

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

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

For the fiscal year ended January 3, 2021
OR

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

For the transition period from _____ to _____

Commission File Number: 001-35373

FIESTA RESTAURANT GROUP, INC.
(Exact name of Registrant as specified in its charter)

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

Registrant's telephone number, including area code: (972) 702-9300
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) 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 type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of June 28, 2020, of Fiesta Restaurant Group, Inc. was \$104,660,040.

As of February 26, 2021, Fiesta Restaurant Group, Inc. had 26,283,998 shares of its common stock, \$.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for Fiesta Restaurant Group, Inc.'s 2021 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A no later than 120 days after the conclusion of Fiesta Restaurant Group, Inc.'s fiscal year ended January 3, 2021, are incorporated by

reference into Part III of this annual report.

FIESTA RESTAURANT GROUP, INC.
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PART I

Presentation of Information

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

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

We use a 52- or 53-week fiscal year ending on the Sunday closest to December 31. The fiscal years ended January 1, 2017, December 31, 2017, December 30, 2018 and December 29, 2019 each contained 52 weeks. The fiscal year ended January 3, 2021 contained 53 weeks. The next fiscal year to contain 53 weeks will be the fiscal year ending January 3, 2027.

Use of Non-GAAP Financial Measures

Consolidated Adjusted EBITDA and margin and Restaurant-level Adjusted EBITDA and margin are non-GAAP financial measures. We use these non-GAAP financial measures in addition to net income and income from operations to assess our performance, and we believe it is important for investors to be able to evaluate us using the same measures used by management. We believe these measures are important indicators of our operational strength and the performance of our business and they provide a view of operations absent non-cash activity and items that are not related to the ongoing operation of our restaurants or affect comparability period over period.

These non-GAAP financial measures as calculated by us are not necessarily comparable to similarly titled measures reported by other companies and should not be considered as an alternative to net income (loss), earnings (loss) per share, cash flows from operating activities or other financial information determined under GAAP.

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 in Item 6, "Selected Financial Data." Adjusted EBITDA for each of our segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain finance, legal, supply chain, human resources, construction and other administrative functions. See Note 11 to the Consolidated Financial Statements included in this Annual Report on Form 10-K. Consolidated Adjusted EBITDA margin and Adjusted EBITDA margin are derived by dividing Consolidated Adjusted EBITDA and Adjusted EBITDA by total revenues and segment revenues, respectively.

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

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

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

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

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

Forward-Looking Statements

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

ITEM 1. BUSINESS

Overview

Our Company

We own, operate and franchise two restaurant brands, Pollo Tropical® and Taco Cabana®, which have over 30 and 40 years, respectively, of operating history and loyal customer bases. Our Pollo Tropical restaurants feature fire-grilled and crispy citrus marinated chicken and other freshly prepared menu items, while our Taco Cabana restaurants specialize in Mexican-inspired food with most items made fresh. We believe that both brands offer distinct and unique flavors with broad appeal at a compelling value, which differentiates them in the competitive fast-casual and quick-service restaurant segments. Nearly all of our restaurants offer the convenience of drive-thru windows.

For the fiscal year ended January 3, 2021, average annual sales per restaurant was approximately \$2.2 million for our Pollo Tropical restaurants and approximately \$1.6 million for our Taco Cabana restaurants. As of January 3, 2021, we owned and operated 138 Pollo Tropical restaurants in Florida and 143 Taco Cabana restaurants in Texas for a total of 281 restaurants. We franchise our Pollo Tropical restaurants primarily in international markets, and as of January 3, 2021, had 23 franchised Pollo Tropical restaurants outside the United States. In addition, as of January 3, 2021, we had five domestic non-traditional Pollo Tropical licensed locations on college campuses and one location in a hospital in Florida. As of January 3, 2021, we had six Taco Cabana franchised restaurants in New Mexico. For the fiscal year ended January 3, 2021, we generated consolidated revenues of \$554.8 million, and comparable restaurant sales decreased 14.7% and 14.4% for Pollo Tropical and Taco Cabana, respectively. Comparable restaurant sales for the fiscal year ended January 3, 2021, exclude the 53rd week and are reported on a 52-week basis.

COVID-19

The novel coronavirus (COVID-19) pandemic affected and is continuing to affect the restaurant industry and the economy. In response to COVID-19 and in compliance with governmental restrictions, we closed the dining room seating areas in all Pollo Tropical and Taco Cabana restaurants, limiting service to take-out, drive-thru, and delivery operations beginning in mid-March 2020. We also temporarily closed three Pollo Tropical locations due to the impact of the restrictions on sales, one of which was reopened during the second quarter of 2020 and two of which were subsequently permanently closed in August 2020. We began opening certain dining rooms at 50% capacity with the easing of municipality restrictions during the second quarter of 2020; however, we temporarily closed all dining rooms on July 12, 2020, in response to increased COVID-19 infection rates in both Texas and Florida. We began re-opening certain dining rooms and patios with limited capacity and hours at both brands and the state of Florida removed restaurant capacity restrictions at the end of September 2020. We opened approximately 25 dining rooms with limited hours and capacity at both brands and opened approximately 75 patios at Taco Cabana in the fourth quarter of 2020. We are evaluating opening additional dining rooms with limited hours at Pollo Tropical and Taco Cabana.

Comparable restaurant sales at both Pollo Tropical and Taco Cabana restaurants declined in 2020 compared to the prior year as a result of the pandemic. However, both brands experienced sequential comparable restaurant sales improvement in the third and fourth quarters of 2020 compared to comparable restaurant sales in the second quarter of 2020. We believe our significant mix of dine-in sales prior to the pandemic had a negative impact on comparable restaurant sales. Our dine-in and take-out sales from orders placed at the counter as a percentage of total sales for Pollo Tropical decreased to 28.0% of total sales in 2020 compared to 49.0% of total sales in 2019 and for Taco Cabana decreased to 17.0% of total sales in 2020 compared to 41.4% of total sales in 2019. Our sales shifted to a higher percentage of drive-thru and delivery sales in 2020. Our drive-thru and delivery sales as a percentage of total sales for Pollo Tropical increased to 61.1% and 7.3% of total sales, respectively, in 2020 compared to 46.8% and 1.8% of total sales, respectively, in 2019 and for Taco Cabana increased to 75.2% and 4.6% of total sales, respectively, in 2020 compared to 55.1% and 1.2% of total sales, respectively, in 2019. Through our investments in online and mobile ordering, and partnerships with multiple delivery service providers, we were well positioned for the shift in sales channels.

The COVID-19 pandemic has not had a significant negative disruptive impact on our supply chain or access to labor, although there can be no assurance that there will not be a significant impact on our supply chain or access to labor in the future. We continue to actively monitor our food suppliers to determine how they are managing their operations to mitigate supply flow and food safety risks. To ensure we mitigate potential supply availability risk, we have built additional inventory backstock levels when appropriate and we have also identified alternative supply sources in key product categories including but not limited to proteins and sanitation and safety supplies.

We incurred additional costs related to the COVID-19 pandemic totaling an estimated \$4.3 million during the year ended January 3, 2021 including additional labor costs such as COVID-19 special incentive pay, quarantine pay and overtime to cover

for employees in quarantine, as well as COVID-19 testing costs and additional operating expenses for safety related supplies including masks, cleaning supplies and sanitizer. Although we discontinued COVID-19 special incentive pay after the second quarter of 2020, we expect many of the other COVID-19 related costs to continue during the pandemic.

Our Brands

Our restaurants operate in the fast-casual and quick-service restaurant segments and feature fresh-made cooking, drive-thru service and catering.

Pollo Tropical. Our Pollo Tropical restaurants feature fresh chicken marinated in a proprietary blend of tropical fruit juices and spices, crispy or fire-grilled, boneless and bone-in. Other favorite menu items include Mojo Roast Pork and TropiChops® (a create your own bowl of fire-grilled or crispy chicken breast, roast pork or grilled vegetables served over white, brown or yellow rice, red or black beans, or mac and cheese, and topped with vegetables including tomatoes, kernel corn, peppers and sautéed onions), sandwiches, wraps and salads. Side dishes include rice, beans, french fries, and balsamic tomatoes. The menu's emphasis is on freshness and quality. We also offer a wide selection of sauces, cilantro, onions and other items which allow our guests to further customize their orders. Dessert offerings include key lime pie, cuatro leches cake, flan, cheesecake, as well as limited-time seasonal items, and beverages include fountain soft drinks, flavored brewed teas, and other bottled drinks. Most menu items are prepared daily in each of our restaurants, which feature open display cooking on large, open-flame grills. We offer both individual and family meal-sized portions which enable us to provide a home meal replacement for our guests and catering for parties and corporate events. We began selling alcoholic beverages including wine and beer at most Pollo Tropical locations in 2020 to increase off-premise sales.

Our Pollo Tropical restaurant dining areas are designed to create an inviting, festive and tropical atmosphere. We also provide our guests the option of take-out, including the ability to order online in advance, and nearly all of our restaurants provide the convenience of drive-thru windows. Delivery is available through third-party partnerships at all Pollo Tropical locations. Our Pollo Tropical restaurants are generally open for lunch, dinner, and late night seven days a week. As of January 3, 2021, substantially all of our Pollo Tropical restaurants were freestanding buildings. Our typical freestanding Pollo Tropical restaurant ranges from 2,800 to 3,700 square feet and provides interior seating for approximately 70 to 90 guests. During the year ended January 3, 2021, the majority of our sales were through drive-thru windows, take-out, or delivery. For the year ended January 3, 2021, the average sales transaction at our Pollo Tropical restaurants was \$12.83, with sales at dinner and lunch representing 50.3% and 49.7%, respectively. For the year ended January 3, 2021, our Pollo Tropical brand generated total revenues of \$315.4 million and Adjusted EBITDA of \$36.5 million.

Pollo Tropical opened its first restaurant in 1988 in Miami, Florida. As of January 3, 2021, we owned and operated a total of 138 Pollo Tropical restaurants, all located in Florida.

We are franchising and licensing our Pollo Tropical restaurants internationally and in non-traditional domestic locations. As of January 3, 2021, we had 23 franchised Pollo Tropical restaurants located in Puerto Rico, Panama, Guyana, Ecuador, and the Bahamas, and five non-traditional licensed locations on college campuses and one located in a hospital in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets.

Taco Cabana. Our Taco Cabana restaurants serve fresh, Mexican-inspired food that feature loaded tacos, steak and chicken fajitas, quesadillas, flautas, enchiladas, burritos, and customizable Cabana Bowls®. We also offer freshly made flour tortillas, shareable appetizers and our popular breakfast tacos and dozen taco boxes. Our self-service salsa bar includes a wide selection of freshly made salsas, sauces, sliced jalapeños, chopped cilantro, chopped onions and other items which allow our guests to further customize their orders. We temporarily closed our salsa bars during the COVID-19 pandemic. We also offer desserts such as sopapillas and New Churros, as well as beverages including fountain soft drinks, our signature frozen margaritas, and bottled beer—all available to-go as well. Most menu items are freshly-prepared at each restaurant daily.

Taco Cabana restaurants feature open display cooking that enables guests to observe fajitas cooking on an open grill, a tortilla machine pressing and grilling fresh flour tortillas and the fresh preparation of other menu items. Our Taco Cabana restaurants feature interior dining areas as well as semi-enclosed and outdoor patio areas, which provide a vibrant decor and relaxing atmosphere. Many locations also had live entertainment at select times prior to the COVID-19 pandemic. We offer both individual and family meal-sized portions, which enable us to provide a home meal replacement for our guests and catering for parties and corporate events. Additionally, we provide our guests the option to order online in advance, as well as the convenience of drive-thru windows. Delivery is available through third-party partnerships at all locations. Our typical freestanding Taco Cabana restaurants average approximately 3,500 square feet (exclusive of the exterior dining area) and provide seating for approximately 80 guests, with additional outside patio seating for approximately 50 guests.

As of January 3, 2021, substantially all of our Taco Cabana restaurants were freestanding buildings. During the year ended January 3, 2021, the majority of our sales were through drive-thru windows, take-out, or delivery.

