

**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 September 29, 2019

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 | <input checked="" type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-accelerated Filer | <input type="checkbox"/> | Smaller Reporting Company | <input type="checkbox"/> |
| | | Emerging Growth Company | <input type="checkbox"/> |

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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 October 30, 2019, Fiesta Restaurant Group, Inc. had 27,476,451 shares of its common stock, \$0.01 par value, outstanding.

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED SEPTEMBER 29, 2019

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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)

| | September 29, 2019 | December 30, 2018 |
|--|--------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 3,509 | \$ 5,258 |
| Accounts receivable | 9,066 | 8,505 |
| Inventories | 3,222 | 2,842 |
| Prepaid rent | 119 | 3,375 |
| Income tax receivable | 1,502 | 17,857 |
| Prepaid expenses and other current assets | 12,378 | 6,562 |
| Total current assets | 29,796 | 44,399 |
| Property and equipment, net | 221,122 | 231,328 |
| Operating lease right-of-use assets | 254,449 | — |
| Goodwill | 56,307 | 123,484 |
| Deferred income taxes | 8,243 | 10,383 |
| Other assets | 7,685 | 9,065 |
| Total assets | \$ 577,602 | \$ 418,659 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 204 | \$ 108 |
| Accounts payable | 11,094 | 16,410 |
| Accrued payroll, related taxes and benefits | 9,686 | 10,086 |
| Accrued real estate taxes | 7,424 | 5,871 |
| Other current liabilities | 29,842 | 14,086 |
| Total current liabilities | 58,250 | 46,561 |
| Long-term debt, net of current portion | 70,887 | 79,636 |
| Deferred income—sale-leaseback of real estate | — | 19,899 |
| Operating lease liabilities | 258,891 | — |
| Other non-current liabilities | 8,066 | 32,504 |
| Total liabilities | 396,094 | 178,600 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value; 20,000,000 shares authorized, no shares issued | — | — |
| Common stock, \$0.01 par value; 100,000,000 shares authorized, 27,480,487 and 27,259,212 shares issued, respectively, and 25,926,561 and 26,858,988 shares outstanding, respectively | 271 | 270 |
| Additional paid-in capital | 172,426 | 170,290 |
| Retained earnings | 22,937 | 72,268 |
| Treasury stock, at cost; 1,176,895 and 112,358 shares, respectively | (14,126) | (2,769) |
| Total stockholders' equity | 181,508 | 240,059 |
| Total liabilities and stockholders' equity | \$ 577,602 | \$ 418,659 |

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 SEPTEMBER 29, 2019 AND SEPTEMBER 30, 2018
(In thousands, except share and per share data)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| Revenues: | | | | |
| Restaurant sales | \$ 163,589 | \$ 173,966 | \$ 499,483 | \$ 518,951 |
| Franchise royalty revenues and fees | 659 | 682 | 1,998 | 2,008 |
| Total revenues | 164,248 | 174,648 | 501,481 | 520,959 |
| Costs and expenses: | | | | |
| Cost of sales | 52,056 | 56,021 | 156,324 | 166,275 |
| Restaurant wages and related expenses (including stock-based compensation expense of \$102, \$6, \$145, and \$56, respectively) | 44,459 | 47,943 | 135,261 | 142,103 |
| Restaurant rent expense | 11,970 | 9,129 | 35,613 | 26,861 |
| Other restaurant operating expenses | 24,153 | 27,294 | 68,429 | 75,398 |
| Advertising expense | 6,385 | 6,472 | 17,789 | 18,046 |
| General and administrative (including stock-based compensation expense of \$509, \$732, \$1,993 and \$2,588, respectively) | 13,820 | 13,284 | 42,387 | 41,023 |
| Depreciation and amortization | 10,165 | 9,739 | 29,520 | 27,908 |
| Pre-opening costs | 77 | 223 | 863 | 1,481 |
| Impairment and other lease charges | 3,254 | 6,417 | 4,667 | 6,539 |
| Goodwill impairment | 21,424 | — | 67,909 | — |
| Closed restaurant rent expense, net of sublease income | 726 | — | 3,485 | — |
| Other expense (income), net | 64 | 47 | 920 | (3,132) |
| Total operating expenses | 188,553 | 176,569 | 563,167 | 502,502 |
| Income (loss) from operations | (24,305) | (1,921) | (61,686) | 18,457 |
| Interest expense | 823 | 924 | 3,024 | 2,979 |
| Income (loss) before income taxes | (25,128) | (2,845) | (64,710) | 15,478 |
| Benefit from income taxes | (2,946) | (4,892) | (1,377) | (246) |
| Net income (loss) | \$ (22,182) | \$ 2,047 | \$ (63,333) | \$ 15,724 |
| Earnings (loss) per common share: | | | | |
| Basic | \$ (0.84) | \$ 0.08 | \$ (2.37) | \$ 0.58 |
| Diluted | (0.84) | 0.08 | (2.37) | 0.58 |
| Weighted average common shares outstanding: | | | | |
| Basic | 26,548,116 | 26,954,285 | 26,734,822 | 26,900,716 |
| Diluted | 26,548,116 | 26,958,874 | 26,734,822 | 26,905,391 |

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 SEPTEMBER 29, 2019 AND SEPTEMBER 30, 2018
(In thousands, except share data)
(Unaudited)

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|--|--------------|--------|----------------------------------|----------------------|-------------------|----------------------------------|
| | Shares | Amount | | | | |
| Balance at December 31, 2017 | 26,847,458 | \$ 268 | \$ 166,823 | \$ 64,425 | \$ — | \$ 231,516 |
| Stock-based compensation | — | — | 889 | — | — | 889 |
| Vesting of restricted shares | 76,578 | 1 | (1) | — | — | — |
| Cumulative effect of adopting a new accounting standard | — | — | — | 57 | — | 57 |
| Purchase of treasury stock | (18,406) | — | — | — | (349) | (349) |
| Net income | — | — | — | 4,184 | — | 4,184 |
| Balance at April 1, 2018 | 26,905,630 | \$ 269 | \$ 167,711 | \$ 68,666 | \$ (349) | \$ 236,297 |
| Stock-based compensation | — | — | 1,017 | — | — | 1,017 |
| Vesting of restricted shares | 38,348 | 1 | (1) | — | — | — |
| Purchase of treasury stock | (24,499) | — | — | — | (603) | (603) |
| Net income | — | — | — | 9,493 | — | 9,493 |
| Balance at July 1, 2018 | 26,919,479 | \$ 270 | \$ 168,727 | \$ 78,159 | \$ (952) | \$ 246,204 |
| Stock-based compensation | — | — | 738 | — | — | 738 |
| Vesting of restricted shares | 613 | — | — | — | — | — |
| Purchase of treasury stock | (54,453) | — | — | — | (1,532) | (1,532) |
| Net income | — | — | — | 2,047 | — | 2,047 |
| Balance at September 30, 2018 | 26,865,639 | \$ 270 | \$ 169,465 | \$ 80,206 | \$ (2,484) | \$ 247,457 |
| Balance at December 30, 2018 | 26,858,988 | \$ 270 | \$ 170,290 | \$ 72,268 | \$ (2,769) | \$ 240,059 |
| Stock-based compensation | — | — | 792 | — | — | 792 |
| Vesting of restricted shares | 68,286 | — | (1) | — | — | (1) |
| Cumulative effect of adopting a new accounting standard (Note 1) | — | — | — | 14,002 | — | 14,002 |
| Purchase of treasury stock | (158,269) | — | — | — | (2,199) | (2,199) |
| Net income | — | — | — | 2,289 | — | 2,289 |
| Balance at March 31, 2019 | 26,769,005 | \$ 270 | \$ 171,081 | \$ 88,559 | \$ (4,968) | \$ 254,942 |
| Stock-based compensation | — | — | 735 | — | — | 735 |
| Vesting of restricted shares | 57,547 | 1 | (1) | — | — | — |
| Net loss | — | — | — | (43,440) | — | (43,440) |
| Balance at June 30, 2019 | 26,826,552 | \$ 271 | \$ 171,815 | \$ 45,119 | \$ (4,968) | \$ 212,237 |
| Stock-based compensation | — | — | 611 | — | — | 611 |
| Vesting of restricted shares | 6,277 | — | — | — | — | — |
| Purchase of treasury stock | (906,268) | — | — | — | (9,158) | (9,158) |
| Net loss | — | — | — | (22,182) | — | (22,182) |
| Balance at September 29, 2019 | 25,926,561 | \$ 271 | \$ 172,426 | \$ 22,937 | \$ (14,126) | \$ 181,508 |

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 SEPTEMBER 29, 2019 AND SEPTEMBER 30, 2018
(In thousands)
(Unaudited)

| | Nine Months Ended | |
|--|--------------------|--------------------|
| | September 29, 2019 | September 30, 2018 |
| Operating activities: | | |
| Net income (loss) | \$ (63,333) | \$ 15,724 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Loss (gain) on disposals of property and equipment | (6) | (1,167) |
| Stock-based compensation | 2,138 | 2,644 |
| Impairment and other lease charges | 4,667 | 6,539 |
| Goodwill impairment | 67,909 | — |
| Depreciation and amortization | 29,520 | 27,908 |
| Amortization of deferred financing costs | 203 | 203 |
| Amortization of deferred gains from sale-leaseback transactions | — | (2,698) |
| Deferred income taxes | (2,112) | 7,856 |
| Changes in other operating assets and liabilities | 11,988 | (12,721) |
| Net cash provided by operating activities | <u>50,974</u> | <u>44,288</u> |
| Investing activities: | | |
| Capital expenditures: | | |
| New restaurant development | (10,681) | (17,897) |
| Restaurant remodeling | (368) | (234) |
| Other restaurant capital expenditures | (15,845) | (15,536) |
| Corporate and restaurant information systems | (7,179) | (6,256) |
| Total capital expenditures | <u>(34,073)</u> | <u>(39,923)</u> |
| Proceeds from disposals of properties | 1,774 | 4,676 |
| Proceeds from insurance recoveries | 42 | 813 |
| Net cash used in investing activities | <u>(32,257)</u> | <u>(34,434)</u> |
| Financing activities: | | |
| Borrowings on revolving credit facility | 21,000 | 18,000 |
| Repayments on revolving credit facility | (30,000) | (23,000) |
| Principal payments on finance/capital leases | (109) | (76) |
| Financing costs associated with issuance of debt | — | (150) |
| Payments to purchase treasury stock | (11,357) | (2,484) |
| Net cash used in financing activities | <u>(20,466)</u> | <u>(7,710)</u> |
| Net change in cash | (1,749) | 2,144 |
| Cash, beginning of period | 5,258 | 3,599 |
| Cash, end of period | <u>\$ 3,509</u> | <u>\$ 5,743</u> |
| Supplemental disclosures: | | |
| Interest paid on long-term debt | \$ 3,558 | \$ 2,505 |
| Accruals for capital expenditures | 3,198 | 5,338 |
| Income tax payments (refunds), net | (15,620) | (3,360) |
| Finance/capital lease obligations incurred | 495 | 322 |

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 two restaurant brands through its wholly-owned subsidiaries Pollo Operations, Inc. and its subsidiaries, Pollo Franchise, Inc. (collectively "Pollo Tropical"), and Taco Cabana, Inc. and its subsidiaries (collectively "Taco Cabana"). Unless the context otherwise requires, Fiesta and its subsidiaries, Pollo Tropical and Taco Cabana, are collectively referred to as the "Company." At September 29, 2019, the Company owned and operated 141 Pollo Tropical® restaurants and 165 Taco Cabana® restaurants. All of the Pollo Tropical restaurants are located in Florida and all of the Taco Cabana restaurants are located in Texas. At September 29, 2019, the Company franchised a total of 31 Pollo Tropical restaurants and eight Taco Cabana restaurants. The franchised Pollo Tropical restaurants included 17 in Puerto Rico, four in Panama, two in Guyana, one in the Bahamas, six on college campuses and one at a hospital in Florida. The franchised Taco Cabana restaurants included six in New Mexico and two on college campuses in Texas.

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 December 30, 2018 contained 52 weeks. The three and nine months ended September 29, 2019 and September 30, 2018 each contained thirteen and thirty-nine weeks, respectively. The fiscal year ending December 29, 2019 will contain 52 weeks.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements for the three and nine months ended September 29, 2019 and September 30, 2018 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 September 29, 2019 and September 30, 2018 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 December 30, 2018 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018. The December 30, 2018 balance sheet data is derived from those audited financial statements.

Guidance Adopted in 2019. In February 2016, and in subsequent updates, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 842"), which requires lessee recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. The Company adopted this new accounting standard and all the related amendments as of December 31, 2018 using the modified retrospective method, with certain optional practical expedients including the transition practical expedient package, which among other things does not require reassessment of lease classification. The Company elected the transition method that allows it to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The comparative period information has not been restated and continues to be reported under the accounting standard in effect for that period.

The Company has recognized lease liabilities and corresponding right-of-use ("ROU") lease assets for substantially all of the leases it previously accounted for as operating leases, including leases related to closed restaurant properties. The initial ROU assets were calculated as the present value of the remaining operating lease payments using the Company's incremental borrowing rate as of December 31, 2018, reduced by accrued occupancy costs such as certain closed-restaurant lease reserves, accrued rent (including accruals to expense operating lease payments on a straight-line basis), unamortized lease incentives and any unamortized sale-leaseback gains that resulted from off-market terms and increased by unamortized lease acquisition costs. Upon the adoption of ASC 842, the Company no longer records closed restaurant lease reserves, and ROU lease assets are reviewed for impairment with the Company's long-lived assets.

The Company elected the practical expedient to combine lease and non-lease components of real estate contracts, which resulted in classification of certain occupancy related expenses that are included in other restaurant operating expenses for periods prior to the adoption of ASC 842 as restaurant rent expenses in the consolidated statement of operations for periods subsequent to the adoption of ASC 842. The Company separately presents rent expense related to its closed restaurant locations and any sublease

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

income related to these closed restaurant locations within closed restaurant rent expense, net of sublease income in the consolidated statement of operations for periods subsequent to the adoption of ASC 842.

The Company recorded an initial adjustment to the opening balance of retained earnings of \$14.0 million associated with previously deferred gains on sale-leaseback transactions and impairment of operating lease right-of-use assets as of the date of adoption. This adjustment consisted of \$18.6 million in deferred gains on sale-leaseback transactions, net of a related deferred tax asset of \$4.3 million and \$0.2 million in impairment charges, net of tax. For any future sale-leaseback transactions, the gain (adjusted for any off-market terms) will be recognized immediately.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which eliminates the requirement to calculate the implied fair value of goodwill if the fair value of a reporting unit is less than the carrying amount of the reporting unit. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. In 2019, the Company early adopted this new accounting standard and performed its interim impairment tests in accordance with ASU 2017-04. In the second quarter of 2019, the Company recognized a \$46.5 million impairment of its Taco Cabana reporting unit goodwill, which represents the excess of the reporting unit's carrying value over its fair value at June 30, 2019. In the third quarter of 2019, the Company recognized a \$21.4 million impairment of its Taco Cabana reporting unit goodwill. In the third quarter of 2019, the excess of the Taco Cabana reporting unit's carrying value over its fair value was greater than the balance of the reporting unit's goodwill, resulting in a full impairment of the Taco Cabana reporting unit's goodwill. See Note 4—Goodwill.

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

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 at 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 balance sheet of cash, accounts receivable and accounts payable approximate fair value because of the short maturity of those financial instruments.
- *Revolving Credit Borrowings.* The fair value of outstanding revolving credit borrowings under the Company's senior credit facility, which is considered Level 2, is based on current LIBOR rates. The fair value of the Company's senior credit facility was approximately \$69.0 million at September 29, 2019, and \$78.0 million at December 30, 2018. The carrying value of the Company's senior credit facility was \$69.0 million at September 29, 2019 and \$78.0 million at December 30, 2018.

