchase Agreement in accordance with the terms hereof.

WHEREAS, capitalized terms used herein and not defined herein shall have the meanings set forth in the Purchase Agreement.

The Buyer Guarantor, Buyer and Seller hereby agree as follows:

1. Section 2.4(a) of the Purchase Agreement is hereby amended and restated in its entirety as follows:

   "(a) As promptly as practicable, but in any event on or before ninety-one (91) days following the Closing Date, Buyer shall prepare and deliver to Seller a detailed statement (the "**Closing Statement**") setting forth Buyer's computation of Specified Current Assets and Specified Current Liabilities as of the Effective Time and a calculation of the Net Purchase Price based on such computations. Buyer shall prepare the Closing Statement in a manner consistent with the Accounting Principles and the other terms and definitions in this Agreement and Buyer shall include supporting schedules, working papers and all other relevant details to enable a review by Seller thereof. Notwithstanding anything to the contrary set forth herein, if Buyer fails to timely deliver the Closing Statement in accordance with the foregoing, then the Estimated Net Purchase Price shall be deemed final and binding on the Parties."

2. Except as expressly provided herein, the Purchase Agreement shall remain unchanged and in full force and effect. Each reference to "this Agreement" or "the Purchase Agreement" and words of similar import in the Purchase Agreement and in the agreements and other documents contemplated by the Purchase Agreement shall be a reference to the Purchase Agreement, as amended hereby and the Letter Agreement, and as the same may be further amended, restated, supplemented and otherwise modified and in effect from time to time.

3. The provisions of Article XI of the Purchase Agreement are incorporated by reference herein as if a part hereof.

[Signature Page To Follow]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date first stated above.

FIESTA RESTAURANT GROUP, INC.

By: /s/ Richard C. Stockinger

Name: Richard C. Stockinger

Title: Chief Executive Officer and President

YTC ENTERPRISES, LLC

By: /s/ Anil Yadav

Name: Anil Yadav

Title: Managing Member

YADAV ENTERPRISES, INC.

By: /s/ Anil Yadav

Name: Anil Yadav

Title: CEO/ President

Exhibit 31.1

CERTIFICATIONS

I, Richard C. Stockinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 3, 2021 of Fiesta Restaurant Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

/s/ RICHARD C. STOCKINGER

Richard C. Stockinger
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Dirk Montgomery, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 3, 2021 of Fiesta Restaurant Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

/s/ DIRK MONTGOMERY

Dirk Montgomery
Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Richard C. Stockinger, Chief Executive Officer of Fiesta Restaurant Group, Inc. (the "Company"), hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Company's Quarterly Report on Form 10-Q for the period ended October 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD C. STOCKINGER

Richard C. Stockinger
Chief Executive Officer

November 12, 2021

Exhibit 32.2

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Dirk Montgomery, Chief Financial Officer of Fiesta Restaurant Group, Inc. (the "Company"), hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Company's Quarterly Report on Form 10-Q for the period ended October 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DIRK MONTGOMERY

Dirk Montgomery
Senior Vice President, Chief Financial Officer and Treasurer

November 12, 2021