Taco Cabana pioneered the Mexican patio cafe concept with its first restaurant in San Antonio, Texas, in 1978. As of January 3, 2021, we owned and operated 143 Taco Cabana restaurants, all located in Texas. As of January 3, 2021, we also had six Taco Cabana franchised restaurants located in New Mexico. Hours of operation vary by location, and some restaurants operated 24 hours a day prior to the COVID-19 pandemic. For the year ended January 3, 2021, sales at dinner, lunch and breakfast represented 28.7%, 23.2% and 23.3%, respectively, and the average sales transaction at our Taco Cabana restaurants was \$11.74. For the year ended January 3, 2021, our Taco Cabana brand generated total revenues of \$239.4 million and Adjusted EBITDA of \$8.5 million.

Our Competitive Strengths

We believe our competitive strengths include the following key attributes:

Well Positioned and Differentiated in the Fast-Casual and Quick-Service Segments. As of January 3, 2021, we owned, operated and franchised 316 fast-casual restaurants under our Pollo Tropical and Taco Cabana brands which have over 30 and 40 years, respectively, of operating history. Although the COVID-19 pandemic had a negative impact on our average unit sales per restaurant, at \$2.2 million and \$1.6 million, respectively, for 2020, we believe Pollo Tropical and Taco Cabana have compelling average annual sales per restaurant within the fast-casual and quick-service segments, and we experienced sequential improvement in average unit sales in the third and fourth quarters of 2020 compared to the second quarter of 2020. We believe our brands are well positioned in the industry due to our high quality, freshly-prepared food, value and differentiation of flavor profiles.

Two Leading, Differentiated Brands Serving Freshly Prepared, High Quality Foods with Broad Appeal and a Compelling Value Proposition. Our Pollo Tropical and Taco Cabana brands are differentiated from other dining options and offer distinct flavor profiles and healthy menu choices at affordable prices that we believe have broad consumer appeal, provide guests with a compelling value proposition, attract a diverse customer base and drive guest frequency and loyalty. Pollo Tropical and Taco Cabana are committed to serving freshly-prepared food using quality ingredients that are made-to-order and customized for each guest. Both of our brands offer a wide range of menu offerings and home meal replacement options in generous portion sizes and at affordable price points which appeal to a broad customer base. Our open display kitchen format allows guests to view and experience our food being freshly-prepared and cooked to order. We continue to refine our menus, including some seasonal offerings at our Pollo Tropical and Taco Cabana restaurants, in order to provide variety to our guests, address changes in consumer preferences, and maintain a speed of service that appeals to our customers. We also selectively use promotions and limited time offers which are intended to reinforce our value proposition and to introduce new products. Additionally, we offer our guests the convenience of drive-thru service, online ordering, curbside pickup, and delivery through third-party delivery services in order to provide a viable option for home meal replacement and family meals. In 2020, Taco Cabana and Pollo Tropical began selling alcohol through the drive-thru and to-go.

Compelling Business Model. We enjoy significant brand recognition due to high market penetration of our restaurants in our core markets which provides operating, marketing and distribution efficiencies and convenience for our guests. Both of our brands have strong brand affinity in our core markets as evidenced by fast-casual and quick-service segment-leading average annual sales volumes, as noted above. Pollo Tropical produces above average restaurant-level operating margins. Taco Cabana restaurant-level operating margins improved in 2020 and, with sales stabilization and growth and effective cost management, we anticipate Taco Cabana will produce higher restaurant-level operating margins in the future.

Growth Strategies

Our long-term strategy is focused on profitably building our base business, growing new distribution channels, including catering, delivery, licensed and franchised locations, and development of new restaurants.

Our strategies for growth primarily include:

Increase Comparable Restaurant Sales. We experienced a decrease in comparable restaurant sales in 2020, which we believe was attributable to the impact of the COVID-19 pandemic. We believe our significant mix of dine-in sales prior to the pandemic had a negative impact on comparable restaurant sales. We also experienced a decrease in comparable restaurant sales in 2019 which we believe was attributable to a decline in comparable restaurant transactions due in part to challenging market and industry conditions, discounted pricing and, for Pollo Tropical, the negative impact of Hurricane Dorian, partially offset by menu price increases and the introduction of higher priced shareables in 2019. We simplified the Taco Cabana menu in the fourth quarter of 2019 to improve execution. The menu simplification efforts included removal of certain menu items and limited other items to certain dayparts. While the menu simplification improved guest satisfaction and reduced order cycle

times, the reduced menu resulted in a greater than anticipated transaction decline. We selectively re-introduced select items to the menu in 2020 to increase sales while maintaining the operational improvements provided by the menu simplification. We are focused on increasing comparable restaurant sales in the future by attracting new customers and increasing guest frequency through the following strategies:

- *Focus on consistency of operations and food quality:* We believe high quality food and hospitality, a comfortable ambience, and reasonable prices result in an enjoyable guest experience, which drives loyalty and guest frequency. We have improved systems, processes and equipment, implemented tighter management spans of control and enhanced our field leadership teams, and we continue to focus on improving systems and processes to ensure consistency of operations at both brands. In addition, supply chain and food preparation processes have been implemented at both brands to ensure high quality, freshness and consistency of our food, which we believe are critical components to the continued success of our brands.
- *New product innovation:* Across both brands, our menus are centered on freshly prepared, quality food offerings that we believe have both broad appeal and provide everyday value. Pollo Tropical and Taco Cabana each have separate teams of product research and development professionals that enables us to continually refine our menu offerings and develop new products, several of which are validated by consumer research. Maintaining a strong product pipeline is critical to keeping our offerings compelling, and we intend to introduce innovative new menu items and enhancements to existing menu favorites throughout the year to drive further guest traffic, maximize guest frequency, and increase average check.
- *Focus on effective advertising to highlight our everyday value proposition:* Pollo Tropical and Taco Cabana utilize an integrated, multi-level marketing approach that includes periodic system-wide promotions, outdoor marketing including billboards, in-restaurant promotions, local trade area marketing, social media, digital and web-based marketing and other strategies, including the use of radio and television advertising and limited-time offer menu item and value promotions. In addition, we introduced new email and app-based loyalty programs at Pollo Tropical (My Pollo™) and Taco Cabana (My TC™) in 2018 to further connect with our guests to build affinity and frequency. In 2020, we introduced new state-of-the-art mobile apps for both Pollo Tropical and Taco Cabana. As a percentage of Pollo Tropical restaurant sales, Pollo Tropical's advertising expenditures were 2.7% in 2020, 3.4% in 2019 and 3.5% in 2018. As a percentage of Taco Cabana restaurant sales, Taco Cabana's advertising expenditures were 2.7% in 2020, 3.6% in 2019 and 3.4% in 2018.
- *Grow our off-premise sales with focus on digital platform:* The inclusion of portable menu items, such as wraps, sandwiches, bowls and salads, as well as family meals, and an increased focus on catering and delivery will continue to be a key focus for both brands as we look to capture more off-premise meal occasions which we believe may be significant. Off-premise meal consumption increased significantly during the COVID-19 pandemic and we believe that off-premise sales may continue to be significant following the pandemic. In 2018, we invested in catering resources utilizing dedicated leadership and enhanced digital capabilities, enhanced online ordering, and smart phone apps. In late 2018, we began deploying our portable point-of-sale tablets which accept payment to improve speed of service and throughput in our drive-thru lanes. In 2019, we invested in our catering business by adding dedicated catering sales managers and catering online ordering capabilities, we partnered with a third-party delivery partner to provide delivery services, and we created Rapid Pickup for online orders at Pollo Tropical. In 2020, we created Rapid Pickup for online orders at Taco Cabana and expanded our third-party delivery partnerships to include delivery through multiple delivery service providers for both brands. We engaged a third party to improve our mobile apps and enhance our digital connections and interactions to grow our digital business and create experiences that minimize friction within our digital platforms including creating state-of-the-art mobile apps. We also implemented curbside pickup functionality as an option with online ordering and began improving connectivity at our restaurants, upgrading portable tablets and enabling touchless payments. We plan to continue to invest to improve our digital platform and to improve the speed and ease of use for off-premise sales channels including an enhanced drive-thru experience, geofencing technology for curbside orders and infrastructure changes to improve the speed of order cycle time for drive-thru and delivery orders.
- *Continue our reimage program:* We believe ensuring a high-quality restaurant environment that complements our quality focus on food and hospitality will further drive incremental sales and profitability. We continue to implement restaurant enhancement initiatives to ensure safe, consistent and appealing experiences at our Pollo Tropical and Taco Cabana restaurants. We are continuing the process of redefining the Pollo Tropical brand essence. We have completed the qualitative research and are in the process of completing the quantitative phase of our research. The results of this research will allow us to develop a brand positioning and will provide a clear brand strategy for both existing and new markets.

Non-Traditional License and International Franchise Development. We are updating our Pollo Tropical franchise disclosure documents each year to support potential franchise growth in the future. We are currently primarily focused on growing non-traditional domestic licensed locations on university campuses and non-traditional licensed locations in airports and highway rest stops, while modestly growing international locations with quality operators.

Improve Profitability and Optimize Our Infrastructure. We believe that our large restaurant base, skilled management team, operating systems, technology initiatives and training and development programs support our strategy of enhancing operating efficiencies while prudently growing our restaurant base. We continue to focus on maximizing cost efficiencies, including, among other things, implementing profit enhancement initiatives focused on food and labor costs, leveraging our purchasing power and enhancing our supply chain to optimize costs while delivering a high-quality guest experience with consistency. Our restaurant-level profitability at Pollo Tropical is very competitive within the restaurant industry segments in which we compete. Taco Cabana's restaurant-level margins improved in 2020. We believe Taco Cabana will become more competitive within the restaurant industry segments in which we compete over time through growing comparable restaurant sales and traffic, other margin improvement initiatives, simplifying our operating platform and improved execution.

Develop New Restaurants. We believe that we have opportunities to develop additional Pollo Tropical and Taco Cabana restaurants in Florida and Texas, respectively, as well as potential future expansion opportunities in other regions of the United States that match our site selection criteria. We paused our new restaurant development plans in 2020 as a result of the COVID-19 pandemic. However, we intend to resume new restaurant development in the future. The development of new restaurants will incorporate what we have learned during the COVID-19 pandemic and our reimagining market research, both qualitative and quantitative. During 2021, we plan to continue the process of brand positioning and operating model refinements for Pollo Tropical that we believe will enable future geographic expansion through both company-owned and franchised locations. Our primary focus for Taco Cabana in 2021 will be on improving existing unit average unit sales and continuing to improve margins.

We target opening freestanding restaurants in order to provide drive-thru service which is an important convenience and sales component for our brands. The location of our restaurants is a critical component of each restaurant's success. We evaluate potential new sites on many criteria including accessibility, visibility, costs, surrounding traffic patterns, competition and demographic characteristics. Our senior management team determines the acceptability of all new sites based upon site visits, analyses prepared by our real estate, financial and operations professionals, and third-party proprietary location research and analysis. Historically, this process has typically resulted in entering into a long-term lease for the land followed by construction of the building or the conversion of an existing building using cash generated from our operations or with borrowings under our senior credit facility.

The following table includes the historical initial interior cost (including equipment, seating, signage and other interior costs) of a typical new or converted freestanding restaurant, as well as the historical exterior cost (including building and site improvements).

	Pollo Tropical	Taco Cabana
Interior costs and signage	\$0.6 million to \$0.9 million	\$0.4 million to \$0.6 million
Exterior costs	\$1.2 million to \$1.6 million	\$0.5 million to \$1.4 million

The cost of building and equipping new restaurants can vary significantly and depends on a number of factors, including the local economic conditions, geographic considerations, the size of the restaurant, the characteristics of a particular site, and whether we are constructing a new building or converting an existing building. Accordingly, the cost of opening new restaurants in the future may differ substantially from the historical cost of restaurants previously opened.