Long-Lived Assets. The Company assesses the recoverability of property and equipment and definite-lived intangible assets including right-of-use 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 when events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. See Note 3—Impairment of Long-Lived Assets.

Leases. The Company assesses whether an agreement contains a lease at inception. Operating leases are included within operating lease right-of-use assets, other current liabilities, and operating lease liabilities in the 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 consolidated balance sheets.

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

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

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 subsequent to the adoption of ASC 842, 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. See Note 6—Leases.

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: accrued occupancy costs, insurance liabilities, evaluation for impairment of goodwill and long-lived assets and lease accounting matters. Actual results could differ from those estimates.

2. Prepaid Expenses and Other Current Assets

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

| | September 29, 2019 | December 30, 2018 |
|-------------------------------------|--------------------|-------------------|
| Prepaid contract expenses | \$ 4,275 | \$ 4,232 |
| Assets held for sale ⁽¹⁾ | 4,336 | — |
| Other | 3,767 | 2,330 |
| | <u>\$ 12,378</u> | <u>\$ 6,562</u> |

⁽¹⁾ One closed Pollo Tropical restaurant and two Taco Cabana restaurant properties owned by the Company were classified as held for sale as of September 29, 2019.

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

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

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| Pollo Tropical | \$ 165 | \$ 3,295 | \$ (162) | \$ 3,439 |
| Taco Cabana | 3,089 | 3,122 | 4,829 | 3,100 |
| | <u>\$ 3,254</u> | <u>\$ 6,417</u> | <u>\$ 4,667</u> | <u>\$ 6,539</u> |

Impairment and other lease charges for the three and nine months ended September 29, 2019 for Pollo Tropical include impairment charges of \$0.2 million and \$0.6 million, respectively, related primarily to additional impairment of equipment from previously impaired restaurants and a lease charge recoveries benefit related to previously closed restaurant lease terminations of

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\$(0.8) million for the nine months ended September 29, 2019. Impairment and other lease charges for the three and nine months ended September 29, 2019 for Taco Cabana include impairment charges of \$3.1 million and \$4.9 million, respectively, related primarily to impairment of assets for eight underperforming Taco Cabana restaurants for which continued sales declines resulted in a decrease in the estimated future cash flows and equipment from previously impaired restaurants as well as a lease charge recoveries benefit related to previously closed restaurant lease terminations of \$(0.1) million for the nine months ended September 29, 2019.

Impairment and other lease charges for the three and nine months ended September 30, 2018 for Pollo Tropical include impairment charges of \$3.4 million and \$3.6 million, respectively, related primarily to impairment of three underperforming restaurants for which continued sales declines resulted in a decrease in the estimated future cash flows and a benefit of \$(0.1) million in net lease charge recoveries related to certain previously closed restaurants due to adjustments to estimates of future lease costs. Impairment and other lease charges for the three and nine months ended September 30, 2018 for Taco Cabana include impairment charges of \$2.4 million and \$2.6 million, respectively, related primarily to impairment of five underperforming restaurants for which continued sales declines resulted in a decrease in the estimated future cash flows and other lease charges, net of recoveries, of \$0.7 million and \$0.5 million, respectively, due primarily to lease charges related to an office relocation in the third quarter of 2018 and other lease charges, net of recoveries, related to certain previously closed restaurants due to adjustments to estimates of future lease costs.

The Company determined the fair value of restaurant equipment, for those restaurants reviewed for impairment, based on current economic conditions, the Company's history of using these assets in the operation of its business and the Company's expectation of how a market participant would value the assets. In addition, for those restaurants reviewed for impairment where the Company owns the land and building, the Company utilized third-party information such as a broker quoted value to determine the fair value of the property. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. The Company also utilized discounted future cash flows to determine the fair value of assets for certain leased restaurants. The Level 3 assets measured at fair value associated with impairment charges recorded during the nine months ended September 29, 2019 totaled \$1.5 million.

4. Goodwill

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

In performing its goodwill impairment test as of December 30, 2018, the Company compared the net book values of its reporting units to their estimated fair values, the latter determined by employing an income-based discounted cash flow analysis approach and a market-based approach, which was corroborated with other value indicators where available, such as comparable company earnings multiples.

As of June 30, 2019, the Company determined that a triggering event had occurred due to a sustained decrease in the market price of the Company's common stock. In response to the triggering event, the Company performed a quantitative impairment test for both the Pollo Tropical and Taco Cabana reporting units. Fair value for each reporting unit was determined using a combination of the income-based approach and two market-based approaches. Based on the impairment test analysis, the fair value of the Pollo Tropical reporting unit substantially exceeded its carrying amount, while the carrying amount for the Taco Cabana reporting unit exceeded its estimated fair value, which indicated an impairment of the Taco Cabana reporting unit. Lower than expected profitability and a lower profitability and growth outlook for the Taco Cabana reporting unit reduced its income-based and market-based approach fair value.

The Company early adopted ASU 2017-04, which eliminates Step 2 from the goodwill impairment test, and requires recognition of an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the carrying value of the reporting unit's goodwill. In the second quarter of 2019, the Company recorded an impairment charge on the goodwill of its Taco Cabana reporting unit of \$46.5 million, which represents the excess of the reporting unit's carrying value over its fair value at June 30, 2019 and which was not deductible for tax purposes.

In addition, in response to a further decrease in the market price of the Company's common stock and lower than expected profitability in the third quarter of 2019, the Company performed a quantitative impairment test for both the Pollo Tropical and Taco Cabana reporting units as of September 29, 2019. Based on the impairment test analysis, which utilized the same approach used in the second quarter of 2019, the fair value of the Pollo Tropical reporting unit continued to substantially exceed its carrying

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amount, while the carrying amount for the Taco Cabana reporting unit exceeded its estimated fair value. In the third quarter of 2019, the Company recorded an impairment charge on the goodwill of its Taco Cabana reporting unit of \$21.4 million, of which \$9.1 million was deductible for tax purposes and resulted in an income tax benefit of \$2.1 million. The excess of the Taco Cabana reporting unit's carrying value over its fair value was greater than the balance of the reporting unit's goodwill, resulting in a full impairment of the Taco Cabana reporting unit's goodwill.

A summary of changes in goodwill during the nine months ended September 29, 2019 is as follows:

| | Pollo Tropical | Taco Cabana | Total |
|--------------------------------------|---------------------------|------------------------|------------------|
| Balance, December 30, 2018 | \$ 56,307 | \$ 67,177 | \$ 123,484 |
| Impairment charges ⁽¹⁾⁽²⁾ | — | (67,177) | (67,177) |
| Balance, September 29, 2019 | <u>\$ 56,307</u> | <u>\$ —</u> | <u>\$ 56,307</u> |

⁽¹⁾ Accumulated impairment losses at September 29, 2019 were \$67.2 million. There were no accumulated impairment losses at December 30, 2018.

⁽²⁾ Impairment charges during the three and nine months ended September 29, 2019 include \$0.7 million previously classified as an intangible asset and included in other assets.

5. Other Liabilities

Other current liabilities consist of the following:

| | September 29, 2019 | December 30, 2018 |
|--|---------------------------|--------------------------|
| Accrued workers' compensation and general liability claims | \$ 4,770 | \$ 4,886 |
| Sales and property taxes | 2,054 | 1,958 |
| Accrued occupancy costs | 1,189 | 4,554 |
| Operating lease liabilities | 19,647 | — |
| Other | 2,182 | 2,688 |
| | <u>\$ 29,842</u> | <u>\$ 14,086</u> |

Other non-current liabilities consist of the following:

| | September 29, 2019 | December 30, 2018 |
|--|---------------------------|--------------------------|
| Accrued occupancy costs | \$ 78 | \$ 21,534 |
| Deferred compensation | 532 | 867 |
| Accrued workers' compensation and general liability claims | 6,806 | 6,808 |
| Other | 650 | 3,295 |
| | <u>\$ 8,066</u> | <u>\$ 32,504</u> |

At December 30, 2018, accrued occupancy costs included obligations pertaining to closed restaurant locations and accruals to expense operating lease rental payments on a straight-line basis over the lease term. As a result of adopting ASC 842 on December 31, 2018, at September 29, 2019, accrued occupancy costs primarily consisted of obligations pertaining to closed restaurant locations.

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The following table presents the activity in the closed-restaurant reserve, of which \$0.1 million and \$4.4 million are included in non-current accrued occupancy costs at September 29, 2019 and December 30, 2018, respectively, with the remainder in current accrued occupancy costs.

| | Nine Months Ended September 29, 2019 | Year Ended December 30, 2018 |
|--|---|---------------------------------|
| Balance, beginning of period | \$ 8,819 | \$ 12,994 |
| Provisions for restaurant closures | — | 2,228 |
| Additional lease charges (recoveries), net | (808) | (152) |
| Payments, net | (895) | (6,778) |
| Other adjustments ⁽¹⁾ | (5,992) | 527 |
| Balance, end of period | <u>\$ 1,124</u> | <u>\$ 8,819</u> |

⁽¹⁾ As a result of adopting ASC 842 on December 31, 2018, the portion of the closed restaurant reserve related to operating lease rental payments totaling \$5.7 million was reclassified and included as a component of the related ROU assets during the nine months ended September 29, 2019. The portion of the closed restaurant reserve related to variable ancillary lease costs was not reclassified and was not included as a reduction to ROU assets.

6. Leases

The Company utilizes land and buildings in its operations under various operating and finance lease agreements. The Company does not consider any one of these individual leases material to the Company's operations. Initial lease terms are generally for 20 years and, in many cases, provide for renewal options and in most cases rent escalations. As of September 29, 2019, the Company's leases have remaining lease terms of 0.3 years to 22.1 years. Some of the Company's leases include options to extend the lease for up to 40 years. Certain leases require contingent rent, determined as a percentage of sales as defined by the terms of the applicable lease agreement. For most locations, the Company is obligated for occupancy related costs including payment of property taxes, insurance and utilities. Variable lease payments included in rent expense consist of such contingent rent, certain rent payments based on changes in an index and certain occupancy related costs, such as variable common area maintenance expense and property taxes. The Company is not subject to residual value guarantees under any of the lease agreements. Many of the Company's real estate leases contain usage restrictions, but its leases do not contain financial covenants and restrictions.

Lease expense consisted of the following:

| | Three Months Ended September 29, 2019 | Nine Months Ended September 29, 2019 |
|-------------------------------------|--|---|
| Operating lease cost | \$ 11,396 | \$ 34,097 |
| Finance lease costs: | | |
| Amortization of right-of-use assets | \$ 59 | \$ 136 |
| Interest on lease liabilities | 58 | 168 |
| Total finance lease costs | <u>\$ 117</u> | <u>\$ 304</u> |
| Variable lease costs | \$ 2,766 | 8,855 |
| Sublease income | (1,135) | (2,764) |
| Total lease costs | <u>\$ 13,144</u> | <u>\$ 40,492</u> |

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Supplemental balance sheet information related to leases is as follows:

| | September 29, 2019 |
|---|---------------------------|
| Operating Leases | |
| Operating lease right-of-use assets | \$ 254,449 |
| Other current liabilities | \$ 19,647 |
| Operating lease liabilities | 258,891 |
| Total operating lease liabilities | \$ 278,538 |
| Finance Leases | |
| Property and equipment, gross | \$ 2,874 |
| Accumulated amortization | (1,268) |
| Property and equipment, net | \$ 1,606 |
| Current portion of long-term debt | \$ 204 |
| Long-term debt, net of current portion | 1,887 |
| Total finance lease liabilities | \$ 2,091 |
| Weighted Average Remaining Lease Term (in Years) | |
| Operating leases | 12.1 |
| Finance leases | 8.1 |
| Weighted Average Discount Rate | |
| Operating leases | 7.70% |
| Finance leases | 12.61% |

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Supplemental cash flow information related to leases is as follows:

| | Nine Months Ended | |
|---|---------------------------|---------|
| | September 29, 2019 | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows for operating leases | \$ | 32,833 |
| Operating cash flows for finance leases | | 168 |
| Financing cash flows for finance leases | | 109 |
| Right-of-use assets obtained in exchange for lease liabilities: | | |
| Operating lease ROU assets | | 8,618 |
| Finance lease ROU assets | | 495 |
| Right-of-use assets and lease liabilities reduced for terminated leases: | | |
| Operating lease ROU assets | | 4,058 |
| Operating lease liabilities | | 4,787 |
| Operating lease right-of-use assets obtained and liabilities incurred as a result of adoption of ASC 842: | | |
| Operating lease ROU assets | | 267,743 |
| Operating lease liabilities | | 291,373 |

Maturities of lease liabilities were as follows:

| | Operating Leases | | Finance Leases | |
|---|-------------------------|-----------|-----------------------|---------|
| Remaining 2019 | \$ | 7,369 | \$ | 87 |
| 2020 | | 43,570 | | 460 |
| 2021 | | 40,062 | | 475 |
| 2022 | | 38,637 | | 475 |
| 2023 | | 35,269 | | 428 |
| 2024 | | 31,820 | | 350 |
| Thereafter | | 248,237 | | 1,278 |
| Total lease payments | | 444,964 | | 3,553 |
| Less amount representing interest | | (166,426) | | (1,462) |
| Total discounted lease liabilities | | 278,538 | | 2,091 |
| Less current portion | | (19,647) | | (204) |
| Long-term portion of leases liabilities | \$ | 258,891 | \$ | 1,887 |

As of September 29, 2019, the Company had five additional operating leases for restaurant properties. These operating leases will commence in fiscal year 2020 with each lease having an initial lease term of 15 years.

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

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

(1) Minimum operating lease payments include contractual rent payments for closed restaurants for which the Company is still obligated under the lease agreements and have not been reduced by minimum sublease rent of \$41.4 million due in the future under non-cancelable subleases. See Note 5—Other Liabilities.

The Company subleases land and buildings related to closed restaurant locations and a closed office location under various operating sublease agreements. Initial sublease terms are generally for the period of time remaining on the head lease term and, in some cases, subleases provide for renewal options and in most cases rent escalations. As of September 29, 2019, the Company's subleases have remaining sublease terms of 2.6 years to 19.7 years. Some of the Company's subleases include options to extend the lease for up to 25 years. Variable lease payments included in sublease income consist of certain occupancy related costs, such as variable common area maintenance expense and property taxes where the Company makes the real estate payment and is reimbursed by the lessee. The sublease agreements do not include residual value guarantees. Consistent with the Company's real estate leases, many of the subleases contain usage restrictions, but its subleases do not contain financial covenants and restrictions.

The undiscounted cash flows to be received under operating subleases were as follows:

| | Operating Leases |
|----------------|------------------|
| Remaining 2019 | \$ 937 |
| 2020 | 4,384 |
| 2021 | 4,551 |
| 2022 | 4,493 |
| 2023 | 4,481 |
| 2024 | 4,535 |
| Thereafter | 41,798 |
| Total | \$ 65,179 |

7. Stockholders' Equity

Purchase of Treasury Stock

On February 26, 2018, the Company announced that its board of directors approved a share repurchase program for up to 1,500,000 shares of the Company's common stock, and on August 7, 2019, it announced that its board of directors approved an increase to its share repurchase program of an additional 500,000 shares of the Company's common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by the Company's board of directors. The Company repurchased 1,064,537 shares of its common stock under the program in open market transactions during the nine months ended September 29, 2019 for \$11.3 million. The repurchased shares are held as treasury stock at cost.

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Stock-Based Compensation

During the nine months ended September 29, 2019, the Company granted certain employees, non-employee directors and a consultant a total of 287,002 non-vested restricted shares under the Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan (the "Fiesta Plan"). The shares granted to employees generally vest and become non-forfeitable over a four-year vesting period. The shares granted to non-employee directors and the consultant vest and become non-forfeitable over a one- and four-year vesting period, respectively. During the three months ended September 29, 2019, the Company granted a certain executive a total of 20,000 non-vested restricted shares under the Fiesta Plan, which vest in two tranches over a four-year vesting period. The weighted average fair value at grant date for non-vested shares issued during the nine months ended September 29, 2019 was \$13.00 per share.

During the nine months ended September 29, 2019, the Company granted a certain executive a total of 15,348 restricted stock units under the Fiesta Plan, which vest in two tranches over a two-year vesting period. The restricted stock units granted to the executive are subject to continued service and attainment of specified share prices of the Company's common stock for a specified period of time within each vesting period. Each tranche vests by the end of a one-year period if the specified target stock price condition for that year is met. If the specified target stock price condition for the first tranche is not met for the year, the cumulative unearned restricted stock units will be rolled over to the subsequent tranche. For the restricted stock units granted in the nine months ended September 29, 2019, the number of shares into which these restricted stock units convert ranges from no shares, if the service and market performance conditions are not met, to 15,348 shares, if the service and market performance conditions are met in the last vesting period. The weighted average fair value at grant date for the restricted stock units granted in the nine months ended September 29, 2019 was \$1.76 per share.

Stock-based compensation expense for the three and nine months ended September 29, 2019 was \$0.6 million and \$2.1 million, respectively, and for the three and nine months ended September 30, 2018 was \$0.7 million and \$2.6 million, respectively. At September 29, 2019, the total unrecognized stock-based compensation expense related to non-vested restricted shares and restricted stock units was approximately \$4.8 million. At September 29, 2019, the remaining weighted average vesting period for non-vested restricted shares was 2.7 years and restricted stock units was 0.9 years.

A summary of all non-vested restricted shares and restricted stock units activity for the nine months ended September 29, 2019 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 December 30, 2018 | 287,866 | \$ 20.70 | 231,112 | \$ 12.44 |
| Granted | 287,002 | 13.00 | 15,348 | 1.76 |
| Vested and released | (128,811) | 20.34 | (3,418) | 62.05 |
| Forfeited | (69,190) | 17.50 | (95,123) | 12.97 |
| Outstanding at September 29, 2019 | <u>376,867</u> | <u>\$ 15.48</u> | <u>147,919</u> | <u>\$ 9.83</u> |

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

| | 2019 | 2018 |
|--------------------------|----------|----------|
| Grant date stock price | \$ 14.66 | \$ 18.70 |
| Fair value at grant date | \$ 1.76 | \$ 6.96 |
| Risk free interest rate | 2.53% | 2.40% |
| Expected term (in years) | 2 | 3 |
| Dividend yield | —% | —% |
| Expected volatility | 43.18% | 41.49% |

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8. Business Segment Information

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

Each 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 December 30, 2018. 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 reportable segments 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.

| Three Months Ended | Pollo Tropical | | Taco Cabana | | Other | Consolidated |
|--|----------------|--------|-------------|--------|-------|--------------|
| September 29, 2019: | | | | | | |
| Restaurant sales | \$ | 88,309 | \$ | 75,280 | \$ — | \$ 163,589 |
| Franchise revenue | | 432 | | 227 | — | 659 |
| Cost of sales | | 28,239 | | 23,817 | — | 52,056 |
| Restaurant wages and related expenses ⁽¹⁾ | | 20,944 | | 23,515 | — | 44,459 |
| Restaurant rent expense | | 5,477 | | 6,493 | — | 11,970 |
| Other restaurant operating expenses | | 12,807 | | 11,346 | — | 24,153 |
| Advertising expense | | 3,130 | | 3,255 | — | 6,385 |
| General and administrative expense ⁽²⁾ | | 7,521 | | 6,299 | — | 13,820 |
| Adjusted EBITDA | | 10,980 | | 1,174 | — | 12,154 |
| Depreciation and amortization | | 5,529 | | 4,636 | — | 10,165 |
| Capital expenditures | | 6,402 | | 5,015 | 985 | 12,402 |
| September 30, 2018: | | | | | | |
| Restaurant sales | \$ | 93,592 | \$ | 80,374 | \$ — | \$ 173,966 |
| Franchise revenue | | 453 | | 229 | — | 682 |
| Cost of sales | | 31,219 | | 24,802 | — | 56,021 |
| Restaurant wages and related expenses ⁽¹⁾ | | 21,947 | | 25,996 | — | 47,943 |
| Restaurant rent expense | | 4,392 | | 4,737 | — | 9,129 |
| Other restaurant operating expenses | | 13,521 | | 13,773 | — | 27,294 |
| Advertising expense | | 3,413 | | 3,059 | — | 6,472 |
| General and administrative expense ⁽²⁾ | | 7,291 | | 5,993 | — | 13,284 |
| Adjusted EBITDA | | 12,544 | | 2,493 | — | 15,037 |
| Depreciation and amortization | | 5,438 | | 4,301 | — | 9,739 |
| Capital expenditures | | 4,621 | | 7,489 | 525 | 12,635 |

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| Nine Months Ended | Pollo Tropical | Taco Cabana | Other | Consolidated |
|--|----------------|-------------|-----------|--------------|
| September 29, 2019: | | | | |
| Restaurant sales | \$ 271,955 | \$ 227,528 | \$ — | \$ 499,483 |
| Franchise revenue | 1,325 | 673 | — | 1,998 |
| Cost of sales | 85,855 | 70,469 | — | 156,324 |
| Restaurant wages and related expenses ⁽¹⁾ | 63,387 | 71,874 | — | 135,261 |
| Restaurant rent expense | 16,393 | 19,220 | — | 35,613 |
| Other restaurant operating expenses | 36,665 | 31,764 | — | 68,429 |
| Advertising expense | 9,351 | 8,438 | — | 17,789 |
| General and administrative expense ⁽²⁾ | 23,568 | 18,819 | — | 42,387 |
| Adjusted EBITDA | 39,943 | 8,189 | — | 48,132 |
| Depreciation and amortization | 16,118 | 13,402 | — | 29,520 |
| Capital expenditures | 18,195 | 14,982 | 896 | 34,073 |
| September 30, 2018: | | | | |
| Restaurant sales | \$ 283,447 | \$ 235,504 | \$ — | \$ 518,951 |
| Franchise revenue | 1,376 | 632 | — | 2,008 |
| Cost of sales | 93,716 | 72,559 | — | 166,275 |
| Restaurant wages and related expenses ⁽¹⁾ | 65,652 | 76,451 | — | 142,103 |
| Restaurant rent expense | 13,024 | 13,837 | — | 26,861 |
| Other restaurant operating expenses | 38,270 | 37,128 | — | 75,398 |
| Advertising expense | 9,859 | 8,187 | — | 18,046 |
| General and administrative expense ⁽²⁾ | 22,256 | 18,767 | — | 41,023 |
| Adjusted EBITDA | 42,520 | 9,652 | — | 52,172 |
| Depreciation and amortization | 16,117 | 11,791 | — | 27,908 |
| Capital expenditures | 17,656 | 21,400 | 867 | 39,923 |
| Identifiable Assets: | | | | |
| September 29, 2019 | \$ 348,149 | \$ 210,238 | \$ 19,215 | \$ 577,602 |
| December 30, 2018 | 207,435 | 174,681 | 36,543 | 418,659 |

⁽¹⁾ Includes stock-based compensation expense of \$102 and \$145 for the three and nine months ended September 29, 2019, respectively, and \$6 and \$56 for the three and nine months ended September 30, 2018, respectively.

⁽²⁾ Includes stock-based compensation expense of \$509 and \$1,993 for the three and nine months ended September 29, 2019, respectively, and \$732 and \$2,588 for the three and nine months ended September 30, 2018, respectively.

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A reconciliation of consolidated net income to Adjusted EBITDA follows:

| Three Months Ended | Pollo Tropical | Taco Cabana | Other | Consolidated |
|--|----------------|-------------|-------|--------------|
| September 29, 2019: | | | | |
| Net loss | | | | \$ (22,182) |
| Benefit from income taxes | | | | (2,946) |
| Income (loss) before taxes | \$ 3,857 | \$ (28,985) | \$ — | \$ (25,128) |
| Add: | | | | |
| <i>Non-general and administrative expense adjustments:</i> | | | | |
| Depreciation and amortization | 5,529 | 4,636 | — | 10,165 |
| Impairment and other lease charges | 165 | 3,089 | — | 3,254 |
| Goodwill impairment | — | 21,424 | — | 21,424 |
| Interest expense | 398 | 425 | — | 823 |
| Closed restaurant rent expense, net of sublease income | 601 | 125 | — | 726 |
| Other expense (income), net | 5 | 59 | — | 64 |
| Stock-based compensation expense in restaurant wages | 39 | 63 | — | 102 |
| Total non-general and administrative expense adjustments | 6,737 | 29,821 | — | 36,558 |
| <i>General and administrative expense adjustments:</i> | | | | |
| Stock-based compensation expense | 268 | 241 | — | 509 |
| Digital and brand repositioning costs | 118 | 97 | — | 215 |
| Total general and administrative expense adjustments | 386 | 338 | — | 724 |
| Adjusted EBITDA | \$ 10,980 | \$ 1,174 | \$ — | \$ 12,154 |
| September 30, 2018: | | | | |
| Net income | | | | \$ 2,047 |
| Benefit from income taxes | | | | (4,892) |
| Income (loss) before taxes | \$ 2,976 | \$ (5,821) | \$ — | \$ (2,845) |
| Add: | | | | |
| <i>Non-general and administrative expense adjustments:</i> | | | | |
| Depreciation and amortization | 5,438 | 4,301 | — | 9,739 |
| Impairment and other lease charges | 3,295 | 3,122 | — | 6,417 |
| Interest expense | 448 | 476 | — | 924 |
| Other expense (income), net | (29) | 76 | — | 47 |
| Stock-based compensation expense in restaurant wages | 4 | 2 | — | 6 |
| Total non-general and administrative expense adjustments | 9,156 | 7,977 | — | 17,133 |
| <i>General and administrative expense adjustments:</i> | | | | |
| Stock-based compensation expense | 407 | 325 | — | 732 |
| Restructuring costs and retention bonuses | 5 | 12 | — | 17 |
| Total general and administrative expense adjustments | 412 | 337 | — | 749 |
| Adjusted EBITDA | \$ 12,544 | \$ 2,493 | \$ — | \$ 15,037 |

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

| Nine Months Ended | Pollo Tropical | Taco Cabana | Other | Consolidated |
|--|----------------|-------------|-------|--------------|
| September 29, 2019: | | | | |
| Net loss | | | | \$ (63,333) |
| Benefit from income taxes | | | | (1,377) |
| Income (loss) before taxes | \$ 16,731 | \$ (81,441) | \$ — | \$ (64,710) |
| Add: | | | | |
| <i>Non-general and administrative expense adjustments:</i> | | | | |
| Depreciation and amortization | 16,118 | 13,402 | — | 29,520 |
| Impairment and other lease charges | (162) | 4,829 | — | 4,667 |
| Goodwill impairment | — | 67,909 | — | 67,909 |
| Interest expense | 1,534 | 1,490 | — | 3,024 |
| Closed restaurant rent expense, net of sublease income | 2,784 | 701 | — | 3,485 |
| Other expense (income), net | 749 | 171 | — | 920 |
| Stock-based compensation expense in restaurant wages | 48 | 97 | — | 145 |
| Total non-general and administrative expense adjustments | 21,071 | 88,599 | — | 109,670 |
| <i>General and administrative expense adjustments:</i> | | | | |
| Stock-based compensation expense | 1,196 | 797 | — | 1,993 |
| Restructuring costs and retention bonuses | 827 | 137 | — | 964 |
| Digital and brand repositioning costs | 118 | 97 | — | 215 |
| Total general and administrative expense adjustments | 2,141 | 1,031 | — | 3,172 |
| Adjusted EBITDA | \$ 39,943 | \$ 8,189 | \$ — | \$ 48,132 |
| September 30, 2018: | | | | |
| Net income | | | | \$ 15,724 |
| Benefit from income taxes | | | | (246) |
| Income (loss) before taxes | \$ 21,901 | \$ (6,423) | \$ — | \$ 15,478 |
| Add: | | | | |
| <i>Non-general and administrative expense adjustments:</i> | | | | |
| Depreciation and amortization | 16,117 | 11,791 | — | 27,908 |
| Impairment and other lease charges | 3,439 | 3,100 | — | 6,539 |
| Interest expense | 1,467 | 1,512 | — | 2,979 |
| Other expense (income), net | (1,577) | (1,555) | — | (3,132) |
| Stock-based compensation expense in restaurant wages | 23 | 33 | — | 56 |
| Total non-general and administrative expense adjustments | 19,469 | 14,881 | — | 34,350 |
| <i>General and administrative expense adjustments:</i> | | | | |
| Stock-based compensation expense | 1,458 | 1,130 | — | 2,588 |
| Board and shareholder matter costs | (328) | (269) | — | (597) |
| Restructuring costs and retention bonuses | 187 | 333 | — | 520 |
| Legal settlements and related costs | (167) | — | — | (167) |
| Total general and administrative expense adjustments | 1,150 | 1,194 | — | 2,344 |
| Adjusted EBITDA | \$ 42,520 | \$ 9,652 | \$ — | \$ 52,172 |

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

9. 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.

For the three and nine months ended September 29, 2019, all shares of outstanding restricted stock units were excluded from the computation of diluted EPS because including such restricted stock units would have been antidilutive as a result of the net loss in the three and nine months ended September 29, 2019. Weighted average outstanding restricted stock units totaling 568 and 746 shares were excluded from the computation of diluted EPS for the three and nine months ended September 30, 2018 because including such restricted stock units would have been antidilutive.

The computation of basic and diluted EPS is as follows:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| Basic and diluted EPS: | | | | |
| Net income (loss) | \$ (22,182) | \$ 2,047 | \$ (63,333) | \$ 15,724 |
| Less: income allocated to participating securities | — | 23 | — | 171 |
| Net income (loss) available to common shareholders | \$ (22,182) | \$ 2,024 | \$ (63,333) | \$ 15,553 |
| Weighted average common shares—basic | 26,548,116 | 26,954,285 | 26,734,822 | 26,900,716 |
| Restricted stock units | — | 4,589 | — | 4,675 |
| Weighted average common shares—diluted | 26,548,116 | 26,958,874 | 26,734,822 | 26,905,391 |
| Earnings (loss) per common share—basic | \$ (0.84) | \$ 0.08 | \$ (2.37) | \$ 0.58 |
| Earnings (loss) per common share—diluted | (0.84) | 0.08 | (2.37) | 0.58 |

10. Commitments and Contingencies

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

The maximum potential liability for future rental payments that the Company could be required to make under these leases at September 29, 2019 was \$3.3 million. The Company could also be obligated to pay property taxes and other lease-related costs. The obligations under these leases will generally continue to decrease over time as the operating leases expire. The Company does not believe it is probable that it will be ultimately responsible for the obligations under these leases.

Legal Matters. The Company is a party to 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 consolidated financial statements.

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

11. Recent Accounting Pronouncements

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

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 financial statement 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 December 30, 2018 contained 52 weeks. The three and nine months ended September 29, 2019 and September 30, 2018 each contained thirteen and thirty-nine weeks, respectively. The fiscal year ending December 29, 2019 will contain 52 weeks.

Company Overview

We own, operate and franchise two restaurant brands, Pollo Tropical® and Taco Cabana®, which recently celebrated 30th and 40th anniversaries, respectively, of operating history and loyal customer bases. Our Pollo Tropical restaurants feature fire-grilled and crispy citrus marinated chicken and other freshly prepared tropical inspired menu items, while our Taco Cabana restaurants specialize in Mexican inspired food made fresh by hand. We believe that both brands offer distinct and unique flavors with broad appeal at a compelling value, which differentiates them in the competitive fast-casual and quick-service restaurant segments. Nearly all of our restaurants offer the convenience of drive-thru windows. As of September 29, 2019, we owned and operated 141 Pollo Tropical restaurants and 165 Taco Cabana restaurants.