Competition

The restaurant industry is highly competitive with respect to price, service, location and food quality. In each of our markets, our restaurants compete with many national and regional quick service, fast casual, and in some cases casual dining restaurant chains, as well as locally owned restaurants. We also compete with delivered meal solutions, convenience stores, grocery stores and other restaurant retailers.

We believe that:

- product quality and taste;
- brand differentiation and recognition;
- convenience of location;

- speed of service;
- menu variety;
- value perception;
- ambience;
- cleanliness; and
- hospitality

are among the important competitive factors in the fast-casual and quick-service restaurant segments and that our two concepts effectively compete against those categories. Pollo Tropical's competitors include national and regional chicken-based concepts, as well as other concepts. Taco Cabana's competitors include other Mexican-inspired concepts as well as other concepts.

Restaurant Operating Data

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

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Pollo Tropical:			
Average annual sales per company-owned restaurant (in thousands) ⁽¹⁾	\$ 2,220	\$ 2,576	\$ 2,521
Average sales transaction	\$ 12.83	\$ 11.71	\$ 11.63
Sales channel sales percentages:			
Drive-thru sales as a percentage of total sales	61.1 %	46.8 %	47.6 %
Dine-in & counter take-out sales as a percentage of total sales	28.0 %	49.0 %	50.7 %
Delivery sales as a percentage of total sales	7.3 %	1.8 %	0.1 %
Online sales as a percentage of total sales	2.7 %	1.5 %	0.9 %
Catering sales as a percentage of total sales	0.9 %	0.9 %	0.7 %
Day-part sales percentages:			
Lunch	49.7 %	47.4 %	47.1 %
Dinner and late night	50.3 %	52.6 %	52.9 %
Taco Cabana:			
Average annual sales per company-owned restaurant (in thousands) ⁽¹⁾	\$ 1,605	\$ 1,812	\$ 1,846
Average sales transaction	\$ 11.74	\$ 10.70	\$ 10.47
Sales channel sales percentages:			
Drive-thru sales as a percentage of total sales	75.2 %	55.1 %	55.7 %
Dine-in & counter take-out sales as a percentage of total sales	17.0 %	41.4 %	42.8 %
Delivery sales as a percentage of total sales	4.6 %	1.2 %	— %
Online sales as a percentage of total sales	2.5 %	1.8 %	1.2 %
Catering sales as a percentage of total sales	0.7 %	0.5 %	0.3 %
Day-part sales percentages:			
Breakfast	23.3 %	23.6 %	23.4 %
Lunch	23.2 %	22.3 %	22.3 %
Dinner	28.7 %	24.9 %	24.9 %
Late night (9pm to midnight)	7.7 %	11.6 %	11.8 %
Afternoon (2pm to 5pm)	16.2 %	13.4 %	13.1 %
Overnight (midnight to 6am)	0.9 %	4.2 %	4.5 %

(1) Average annual sales for company-owned restaurants are derived by dividing restaurant sales for such year for the applicable segment by the average number of company-owned restaurants for the applicable segment for such year. For comparative purposes, the calculation of average annual sales per company-owned restaurant is based on a 52-week fiscal year. Restaurant sales data for the extra week in the fiscal year ended January 3, 2021 have been excluded for purposes of calculating average annual sales per company-owned restaurant.

Seasonality

Our business is marginally seasonal due to regional weather conditions. Sales from our restaurants located in South Florida are generally higher during the winter months than during the summer months, while sales from our restaurants located in Texas, Central Florida, and North Florida are generally higher during the summer months than the winter months. In addition, we have outdoor seating at many of our restaurants and the effects of adverse weather may impact the use of these areas and may negatively impact our restaurant sales.

Operations

Management Information Systems

Our management information systems provide us the ability to efficiently and effectively manage our restaurants and to ensure consistent application of operating controls at our restaurants.

In all corporate-owned restaurants, we use computerized management information systems, which we believe are scalable to support potential future growth plans. We use touch-screen point-of-sale (POS) systems, both fixed and mobile, designed specifically for the restaurant industry that facilitate accuracy and speed of order taking, are user-friendly, require limited cashier training, improve speed-of-service through the use of conversational order-taking techniques, and provide appropriate audit trails. We use credit card processing devices which utilize industry-leading Point to Point Encryption that protect our customer's credit card data. The POS systems are integrated with above-store enterprise applications that are designed to facilitate financial and management control of our restaurant operations. All products sold and related prices at our restaurants are programmed into the system from our central support office.

We provide in-store access to enterprise systems that assist in labor scheduling and food cost management, allow online ordering from distributors, and reduce managers' administrative time. Critical information from such systems is available in near real-time to our restaurant managers, who are expected to react quickly to trends or situations in their restaurant. Our district managers also receive near real-time information from all restaurants under their control and have access to key operating data on a remote basis. Management personnel at all levels, from the restaurant manager through senior management, utilize key restaurant performance indicators to manage our business.

These enterprise systems provide daily tracking and reporting of traffic counts, menu item sales, labor and food data including costs, and other key operating information for each restaurant. These systems also provide the ability to monitor labor utilization and sales trends on a real-time basis at each restaurant and provide analyses, reporting and tools to enable all levels of management to review a wide-range of financial, product mix and operational data.

We use an integrated digital ordering system that is integrated with our POS system at each restaurant. Individual, group or catering orders placed on our website or that of our third-party delivery partners, mobile app or through our call center are transmitted electronically to the restaurants to provide a seamless ordering, payment and pickup or delivery experience for our guests.

In 2020, we moved from legacy white-label smartphone apps for each brand to customized, proprietary apps developed in partnership with a leading third-party app developer. We also developed and deployed a curbside delivery program in order to help alleviate congestion at the drive-thru with dining rooms largely closed. In order to maintain security, compliance, and maximum performance, we rolled out new Point of Sale servers and introduced a Chromebook for managers to perform office productivity functions. We enhanced our Business Intelligence platform to create significantly more sophisticated market basket affinity analysis.

We expect to continue making substantial investments in technology that we believe will drive sales and traffic, as well as improve margins. In 2021, we intend to focus technology investments on consumer digital interactions and loyalty, best-in-class mobile POS and digital menu boards in the drive-thru channel, and maximizing performance and range of our in-store technologies dedicated to off-premise sales.

Community Social Impact

We are committed to being a deeply responsible company in the communities where we do business. Our focus is on serving high quality food to our guests and contributing positively to the communities where our restaurants are located. This is integral to our business strategy. Our initiatives include:

- Our chicken is free of hormones and trans-fats and our shrimp is Best Aquaculture certified;
- Our chicken is sourced from suppliers dedicated to uphold responsible animal welfare practices;
- We continue to pursue finding more earth-friendly serving and packaging materials for our products including bags that are made from recycled material, are 100% recyclable and reusable and are Rainforest Alliance certified, paper drink cups that are Sustainable Forest Initiative certified and aluminum that contains postindustrial re-processed and post-consumer material;
- Military veterans are actively recruited to work at our restaurants;
- We have military appreciation days and we provide discounts to military and first responders;
- We assist, through our non-profit Fiesta Family Foundation, many of our employees who have personally suffered losses or other hardships; and
- During the COVID pandemic in 2020, Pollo Tropical and Taco Cabana provided approximately 113,000 and 58,000 free meals to school-aged children, respectively, and approximately 22,000 and 13,000 free meals to first responders and healthcare professionals, respectively. Pollo Tropical also donated approximately \$60 thousand in food donations to Miami Rescue Mission. Additionally, Taco Cabana provided approximately 6,000 meals to hospitals, non-profit organizations and homeless shelters and provided a \$6 thousand turkey donation to the San Antonio Food Bank.
- In 2020, we provided monetary and food donations or volunteered to the following organizations: Fire and Police departments, hospitals and COVID testing and vaccination sites throughout Florida and Texas, Big Brother Helping Hand, Boys and Girls Clubs of Austin and San Antonio, Boysville, Child Crisis Center of El Paso, Children's Shelter of San Antonio, Farm Workers Association, Kidz Nation, La Posada Shelter, Love our Youth Orlando, Miami Rescue Mission, Our Calling, Ronald McDonald House, Salvation Army, SOS Kids - Coconut Creek, St. Jude's Shelter, Star of Hope, United Way, YMCA, and Zebra Coalition.
- In 2019, we provided monetary and food donations or volunteered to the following organizations: 88 Blessings, American Red Cross, Baytown Youth Fair and Livestock Association, Boys and Girls Club of America, The Children's Hospital of San Antonio, Dallas Fire and Police Departments, Fundación Amigos Carlos Jimenez, Holocaust Museum Houston, Houston Children's Charity, Houston Fire and Police Departments, Houston SAAFE House, Junior League of Miami, Meals on Wheels, Methodist Hospital and Healthcare San Antonio, Miami Lighthouse for the Blind, Miami Rescue Mission, National Kidney Foundation, Operation Stocking Stuffer, Parkland Buddy Sport, SAMMinistries, San Antonio Food Bank, Susan G. Komen, Voices for Children, and World Central Kitchen.
- In 2018, we provided monetary and food donations or volunteered to the following organizations: Susan G. Komen, Boys and Girls Club of America, Salvation Army, Sandra DeLucca Development Center, Juvenile Diabetes Research Foundation, Children's Hospitals of Texas, Houston Food Bank, Austin Central Texas Food Bank, El Pasoans Fighting for Hunger Food Bank, San Antonio Food Bank, San Antonio Haven for Hope and Madison on Marsh Nursing Home; we provided hundreds of hot meals to local police, FBI, first responders and local residents in need after the Parkland, Florida shooting tragedy; hundreds of hot meals were provided to first responders, victims, elderly residents and others in Texas and in Florida in the aftermath of the Hurricanes.

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

Suppliers and Distributors

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

For both our Pollo Tropical and Taco Cabana restaurants, we have service agreements with our primary distributors of food and paper products. Performance Food Group, Inc., is our primary distributor of food and beverage products and supplies for both our Pollo Tropical and Taco Cabana restaurants under a distribution services agreement that expires on July 27, 2024. We

also currently rely on five suppliers for chicken for our Pollo Tropical and Taco Cabana restaurants under agreements that expire on December 31, 2021.

Quality Assurance

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

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

Trademarks

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

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

Continued Commitment to Strong Governance

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

Government Regulation

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

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

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

Human Capital Management

As of January 3, 2021, we employed approximately 8,020 persons, of which approximately 170 were corporate and administrative personnel and approximately 7,850 were restaurant operations and other supervisory personnel. None of our employees are covered by collective bargaining agreements and we consider that overall relations with our employees are favorable.

Culture, Values & Diversity, Equity & Inclusion

At Fiesta, we are in the business of inclusive hospitality. We strive to create diverse, respectful spaces where innovation can thrive, where being courageous is rewarded, and where treating each other like family is a core value.

These qualities have supported over 30 and 40 years of successful operations for our Pollo Tropical and Taco Cabana brands, respectively. We believe that the investments we are making in our employees, our restaurants, and our communities will contribute to our continued success in the restaurant business.

As of January 3, 2021, approximately 63% of our U.S.-based employee population identified as female and approximately 89% of our U.S based employee population is comprised of racial and ethnic minorities. In addition, approximately 29% of our executive officers are female and approximately 57% are racial and ethnic minorities. Furthermore, approximately 60% of the restaurant field management of our restaurant brands identified as female and more than approximately 81% of this group is comprised of racial and ethnic minorities.

As a truly diverse organization, we foster a culture of inclusion that helps to remove some of the barriers to workplace entry and professional development that diverse groups might face. We provide opportunities for career progression through the training and development investments we make. Many of our field managers started as hourly team members and have had the opportunity to move up and become managers and supervisors at the corporate level. We believe in developing and promoting from within and in 2020 promoted over 400 employees to management or leadership roles.

We are committed to enhancing equality in ongoing career advancement for women and minorities through targeted education and development programs. Relevant initiatives include:

- Ongoing assessment and management of our talent pipeline to support the career progression of high-potential women and minorities;
- Well defined Career Path Programs for hourly employees to advance to management;
- Cultural and Compliance training for all our employees;
- Creating a Women's Forum.