We franchise our Pollo Tropical restaurants primarily internationally and as of September 29, 2019, we had 24 franchised Pollo Tropical restaurants located in Puerto Rico, the Bahamas, Panama and Guyana, and six licensed locations on college campuses and one at a hospital in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets.

As of September 29, 2019, we had six franchised Taco Cabana restaurants located in New Mexico and two non-traditional Taco Cabana licensed locations on college campuses in Texas.

Recent Events Affecting our Results of Operations

New Lease Accounting Standard

On December 31, 2018, we adopted Financial Accounting Standard Board ("FASB") Accounting Standard Update ("ASU") 2016-02, *Leases (Topic 842)* ("ASC 842"), which requires lessee recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. The new lease accounting standard, ASC 842, had a significant impact on our results of operations because we had \$18.6 million in sale leaseback gains that we no longer receive a benefit to rent expense from and we have a significant number of closed restaurants for which we had previous closed restaurant rent reserves and would not have recognized current period expense under the previous accounting standard.

As a result of adopting this standard, substantially all previously deferred gains on sale-leaseback transactions were recognized as an adjustment to retained earnings and we will no longer receive the benefit to rent expense from amortizing these gains resulting in higher rent expense being recognized each period over the life of the respective leases. Additionally, prior to the adoption of ASC 842, we recorded closed restaurant reserves representing future minimum lease payments and ancillary costs from the date of the restaurant closure to the end of the remaining lease term net of estimated sublease recoveries when a restaurant closed, recorded expense related to accretion of the reserve each period, and recorded subsequent changes in the assumptions related to the sublease income to expense in the period in which the assumption changed. The subsequent closed restaurant rent payments were recorded as a reduction to the closed restaurant reserves, with no rent related expense being recorded in the period. As a result of adopting ASC 842, accrued rent included in these closed restaurant reserves was recorded as a reduction to operating lease right-of-use assets, and rent expense (the straight-line amortization of the right-of-use assets and accretion of the lease liability) related to closed restaurants is now included within closed restaurant rent expense, net of sublease income in the condensed consolidated statement of operations each period. The comparative period information has not been restated and continues to be reported under the accounting standard in effect for that period.

For the three and nine months ended September 29, 2019, the adoption of ASC 842 had the following impact:

- Reduced both Adjusted EBITDA and Restaurant-level Adjusted EBITDA (a non-GAAP financial measure) for Pollo Tropical by \$0.4 million and \$1.1 million, respectively; and

- Reduced both Adjusted EBITDA and Restaurant-level Adjusted EBITDA (a non-GAAP financial measure) for Taco Cabana by \$0.5 million and \$1.4 million, respectively.
- Resulted in the recognition of additional rent related expense for closed restaurant locations of approximately \$0.4 million and \$1.3 million for Pollo Tropical, respectively.
- Resulted in the recognition of less rent related expense for closed restaurant locations of approximately \$(0.1) million and additional rent related expense for closed restaurant locations of approximately \$0.3 million for Taco Cabana, respectively.

We recognized closed restaurant rent expense, net of sublease income, for the three and nine months ended September 29, 2019 of approximately \$0.6 million and \$2.8 million, respectively, for Pollo Tropical and approximately \$0.1 million and \$0.7 million, respectively, for Taco Cabana. However, we did not recognize lease charges for subsequent changes in assumptions related to the timing of future sublease income.

Taco Cabana Goodwill Impairment

As of June 30, 2019, the sustained decrease in the market price of Fiesta's common stock was determined to be a triggering event requiring an interim impairment test of goodwill. In addition, in response to a further decrease in the market price of Fiesta's common stock and lower than expected profitability in the third quarter of 2019, we also performed an interim impairment test of goodwill as of September 29, 2019. Based on these interim impairment tests, we recorded non-cash impairment charges to write down the value of goodwill for the Taco Cabana reporting unit in the amount of \$46.5 million, which was not tax deductible, in the second quarter of 2019 and \$21.4 million, of which \$9.1 million was tax deductible, in the third quarter of 2019.

Executive Summary—Consolidated Operating Performance for the Three Months Ended September 29, 2019

Our third quarter 2019 results and highlights include the following:

- We recognized a net loss of \$(22.2) million, or \$(0.84) per diluted share, in the third quarter of 2019 compared to net income of \$2.0 million, or \$0.08 per diluted share in the third quarter of 2018, due primarily to a \$21.4 million goodwill impairment charge for the Taco Cabana reporting unit, the adoption of ASC 842 discussed above, and higher depreciation and amortization and general and administrative expenses, partially offset by lower cost of sales and restaurant wages and related expenses as a percentage of restaurant sales and lower restaurant impairment and other lease charges in the third quarter of 2019. In addition, declines in comparable restaurant sales at both brands, including the impact of Hurricane Dorian at Pollo Tropical, contributed to the decrease in net income in the third quarter of 2019.
- Total revenues decreased 6.0% in the third quarter of 2019 to \$164.2 million compared to \$174.6 million in the third quarter of 2018, driven by a decrease in comparable restaurant sales at both brands, and the net impact of opening new restaurants and closing 14 underperforming Pollo Tropical restaurants and 11 underperforming Taco Cabana restaurants in 2018. Comparable restaurant sales decreased 3.8% for our Pollo Tropical restaurants resulting from a decrease in comparable restaurant transactions of 2.7% accompanied by a decrease in average check of 1.1%. We estimate that Hurricane Dorian, which resulted in temporary restaurant closures, negatively impacted comparable restaurant sales for Pollo Tropical by approximately 1.5%. Comparable restaurant sales decreased 4.8% for our Taco Cabana restaurants resulting from a decrease in comparable restaurant transactions of 5.6% partially offset by an increase in average check of 0.8%.
- Consolidated Adjusted EBITDA decreased \$2.9 million (which includes the negative impact of a \$0.8 million increase in rent expense as a result of adopting ASC 842) in the third quarter of 2019 to \$12.2 million compared to \$15.0 million in the third quarter of 2018, driven primarily by lower restaurant sales, including the impact of Hurricane Dorian, higher rent expense as a result of adopting ASC 842 and higher general and administrative expenses, partially offset by improved restaurant operating margins related to lower cost of sales and restaurant wages as a percent of sales. We estimate that Hurricane Dorian, which resulted in temporary restaurant closures, negatively affected Pollo Tropical and Consolidated Adjusted EBITDA by approximately \$0.6 million. Consolidated Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Consolidated Adjusted EBITDA and a reconciliation from net income to Consolidated Adjusted EBITDA, see "Management's Use of Non-GAAP Financial Measures."
- During the third quarter of 2019, we opened one Pollo Tropical restaurant in Florida.

Results of Operations

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

| | Pollo Tropical | | | Taco Cabana | | |
|--------------------|----------------|------------|-------|-------------|------------|-------|
| | Owned | Franchised | Total | Owned | Franchised | Total |
| December 30, 2018 | 139 | 30 | 169 | 162 | 8 | 170 |
| New | — | 1 | 1 | 2 | — | 2 |
| Closed | — | — | — | — | — | — |
| March 31, 2019 | 139 | 31 | 170 | 164 | 8 | 172 |
| New | 1 | — | 1 | 1 | — | 1 |
| Closed | — | — | — | — | — | — |
| June 30, 2019 | 140 | 31 | 171 | 165 | 8 | 173 |
| New | 1 | — | 1 | — | — | — |
| Closed | — | — | — | — | — | — |
| September 29, 2019 | 141 | 31 | 172 | 165 | 8 | 173 |
| December 31, 2017 | 146 | 31 | 177 | 166 | 7 | 173 |
| New | — | — | — | — | — | — |
| Closed | — | — | — | — | — | — |
| April 1, 2018 | 146 | 31 | 177 | 166 | 7 | 173 |
| New | 4 | — | 4 | 6 | 1 | 7 |
| Closed | — | (1) | (1) | (2) | — | (2) |
| July 1, 2018 | 150 | 30 | 180 | 170 | 8 | 178 |
| New | — | — | — | 1 | — | 1 |
| Closed | — | — | — | — | — | — |
| September 30, 2018 | 150 | 30 | 180 | 171 | 8 | 179 |

Three Months Ended September 29, 2019 Compared to Three Months Ended September 30, 2018

The following table sets forth, for the three months ended September 29, 2019 and September 30, 2018, selected consolidated operating results as a percentage of consolidated restaurant sales and select segment operating results as a percentage of applicable segment restaurant sales.

| | Three Months Ended | | | | | |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| | Pollo Tropical | | Taco Cabana | | Consolidated | |
| Restaurant sales: | | | | | | |
| Pollo Tropical | | | | | 54.0% | 53.8% |
| Taco Cabana | | | | | 46.0% | 46.2% |
| Consolidated restaurant sales | | | | | 100.0% | 100.0% |
| Costs and expenses: | | | | | | |
| Cost of sales | 32.0% | 33.4% | 31.6% | 30.9% | 31.8% | 32.2% |
| Restaurant wages and related expenses | 23.7% | 23.4% | 31.2% | 32.3% | 27.2% | 27.6% |
| Restaurant rent expense | 6.2% | 4.7% | 8.6% | 5.9% | 7.3% | 5.2% |
| Other restaurant operating expenses | 14.5% | 14.4% | 15.1% | 17.1% | 14.8% | 15.7% |
| Advertising expense | 3.5% | 3.6% | 4.3% | 3.8% | 3.9% | 3.7% |
| Pre-opening costs | 0.1% | 0.1% | —% | 0.1% | —% | 0.1% |

Consolidated Revenues. Revenues include restaurant sales and franchise royalty revenues and fees. Restaurant sales consist of food and beverage sales, net of discounts, at our Company-owned 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 decreased 6.0% to \$164.2 million in the third quarter of 2019 from \$174.6 million in the third quarter of 2018. Restaurant sales decreased 6.0% to \$163.6 million in the third quarter of 2019 from \$174.0 million in the third quarter of 2018.

The following table presents the primary drivers of the decreases in restaurant sales for both Pollo Tropical and Taco Cabana for the third quarter of 2019 compared to the third quarter of 2018 (in millions).

| Pollo Tropical: | |
|---|-----------------|
| Decrease in comparable restaurant sales | \$ (3.4) |
| Decrease in sales related to closed restaurants, net of new restaurants | (1.9) |
| Total decrease | <u>\$ (5.3)</u> |
| Taco Cabana: | |
| Decrease in comparable restaurant sales | \$ (3.5) |
| Decrease in sales related to closed restaurants, net of new restaurants | (1.6) |
| Total decrease | <u>\$ (5.1)</u> |

Restaurants are included in comparable restaurant sales after they have been open for 18 months.

Comparable restaurant sales decreased 3.8% and 4.8% for Pollo Tropical and Taco Cabana restaurants, respectively, in the third quarter of 2019. 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 menu price increases net of discounts and promotions.

For Pollo Tropical, a decrease in comparable restaurant transactions of 2.7% was accompanied by a decrease in average check of 1.1% in the third quarter of 2019 compared to the third quarter of 2018. The decrease in average check was driven primarily by discounted pricing for Pollo Time, partially offset by menu price increases of 1.1%. As a result of new restaurant openings, sales cannibalization of existing restaurants negatively impacted comparable restaurant sales for Pollo Tropical by 0.8%. In addition, we estimate that Hurricane Dorian, which resulted in temporary restaurant closures, negatively impacted comparable restaurant sales for Pollo Tropical by approximately 1.5%.

For Taco Cabana, a decrease in comparable restaurant transactions of 5.6% was partially offset by an increase in average check of 0.8% in the third quarter of 2019 compared to the third quarter of 2018. The increase in average check was driven primarily by menu price increases of 1.4% and the introduction of higher priced shareables earlier in 2019, partially offset by discounted pricing for TC Time.

Franchise revenues remained flat in the third quarter of 2019 compared to the third quarter of 2018.

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

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

Other restaurant operating expenses include all other restaurant-level operating costs, the major components of which are utilities, repairs and maintenance, general liability insurance, sanitation, supplies and credit card fees. In addition, for periods prior to December 31, 2018, other restaurant operating expenses include real estate taxes related to our leases characterized as operating leases.

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 tables present the primary drivers of the changes in the components of restaurant operating margins for Pollo Tropical and Taco Cabana for the third quarter of 2019 compared to the third quarter of 2018. All percentages are stated as a percentage of applicable segment restaurant sales:

| Pollo Tropical: | |
|---|--------|
| Cost of sales: | |
| Lower commodity costs | (1.5)% |
| Menu price increases | (0.3)% |
| Sales mix | (0.3)% |
| Higher promotions and discounts | 0.6 % |
| Other | 0.1 % |
| Net decrease in cost of sales as a percentage of restaurant sales | (1.4)% |
| Restaurant wages and related expenses: | |
| Higher labor costs for comparable restaurants ⁽¹⁾ | 1.1 % |
| Lower labor costs due to restaurant closures, net of new restaurants | (0.5)% |
| Lower medical benefits costs | (0.3)% |
| Net increase in restaurant wages and related costs as a percentage of restaurant sales | 0.3 % |
| Other operating expenses: | |
| Contracted cleaning services | 0.6 % |
| Higher delivery fees | 0.5 % |
| Real estate tax classification ⁽²⁾ | (0.9)% |
| Lower repair and maintenance | (0.3)% |
| Other | 0.2 % |
| Net increase in other restaurant operating expenses as a percentage of restaurant sales | 0.1 % |
| Advertising expense: | |
| Timing of advertising | (0.1)% |
| Net decrease in advertising expense as a percentage of restaurant sales | (0.1)% |
| Pre-opening costs: | |
| Net change in pre-opening costs as a percentage of restaurant sales | — % |

⁽¹⁾ Includes the impact of higher wage rates and overtime due to labor shortages.

⁽²⁾ Due to the adoption of ASC 842, real estate taxes are included in rent expense in 2019 and in other operating expenses in 2018.

| Taco Cabana: | |
|---|--------|
| Cost of sales: | |
| Menu offering improvement and higher commodity costs | 1.8 % |
| Higher promotions and discounts | 0.2 % |
| Sales mix | (0.7)% |
| Menu price increases | (0.5)% |
| Operating efficiency | (0.1)% |
| Net increase in cost of sales as a percentage of restaurant sales | 0.7 % |
| Restaurant wages and related expenses: | |
| Lower labor costs ⁽¹⁾ | (0.5)% |
| Lower medical benefit costs | (0.4)% |
| Lower incentive bonus | (0.3)% |
| Other | 0.1 % |
| Net decrease in restaurant wages and related costs as a percentage of restaurant sales | (1.1)% |
| Other operating expenses: | |
| Real estate tax classification ⁽²⁾ | (1.6)% |
| Lower security costs | (0.3)% |
| Lower utility costs | (0.1)% |
| Higher delivery fees | 0.3 % |
| Other | (0.3)% |
| Net decrease in other restaurant operating expenses as a percentage of restaurant sales | (2.0)% |
| Advertising expense: | |
| Timing of advertising | 0.5 % |
| Net increase in advertising expense as a percentage of restaurant sales | 0.5 % |
| Pre-opening costs: | |
| Decrease in the number of restaurant openings | (0.1)% |
| Net decrease in pre-opening costs as a percentage of restaurant sales | (0.1)% |

⁽¹⁾ Improved staffing utilization, partially offset by higher wage rates and overtime due to labor shortages.

⁽²⁾ Due to the adoption of ASC 842, real estate taxes are included in rent expense in 2019 and in other operating expenses in 2018.

Consolidated Restaurant Rent Expense. Beginning December 31, 2018, restaurant rent expense includes base rent, contingent rent and common area maintenance and property taxes related to our leases characterized as operating leases. For periods prior to the adoption of ASC 842 on December 31, 2018, restaurant rent expense included base rent and contingent rent on our leases characterized as operating leases, reduced by amortization of gains on sale-leaseback transactions. Restaurant rent expense, as a percentage of total restaurant sales, increased to 7.3% in the third quarter of 2019 from 5.2% in the third quarter of 2018 due primarily to a \$0.8 million increase in rent expense as a result of no longer amortizing gains on sale-leaseback transactions, the inclusion of property taxes and common area maintenance costs related to our leases characterized as operating leases, and the impact of lower comparable restaurant sales.