Total Rewards

We believe rewarding our employees for their hard work and commitment starts with pay. We pay, on average, rates that are above the federal minimum wage. In addition to their fixed salary, restaurant and district managers are compensated with an incentive bonus, based upon the performance of the restaurants under their supervision. We understand the importance of offering our employees benefits for all aspects of their lives. Through our benefits program we hope to provide our employees with the stability they need to succeed not only in their careers, but in their personal lives as well. Benefits offered to all corporate employees, who work more than 24 hours per week include paid time-off programs including holiday; personal; vacation; family leave; and volunteer time and retirement savings plan with company match. Additionally, all employees are

eligible for assistance, through our non-profit Fiesta Family Foundation, which provides assistance to our employees who have personally suffered losses or other hardships.

Training and Development

We maintain a comprehensive training and development program for all our restaurant employees and provide both classroom and in-restaurant training for our salaried and hourly team members. Technology enhancements, expansion of leadership development curriculum and newly designed e-learning courses complement the recent introduction of a new Learning Management System platform to focus our team members on system-wide operating procedures by position, food preparation methods and guest service standards.

We have developed a comprehensive management training program, complemented by active coaching and dedicated field training manager supervision for all new managers. During the new manager onboarding process, we customize an intensive, self-paced ongoing development program designed to prepare each employee for the next level of management. The onboarding period also includes robust classroom training with an emphasis on skill and competency building.

Our Response to COVID-19

The health and well-being of our employees and guests has always been and continues to be our top priority. To ensure the health and well-being of all of our employees during the COVID-19 pandemic, we also provided the following incremental COVID-19 benefits:

- Introduced paid time off for associates required to quarantine or who faced illness due to COVID-19;
- Sponsored employer paid COVID-19 testing for employees;
- Embarked on communication plan to ensure that associates are aware of our Employee Assistance Program coverage with a focus on mental health support for employees and their families;
- Increased all hourly base wages during the second quarter of 2020 when we were most impacted by the global pandemic;
- Provided a special bonus in the second quarter of 2020 for our salaried restaurant managers;
- Provided employees with additional two hours of paid time off for each COVID-19 vaccine shot (total of 4 hours);
- Initiated a program for providing employees with the necessary tools and resources to educate themselves about the benefits of the COVID-19 vaccine to enable employees to make the best decision for themselves;
- Instituted protocols on wearing masks and gloves, conducting employee screenings and temperature checks, and implementing enhanced cleaning measures;
- Implemented work from home for each of our support centers; and
- Installed tempered glass shields at the counters.

Management Structure

We conduct substantially all of our operations, training, marketing, real estate, facilities and culinary research and development support functions from our Pollo Tropical division headquarters in Miami, Florida, and our Taco Cabana division headquarters in San Antonio, Texas. The management structure of Pollo Tropical consists of one Senior Vice President of Operations who is supported by four Regional Directors and 17 District Managers. The management structure of Taco Cabana consists of one Senior Vice President of Operations who is supported by four Regional Directors and 17 District Managers. The Pollo Tropical and Taco Cabana management structure is supported by a number of divisional and corporate executives with responsibility for operations, marketing, guest engagement, product development, purchasing, human resources, training, real estate and finance. For each of our brands, a district manager is responsible for the direct oversight of the day-to-day operations of an average of approximately eight restaurants and a regional director is responsible for an average of approximately 35 restaurants. Typically, district managers have previously served as restaurant managers at one of our restaurants or held an equivalent position to district manager at a competing restaurant concept. District managers and restaurant managers are compensated with a fixed salary plus an incentive bonus based upon the performance of the restaurants under their supervision. Typically, our restaurants are staffed with hourly employees who are supervised by a salaried restaurant or general manager and one to three salaried assistant managers and one to eight hourly shift leaders.

Our executive management functions are primarily conducted from our offices in Dallas, Texas, and Miami, Florida. Our management team is led by Richard Stockinger, who serves as our President and Chief Executive Officer, Dirk Montgomery who serves as our Senior Vice President, Chief Financial Officer and Treasurer, Louis DiPietro who serves as our Senior Vice President, Chief Legal and People Officer and Corporate Secretary, Hope Diaz who serves as our Senior Vice President and Chief Marketing Officer, Patricia Lopez Calleja who serves as our Senior Vice President and Chief Experience Officer, Eladio

"Willie" Romeo who serves as our Senior Vice President of Restaurant Operations for Pollo Tropical, and Ulyses Camacho who serves as our Senior Vice President of Operations for Taco Cabana.

Availability of Information

We file annual, quarterly and current reports and other information with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, our ability to open new restaurants and to grow, as well as our ability to meet other anticipated capital needs, may depend on our continued access to external financing, including borrowing under our senior secured revolving credit facility, which we refer to as the "senior credit facility." There can be no assurance that we will have access to the capital we need at acceptable terms or at all, which could materially adversely affect our business. In addition, our need to manage our indebtedness levels to ensure continued compliance with financial leverage ratio covenants under our new senior credit facility may reduce our ability to develop new restaurants.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Many of our competitors are expanding their use of social media and new social media platforms are rapidly being developed, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our social media strategies in order to maintain broad appeal with guests and brand relevance. As part of our

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

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

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

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

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

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

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

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

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

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

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

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

Economic downturns may adversely impact consumer spending patterns.

Our business is dependent to a significant extent on national, regional and local economic conditions, particularly those that affect our guests that frequently patronize our restaurants. In particular, where our business is subject to factors which could reduce our guests' disposable income (such as by job losses, credit constraints and higher housing, tax, utility, gas, consumer credit or other costs) or where the perceived wealth of guests has decreased (because of circumstances such as lower residential real estate values, lower investment values, increased foreclosure rates, increased tax rates, social unrest, or other economic disruptions and governmental, political and budget concerns), our restaurants have in the past experienced, and may in the future experience, lower sales and guest traffic as guests choose lower-cost alternatives or choose alternatives to dining out. The resulting decrease in our guest traffic or average sales per transaction has had an adverse effect in the past, and could in the future have a material adverse effect, on our business. In addition, a new presidential and legislative administration recently took office and it is unknown what impact any changes made by this administration or policies implemented will have on the economy or restaurant spending.

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

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

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

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

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

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

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

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

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

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

Various federal and state labor laws govern the relationship with our employees and affect operating costs. These laws include employee classification as exempt/non-exempt for overtime and other purposes, minimum wage requirements, unemployment tax rates, workers' compensation rates, immigration status and other wage and benefit requirements. In addition, states in which we operate are considering or have already adopted new immigration laws or enforcement programs, and the U.S. Congress and Department of Homeland Security from time to time consider and may implement changes to federal immigration laws, regulations or enforcement programs as well. Some of these changes may increase our obligations for

compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we require all workers to provide us with government-specified documentation evidencing their employment eligibility, some of our employees may, without our knowledge, be unauthorized workers. We currently participate in the E-Verify program, an Internet-based, free program run by the United States government to verify employment eligibility, in states in which participation is required. However, use of the E-Verify program does not guarantee that we will properly identify all applicants who are ineligible for employment. Unauthorized workers are subject to deportation and may subject us to fines or penalties, and if any of our workers are found to be unauthorized we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and keep qualified employees. Termination of a significant number of employees who were unauthorized employees may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in additional adverse publicity. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration compliance laws.

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

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

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

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

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

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

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

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

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

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

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

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

As of January 3, 2021, a total of 35 Pollo Tropical and Taco Cabana restaurants were owned and operated by our franchisees and licensees. We do not exercise control of the day-to-day operations of our franchisees and licensees and the number of franchised or licensed restaurants may increase in the future. While we attempt to ensure that franchisee-owned and licensee-owned restaurants maintain the same high operating standards as our Company-owned restaurants, one or more of these franchisees or licensees may fail to meet these standards. Any shortcomings at our franchisee-owned and licensee-owned restaurants could be attributed to our company as a whole and could adversely affect our reputation and damage our brands.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Indebtedness

Our indebtedness could adversely affect our financial condition.

As of January 3, 2021, we had \$73.3 million of outstanding indebtedness comprised of \$71.5 million of term loan borrowings, net of debt issuance costs and discounts totaling \$3.5 million, under our new senior credit facility and finance lease obligations of \$1.9 million.

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

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

- make it more difficult for us to satisfy our obligations with respect to our debt;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our indebtedness and related interest, including indebtedness we may incur in the future, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- increase our cost of borrowing;
- place us at a competitive disadvantage compared to our competitors that may have less debt; and
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes.

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

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

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

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

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

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

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

Risks Related to Our Common Stock

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

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

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

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

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

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

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

Stockholders may from time to time attempt to effect changes, engage in proxy solicitations or advance stockholder proposals. Responding to proxy contests and related actions by activist stockholders can be costly and time-consuming, disrupt our operations, and divert the attention of our management and employees away from their regular duties and the pursuit of our business strategies, which could materially and adversely affect our business, operating results and financial conditions. Perceived uncertainties as to our future direction as a result of proxy contests and related actions by activist stockholders may lead to the perception of a change in the direction of our business, instability or lack of continuity. This may affect our relationship with current or potential suppliers, vendors, and other third parties, and make it more difficult to attract and retain management employees and executives which could adversely affect our business, operating results and financial condition. Further, proxy contests and related actions by activist stockholders could cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 3, 2021, we owned or leased the following operating restaurant properties:

	Owned	Leased ⁽¹⁾	Total ⁽²⁾
Restaurants:			
Pollo Tropical	—	138	138
Taco Cabana	2	141	143
Total operating restaurants	<u>2</u>	<u>279</u>	<u>281</u>

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

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

As of January 3, 2021, we leased 100% of our Pollo Tropical restaurants and 99% of our Taco Cabana restaurants. We typically enter into leases (including renewal options) ranging from 35 to 45 years. The average remaining term for all leases for operating restaurant properties, including renewal options, was approximately 24 years as of January 3, 2021. Generally, we have been able to renew leases, upon or prior to their expiration, at the prevailing market rates, although there can be no assurance that this will continue to occur.

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

As of January 3, 2021, we had no restaurants under development, 29 closed properties subleased to third parties, 12 closed properties under contract for future sublease or assignment to third parties, 17 closed properties available for sublease, and one owned and closed restaurant property which was available for sale or lease.

In addition to the restaurant locations, we lease approximately 21,000 square feet at 14800 Landmark Boulevard, Suite 500, Dallas, Texas which houses some of our executive offices and certain of our administrative functions. We also lease approximately 19,500 square feet at 7255 Corporate Center Drive, Miami, Florida, which house some of our executive offices and administrative operations for our Pollo Tropical restaurants. Additionally, we lease approximately 10,300 square feet of office space at 1077 Central Parkway South, Suite 600, San Antonio, Texas, which houses most of our administrative operations for our Taco Cabana restaurants. In addition, we lease an office facility located at 3220 Keller Springs Road, Suite 108, Carrollton, Texas, which is subleased to a third party.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Our common stock trades on The NASDAQ Global Select Market under the symbol "FRGI". On February 26, 2021, shares of our common stock outstanding were held by 410 holders of record. This excludes persons whose shares are held by a brokerage house or clearing agency.

Dividends

We did not pay any cash dividends during 2020 or 2019. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain the majority of available funds to fund the development and growth of our business or to use for other corporate related purposes such as the repayment of borrowings under our new senior credit facility. In addition, we are a holding company and conduct all of our operations through our direct and indirect subsidiaries. As a result, for us to pay dividends, we need to rely on dividends and distributions to us from our subsidiaries. Our new senior credit facility limits—and debt instruments that we and our subsidiaries may enter into in the future may limit—our ability to pay dividends to our stockholders.