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

General and administrative expenses were \$13.8 million for the third quarter of 2019 and \$13.3 million for the third quarter of 2018, and as a percentage of total revenues, general and administrative expenses increased to 8.4% in the third quarter of 2019 compared to 7.6% in the third quarter of 2018, due primarily to the impact of lower total revenues on higher general and administrative expenses for the third quarter of 2019, including higher incentive compensation costs due to the timing of incentive compensation accrual adjustments and investments in off-premise support in 2019. General and administrative expenses for the

third quarter of 2019 included \$0.2 million related to digital and brand repositioning costs and \$0.2 million related to search fees for senior executive positions. General and administrative expenses for the third quarter of 2018 included \$0.4 million in costs related to discontinuing certain services and \$0.4 million related to system implementation and project-oriented advisory services.

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 for each of our segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain finance, legal, supply chain, human resources, construction, and other administrative functions. Consolidated Adjusted EBITDA 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 to Consolidated Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Adjusted EBITDA for Pollo Tropical decreased to \$11.0 million (which includes the negative impact of a \$0.4 million increase in rent expense as a result of adopting ASC 842) in the third quarter of 2019 from \$12.5 million in the third quarter of 2018 due primarily to the impact of lower restaurant sales, including the impact of Hurricane Dorian, higher rent expense, contracted cleaning services, delivery fees and general and administrative expenses, and higher restaurant wages and related expenses as a percentage of restaurant sales, partially offset by lower cost of sales as a percentage of restaurant sales. Adjusted EBITDA for Taco Cabana decreased to \$1.2 million (which includes the negative impact of a \$0.5 million increase in rent expense as a result of adopting ASC 842) in the third quarter of 2019 from \$2.5 million in the third quarter of 2018 due primarily to the impact of lower restaurant sales and higher rent, general and administrative expenses and advertising expense and higher cost of sales as a percentage of sales, partially offset by lower restaurant wages and related expenses as a percentage of restaurant sales. Consolidated Adjusted EBITDA decreased to \$12.2 million in the third quarter of 2019 from \$15.0 million in the third quarter of 2018.

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 \$17.8 million (which includes the negative impact a \$0.4 million increase in rent expense as a result of adopting ASC 842) in the third quarter of 2019 from \$19.1 million in the third quarter of 2018 primarily due to the foregoing. Restaurant-level Adjusted EBITDA for Taco Cabana decreased to \$6.9 million (which includes the negative impact of a \$0.5 million increase in rent expense as a result of adopting ASC 842) in the third quarter of 2019 from \$8.0 million in the third quarter of 2018 primarily as a result of the foregoing. For a reconciliation from Adjusted EBITDA to Restaurant-level Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Depreciation and Amortization. Depreciation and amortization expense increased to \$10.2 million in the third quarter of 2019 from \$9.7 million in the third quarter of 2018 due primarily to increased depreciation related to new restaurant openings and ongoing reinvestment and enhancements to our restaurants, partially offset by a decrease in depreciation as a result of impairing closed restaurant assets.

Impairment and Other Lease Charges. Impairment and other lease charges decreased to \$3.3 million in the third quarter of 2019 from \$6.4 million in the third quarter of 2018.

Impairment and other lease charges for the three months ended September 29, 2019 for Pollo Tropical include impairment charges of \$0.2 million related primarily to additional impairment of equipment from previously closed restaurants. Impairment and other lease charges for the three months ended September 29, 2019 for Taco Cabana include impairment charges of \$3.1 million related primarily to assets for five underperforming restaurants that we continue to operate and equipment from previously impaired restaurants.

Impairment and other lease charges for the three months ended September 30, 2018 for Pollo Tropical included impairment charges of \$3.4 million related primarily to impairment of three underperforming restaurants that we continued to operate and a benefit of \$(0.1) million in net lease charge recoveries related to certain previously closed restaurants due to adjustments to estimates of future lease costs. Impairment and other lease charges for the three months ended September 30, 2018 for Taco Cabana included impairment charges of \$2.4 million related primarily to impairment of five underperforming restaurants that we continued to

operate and other lease charges, net of recoveries, of \$0.7 million, due primarily to lease charges related to an office relocation in the third quarter of 2018 and other lease charges, net of recoveries, related to previously closed restaurants due to adjustments to estimates of future lease costs.

Each quarter we assess the potential impairment of any long-lived assets that have experienced a triggering event, including restaurants for which the related trailing twelve month cash flows are below a certain threshold. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material.

For one Pollo Tropical restaurant and nine Taco Cabana restaurants with combined carrying values (excluding right-of-use lease assets) of \$2.2 million and \$2.2 million, respectively, projected cash flows are not substantially in excess of their carrying values. In addition, one Pollo Tropical restaurant and one Taco Cabana restaurant with carrying values (excluding right-of-use lease assets) of \$1.8 million and \$2.0 million, respectively, have initial sales volumes lower than expected, but do not have significant operating history to form a good basis for future projections. If the performance of these restaurants does not improve as projected, an impairment charge could be recognized in future periods, and such charge could be material.

Goodwill Impairment. Goodwill impairment was \$21.4 million for the third quarter of 2019 and consisted of a non-cash impairment charge to write down the value of goodwill for the Taco Cabana reporting unit.

Closed Restaurant Rent Expense, Net of Sublease Income. Closed restaurant rent expense, net of sublease income for the third quarter of 2019 consisted of closed restaurant rent and ancillary lease costs of \$1.6 million and \$0.3 million net of sublease income of \$1.0 million and \$0.2 million for Pollo Tropical and Taco Cabana, respectively. Prior to the adoption of ASC 842, we recorded closed restaurant reserves representing future minimum lease payments and ancillary costs from the date of the restaurant closure to the end of the remaining lease term net of estimated sublease recoveries when a restaurant closed and recorded subsequent changes in the assumptions related to the sublease income to expense in the period in which the assumptions changed. The subsequent rent payments were recorded as a reduction to the closed restaurant reserves, with no rent expense being recorded in the period. See "New Lease Accounting Standard" under "Recent Events Affecting our Results of Operations."

Other Expense (Income), Net. Other expense, net was \$0.1 million for the third quarter of 2019 and primarily consisted of \$0.1 million for the write-off of site development costs. Other expense, net was less than \$0.1 million for the third quarter of 2018 and primarily consisted of \$0.3 million in insurance recoveries related to Hurricane Irma offset by the write-off of site development costs of \$0.1 million and costs for the removal, transfer and storage of equipment from closed restaurants of \$0.2 million.

Interest Expense. Interest expense decreased to \$0.8 million in the third quarter of 2019 compared to \$0.9 million in the third quarter of 2018 due to a lower borrowing level under our senior credit facility and a lower applicable margin on outstanding borrowings.

Benefit from Income Taxes. The effective tax rate was 11.7% and 172.0% for the third quarter of 2019 and 2018, respectively. The provision for income taxes for the third quarter of 2019 was derived using an estimated annual effective tax rate of 27.2%, which excludes the discrete impact of tax benefits of \$(2.1) million from tax deductible goodwill impairment charges and \$(0.4) million from interest on an income tax refund and a tax deficiency from the vesting of restricted shares of \$0.2 million. The benefit from income taxes for the third quarter of 2018 was derived using an estimated annual effective tax rate of 23.4%, which excluded the discrete impact of a tax deficiency from the vesting of restricted shares of \$0.2 million and an adjustment resulting from changes in our 2017 federal income tax return from the amounts recorded as of December 31, 2017 of \$4.1 million, which includes the \$3.9 million impact of revaluing changes in our deferred tax assets.

Net Income (Loss). As a result of the foregoing, we had a net loss of \$22.2 million in the third quarter of 2019 compared to net income of \$2.0 million in the third quarter of 2018.

Nine Months Ended September 29, 2019 Compared to Nine Months Ended September 30, 2018

The following table sets forth, for the nine months ended September 29, 2019 and September 30, 2018, selected consolidated operating results as a percentage of consolidated restaurant sales and select segment operating results as a percentage of applicable segment restaurant sales:

| | Nine Months Ended | | | | | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| | Pollo Tropical | | Taco Cabana | | Consolidated | |
| Restaurant sales: | | | | | | |
| Pollo Tropical | | | | | 54.5% | 54.6% |
| Taco Cabana | | | | | 45.5% | 45.4% |
| Consolidated restaurant sales | | | | | 100.0% | 100.0% |
| Costs and expenses: | | | | | | |
| Cost of sales | 31.6% | 33.1% | 31.0% | 30.8% | 31.3% | 32.0% |
| Restaurant wages and related expenses | 23.3% | 23.2% | 31.6% | 32.5% | 27.1% | 27.4% |
| Restaurant rent expense | 6.0% | 4.6% | 8.4% | 5.9% | 7.1% | 5.2% |
| Other restaurant operating expenses | 13.5% | 13.5% | 14.0% | 15.8% | 13.7% | 14.5% |
| Advertising expense | 3.4% | 3.5% | 3.7% | 3.5% | 3.6% | 3.5% |
| Pre-opening costs | 0.1% | 0.2% | 0.2% | 0.3% | 0.2% | 0.3% |

Total revenues decreased 3.7% to \$501.5 million in the nine months ended September 29, 2019 from \$521.0 million in the nine months ended September 30, 2018. Restaurant sales decreased 3.8% to \$499.5 million in the nine months ended September 29, 2019 from \$519.0 million in the nine months ended September 30, 2018.

The following table presents the primary drivers of the decreases in restaurant sales for both Pollo Tropical and Taco Cabana for the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018 (in millions):

Pollo Tropical:

| | | |
|---|----|--------|
| Decrease in comparable restaurant sales | \$ | (6.8) |
| Decrease in sales related to closed restaurants, net of new restaurants | | (4.7) |
| Total decrease | \$ | (11.5) |

Taco Cabana:

| | | |
|---|----|-------|
| Decrease in comparable restaurant sales | \$ | (6.2) |
| Decrease in sales related to closed restaurants, net of new restaurants | | (1.8) |
| Total decrease | \$ | (8.0) |

Comparable restaurant sales for Pollo Tropical restaurants decreased 2.5% in the nine months ended September 29, 2019. Comparable restaurant sales for Taco Cabana restaurants decreased 2.8% in the nine months ended September 29, 2019.

For Pollo Tropical, a decrease in comparable restaurant transactions of 3.3% was partially offset by an increase in average check of 0.8% in the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018. The increase in average check was driven primarily by menu price increases of 2.0%, partially offset by discounted pricing for Pollo Time. As a result of new restaurant openings, sales cannibalization of existing restaurants negatively impacted comparable restaurant sales for Pollo Tropical by 1.0% in the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018. In addition, we estimate that Hurricane Dorian negatively impacted comparable restaurant sales for Pollo Tropical by approximately 0.5%.

For Taco Cabana, a decrease in comparable restaurant transactions of 5.3% was partially offset by an increase in average check of 2.5% in the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018. The increase in average check was driven primarily by menu price increases of 2.4% and the introduction of higher priced shareables in 2019.

Franchise revenues remained flat in the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018.

The following tables present the primary drivers of the changes in the components of restaurant operating margins for Pollo Tropical and Taco Cabana for the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018. All percentages are stated as a percentage of applicable segment restaurant sales.

Pollo Tropical:

| | |
|--|--------|
| Cost of sales: | |
| Lower commodity costs | (1.7)% |
| Menu price increases | (0.6)% |
| Higher promotions and discounts | 0.4 % |
| Sales mix | 0.2 % |
| Operating inefficiency | 0.1 % |
| Other | 0.1 % |
| Net decrease in cost of sales as a percentage of restaurant sales | (1.5)% |
| Restaurant wages and related expenses: | |
| Higher labor costs for comparable restaurants ⁽¹⁾ | 0.7 % |
| Lower labor costs due to restaurant closures, net of new restaurants | (0.5)% |
| Lower incentive bonus | (0.1)% |
| Net increase in restaurant wages and related costs as a percentage of restaurant sales | 0.1 % |
| Other operating expenses: | |
| Real estate tax classification ⁽²⁾ | (0.9)% |
| Contracted cleaning services | 0.6 % |
| Higher delivery fees | 0.3 % |
| Net change in other restaurant operating expenses as a percentage of restaurant sales | — % |
| Advertising expense: | |
| Decreased advertising | (0.1)% |
| Net decrease in advertising expense as a percentage of restaurant sales | (0.1)% |
| Pre-opening costs: | |
| Decrease in the number of restaurant openings | (0.1)% |
| Net decrease in pre-opening costs as a percentage of restaurant sales | (0.1)% |

⁽¹⁾ Includes the impact of higher wage rates and overtime due to labor shortages.

⁽²⁾ Due to the adoption of ASC 842, real estate taxes are included in rent expense in 2019 and in other operating expenses in 2018.

Taco Cabana:

| | |
|---|--------|
| Cost of sales: | |
| Menu offering improvement and higher commodity costs | 1.3 % |
| Higher promotions and discounts | 0.4 % |
| Menu price increases | (0.8)% |
| Sales mix | (0.6)% |
| Operating efficiency | (0.2)% |
| Other | 0.1 % |
| Net increase in cost of sales as a percentage of restaurant sales | 0.2 % |
| Restaurant wages and related expenses: | |
| Lower labor costs ⁽¹⁾ | (0.4)% |
| Lower incentive bonus | (0.3)% |
| Lower medical benefit costs | (0.1)% |
| Other | (0.1)% |
| Net decrease in restaurant wages and related costs as a percentage of restaurant sales | (0.9)% |
| Other operating expenses: | |
| Real estate tax classification ⁽²⁾ | (1.6)% |
| Lower utility costs | (0.2)% |
| Lower security costs | (0.2)% |
| Higher delivery fees | 0.2 % |
| Net decrease in other restaurant operating expenses as a percentage of restaurant sales | (1.8)% |
| Advertising expense: | |
| Increased advertising | 0.2 % |
| Net increase in advertising expense as a percentage of restaurant sales | 0.2 % |
| Pre-opening costs: | |
| Timing of restaurant openings | (0.1)% |
| Net decrease in pre-opening costs as a percentage of restaurant sales | (0.1)% |

⁽¹⁾ Improved staffing utilization, partially offset by higher wage rates and overtime due to labor shortages.

⁽²⁾ Due to the adoption of ASC 842, real estate taxes are included in rent expense in 2019 and in other operating expenses in 2018.

Consolidated Restaurant Rent Expense. Beginning December 31, 2018, restaurant rent expense includes base rent, contingent rent and common area maintenance and property taxes related to our leases characterized as operating leases. For periods prior to the adoption of ASC 842 on December 31, 2018, restaurant rent expense included base rent and contingent rent on our leases characterized as operating leases, reduced by amortization of gains on sale-leaseback transactions. Restaurant rent expense, as a percentage of total restaurant sales, increased to 7.1% in the nine months ended September 29, 2019 from 5.2% in the nine months ended September 30, 2018 due primarily to a \$2.5 million increase in rent expense as a result of no longer amortizing gains on sale-leaseback transactions, the inclusion of property taxes and common area maintenance costs related to our leases characterized as operating leases, and the impact of lower comparable restaurant sales.

Consolidated General and Administrative Expenses. General and administrative expenses were \$42.4 million for the nine months ended September 29, 2019 and \$41.0 million for the nine months ended September 30, 2018 and, as a percentage of total revenues, general and administrative expenses increased to 8.5% in the nine months ended September 29, 2019 compared to 7.9% in the nine months ended September 30, 2018 due primarily to the impact of lower total revenues on higher general and administrative expenses in the nine months ended September 29, 2019 including investments in off-premise support in 2019. General and administrative expense for the nine months ended September 29, 2019 also included \$1.0 million related to restructuring costs due to eliminated or relocated positions, \$0.2 million related to digital and brand repositioning costs and \$0.4 million related to search fees for senior executive positions. General and administrative expenses for the nine months ended September 30, 2018

included the benefit of fee reductions and final insurance recoveries totaling \$0.6 million related to 2017 shareholder activism costs and reductions to final settlement amounts related to a litigation matter of \$0.2 million, partially offset by \$0.5 million in Strategic Renewal Plan restructuring costs and retention bonuses, \$0.4 million in costs related to discontinuing certain services and \$0.8 million related to system implementation and project-oriented advisory services.