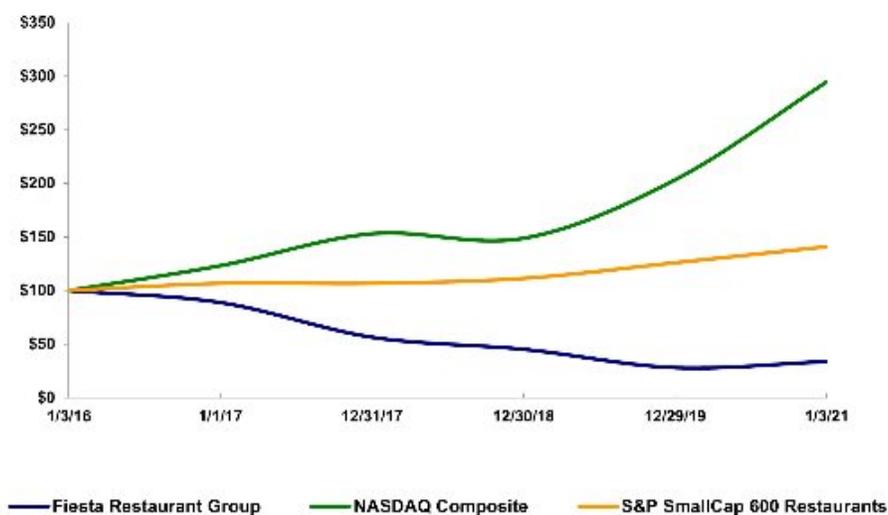
Stock Performance Graph

The following performance graph compares our cumulative total stockholder return on our common stock with the cumulative total returns of The NASDAQ Composite Index and a peer group, The S&P Small Cap 600 Restaurant Index. We have elected to use the S&P Small Cap 600 Restaurant Index in compiling our stock performance graph because we believe that index represents a comparison to competitors with similar market capitalization as us. The graph and table below assume that \$100 was invested on January 3, 2016, with dividends reinvested quarterly.

The trading price of our common stock on January 3, 2016, was \$33.60 and the closing price of our common stock on December 31, 2020, the last trading day before our fiscal year end date of January 3, 2021, was \$11.40.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Fiesta Restaurant Group, the NASDAQ Composite Index,
and S&P SmallCap 600 Restaurants



*\$100 invested on 1/3/16 in stock or index, including reinvestment of dividends.
Fiscal year ending January 3.

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Total Cumulative Shareholder Returns

	1/3/2016	1/1/2017	12/31/2017	12/30/2018	12/29/2019	1/3/2021
Fiesta Restaurant Group, Inc.	\$ 100.00	\$ 88.84	\$ 56.55	\$ 45.36	\$ 28.21	\$ 33.93
NASDAQ Composite	100.00	108.87	141.13	137.12	187.44	271.64
S&P Small Cap 600 Restaurants	100.00	106.80	106.81	111.42	126.10	141.12

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data derived from our audited consolidated financial statements for each of the years ended January 3, 2021; December 29, 2019; December 30, 2018; December 31, 2017; and January 1, 2017. The information in the following table should be read together with our audited consolidated financial statements and accompanying notes as of January 3, 2021, and December 29, 2019, and for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included under Item 7 of this Annual Report on Form 10-K. These historical results are not necessarily indicative of the results to be expected in the future. Our fiscal years ended December 29, 2019; December 30, 2018; December 31, 2017; and January 1, 2017, each contained 52 weeks. The fiscal year ended January 3, 2021, contained 53 weeks.

	Year Ended				
	January 3, 2021	December 29, 2019	December 30, 2018	December 31, 2017	January 1, 2017
(Dollars in thousands, except share and per share data)					
Statement of operations data:					
Revenues:					
Restaurant sales	\$ 552,797	\$ 658,263	\$ 685,925	\$ 666,584	\$ 708,956
Franchise royalty revenues and fees	2,006	2,680	2,672	2,548	2,814
Total revenues	<u>554,803</u>	<u>660,943</u>	<u>688,597</u>	<u>669,132</u>	<u>711,770</u>
Costs and expenses:					
Cost of sales	170,513	207,453	218,946	202,888	214,609
Restaurant wages and related expenses (including stock-based compensation expense of \$200, \$195, \$90, \$52, and \$142, respectively)	149,145	179,178	188,131	184,742	185,305
Restaurant rent expense ⁽¹⁾	45,361	47,805	36,034	36,936	37,493
Other restaurant operating expenses ⁽¹⁾	82,180	91,897	100,828	98,927	96,457
Advertising expense	14,839	23,179	23,695	26,091	26,800
General and administrative (including stock-based compensation expense of \$3,284, \$2,649, \$3,379, \$3,493, and \$3,141, respectively)	53,077	56,195	54,525	59,633	54,826
Depreciation and amortization	38,206	39,195	37,604	34,957	36,776
Pre-opening costs	69	972	1,716	2,118	5,511
Impairment and other lease charges ⁽²⁾	9,139	13,101	21,144	61,760	25,644
Goodwill impairment	—	67,909	—	—	—
Closed restaurant rent expense, net of sublease income ⁽³⁾	6,487	4,163	—	—	—
Other expense (income), net ⁽⁴⁾	(1,697)	1,041	(3,007)	2,190	1,130
Total operating expenses	<u>567,319</u>	<u>732,088</u>	<u>679,616</u>	<u>710,242</u>	<u>684,551</u>
Income (loss) from operations	(12,516)	(71,145)	8,981	(41,110)	27,219
Interest expense	4,756	3,872	3,966	2,877	2,171
Loss on extinguishment of debt	1,241	—	—	—	—
Income (loss) before income taxes	(18,513)	(75,017)	5,015	(43,987)	25,048
Provision for (benefit from) income taxes	(8,302)	9,369	(2,772)	(7,755)	8,336
Net income (loss)	<u>\$ (10,211)</u>	<u>\$ (84,386)</u>	<u>\$ 7,787</u>	<u>\$ (36,232)</u>	<u>\$ 16,712</u>
Per share data:					
Earnings (loss) per common share—basic	\$ (0.40)	\$ (3.18)	\$ 0.29	\$ (1.35)	\$ 0.62
Earnings (loss) per common share—diluted	(0.40)	(3.18)	0.29	(1.35)	0.62
Weighted average shares outstanding:					
Weighted average common shares outstanding—basic	25,341,415	26,500,356	26,890,577	26,821,471	26,682,227
Weighted average common shares outstanding—diluted	25,341,415	26,500,356	26,894,083	26,821,471	26,689,179
Other financial data:					
Net cash provided by operating activities	\$ 40,272	\$ 65,032	\$ 53,803	\$ 50,820	\$ 80,679
Net cash used for investing activities	8,412	(39,431)	(52,124)	(55,492)	(81,160)
Net cash provided by (used in) financing activities	(8,478)	(17,446)	(20)	4,075	(604)
Total capital expenditures	(18,369)	(41,247)	(57,850)	(55,866)	(82,365)

(Dollars in thousands)	Year Ended				
	January 3, 2021	December 29, 2019	December 30, 2018	December 31, 2017	January 1, 2017
Balance sheet data:					
Total assets	\$ 568,743	\$ 568,641	\$ 418,659	\$ 423,313	\$ 441,565
Working capital	19,117	(24,337)	(2,162)	(18,796)	(19,827)
Long-term debt, including current portion:					
Term loan facility	71,485	—	—	—	—
Revolving credit facility	—	75,000	78,000	75,000	69,900
Lease financing obligations	—	—	—	—	1,664
Finance and capital leases	1,858	2,035	1,744	1,523	1,612
Total long-term debt	\$ 73,343	\$ 77,035	\$ 79,744	\$ 76,523	\$ 73,176
Stockholders' equity	\$ 147,781	\$ 158,236	\$ 240,059	\$ 231,516	\$ 264,175
Operating statistics:					
Consolidated:					
Restaurant-level Adjusted EBITDA ⁽⁵⁾	\$ 90,959	\$ 108,946	\$ 118,381	\$ 117,462	\$ 148,434
Restaurant-level Adjusted EBITDA margin ⁽⁵⁾	16.5 %	16.6 %	17.3 %	17.6 %	20.9 %
Adjusted EBITDA ⁽⁵⁾	44,980	58,449	67,962	67,445	96,567
Adjusted EBITDA margin ⁽⁵⁾	8.1 %	8.8 %	9.9 %	10.1 %	13.6 %
Total company-owned restaurants (at end of period)	281	306	301	312	343
Pollo Tropical:					
Company-owned restaurants (at end of period)	138	142	139	146	177
Average number of company-owned restaurants	138.9	140.4	148.5	159.7	169.8
Revenues:					
Restaurant sales	\$ 314,112	\$ 361,693	\$ 374,381	\$ 372,328	\$ 399,736
Franchise royalty revenues and fees	1,246	1,780	1,815	1,787	2,062
Total revenues	315,358	363,473	376,196	374,115	401,798
Average annual sales per company-owned restaurant ⁽⁶⁾	2,220	2,576	2,521	2,331	2,354
Restaurant-level Adjusted EBITDA ⁽⁵⁾	61,266	77,560	82,066	78,371	90,294
Restaurant-level Adjusted EBITDA margin ⁽⁵⁾	19.5 %	21.4 %	21.9 %	21.0 %	22.6 %
Adjusted EBITDA ⁽⁵⁾	36,517	50,560	54,903	50,937	58,286
Adjusted EBITDA margin ⁽⁵⁾	11.6 %	13.9 %	14.6 %	13.6 %	14.5 %
Change in comparable company-owned restaurant sales ⁽⁷⁾	(14.7)%	(1.8)%	2.2 %	(6.5)%	(1.6)%

(Dollars in thousands)	Year Ended				
	January 3, 2021	December 29, 2019	December 30, 2018	December 31, 2017	January 1, 2017
Taco Cabana:					
Company-owned restaurants (at end of period)	143	164	162	166	166
Average number of company-owned restaurants	146.2	163.7	168.8	167.2	163.3
Revenues:					
Restaurant sales	\$ 238,685	\$ 296,570	\$ 311,544	\$ 294,256	\$ 309,220
Franchise royalty revenues and fees	760	900	857	761	752
Total revenues	239,445	297,470	312,401	295,017	309,972
Average annual sales per company-owned restaurant ⁽⁶⁾	1,605	1,812	1,846	1,760	1,894
Restaurant-level Adjusted EBITDA ⁽⁵⁾	29,693	31,386	36,315	39,091	58,140
Restaurant-level Adjusted EBITDA margin ⁽⁵⁾	12.4 %	10.6 %	11.7 %	13.3 %	18.8 %
Adjusted EBITDA ⁽⁵⁾	8,463	7,889	13,059	16,508	38,281
Adjusted EBITDA margin ⁽⁵⁾	3.5 %	2.7 %	4.2 %	5.6 %	12.3 %
Change in comparable company-owned restaurant sales ⁽⁷⁾	(14.4)%	(4.1)%	4.5 %	(7.3)%	(2.5)%

- (1) Due to the adoption of ASC 842, real estate taxes and fixed common area maintenance expenses for leased properties are included in restaurant rent expense for the years ended January 3, 2021, and December 29, 2019, and in other restaurant operating expenses for the year ended December 30, 2018, and prior years.
- (2) Impairment and other lease charges for the year ended January 3, 2021, primarily include impairment charges for three underperforming Pollo Tropical restaurants, two of which were closed in the third quarter of 2020, as well as two underperforming Taco Cabana restaurants, for which continued sales declines coupled with the impact of expected sales declines resulted in a decrease in the estimated future cash flows. Additionally, impairment charges consisted of the write-down of saucing islands and self-service soda machines that were removed from dining rooms as a result of COVID-19 and the write-down of assets held for sale to their fair value less costs to sell. Other lease charges for the year ended January 3, 2021, were primarily related to lease terminations for restaurant locations that we decided not to develop, net of a gain from lease terminations. Impairment and other lease charges for the year ended December 29, 2019, primarily include impairment charges for 19 Taco Cabana restaurants that were subsequently closed in January 2020, five of which were initially impaired in prior years, as well as previously closed Pollo Tropical restaurants and other underperforming Taco Cabana restaurants that we continue to operate. Net lease charge recoveries for the year ended December 29, 2019, were primarily related to lease terminations for previously closed restaurants. Impairment charges for the year ended December 30, 2018, primarily include impairment charges for 14 Pollo Tropical restaurants that were closed in 2018, two of which were initially impaired in 2017, nine Taco Cabana locations that were closed in 2018, one of which was initially impaired in 2017, and one Pollo Tropical and six Taco Cabana locations that we continued to operate. Other lease charges, net of recoveries, for the year ended December 30, 2018, were primarily related to restaurants that closed in 2018 and net recoveries related to restaurants and an office location that closed in prior years. Impairment charges for the year ended December 31, 2017, primarily include impairment charges for 40 Pollo Tropical restaurants that were closed in 2017, seven of which were initially impaired in 2016, six Taco Cabana restaurants that were closed in 2017, four of which were initially impaired in 2016, two Pollo Tropical restaurants and five Taco Cabana restaurants which we continued to operate and an office location that was closed in December 2017. Other lease charges, net of recoveries, for the year ended December 31, 2017, were related primarily to restaurants and an office location that were closed in 2017 as well as previously closed restaurants. Impairment and other lease charges for the year ended January 1, 2017, primarily include impairment charges for 17 Pollo Tropical restaurants that were closed in 2016 and 2017, and seven Taco Cabana restaurants, four of which were subsequently closed in 2017 and three of which we continued to operate. Other lease charges, net of recoveries, for the year ended January 1, 2017, were related to restaurants closed in 2016 as well as previously closed restaurants.
- (3) Closed restaurant rent expense, net of sublease income for the year ended January 3, 2021, primarily includes closed restaurant lease costs of \$11.8 million partially offset by sublease income of \$(5.3) million. Closed restaurant rent expense, net of sublease income for the year ended December 29, 2019, primarily includes closed restaurant lease costs of \$8.2 million partially offset by sublease income of \$(4.0) million. As a result of adopting ASC 842, lease costs related to closed restaurants are recorded as closed restaurant rent for the years ended January 3, 2021, and December 29, 2019. These costs were previously recorded as lease charges within impairment and other lease charges when a restaurant closed.
- (4) Other expense (income), net for the year ended January 3, 2021, primarily includes total gains of \$(3.8) million on the sale-leaseback of seven restaurant properties and the sale of six restaurant properties, partially offset by costs for the removal, transfer and storage of equipment from closed restaurants of \$1.5 million and the write-off of site development costs

of \$0.7 million. Other expense (income), net for the year ended December 29, 2019, primarily includes costs for the removal, transfer and storage of equipment from closed restaurants of \$0.8 million and the write-off of site development costs of \$0.1 million. Other expense (income), net for the year ended December 30, 2018, primarily includes \$(3.5) million in insurance recoveries related to the Hurricanes and total gains of \$(1.2) million on the sale of three restaurant properties, partially offset by the write-off of site development costs of \$0.6 million and severance related to the closure of restaurants and costs for the removal, transfer and storage of equipment from closed restaurants of \$1.1 million. Other expense (income), net for the year ended December 31, 2017, primarily includes \$2.1 million in costs for the removal of signs and equipment and equipment transfers and storage related to the closure of restaurants and severance for closed restaurant employees, and \$0.5 million in food donated to charitable organizations, partially offset by \$(0.4) million in additional proceeds received related to two Taco Cabana locations as a result of eminent domain proceedings, \$(0.3) million in expected insurance proceeds related to a Taco Cabana restaurant that was temporarily closed due to a fire, and \$(0.2) million in estimated insurance recoveries related to a restaurant closed due to Hurricane Harvey damage. Other expense (income), net for the year ended January 1, 2017, includes costs for the removal of signs and equipment related to the closure of 10 Pollo Tropical restaurants in the fourth quarter of 2016 partially offset by additional proceeds related to a location that closed in 2015 as a result of an eminent domain proceeding.

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

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

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

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

(Dollars in thousands)	Year Ended				
	January 3, 2021	December 29, 2019	December 30, 2018	December 31, 2017	January 1, 2017
Net income (loss)	\$ (10,211)	\$ (84,386)	\$ 7,787	\$ (36,232)	\$ 16,712
Provision for (benefit from) income taxes	(8,302)	9,369	(2,772)	(7,755)	8,336
Income (loss) before taxes	(18,513)	(75,017)	5,015	(43,987)	25,048
Add:					
Non-general and administrative expense adjustments:					
Depreciation and amortization	38,206	39,195	37,604	34,957	36,776
Impairment and other lease charges	9,139	13,101	21,144	61,760	25,644
Goodwill impairment	—	67,909	—	—	—
Interest expense	4,756	3,872	3,966	2,877	2,171
Closed restaurant rent expense, net of sublease income	6,487	4,163	—	—	—
Loss on extinguishment of debt	1,241	—	—	—	—
Other expense (income), net	(1,697)	1,041	(3,007)	2,190	1,130
Stock-based compensation expense in restaurant wages	200	195	90	52	142
Unused pre-production costs in advertising expense ^(a)	—	—	—	410	—
Total non-general and administrative expense adjustments	58,332	129,476	59,797	102,246	65,863
General and administrative expense adjustments:					
Stock-based compensation expense	3,284	2,649	3,379	3,493	3,141
Terminated capital project ^(b)	—	—	—	849	—
Board and shareholder matter costs ^(c)	—	—	(597)	3,049	1,580
Restructuring costs and retention bonuses ^(d)	1,107	964	545	2,420	86
Office restructuring and relocation costs ^(e)	—	—	—	(152)	539
Legal settlements and related costs ^(f)	—	—	(177)	(473)	310
Digital and brand repositioning costs ^(g)	770	377	—	—	—
Total general and administrative expense adjustments	5,161	3,990	3,150	9,186	5,656
Consolidated Adjusted EBITDA	44,980	58,449	67,962	67,445	96,567
Add:					
Pre-opening costs	69	972	1,716	2,118	5,511
General and administrative ^(h)	47,916	52,205	51,375	50,447	49,170
Less:					
Franchise royalty revenue and fees	2,006	2,680	2,672	2,548	2,814
Restaurant-level Adjusted EBITDA:					
Pollo Tropical	\$ 61,266	\$ 77,560	\$ 82,066	\$ 78,371	\$ 90,294
Taco Cabana	29,693	31,386	36,315	39,091	58,140
Consolidated	90,959	108,946	118,381	117,462	148,434

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

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

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

(d) Restructuring costs and retention bonuses for the year ended January 3, 2021, include severance costs related to terminations in response to the COVID-19 pandemic. Restructuring costs and retention bonuses for the years ended December 29, 2019, and January 1, 2017, include severance related to eliminated positions. Restructuring costs and retention bonuses for the years ended December 30, 2018, and December 31, 2017, include severance related to the Strategic Renewal Plan and reduction in force and bonuses paid to certain employees for retention purposes.

(e) Office restructuring and relocation costs for the years ended December 31, 2017, and January 1, 2017, include severance and relocation adjustments and costs associated with the prior-year restructuring of Pollo Tropical brand and corporate offices.

(f) Legal settlements and related costs for the year ended December 30, 2018, include reductions to final settlement amounts related to litigation matters. Legal settlements and related costs for the years ended December 31, 2017, and January 1, 2017, include benefits or costs related to litigation matters.

(g) Digital and brand repositioning costs for the years ended January 3, 2021, and December 29, 2019, include consulting costs related to repositioning the digital experience for our customers.

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

- (6) Average annual sales per company-owned restaurant are derived by dividing restaurant sales for the applicable segment by the average number of company-owned and operated restaurants. For comparative purposes, the calculation of average annual sales per company-owned restaurant is based on a 52-week fiscal year. Restaurant sales data for the extra week in the fiscal year ended January 3, 2021, have been excluded for purposes of calculating average annual sales per company-owned restaurant.
- (7) Restaurants are included in comparable restaurant sales after they have been open for 18 months. Restaurants are excluded from comparable restaurant sales for any fiscal month in which the restaurant was closed for more than five days. Comparable restaurant sales are compared to the same period in the prior year. For comparative purposes, the calculation of the changes in comparable restaurant sales is based on a 52-week fiscal year. Restaurant sales for the extra week in the fiscal year ended January 3, 2021, have been excluded for purposes of calculating the change in comparable company-owned restaurant sales.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes. Any reference to restaurants refers to company-owned restaurants unless otherwise indicated.

We use a 52- or 53-week fiscal year ending on the Sunday closest to December 31. The fiscal years ended December 29, 2019; December 30, 2018; December 31, 2017; and January 1, 2017, each contained 52 weeks. The fiscal year ended January 3, 2021 contained 53 weeks. The next fiscal year to contain 53 weeks will be the fiscal year ending January 3, 2027.

Company Overview

We own, operate and franchise two restaurant brands, Pollo Tropical® and Taco Cabana®, which have over 30 and 40 years, respectively, of operating history and loyal customer bases. Our Pollo Tropical restaurants feature fire-grilled and crispy citrus marinated chicken and other freshly prepared menu items, while our Taco Cabana restaurants specialize in Mexican-inspired food with most items made fresh. 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 January 3, 2021, our restaurants included 138 Pollo Tropical restaurants in Florida and 143 Taco Cabana restaurants in Texas for a total of 281 restaurants.

We franchise our Pollo Tropical restaurants primarily in international markets, and as of January 3, 2021, we had 23 franchised Pollo Tropical restaurants located in Puerto Rico, Panama, Guyana, Ecuador, and the Bahamas, and five on college campuses and one at a hospital in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets.

As of January 3, 2021, we had six franchised Taco Cabana restaurants located in New Mexico.

Events Affecting Our Results of Operations

COVID-19 Pandemic

The novel coronavirus (COVID-19) pandemic has affected and is continuing to affect the restaurant industry and the economy. In response to COVID-19 and in compliance with governmental restrictions, we closed the dining room seating areas in all Pollo Tropical and Taco Cabana restaurants, limiting service to take-out, drive-thru, and delivery operations beginning in mid-March 2020. We also temporarily closed three Pollo Tropical locations due to the impact of the restrictions on sales, one of which was reopened during the second quarter of 2020 and two of which were subsequently permanently closed in August 2020. We began opening certain dining rooms at 50% capacity with the easing of municipality restrictions during the second quarter of 2020; however, we temporarily closed all dining rooms on July 12, 2020, in response to increased COVID-19 infection rates in both Texas and Florida. We began re-opening certain dining rooms and patios with limited capacity and hours at both brands and the state of Florida removed restaurant capacity restrictions at the end of September 2020. We opened approximately 25 dining rooms with limited hours and capacity at both brands and opened approximately 75 patios at Taco Cabana in the fourth quarter of 2020. We are evaluating opening additional dining rooms with limited hours at Pollo Tropical and Taco Cabana. Comparable restaurant sales at both Pollo Tropical and Taco Cabana restaurants declined in 2020 compared to the prior year as a result of the pandemic. However, both brands experienced sequential comparable restaurant sales improvement in the third and fourth quarters of 2020 compared to the second quarter of 2020.

As we continue to prioritize the well-being of our team members and guests during this pandemic, we believe we are also creating a better business model that is easier and safer for our consumers. We currently do not expect sales trends to significantly deteriorate further, although there can be no assurance that sales trends will not deteriorate further, and we have implemented measures to control costs. We have also implemented a number of changes to maximize sales, maintain service, and improve liquidity:

- We have adjusted our operating model to better meet our customers' needs during the COVID-19 crisis. We have also adjusted staffing models to match shifting traffic and channel patterns of our guests and to improve efficiency.
- We are maximizing off-premise sales opportunities. We significantly increased the number of delivery service providers that offer our brands during the first quarter of 2020, modified our menus, and worked with a third party to

enhance our online ordering and mobile apps including curbside pickup features. We launched curbside pickup for both brands in July 2020.