Adjusted EBITDA. Adjusted EBITDA for Pollo Tropical decreased to \$39.9 million (which includes the negative impact of a \$1.1 million increase in rent expense as a result of adopting ASC 842) in the nine months ended September 29, 2019 from \$42.5 million in the nine months ended September 30, 2018 due primarily to the impact of lower restaurant sales, including the impact of Hurricane Dorian, and higher rent expense, contracted cleaning services, delivery fees and general and administrative expenses, partially offset by lower cost of sales as a percentage of restaurant sales. Adjusted EBITDA for Taco Cabana decreased to \$8.2 million (which includes the negative impact of a \$1.4 million increase in rent expense as a result of adopting ASC 842) in the nine months ended September 29, 2019 from \$9.7 million in the nine months ended September 30, 2018 due primarily to the impact of lower restaurant sales and higher rent expense and general and administrative expenses, partially offset by lower restaurant wages and related expenses as a percentage of restaurant sales. Consolidated Adjusted EBITDA decreased to \$48.1 million in the nine months ended September 29, 2019 from \$52.2 million in the nine months ended September 30, 2018.

Restaurant-level Adjusted EBITDA. Restaurant-level Adjusted EBITDA for Pollo Tropical decreased to \$60.4 million (which includes the negative impact of a \$1.1 million increase in rent expense as a result of adopting ASC 842) in the nine months ended September 29, 2019 from \$62.9 million in the nine months ended September 30, 2018 due primarily to the foregoing. Restaurant-level Adjusted EBITDA for Taco Cabana decreased to \$25.9 million (which includes the negative impact of a \$1.4 million increase in rent expense as a result of adopting ASC 842) in the nine months ended September 29, 2019 from \$27.4 million in the nine months ended September 30, 2018 as a result of the foregoing. For a reconciliation from Adjusted EBITDA to Restaurant-level Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Depreciation and Amortization. Depreciation and amortization expense increased to \$29.5 million in the nine months ended September 29, 2019 from \$27.9 million in the nine months ended September 30, 2018 due primarily to increased depreciation related to new restaurant openings and ongoing reinvestment and enhancements to our restaurants, partially offset by a decrease in depreciation as a result of impairing closed restaurant assets.

Impairment and Other Lease Charges. Impairment and other lease charges decreased to \$4.7 million in the nine months ended September 29, 2019 from \$6.5 million in the nine months ended September 30, 2018.

Impairment and other lease charges for the nine months ended September 29, 2019 for Pollo Tropical include impairment charges of \$0.6 million related primarily to additional impairment of equipment from previously closed restaurants and a lease charge recoveries benefit related to previously closed restaurant lease terminations of \$(0.8) million. Impairment and other lease charges for the nine months ended September 29, 2019 for Taco Cabana include impairment charges of \$4.9 million related primarily to impairment of assets for eight underperforming restaurants that we continue to operate, equipment from previously impaired restaurants and a lease charge recoveries benefit related to previously closed restaurant lease terminations of \$(0.1) million.

Impairment and other lease charges for the nine months ended September 30, 2018 for Pollo Tropical include impairment charges of \$3.6 million related primarily to impairment of three underperforming restaurants that we continued to operate, and a benefit of \$(0.1) million in net lease charge recoveries related to certain previously closed restaurants due to adjustments to estimates of future lease costs. Impairment and other lease charges for the nine months ended September 30, 2018 for Taco Cabana include impairment charges of \$2.6 million related primarily to impairment of five underperforming restaurants that we continued to operate, and other lease charges, net of recoveries, of \$0.5 million, due primarily to lease charges related to an office relocation in the third quarter of 2018 and other lease charges, net of recoveries, related to previously closed restaurants due to adjustments to estimates of future lease costs.

Goodwill Impairment. Goodwill impairment was \$67.9 million for the nine months ended September 29, 2019 and consisted of non-cash impairment charges to write down the value of goodwill for the Taco Cabana reporting unit.

Closed Restaurant Rent Expense, Net of Sublease Income. Closed restaurant rent expense, net of sublease income for the nine months ended September 29, 2019 consisted of closed restaurant rent and ancillary lease costs of \$5.1 million and \$1.1 million net of sublease income of \$2.4 million and \$0.4 million for Pollo Tropical and Taco Cabana, respectively. Prior to the adoption of ASC 842, we recorded closed restaurant reserves representing future minimum lease payments and ancillary costs from the date of the restaurant closure to the end of the remaining lease term net of estimated sublease recoveries when a restaurant closed and recorded subsequent changes in the assumptions related to the sublease income to expense in the period in which the assumptions changed. The subsequent rent payments were recorded as a reduction to the closed restaurant reserves, with no rent expense being recorded in the period. See "New Lease Accounting Standard" under "Recent Events Affecting our Results of Operations."

Other Expense (Income), Net. Other expense, net was \$0.9 million for the nine months ended September 29, 2019 and primarily consisted of \$0.7 million in costs for the removal, transfer and storage of equipment from closed restaurants and \$0.1 million for the write-off of site development costs. Other income, net of \$3.1 million for the nine months ended September 30, 2018 primarily consisted of \$3.1 million in insurance recoveries related to the Hurricanes and total gains of \$1.2 million on the sales of three restaurant properties, partially offset by the write-off of site development costs of \$0.5 million and costs for the removal, transfer and storage of equipment from closed restaurants of \$0.7 million.

Interest Expense. Interest expense remained flat for the nine months ended September 29, 2019 compared to the nine months ended September 30, 2018.

Benefit from Income Taxes. The effective tax rate was 2.1% for the nine months ended September 29, 2019 and (1.6)% for the nine months ended September 30, 2018. The provision for income taxes for the nine months ended September 29, 2019 was derived using an estimated annual effective tax rate of 27.2%, which excludes the discrete impact of tax benefits of \$(2.1) million from tax deductible goodwill impairment charges and \$(0.4) million from interest on an income tax refund and a tax deficiency from the vesting of restricted shares of \$0.2 million. The benefit from income taxes for the nine months ended September 30, 2018 was derived using an estimated effective annual income tax rate of 23.4%, which excludes the discrete impact of a tax deficiency from the vesting of restricted shares of \$0.2 million and an adjustment resulting from changes in our 2017 federal income tax return from the amounts recorded as of December 31, 2017 of \$4.1 million, which includes the \$3.9 million impact of revaluing changes in our deferred tax assets.

Net Income (Loss). As a result of the foregoing, we had a net loss of \$63.3 million for the nine months ended September 29, 2019 compared to net income of \$15.7 million for the nine months ended September 30, 2018.

Liquidity and Capital Resources

We do not have significant receivables or inventory and receive trade credit based upon negotiated terms in purchasing food products and other supplies. We are able to operate with a substantial working capital deficit because:

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

Capital expenditures and payments related to our lease obligations represent significant liquidity requirements for us. We believe cash generated from our operations and availability of borrowings under our senior credit facility will provide sufficient cash availability to cover our anticipated working capital needs, capital expenditures and debt service requirements for the next twelve months.

Operating Activities. Net cash provided by operating activities in the first nine months of 2019 and 2018 was \$51.0 million and \$44.3 million, respectively. The increase in net cash provided by operating activities in the nine months ended September 29, 2019 was primarily driven by the receipt of a tax refund, partially offset by a decrease in Adjusted EBITDA and the timing of payments. We accelerated the timing of certain payments at the end of the third quarter of 2019 due to the transition to a new financial system as of September 30, 2019.

Investing Activities. Net cash used in investing activities in the first nine months of 2019 and 2018 was \$32.3 million and \$34.4 million, respectively. Capital expenditures are the largest component of our investing activities and include: (1) new restaurant development, which may include the purchase of real estate; (2) restaurant remodeling/reimaging, which includes the renovation or rebuilding of the interior and exterior of our existing restaurants; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants; and (4) corporate and restaurant information systems.

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

| | Pollo Tropical | Taco Cabana | Other | Consolidated |
|--|-------------------|------------------|---------------|------------------|
| Nine Months Ended September 29, 2019: | | | | |
| New restaurant development | \$ 6,822 | \$ 3,859 | \$ — | \$ 10,681 |
| Restaurant remodeling | 182 | 186 | — | 368 |
| Other restaurant capital expenditures ⁽¹⁾ | 8,626 | 7,219 | — | 15,845 |
| Corporate and restaurant information systems | 2,565 | 3,718 | 896 | 7,179 |
| Total capital expenditures | <u>\$ 18,195</u> | <u>\$ 14,982</u> | <u>\$ 896</u> | <u>\$ 34,073</u> |
| Number of new restaurant openings | 2 | 3 | | 5 |
| Nine Months Ended September 30, 2018: | | | | |
| New restaurant development | \$ 9,439 | \$ 8,458 | \$ — | \$ 17,897 |
| Restaurant remodeling | 18 | 216 | — | 234 |
| Other restaurant capital expenditures ⁽¹⁾ | 6,029 | 9,507 | — | 15,536 |
| Corporate and restaurant information systems | 2,170 | 3,219 | 867 | 6,256 |
| Total capital expenditures | <u>\$ 17,656</u> | <u>\$ 21,400</u> | <u>\$ 867</u> | <u>\$ 39,923</u> |
| Number of new restaurant openings | 4 | 7 | | 11 |

⁽¹⁾ Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the nine months ended September 29, 2019 and September 30, 2018, total restaurant repair and maintenance expenses were approximately \$16.8 million and \$17.7 million, respectively.

Cash used in investing activities in the first nine months of 2019 included net proceeds from the sale of one restaurant property of \$1.8 million. Cash used in investing activities in the first nine months of 2018 included net proceeds from the sales of three restaurant properties of \$4.7 million. In addition, in the first nine months of 2018, we received property damage insurance proceeds totaling \$0.8 million related to a closed Taco Cabana restaurant that suffered flood damages due to Hurricane Harvey and a Taco Cabana restaurant that was temporarily closed due to a fire.

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

Total capital expenditures in 2020 are expected to be approximately \$5.0 million to \$10.0 million lower than the current year due primarily to lower levels of new equipment and facility enhancements and fewer new Company-owned restaurant openings.

Financing Activities. Net cash used in financing activities in the first nine months of 2019 was \$20.5 million and included net revolving credit borrowing repayments under our senior credit facility of \$9.0 million combined with \$11.4 million in payments to repurchase our common stock. Net revolving credit borrowing repayments included a \$5.0 million short-term borrowing related to the acceleration of certain payments due to the transition to a new financial system as of September 30, 2019. Net cash used in financing activities in the first nine months of 2018 included net revolving credit borrowing repayments under our senior credit facility of \$5.0 million combined with \$2.5 million in payments to repurchase our common stock.

Senior Credit Facility. Our senior credit facility provides for aggregate revolving credit borrowings of up to \$150.0 million (including up to \$15.0 million available for letters of credit) and matures on November 30, 2022. The senior credit facility also provides for potential incremental increases of up to \$50.0 million to the revolving credit borrowings available under the senior credit facility. On September 29, 2019, there were \$69.0 million in outstanding revolving credit borrowings under our senior credit facility.

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

- 1) the Alternate Base Rate plus the applicable margin of 0.75% to 1.50% based on our Adjusted Leverage Ratio (with a margin of 1.00% as of September 29, 2019), or
- 2) the LIBOR Rate plus the applicable margin of 1.75% to 2.50% based on our Adjusted Leverage Ratio (with a margin of 2.00% as of September 29, 2019).

In addition, the senior credit facility requires us to pay (i) a commitment fee based on the applicable Commitment Fee rate of 0.25% to 0.35%, based on our Adjusted Leverage Ratio, (with a rate of 0.30% as of September 29, 2019) and the unused portion

of the facility and (ii) a letter of credit fee based on the applicable LIBOR margin and the dollar amount of outstanding letters of credit.

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

The outstanding borrowings under the senior credit facility are prepayable subject to breakage costs as defined in the senior credit facility. The senior credit facility requires us to comply with customary affirmative, negative and financial covenants, including, without limitation, those limiting our and our subsidiaries' ability to (i) incur indebtedness, (ii) incur liens, (iii) loan, advance, or make acquisitions and other investments or other commitments to construct, acquire or develop new restaurants (subject to certain exceptions), (iv) pay dividends, (v) redeem and repurchase equity interests (subject to certain exceptions), (vi) conduct asset and restaurant sales and other dispositions (subject to certain exceptions), (vii) conduct transactions with affiliates and (viii) change our business. In addition, the senior credit facility requires us to maintain certain financial ratios, including minimum Fixed Charge Coverage and maximum Adjusted Leverage Ratios (all as defined under the senior credit facility).

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

As of September 29, 2019, we were in compliance with the covenants under our senior credit facility. After reserving \$3.7 million for letters of credit issued under the senior credit facility, \$77.3 million was available for borrowing under the senior credit facility at September 29, 2019.

Share Repurchase Plan Modification

On November 5, 2019, we announced that our board of directors approved an increase to our share repurchase program of an additional 1.0 million shares of common stock from the previously announced 2.0 million shares of our common stock, consisting of 1.5 million shares approved on February 26, 2018 and 0.5 million shares approved on August 7, 2019. As of November 5, 2019, we had purchased a total of 1,176,895 shares of common stock and, following this increase, 1,823,105 shares of common stock remain available for purchase under our share repurchase program.

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements. Prior to the adoption of ASC 842, off-balance sheet arrangements consisted of our operating leases, which are primarily for our restaurant properties, and are now included in other current liabilities and operating lease liabilities on the condensed consolidated balance sheet as of September 29, 2019.

There have been no significant changes outside the ordinary course of business to our contractual obligations since December 30, 2018. 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 December 30, 2018.

Inflation

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

Application of Critical Accounting Policies

Our 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 December 30, 2018 included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. 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 September 29, 2019 other than the lease accounting and evaluation of goodwill policies included below.

Lease Accounting. As discussed in Note 6 to our unaudited condensed consolidated financial statements, we adopted ASU 2016-02: Leases (ASC 842), the new lease accounting standard, as of as of December 31, 2018 using the modified retrospective method, with certain optional practical expedients including the transition practical expedient package, which among other things does not require reassessment of lease classification. Judgments made by management for our lease obligations include the determination of our incremental borrowing rate, the determination of stand alone selling prices used to allocate the consideration in the contract, and the length of the lease term, which includes the determination of renewal options that are reasonably assured. The lease term can affect the classification of a lease as finance or operating for accounting purposes, the amount of the lease liability and corresponding right-of-use lease asset recognized, the term over which related leasehold improvements for each restaurant are amortized and any rent holidays and/or changes in rental amounts for recognizing rent expense over the term of the lease. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

We use our estimated incremental borrowing rate in determining the present value of lease payments for purposes of determining lease classification and recording lease liabilities and lease assets on our consolidated balance sheet. Our incremental borrowing rate is determined based on a synthetic credit rating, determined using a valuation model, adjusted to reflect a secured credit rating and a developed spread curve applied to a risk-free rate yield curve. Changes in the determination of our incremental borrowing rate could also have an impact on the depreciation and interest expense recognized for finance leases.