- We reduced our 2020 capital expenditures to \$18.4 million as compared to \$41.2 million in 2019.
- We terminated or furloughed and subsequently terminated approximately 55 support personnel positions representing annualized general and administrative savings of approximately \$4.1 million. Additionally, the salaries for all vice-presidents and executives were reduced by 10% to 35% for the second quarter of 2020.
- We sold six restaurant properties and completed seven sale-leaseback transactions in 2020. We have completed one sale-leaseback transaction in the first quarter of 2021 through March 4, 2021, and currently have offers or contracts in place for the sale or sale-leaseback of our two remaining owned properties, although there can be no assurance that any such sale will be consummated. Net proceeds from the transactions that occurred prior to November 23, 2020, were used to reduce the outstanding revolving credit borrowings and availability under our former amended senior credit facility (as defined below).
- We repaid and terminated our former amended senior credit facility and entered into a new senior credit facility with a five-year maturity and a minimum liquidity covenant (as defined in the new senior credit facility) until January 3, 2022, which we believe provides us with more flexibility.

We incurred additional costs related to the COVID-19 pandemic totaling an estimated \$4.3 million during the year ended January 3, 2021, including additional labor costs such as COVID-19 special incentive pay, quarantine pay and overtime to cover for employees in quarantine, as well as COVID-19 testing costs and additional operating expenses for safety related supplies including masks, cleaning supplies and sanitizer. Although we discontinued COVID-19 special incentive pay after the second quarter of 2020, we expect many of the other COVID-19 related costs to continue during the pandemic.

Restaurant Closures

As a result of restaurant portfolio reviews, we closed 19 underperforming Taco Cabana restaurants in January 2020, all of which were impaired in prior years. Additionally, we closed one Pollo Tropical restaurant as a result of landlord redevelopment that was not compatible with our use in the first quarter of 2020, two underperforming Pollo Tropical restaurants in the third quarter of 2020, and one Taco Cabana restaurant at the end of its lease term in the fourth quarter of 2020. In addition, we closed and sold one owned Pollo Tropical restaurant and two owned Taco Cabana restaurants in the third and fourth quarters of 2020 to generate additional cash to reduce our outstanding borrowings under our former amended senior credit facility.

New Senior Credit Facility

On November 23, 2020, we entered into a new senior secured credit agreement (the "new senior credit facility") that provides for a term loan of \$75.0 million and a revolving credit facility of \$10.0 million. The new senior credit facility matures on November 23, 2025. We borrowed \$75.0 million in term loan borrowings subject to a 2.0% original issue discount on November 23, 2020, and the revolving credit facility is undrawn as of January 3, 2021. Revolving credit borrowings under our former amended senior credit facility were fully repaid using proceeds from the term loan borrowings. See Note 8 to our consolidated financial statements and Senior Credit Facility under Liquidity and Capital Resources in this MD&A for a further discussion.

Executive Summary—Consolidated Operating Performance for the Year Ended January 3, 2021

Our fiscal year 2020 results include the following:

- We recognized a net loss of \$(10.2) million in 2020, or \$(0.40) per diluted share, compared to a net loss of \$(84.4) million, or \$(3.18) per diluted share in 2019, due in part to a \$67.9 million goodwill impairment charge for the Taco Cabana reporting unit and a \$13.5 million charge to establish a valuation allowance on our deferred income tax assets in 2019, as well as an income tax benefit in 2020 related to adjusting our deferred tax asset valuation allowance and reclassifying certain assets as qualified improvement property and other changes to depreciation methods for certain assets in conjunction with filing our 2019 federal income tax return in 2020. Lower advertising and repair and maintenance expense in 2020 and the extra week in our 2020 fiscal year contributed to the reduction in net loss in 2020, partially offset by the impact of declines in comparable restaurant sales at both brands in 2020, higher delivery fees in 2020, and additional costs related to the COVID-19 pandemic. In addition, gains from the sale-leaseback and sale of property, lower general and administrative expenses and other impairment charges, as well as favorable operating and labor efficiencies at both brands in 2020, positively contributed to the reduction of the net loss in 2020.
- Total revenues decreased 16.1% in 2020 to \$554.8 million from \$660.9 million in 2019, driven primarily by a decrease in comparable restaurant sales at both brands (including as a result of the impact of COVID-19), and the impact of closing 19 underperforming Taco Cabana restaurants in the first quarter of 2020, partially offset by the extra week in our 2020 fiscal year. Comparable restaurant sales decreased 14.7% for our Pollo Tropical restaurants resulting from a decrease in comparable restaurant transactions of 22.1% and an increase in the net impact of product/channel mix and pricing of 7.4%. Comparable restaurant sales decreased 14.4% for our Taco Cabana restaurants resulting from a decrease in comparable restaurant transactions of 22.1% and an increase in the net impact of product/channel mix and pricing of 7.7%.
- Consolidated Adjusted EBITDA decreased \$13.5 million for the twelve months ended January 3, 2021, to \$45.0 million compared to \$58.4 million for the twelve months ended December 29, 2019, driven primarily by the impact of lower restaurant sales and higher delivery fee expense and additional costs related to the COVID-19 pandemic in 2020, partially offset by lower advertising and general and administrative expenses, favorable operating and labor efficiencies, the impact of the closure of unprofitable restaurants in the first quarter of 2020, and the additional week in 2020. Consolidated Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Consolidated Adjusted EBITDA and a reconciliation from net income (loss) to Consolidated Adjusted EBITDA, see "Management's Use of Non-GAAP Financial Measures."
- The COVID-19 pandemic had the largest impact on our first and second quarters. Comparable restaurant sales improved sequentially in the third and fourth quarters. In addition, we made changes that resulted in improved Restaurant-level Adjusted EBITDA margins in the third and fourth quarters of 2020 compared to the same periods in the prior year. Restaurant-level Adjusted EBITDA is a non-GAAP financial measure. For a discussion of our use of Restaurant-level Adjusted EBITDA and a reconciliation from net income (loss) to Restaurant-level Adjusted EBITDA, see "Management's Use of Non-GAAP Financial Measures."

Results of Operations

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

	2020			2019			2018		
	Owned	Franchised	Total	Owned	Franchised	Total	Owned	Franchised	Total
Pollo Tropical:									
Beginning of year	142	32	174	139	30	169	146	31	177
New	—	2	2	3	2	5	7	—	7
Closed	(4)	(5)	(9)	—	—	—	(14)	(1)	(15)
End of year	138	29	167	142	32	174	139	30	169
Taco Cabana:									
Beginning of year	164	8	172	162	8	170	166	7	173
New	1	—	1	3	—	3	7	1	8
Closed	(22)	(2)	(24)	(1)	—	(1)	(11)	—	(11)
End of year	143	6	149	164	8	172	162	8	170

The following table sets forth, for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, selected consolidated operating results as a percentage of consolidated restaurant sales and selected segment operating results as a percentage of applicable segment restaurant sales:

	Year Ended								
	January 3, 2021	December 29, 2019	December 30, 2018	January 3, 2021	December 29, 2019	December 30, 2018	January 3, 2021	December 29, 2019	December 30, 2018
	Pollo Tropical			Taco Cabana			Consolidated		
Restaurant sales:									
Pollo Tropical							56.82 %	54.95 %	54.58 %
Taco Cabana							43.18 %	45.05 %	45.42 %
Consolidated restaurant sales							100.0 %	100.0 %	100.0 %
Costs and expenses:									
Cost of sales	31.9 %	31.8 %	32.9 %	29.5 %	31.1 %	30.8 %	30.8 %	31.5 %	31.9 %
Restaurant wages and related expenses	23.7 %	23.5 %	23.2 %	31.3 %	31.8 %	32.5 %	27.0 %	27.2 %	27.4 %
Restaurant rent expense	7.2 %	6.1 %	4.7 %	9.5 %	8.7 %	6.0 %	8.2 %	7.3 %	5.3 %
Other restaurant operating expenses	15.1 %	13.8 %	13.8 %	14.6 %	14.2 %	15.8 %	14.9 %	14.0 %	14.7 %
Advertising expense	2.7 %	3.4 %	3.5 %	2.7 %	3.6 %	3.4 %	2.7 %	3.5 %	3.5 %
Pre-opening costs	— %	0.1 %	0.2 %	— %	0.2 %	0.3 %	— %	0.1 %	0.3 %

Consolidated Revenues. Revenues include restaurant sales and franchise royalty revenues and fees. Restaurant sales consist of food and beverage sales, net of discounts, at our restaurants. Franchise royalty revenues and fees represent ongoing royalty payments that are determined based on a percentage of franchisee sales 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 16.1% to \$554.8 million in 2020 from \$660.9 million in 2019, while the 2019 total revenues represent a decrease of 4.0% from \$688.6 million in 2018. Restaurant sales decreased 16.0% to \$552.8 million in 2020 from \$658.3 million in 2019, while 2019 restaurant sales represent a decrease of 4.0% from \$685.9 million in 2018.

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

	2020 vs. 2019	2019 vs. 2018
Pollo Tropical:		
Decrease in comparable restaurant sales	\$ (51.7)	\$ (6.3)
Decrease in sales related to closed restaurants, net of new restaurants and other	(1.7)	(6.4)
Additional week in 2020	5.8	—
Total decrease	<u>\$ (47.6)</u>	<u>\$ (12.7)</u>
Taco Cabana:		
Decrease in comparable restaurant sales	\$ (38.5)	\$ (12.0)
Decrease in sales related to closed restaurants, net of new restaurants and other	(23.5)	(3.0)
Additional week in 2020	4.1	—
Total decrease	<u>\$ (57.9)</u>	<u>\$ (15.0)</u>

Restaurants are included in comparable restaurant sales after they have been open for 18 months. Restaurants are excluded from comparable restaurant sales for any fiscal month in which the restaurant was closed for more than five days. Comparable restaurant sales are compared to the same period in the prior year. For comparative purposes, the calculation of the changes in comparable restaurant sales is based on a 52-week fiscal year. Restaurant sales for the extra week in the fiscal year ended January 3, 2021 have been excluded for purposes of calculating the change in comparable company-owned restaurant sales. Comparable restaurant sales in 2020 for both brands were negatively impacted by COVID-19. However, both brands experienced sequential comparable restaurant sales improvement in the third and fourth quarters of 2020 compared to comparable restaurant sales in the second quarter of 2020. We believe our significant mix of dine-in sales prior to the pandemic had a negative impact on comparable restaurant sales.

Comparable restaurant sales decreased 14.7% and 14.4% for Pollo Tropical and Taco Cabana restaurants, respectively, in 2020. Increases or decreases in comparable restaurant sales result primarily from an increase or decrease in comparable restaurant transactions and in average check. Changes in average check are primarily driven by changes in sales channel and sales mix, and to a lesser extent, menu price increases net of discounts and promotions.

For Pollo Tropical, a decrease in comparable restaurant transactions of 22.1% was partially offset by an increase in the net impact of product/channel mix and pricing of 7.4% in 2020 compared to 2019. The increase in product/channel mix and pricing was driven primarily by increases in delivery and drive-thru average check and sales channel penetration, and menu price increases of 0.4%.

For Taco Cabana, a decrease in comparable restaurant transactions of 22.1% was partially offset by an increase in the net impact of product/channel mix and pricing of 7.7% in 2020 compared to 2019. The increase in product/channel mix and pricing was driven primarily by increases in drive-thru and delivery sales channel penetration and growth in average check for drive-thru compared to last year due in part to an increase in transactions that include alcohol and menu price increases of 0.9%.

Comparable restaurant sales decreased 1.8% and 4.1% for Pollo Tropical and Taco Cabana restaurants, respectively, in 2019.

For Pollo Tropical, a decrease in comparable restaurant transactions of 2.4% was partially offset by an increase in average check of 0.6% in 2019 compared to 2018. The increase in average check was driven primarily by menu price increases of 1.6%, 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 0.9% in 2019 compared to 2018. In addition, we estimate that Hurricane Dorian negatively impacted comparable restaurant sales for Pollo Tropical by approximately 0.4%.

For Taco Cabana, a decrease in comparable restaurant transactions of 5.7% was partially offset by an increase in average check of 1.6% in 2019 compared to 2018. The increase in average check was driven primarily by menu price increases of 2.0% and the introduction of higher priced shareables in 2019 partially offset by sales mix. We simplified the Taco Cabana menu in the fourth quarter of 2019 to improve execution. The menu simplification efforts included removal of certain menu items and limited other items to certain dayparts. While the menu simplification improved guest satisfaction and reduced order cycle times, the reduced menu resulted in a greater than anticipated transaction decline. We re-introduced select items to the menu.

and expanded dayparts in the first quarter of 2020 to increase sales while maintaining the operational improvements provided by the menu simplification.