Evaluation of Goodwill. We must evaluate our recorded goodwill for impairment annually or more frequently when events and circumstances indicate that the carrying amount may be impaired. We have elected to conduct our annual impairment review of goodwill assets as of the last day of our fiscal year. As of June 30, 2019, we determined that a triggering event had occurred due to a sustained decrease in the market price of our common stock and performed an interim impairment test. In addition, in response to a further decrease in the market price of our common stock and lower than expected profitability in the third quarter of 2019, we performed an impairment test as of September 29, 2019. As discussed in Note 1 to our unaudited condensed consolidated financial statements, we adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* in the second quarter of 2019, which eliminates the requirement to calculate the implied fair value of goodwill if the fair value of a reporting unit is less than the carrying amount of the reporting unit. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. We early adopted this new accounting standard and performed our interim impairment test in accordance with ASU 2017-04. Our interim impairment tests at June 30, 2019 and September 29, 2019 indicated there was impairment as of those dates.

In reviewing goodwill for impairment, we compare the net book values of our reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, we employ a combination of a discounted cash flow analysis based on management's best estimates of future cash flows and one or two market-based approaches. The results of these analyses are corroborated with other value indicators where available, such as comparable company earnings multiples. This evaluation of goodwill requires us to make estimates and assumptions to determine the fair value of our reporting units including projections regarding future operating results, anticipated growth rates, the weighted average cost of capital used to discount projected cash flows, and market multiples. For our Pollo Tropical reporting unit, the fair value exceeded the carrying value of the reporting unit by a substantial amount. For our Taco Cabana reporting unit, a lower profitability and growth outlook reduced the income-based and market-based approach fair value. As a result, the carrying value exceeded the fair value of the reporting unit, and we recognized impairment charges to write down the carrying value of our Taco Cabana reporting unit goodwill of \$46.5 million in the second quarter of 2019 and \$21.4 million in the third quarter of 2019. As of September 29, 2019, our Taco Cabana reporting unit goodwill has no remaining carrying value. See Note 4 to our unaudited condensed consolidated financial statements.

The estimates and assumptions used to determine fair value may differ from actual future events and if these estimates or related projections change in the future, we may be required to record material impairment charges for goodwill assets.

Management's Use of Non-GAAP Financial Measures

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

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 8 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 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 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 income to Consolidated Adjusted EBITDA follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| Net income (loss) | \$ (22,182) | \$ 2,047 | \$ (63,333) | \$ 15,724 |
| Benefit from income taxes | (2,946) | (4,892) | (1,377) | (246) |
| Income (loss) before taxes | (25,128) | (2,845) | (64,710) | 15,478 |
| Add: | | | | |
| <i>Non-general and administrative expense adjustments:</i> | | | | |
| Depreciation and amortization | 10,165 | 9,739 | 29,520 | 27,908 |
| Impairment and other lease charges | 3,254 | 6,417 | 4,667 | 6,539 |
| Goodwill impairment | 21,424 | — | 67,909 | — |
| Interest expense | 823 | 924 | 3,024 | 2,979 |
| Closed restaurant rent expense, net of sublease income | 726 | — | 3,485 | — |
| Other expense (income), net | 64 | 47 | 920 | (3,132) |
| Stock-based compensation expense in restaurant wages | 102 | 6 | 145 | 56 |
| Total non-general and administrative expense adjustments | 36,558 | 17,133 | 109,670 | 34,350 |
| <i>General and administrative expense adjustments:</i> | | | | |
| Stock-based compensation expense | 509 | 732 | 1,993 | 2,588 |
| Board and shareholder matter costs ⁽¹⁾ | — | — | — | (597) |
| Restructuring costs and retention bonuses ⁽²⁾ | — | 17 | 964 | 520 |
| Legal settlements and related costs ⁽³⁾ | — | — | — | (167) |
| Digital and brand repositioning costs ⁽⁴⁾ | 215 | — | 215 | — |
| Total general and administrative expense adjustments | 724 | 749 | 3,172 | 2,344 |
| Consolidated Adjusted EBITDA | \$ 12,154 | \$ 15,037 | \$ 48,132 | \$ 52,172 |

⁽¹⁾ Board and shareholder matter costs for the nine months ended September 30, 2018 included fee reductions and final insurance recoveries related to 2017 shareholder activism costs.

⁽²⁾ Restructuring costs and retention bonuses for the three and nine months ended September 29, 2019 include severance related to eliminated positions. Restructuring costs and retention bonuses for the three and nine months ended September 30, 2018 include severance related to the Strategic Renewal Plan and reduction in force and bonuses paid to certain employees for retention purposes.

⁽³⁾ Legal settlements and related costs for the nine months ended September 30, 2018 included reductions to final settlement amounts and benefits related to litigation matters.

⁽⁴⁾ Digital and brand repositioning costs for the three and nine months ended September 29, 2019 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 | | Taco Cabana | | |
|--|----------------|----------------|-------------|-------------|--|
| September 29, 2019: | | | | | |
| Adjusted EBITDA | \$ | 10,980 | \$ | 1,174 | |
| <i>Restaurant-level adjustments:</i> | | | | | |
| Add: Pre-opening costs | | 68 | | 9 | |
| Add: Other general and administrative expense ⁽¹⁾ | | 7,135 | | 5,961 | |
| Less: Franchise royalty revenue and fees | | 432 | | 227 | |
| Restaurant-level Adjusted EBITDA | \$ | 17,751 | \$ | 6,917 | |
| September 30, 2018: | | | | | |
| Adjusted EBITDA | \$ | 12,544 | \$ | 2,493 | |
| <i>Restaurant-level adjustments:</i> | | | | | |
| Add: Pre-opening costs | | 134 | | 89 | |
| Add: Other general and administrative expense ⁽¹⁾ | | 6,878 | | 5,657 | |
| Less: Franchise royalty revenue and fees | | 453 | | 229 | |
| Restaurant-level Adjusted EBITDA | \$ | 19,103 | \$ | 8,010 | |
| Nine Months Ended | | | | | |
| | | Pollo Tropical | | Taco Cabana | |
| September 29, 2019: | | | | | |
| Adjusted EBITDA | \$ | 39,943 | \$ | 8,189 | |
| <i>Restaurant-level adjustments:</i> | | | | | |
| Add: Pre-opening costs | | 307 | | 556 | |
| Add: Other general and administrative expense ⁽¹⁾ | | 21,427 | | 17,788 | |
| Less: Franchise royalty revenue and fees | | 1,325 | | 673 | |
| Restaurant-level Adjusted EBITDA | \$ | 60,352 | \$ | 25,860 | |
| September 30, 2018: | | | | | |
| Adjusted EBITDA | \$ | 42,520 | \$ | 9,652 | |
| <i>Restaurant-level adjustments:</i> | | | | | |
| Add: Pre-opening costs | | 699 | | 782 | |
| Add: Other general and administrative expense ⁽¹⁾ | | 21,105 | | 17,573 | |
| Less: Franchise royalty revenue and fees | | 1,376 | | 632 | |
| Restaurant-level Adjusted EBITDA | \$ | 62,948 | \$ | 27,375 | |

⁽¹⁾ 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, expressed or implied, regarding our intention to repurchase shares from time to time under the share repurchase program and the source of funding of such repurchases, our anticipated growth, operating results, future earnings per share, plans, objectives, and the impact of our investments in our Strategic Renewal Plan (the "Plan") and other business initiatives on future sales and earnings, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). These statements are often identified by the words "believe," "positioned," "estimate," "project," "plan," "goal," "target," "assumption," "continue," "intend," "expect," "future," "anticipate," and other similar expressions, whether in the negative or the affirmative, that are not statements of historical fact. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict, and you should not place undue reliance on our forward-looking statements. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this report and in our other public filings with the United States Securities and Exchange Commission ("SEC"). All forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this report or other periodic reports represent our estimates as of the date made and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we expressly disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 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 December 30, 2018 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 September 29, 2019.

Changes in Internal Control over Financial Reporting. No change occurred in our internal control over financial reporting during the third quarter of 2019 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 December 30, 2018 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 December 30, 2018.

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

On February 26, 2018, we announced that our board of directors approved a share repurchase program for up to 1.5 million shares of our common stock. On August 7, 2019, we announced that our board of directors approved an increase to the share repurchase program of an additional 500,000 shares of our common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Exchange Act. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading

volume, general market and economic conditions, and other corporate considerations. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by our board of directors.

The following table sets forth information with respect to repurchases of our common stock during the quarter ended September 29, 2019:

| 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 1, 2019 to July 28, 2019 | — | \$ — | — | 1,729,373 |
| July 29, 2019 to September 1, 2019 | 500,000 | 9.90 | 500,000 | 1,229,373 |
| September 2, 2019 to September 29, 2019 | 406,268 | 10.31 | 406,268 | 823,105 |
| Total | 906,268 | \$ 10.08 | 906,268 | |

⁽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 | Offer letter dated as of September 9, 2019 between Fiesta Restaurant Group, Inc. and Dirk Montgomery. + |
| 10.2 | Agreement dated as of September 9, 2019 by and between Fiesta Restaurant Group, Inc. and Dirk Montgomery. + |
| 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 |

+ Compensatory plan or arrangement

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 5, 2019

/S/ RICHARD C. STOCKINGER

(Signature)

Richard C. Stockinger
Chief Executive Officer

Date: November 5, 2019

/S/ DIRK MONTGOMERY

(Signature)

Dirk Montgomery
Senior Vice President, Chief Financial Officer and Treasurer

Date: November 5, 2019

/S/ CHERI KINDER

(Signature)

Cheri Kinder
Vice President, Corporate Controller and Chief Accounting Officer

August 6, 2019

Dear Mr. Dirk Montgomery:

I am pleased to extend this conditional offer of employment as Chief Financial Officer with Fiesta Restaurant Group, Inc. ("Fiesta"), reporting to Rich Stockinger, President and Chief Executive Officer. Your new office will be located at 14800 Landmark Blvd., Addison, Texas. I propose a start date of September 9, 2019 and am excited to work with you.

The following is a brief outline of the major components of this conditional offer of employment:

Base Compensation

Your annualized base salary will be \$475,000. You will be paid biweekly.

Discretionary Annual Increase

You are eligible for a discretionary annual increase, based on merit. Your first increase may occur in January 2021.

Discretionary Bonus

Your bonus target is equal to 50% of your annual base salary, subject to the terms of the Fiesta bonus plan applicable to you and subject to the discretion of the Compensation Committee of the Board of Directors.

Sign-on Bonus

You are eligible for a one-time special incentive bonus of \$178,000 to be paid on or before March 15, 2020. In the event you voluntarily terminate from the Company within one year of the payment date of the sign on bonus, the sign on bonus must be refunded to the and you authorize the Company to deduct this obligation insofar as possible, from any salary, wages, accrued vacation, bonus or other payments or employee benefits to which you may be entitled or business expense reimbursement amounts that may be due to you. You agree that you remain liable for any amount that is not withheld from your wages. By signing this offer letter, you accept the terms of this agreement.

Sign-on Grant

You are eligible for a one-time special stock award of 20,000 shares of Restricted Common Stock ("Restricted Shares") subject to the approval of the Compensation Committee of the Board of Directors. The Restricted Shares will vest as follows: Fifty Percent (50%) of the Restricted Shares will vest on the second anniversary of your start date, with the remaining Fifty Percent (50%) of the Restricted Shares to vest on the fourth anniversary of your start date. You must be employed by the Company on each vesting date.

Long Term Incentive Plan

Commencing in 2020, you will be eligible for annual equity grants of approximately \$475,000 subject to the discretion of the Compensation Committee of the Board of Directors. The equity grants are currently expected to be comprised of 25% restricted stock awards, 25% stock options and 50% based on performance-based criteria to be determined prior to the date of grant.

Severance Agreement

Fiesta will enter into a separate agreement with you to provide certain severance payments upon termination of your employment by Fiesta without Cause and for reasons other than death or "permanent and total disability" (within the meaning Section 22(e)(3) of the Code) or by you voluntarily for Good Reason (to be defined in the agreement). The severance payments will include an amount equal to one times your annual base salary in effect prior to the date employment is terminated and an amount equal to a pro rata portion of the aggregate bonus you would have been entitled to receive with respect to the fiscal year of termination had employment not been terminated. Such bonus shall be paid at the same time it would have been paid had your employment not been terminated.

Temporary Living Allowance

The Company will provide you with \$1,500 per month to be used to cover part of your living costs in Addison, Texas (Housing/Travel Allowance), subject to change or cancellation at any time in the Company's sole discretion. When you permanently relocate or if your employment with the Company terminates for any reason, ("Eligibility Change") the Company will cease the payment of this allowance effective immediately.

Insurance Benefits

Details regarding our comprehensive benefits package will be provided to you.

Vacation

You are eligible for three weeks of vacation from date of hire through your ninth year. On your tenth year of employment, you will then be eligible for four weeks of vacation.

Personal Days

Commencing your start date you are eligible for one (1) personal/sick days and each calendar year thereafter, you will receive five (5) personal/sick days.

This offer of employment is contingent upon the following:

- Acceptable results from all Fiesta employment screening evaluations.
- Execution of the attached Agreement to Respect Confidential Information.
- Execution of the attached Binding Arbitration Program acknowledgment.
- Execution of the attached Background Information Release Form.
- Satisfactory proof of identification and work authorization as required by federal law.
- Satisfactory assurance that you are not subject to any non-compete or other restrictive covenant that could impair your ability to perform the job responsibilities of the position you are offered. If you are subject to any such restrictions, please provide us with a copy of relevant documents at your earliest convenience.
- Formal approval of your appointment by the Board of Directors.

While we are confident that we will have a mutually beneficial employment relationship, employment with Fiesta is at-will and this is not a contract for employment. Under this relationship, Fiesta may, at any time, decide to end an individual's employment with or without cause, prior notice or discipline at Fiesta's sole discretion. Likewise, any employee is free to end his or her employment at any time for any reason with or without notice.

Please let me know if you have any questions. I can be reached at 786-714-5496.

Warm welcome,

/s/ Richard C. Stockinger
Richard Stockinger
President and Chief Executive Officer
Fiesta Restaurant Group, Inc.

Accepted:
/s/ Dirk Montgomery

Dirk Montgomery

9/9/2019

Date

AGREEMENT

Agreement (the "Agreement") dated as of September 09, 2019 by and between FIESTA RESTAURANT GROUP, INC., a Delaware corporation (the "Employer") and Dirk Montgomery (the "Executive").

WITNESSETH:

WHEREAS, the Employer desires to employ Executive as Chief Financial Officer of the Employer to provide services for the Employer and any present or future parent, subsidiary or affiliate of the Employer and their successors and assigns in such capacity;

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter contained, the parties hereto hereby agree as follows:

1. Definitions.

For purposes of this Agreement, the following definitions shall apply:

1.1 "Cause" shall mean: (i) the commission by the Executive of any act or omission that would constitute a felony or any crime of moral turpitude under Federal law or the law of the state or foreign law in which such action occurred, (ii) dishonesty, disloyalty, fraud, embezzlement, theft, engagement of competitive activity, disclosure of trade secrets or confidential information or other acts or omissions that result in a breach of the duty of loyalty or a breach of fiduciary duties or other material duty to the Employer and its subsidiaries, (iii) continued reporting to work or working under the influence of alcohol, an illegal drug, an intoxicant or a controlled substance which renders Executive incapable of performing his material duties to the satisfaction of the Employer and/or its subsidiaries, (iv) the Executive's failure to substantially perform Executive's duties and/or responsibilities with respect to the Employer and its subsidiaries, (v) Executive's material breach of any of the Employer's or its subsidiaries' policies or procedures, or (vi) willful damage by Executive to Employer or its subsidiaries assets.

1.2 "Executive Bonus Plan" shall mean: all bonus plans or arrangements maintained by the Employer or any of its subsidiaries (other than the Employer's 2012 Stock Incentive Plan) in which the Executive is eligible to participate for the year in which the Executive incurs a Termination of employment.

1.3 "Good Reason" shall mean any of the following conditions arising without the consent of Executive, provided that Executive has first given written notice to the Employer of the existence of the condition within 90 days of its first occurrence, and the Employer has failed to remedy the condition within 30 days thereafter: (1) a material diminution in the Executive's base salary; (2) a material diminution in the Executive's authority, duties, or responsibilities; (3) relocation of Executive's principal office more than 50 miles from its current location in Dallas, other than a relocation to a location within 50 miles of the Company's office location in the city of Miami, Florida or (4) any other action or inaction that constitutes a material breach by the Employer of any terms or conditions of any agreement between the Employer and the Executive, which breach has not been caused by Executive.

1.4 "Prime Rate" shall mean: the rate of interest established from time to time by Wells Fargo Bank, National Association (or such other bank which is then the principal lending bank to the Employer) as its prime commercial rate.

1.5 "Release" shall mean that certain Release as more fully set forth on Exhibit A attached hereto and made a part hereof.

1.6 "Severance Bonus" shall mean: an amount equal to a pro rata portion of the aggregate bonus under the Executive Bonus Plan for the year in which the Executive incurs a Termination of employment plus any unpaid bonus earned under the Executive Bonus Plan for the year prior to the year in which Executive incurs a Termination of employment to which the Executive would otherwise have been entitled had his employment not terminated.

1.7 "Severance Payment" shall mean: an amount equal to one time the Executive's highest annual base salary in effect prior to the date the Executive incurs a Termination of employment, plus interest on such amount at a rate per annum equal to the Prime Rate plus three percent (3%), with such interest accruing from the date of Termination of employment until the date of payment of the Severance Payment.

1.8 "Termination of employment" means cessation of the Executive's employment with the Employer and all of its subsidiaries by which the Executive is employed.

2. Termination

2.1. Termination For Good Reason by Executive and By the Company Without Cause. Subject to the provisions of this Agreement, in the event that the Executive incurs a Termination of employment (a) by the Employer without Cause or (b) by the Executive with Good Reason, the Employer (or any successor thereto) shall pay to the Executive the Severance Payment and the Severance Bonus. The Severance Payment shall be paid to the Executive in a single lump sum cash payment on the fifth (5th) business day following the six (6) month anniversary of Termination of employment. The Severance Bonus shall be paid to the Executive in a single lump sum cash payment on the date that bonuses are paid under the Executive Bonus Plan, but in no event later than March 15th of the calendar year following the calendar year in which the Executive's employment terminates. Notwithstanding the foregoing, the Executive shall not be entitled to any payment under this Section 2.1 unless prior to the date such payment is required to be made to the Executive, the Executive delivers to the Employer the executed Release and further provided that the Release has been executed and delivered to the Employer prior to the payment date and the Release becomes effective and irrevocable (as more fully described in the Release) prior to the payment date.

3. At Will Employment

Nothing in this Agreement shall confer upon the Executive the right to remain in the employ of the Employer or any of its subsidiaries, it being understood and agreed that (a) the Executive is an employee at will and serves at the pleasure of the Employer at such compensation as the Employer shall determine from time to time, (b) the Employer shall have the right to terminate the Executive's employment at any time, with or without Cause subject to the provisions of this Agreement, and (c) except for this Agreement and any equity awards agreements entered into by Executive and the Employer pursuant to the Employer's 2012 Stock Incentive Plan, there are no other arrangements or agreements between Executive and the Employer or any of its subsidiaries concerning the terms of the Executive's employment with the Employer or any of its subsidiaries, and that nothing in this Agreement guarantees employment for any definitive or specific term or duration or any particular level of benefits or compensation.

4. Costs of Enforcement.

In the event that the Executive incurs any costs or expenses, including attorneys' fees, in the enforcement of the Executive's rights under this Agreement then, unless the Employer is wholly successful in defending against the enforcement of such rights, the Employer shall promptly pay to the Executive all such costs and expenses. Any such reimbursement shall be made as promptly as practicable after the final disposition of the Executive's enforcement claims, but in no event later than March 15th of the calendar year following the calendar year in which occurs such final disposition.

5. Term.

This Agreement shall commence on **September 09, 2019** and shall continue until the date of Executive's Termination of employment.

6. Notices.

All notices under this Agreement shall be in writing and shall be sent by registered or certified mail, return receipt requested, if intended for the Employer shall be addressed to it, attention of its Chief Executive Officer, 14800 Landmark Boulevard, Suite 500, Dallas, Texas 75254 or at such other address of which the Employer shall have given notice to the Executive in the manner herein provided; and if intended for the Executive, shall be mailed to the Executive at the address of the Executive's address first set forth above or at such other address of which the Executive shall have given notice to the Employer in the manner provided in this Section 6.

7. Entire Agreement.

This Agreement and the Release constitutes and contains the entire agreement and understanding between the parties with respect to the matters referred to herein and, as of the date hereof, supersedes any and all prior negotiations, correspondence, understandings, and agreements between the parties respecting the subject matter hereof and no waiver of or modification to the terms hereof shall be valid unless in writing signed by the party to be charged and only to the extent therein set forth. All prior and contemporaneous agreements and understandings with respect to the subject matter of this Agreement are hereby terminated and superseded by this Agreement. When used in this Agreement, the terms "hereof", "herein" and "hereunder" refer to this Agreement in its entirety, including any exhibits or schedules attached to this Agreement and not to any particular provisions of this Agreement, unless otherwise specifically indicated.

8. No Mitigation Or Offset.

Except as otherwise provided in this Agreement, in the event of any termination of the Executive's employment, the Executive shall not be required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive pursuant to this Agreement. The amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by the Executive or benefit provided to the Executive as the result of employment by another employer or otherwise. The amounts payable under this Agreement shall not be subject to set-off, counterclaim, recoupment, defense or other right that the Employer may have against the Executive.

9. Withholding.

The Employer shall be entitled to withhold from amounts payable to the Executive hereunder such amounts as may be required by applicable law.

10. Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, administrators, executors, personal representatives, successors and assigns.

11. Governing Law; Dispute Resolution.

All disputes regarding this agreement shall resolved by arbitration to be administered by JAMS pursuant to the Fiesta Restaurant Group Mandatory Arbitration Program. To the extent not preempted by the laws of the United States, the terms and provisions of this agreement are governed by and shall be interpreted in accordance with, the laws of Texas, without giving effect to any choice of law principles.

12. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13. Advice of Counsel.

Executive acknowledges that during the negotiation of this Agreement, Executive has retained or has been advised to retain counsel of Executive's choosing who has provided or will provide advice to Executive in connection with the Executive's decision to enter into this Agreement. Executive acknowledges that the Employer's in-house and outside legal counsel have represented only the Employer in connection with the negotiation, drafting, and entering into of this Agreement and that Executive has not been provided nor has Executive relied upon any legal advice from the Employer's in-house or outside legal counsel.

14. Severability.

It is the intention of the parties hereto that any provision of this Agreement found to be invalid or unenforceable be reformed rather than eliminated. If any of the provisions of this Agreement, or any part hereof, is at any time construed to be invalid or unenforceable, the same shall not affect the remainder of such provision or the other provisions of this Agreement, which shall be given full effect, without regard to the invalid portions. In the event that the courts of any one or more jurisdictions shall hold such provisions wholly or partially unenforceable by reason of the scope thereof or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the Employer's rights provided for herein in the courts of any other jurisdictions as to breaches or threatened breaches of such provisions in such other jurisdictions, the above provisions as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

15. Non-Waiver.

Failure by either the Employer or Executive to enforce any of the provisions of this Agreement or any rights with respect to this Agreement, or the failure to exercise any option provided hereunder, shall in no way be considered to be waiver of such provisions, rights or options, or to in any way affect the validity of this Agreement.

16. Headings.

The headings preceding the text of the sections of this Agreement have been inserted solely for convenience of reference and neither constitutes a part of this Agreement nor affect the meaning, interpretation or effect of this Agreement.

17. Survival.

The following sections of this Agreement shall survive the expiration or termination of this Agreement and shall survive Employee's Termination of employment from the Employer for any reason: Section 4 (Cost of Enforcement), and Section 11 (Governing Law; Dispute Resolution). In addition, all sections of this Agreement that would, by their terms, survive expiration or termination of this Agreement shall so survive such expiration and termination and shall also survive termination for any reason of Employee's employment with the Company.

18. Additional Tax Provisions.

18.1 Golden Parachutes. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by Executive (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (collectively, the "Total Benefits") would be subject to the excise tax imposed under Section 4999 of the Code (the "Excise Tax"), the Total Benefits shall be reduced to the extent necessary so that no portion of the Total Benefits is subject to the Excise Tax; provided, however, that no such reduction in the Total Benefits shall be made if by not making such reduction, Executive's Retained Amount (as hereinafter defined) would be greater than Executive's Retained Amount if the Total Benefits are not so reduced. "Retained Amount" shall mean the present value (as determined in accordance with sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Internal Revenue Code of 1986, as amended (the "Code") of the Total Benefits net of all federal, state and local taxes imposed on Executive with respect thereto. To the extent any reduction is required, the Total Benefits shall be reduced in the following order: (i) any portion of the Total Benefits that are not subject to Section 409A of the Code (other than Total Benefits resulting from any accelerated vesting of equity awards), (ii) Total Benefits that are subject to Section 409A of the Code in reverse order of when payment is due, and (iii) Total Benefits that are not subject to Section 409A and arise from any accelerated vesting of any equity awards.

18.2 Section 409A of the Code. The intent of the parties is that payments and benefits under this Agreement comply with section 409A of the Code, to the extent subject thereto, and accordingly, this Agreement shall be interpreted and administered to be in compliance therewith. It is intended that (i) each installment of the payments provided under this Agreement is a separate "payment" for purposes of Section 409A of the Code and (ii) the payments satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Code provided under Treasury Regulations 1.409A-1(b)(4), 1.409A-1(b)(9)(iii) and 1.409A-1(b)(9)(v). For purposes of this Agreement, any reference to the termination of Executive's employment will be deemed to mean "severance from service" within the meaning of Treasury Regulation 1.409A-1(h). Notwithstanding anything to the contrary in this Agreement, if the Company

determines (i) that on the date the Executive's employment with the Company terminates or at such other time that the Company determines to be relevant, the Executive is a "specified Executive" (as such term is defined under Treasury Regulation 1.409A-1(i)(1)) of the Company and (ii) that any payments to be provided to the Executive pursuant to this Agreement are or may become subject to the additional tax under Section 409A(a)(1)(B) of the Code or any other taxes or penalties imposed under Section 409A of the Code if provided at the time otherwise required under this Agreement, then such payments shall be delayed until the date that is six (6) months after the date of the Executive's "separation from service" (as such term is defined under Treasury Regulation 1.409A-1(h)) with the Company, or, if earlier, the date of the Executive's death. Any payments delayed pursuant to this Section shall be made in a lump sum on the first day of the seventh (7th) month following the Executive's "separation from service" (as such term is defined under Treasury Regulation 1.409A-1(h)), or, if earlier, the date of the Executive's death.

****BALANCE OF PAGE INTENTIONALLY LEFT BLANK****

****SIGNATURE PAGE TO FOLLOW****

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

FIESTA RESTAURANT GROUP, INC.

By: /s/ Richard C. Stockinger

Name: Richard C. Stockinger

Title: Chief Executive Officer and President

/s/ Dirk Montgomery

Dirk Montgomery

Exhibit A

FORM OF RELEASE

GENERAL RELEASE OF CLAIMS

1. Dirk Montgomery ("Executive"), for himself and his family, heirs, executors, administrators, legal representatives and their respective successors and assigns, in exchange for the certain benefits provided under the Agreement made and entered effective as of the ___ day of _____, _____, by and between Fiesta Restaurant Group, Inc., a Delaware Corporation (the "Company") and the Executive, to which this release is attached as Exhibit A (the "Retention Agreement"), does hereby release and forever discharge the Company, its subsidiaries, affiliated companies, successors and assigns, and its current or former directors, officers or shareholders in such capacities (collectively with the Company, the "Released Parties") from any and all actions, causes of action, suits, controversies, claims and demands whatsoever, for or by reason of any matter, cause or thing whatsoever, whether known or unknown including, but not limited to, all claims under any applicable laws arising under or in connection with Executive's employment or termination thereof, whether for tort, breach of express or implied employment contract, wrongful discharge, intentional infliction of emotional distress, or defamation or injuries incurred on the job or incurred as a result of loss of employment. Executive acknowledges that the Company encouraged him to consult with an attorney of his choosing, and through this General Release of Claims encourages him to consult with his attorney with respect to possible claims under the Age Discrimination in Employment Act ("ADEA") and that he understands that the ADEA is a Federal statute that, among other things, prohibits discrimination on the basis of age in employment and employee benefits and benefit plans. Without limiting the generality of the release provided above, Executive expressly waives any and all claims under ADEA that he may have as of the date hereof. Executive further understands that by signing this General Release of Claims he is in fact waiving, releasing and forever giving up any claim under the ADEA as well as all other laws within the scope of this paragraph 1 that may have existed on or prior to the date hereof. Notwithstanding anything in this paragraph 1 to the contrary, this General Release of Claims shall not apply to (i) any rights to receive any payments or benefits to which Executive is entitled under COBRA or any other compensation or employee benefit plans in which Executive is eligible to participate at the time of execution of this General Release of Claims, (ii) any rights or claims that may arise as a result of events occurring after the date this General Release of Claims is executed, any indemnification and advancement rights Executive may have as a former employee, officer or director of the Company or its subsidiaries or affiliated companies including, without limitation, any rights arising pursuant to the articles of incorporation, bylaws and any other organizational documents of the Company or any of its subsidiaries, (iii) any claims for benefits under any directors' and officers' liability policy maintained by the Company or its subsidiaries or affiliated companies in accordance with the terms of such policy, and (iv) any rights as a holder of equity securities of the Company (clauses (i) through (iv), the "Reserved Claims").

2. Executive represents that he has not filed against the Released Parties any complaints, charges, or lawsuits arising out of his employment, or any other matter arising on or prior to the date of this General Release of Claims other than Reserved Claims, and covenants and agrees that he will never individually or with any person file, or commence the filing of any lawsuits, complaints or proceedings with any governmental agency, or against the Released Parties with respect to any of the matters released by Executive pursuant to paragraph 1 hereof (a "Proceeding"); provided, however, Executive shall not have relinquished his right to (i) commence a Proceeding to challenge whether Executive knowingly and voluntarily waived his rights under ADEA; (ii) file a charge with an administrative agency or take part in any agency investigation or (iii) commence a Proceeding pursuant to the Reserved Claims. Executive does agree, however, that he is waiving his right to recover any money in connection with such an investigation or charge filed by him or by any other individual, or a charge filed by the Equal Employment Opportunity Commission or any other federal, state or local agency, except as prohibited by law.

3. Executive hereby acknowledges that the Company has informed him that he has up to twenty-one (21) days to sign this General Release of Claims and he may knowingly and voluntarily waive that twenty-one (21) day period by signing this General Release of Claims earlier. Executive also understands that he shall have seven (7) days following the date on which he signs this General Release of Claims within which to revoke it by providing a written notice of his revocation to the Company.

4. Executive acknowledges that this General Release of Claims will be governed by and construed and enforced in accordance with the internal laws of the laws of Texas, without giving effect to any choice of law principles.

5. Executive acknowledges that he has read this General Release of Claims, that he has been advised that he should consult with an attorney before he executes this general release of claims, and that he understands all of its terms and executes it voluntarily and with full knowledge of its significance and the consequences thereof.

6. This General Release of Claims shall take effect on the eighth day following Executive's execution of this General Release of Claims unless Executive's written revocation is delivered to the Company within seven (7) days after such execution.

EXECUTIVE

/s/ Dirk Montgomery

Dirk Montgomery

CERTIFICATIONS

I, Richard C. Stockinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 29, 2019 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 5, 2019

/s/ RICHARD C. STOCKINGER

Richard C. Stockinger
Chief Executive Officer

CERTIFICATIONS

I, Dirk Montgomery, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 29, 2019 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 5, 2019

/s/ DIRK MONTGOMERY

Dirk Montgomery
Senior Vice President, Chief Financial Officer and Treasurer

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 September 29, 2019, 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 5, 2019

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 September 29, 2019, 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 5, 2019