Franchise revenues decreased \$0.7 million to \$2.0 million in 2020 compared to 2019 due to lower sales at franchised restaurants as a result of COVID-19. Franchise revenues remained flat in 2019 compared to 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 changes in costs for health insurance, workers' compensation insurance and state unemployment insurance.

Other restaurant operating expenses include all other restaurant-level operating costs, the major components of which are utilities, repairs and maintenance, general liability insurance, sanitation, supplies and credit card and delivery fees. In addition, for periods prior to fiscal 2019, 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. All percentages are stated as a percentage of applicable segment restaurant sales.

	2020 vs. 2019	2019 vs. 2018
Pollo Tropical:		
Cost of sales ⁽¹⁾ :		
Sales mix	0.8 %	1.1 %
Lower rebates and discounts from suppliers	0.3 %	— %
Menu offering improvement and impact of commodity costs	0.1 %	(1.5)%
Operating efficiencies	(1.0)%	(0.6)%
Higher (lower) promotions and discounts	(0.2)%	0.4 %
Menu price increases	(0.2)%	(0.5)%
Other ⁽²⁾	0.3 %	— %
Net increase (decrease) in cost of sales as a percentage of restaurant sales	<u>0.1 %</u>	<u>(1.1)%</u>
Restaurant wages and related expenses:		
Higher labor costs due to COVID-19 ⁽³⁾	0.5 %	— %
Higher labor costs for comparable restaurants ⁽¹⁾⁽⁴⁾	— %	0.7 %
Lower labor costs due to labor efficiencies	(0.3)%	— %
Lower labor costs due to restaurant closures, net of new restaurants	— %	(0.5)%
Other	— %	0.1 %
Net increase in restaurant wages and related expenses as a percentage of restaurant sales	<u>0.2 %</u>	<u>0.3 %</u>
Other operating expenses:		
Higher delivery fees	1.5 %	0.4 %
Lower repairs and maintenance costs	(0.3)%	— %
Contracted cleaning services	— %	0.5 %
Real estate tax classification ⁽⁵⁾	— %	(1.0)%
Other	0.1 %	0.1 %
Net change in other restaurant operating expenses as a percentage of restaurant sales	<u>1.3 %</u>	<u>— %</u>
Advertising expense:		
Reduced advertising	(0.7)%	(0.1)%
Net decrease in advertising expense as a percentage of restaurant sales	<u>(0.7)%</u>	<u>(0.1)%</u>
Pre-opening costs:		
Decrease in number of restaurant openings	(0.1)%	(0.1)%
Net decrease in pre-opening costs as a percentage of restaurant sales	<u>(0.1)%</u>	<u>(0.1)%</u>

(1) Includes costs related to the Strategic Renewal Plan (the "Plan") in 2018.

(2) Other consists of any other driver with an impact of less than 20 basis points.

(3) Primarily includes the impact of COVID-19 related special incentive pay and quarantine pay, which is partially offset (0.1%) by lower incentive bonus resulting from the special incentive pay.

(4) Includes the impact of higher wage rates and overtime due to labor shortages in 2019.

(5) Due to the adoption of ASC 842, real estate taxes are included in rent expense in 2020 and 2019 and in other operating expenses in 2018.

	2020 vs. 2019	2019 vs. 2018
Taco Cabana:		
Cost of sales ⁽¹⁾ :		
Menu offering improvement and higher (lower) commodity costs	(1.5)%	1.0 %
Operating efficiencies	(0.7)%	— %
Higher (lower) promotions and discounts	(0.5)%	0.5 %
Menu price increases	(0.3)%	(0.6)%
Sales mix	1.1 %	(0.5)%
Lower rebates and discounts from suppliers	0.3 %	— %
Other	— %	(0.1)%
Net increase (decrease) in cost of sales as a percentage of restaurant sales	<u>(1.6)%</u>	<u>0.3 %</u>
Restaurant wages and related expenses:		
Lower labor costs due to labor efficiencies	(1.4)%	(0.2)%
Higher labor costs due to COVID-19 ⁽²⁾	0.7 %	— %
Higher (lower) incentive bonus costs	0.2 %	(0.4)%
Other	— %	(0.1)%
Net decrease in restaurant wages and related expenses as a percentage of restaurant sales	<u>(0.5)%</u>	<u>(0.7)%</u>
Other operating expenses:		
Higher delivery fees	0.9 %	0.2 %
Higher (lower) repairs and maintenance	(0.4)%	0.3 %
Real estate tax classification ⁽³⁾	— %	(1.7)%
Lower security costs	(0.1)%	(0.2)%
Other	— %	(0.2)%
Net increase (decrease) in other restaurant operating expenses as a percentage of restaurant sales	<u>0.4 %</u>	<u>(1.6)%</u>
Advertising expense:		
Increased (reduced) advertising	(0.9)%	0.2 %
Net increase (decrease) in advertising expense as a percentage of restaurant sales	<u>(0.9)%</u>	<u>0.2 %</u>
Pre-opening costs:		
Decrease in number of restaurant openings	(0.2)%	(0.1)%
Net decrease in pre-opening costs as a percentage of restaurant sales	<u>(0.2)%</u>	<u>(0.1)%</u>

(1) Includes costs related to the Plan in 2018.

(2) Primarily includes the impact of COVID-19 related special incentive pay and quarantine pay, which is partially offset (0.1%) by lower incentive bonus resulting from the special incentive pay.

(3) Due to the adoption of ASC 842, real estate taxes are included in rent expense in 2020 and 2019 and in other operating expenses in 2018.

Consolidated Restaurant Rent Expense. Beginning in fiscal 2019, 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 at the beginning of fiscal 2019, 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 8.2% in 2020 from 7.3% in 2019, due primarily to the impact of lower comparable restaurant sales. Restaurant rent expense, as a percentage of total restaurant sales, was 7.3% in 2019 compared to 5.3% in 2018, due primarily to a \$3.3 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, corporate system costs, and stock-based compensation expense.

General and administrative expenses decreased to \$53.1 million in 2020 from \$56.2 million in 2019, and as a percentage of total revenues, were 9.6% in 2020 and 8.5% in 2019 due primarily to the impact of lower total revenues partially offset by lower management support costs primarily as a result of headcount reductions in the second quarter of 2020, reduced travel and other cost savings initiatives. General and administrative expenses in 2020 also included \$1.1 million related to severance costs associated with positions eliminated in response to the COVID-19 pandemic, \$0.8 million related to digital and brand repositioning costs, and \$0.1 million related to search fees for senior executive positions. General and administrative expense in 2019 included \$1.0 million related to restructuring costs due to eliminated or relocated positions, \$0.4 million related to digital and brand repositioning costs and \$0.5 million related to search fees for senior executive positions.

General and administrative expenses increased to \$56.2 million in 2019 from \$54.5 million in 2018, and as a percentage of total revenues, were 8.5% in 2019 and 7.9% in 2018 due primarily to the impact of lower total revenues on higher general and administrative expenses including investments in off-premise support in 2019. General and administrative expense in 2019 also included \$1.0 million related to restructuring costs due to eliminated or relocated positions, \$0.4 million related to digital and brand repositioning costs and \$0.5 million related to search fees for senior executive positions. General and administrative expenses in 2018 included \$0.5 million related to the Strategic Renewal Plan restructuring costs and retention bonuses, \$0.4 million related to discontinuing certain services, \$1.0 million related to system implementation and project-oriented advisory services and \$1.0 million related to severance costs and executive and board member searches, partially offset by the benefit of fee reductions and final insurance recoveries totaling \$0.6 million related to 2017 shareholder activism matters and reductions to final settlement amounts related to a litigation matter of \$0.2 million.

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, development, and other administrative functions. Consolidated Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and Consolidated Adjusted EBITDA and a reconciliation from net income (loss) to Consolidated Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Adjusted EBITDA for Pollo Tropical restaurants decreased to \$36.5 million, or 11.6% of total revenues, in 2020 from \$50.6 million, or 13.9% of total revenues, in 2019 due primarily to the impact of lower restaurant sales, including the impact of COVID-19, higher delivery fee expense, and additional costs related to the COVID-19 pandemic, partially offset by lower advertising expense, labor costs as a percentage of restaurant sales due to labor efficiencies, certain other operating expenses, and general and administrative expenses. Adjusted EBITDA for our Taco Cabana restaurants increased to \$8.5 million, or 3.5% of total revenues, in 2020 from \$7.9 million, or 2.7% of total revenues, in 2019 due primarily to lower cost of sales as a percentage of restaurant sales, advertising expenses, certain other operating expenses, labor costs as a percentage of restaurant sales due to labor efficiencies, the impact of the closure of unprofitable restaurants in the first quarter of 2020 and lower general and administrative expenses, partially offset by the impact of lower restaurant sales, including the impact of COVID-19, higher delivery fee expense and additional costs related to the COVID-19 pandemic. In addition, we estimate the additional week of sales in our fiscal 2020 had a \$1.7 million and \$1.2 million favorable impact on Adjusted EBITDA for Pollo Tropical and Taco Cabana, respectively, in 2020.

Adjusted EBITDA for Pollo Tropical restaurants decreased to \$50.6 million (which includes the negative impact of a \$1.5 million increase in rent expense as a result of adopting ASC 842 and the estimated negative impact of Hurricane Dorian of \$0.6 million), or 13.9% of total revenues, in 2019 from \$54.9 million, or 14.6% of total revenues, in 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 our Taco Cabana restaurants decreased to \$7.9 million (which includes the negative impact of a \$1.9 million increase in rent expense as a result of adopting ASC 842), or 2.7% of total revenues, in 2019 from \$13.1 million, or 4.2% of total revenues, in 2018 due primarily to the impact of lower restaurant sales and higher rent expense, cost of sales as a percentage of restaurant sales, delivery fees, and general and administrative expenses, partially offset by lower restaurant wages and related expenses as a percentage of restaurant sales.

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

Restaurant-level Adjusted EBITDA for Pollo Tropical was \$61.3 million (19.5% of restaurant sales), \$77.6 million (which includes the negative impact of a \$1.5 million increase in rent expense as a result of adopting ASC 842 and the estimated negative impact of Hurricane Dorian of \$0.6 million) (21.4% of restaurant sales), and \$82.1 million (21.9% of restaurant sales) in 2020, 2019, and 2018, respectively. Restaurant-level Adjusted EBITDA for Taco Cabana was \$29.7 million (12.4% of restaurant sales), \$31.4 million (which includes the negative impact of a \$1.9 million increase in rent expense as a result of adopting ASC 842) (10.6% of restaurant sales), and \$36.3 million (11.7% of restaurant sales) in 2020, 2019, and 2018, respectively. The changes in Restaurant-level Adjusted EBITDA were primarily due to the foregoing. In addition, we estimate the additional week of sales in our fiscal 2020 had a \$2.0 million and \$1.4 million favorable impact on Restaurant-level Adjusted EBITDA for Pollo Tropical and Taco Cabana, respectively, in 2020. For a reconciliation from Adjusted EBITDA to Restaurant-level Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures."

Depreciation and Amortization. Depreciation and amortization expense decreased to \$38.2 million in 2020 from \$39.2 million in 2019 due primarily to decreased depreciation as a result of impairing closed restaurant assets, partially offset by an increase in depreciation related to new restaurant openings and ongoing reinvestment and enhancements to our restaurants. Depreciation and amortization expense increased to \$39.2 million in 2019 from \$37.6 million in 2018 primarily as a result of increased depreciation related to new restaurant openings and ongoing reinvestment and enhancements to our restaurants, partially offset by a decrease in depreciation as a result of impairing closed restaurant assets.

Impairment and Other Lease Charges. Impairment and other lease charges decreased to \$9.1 million in 2020 from \$13.1 million in 2019.

Impairment and other lease charges in 2020 for Pollo Tropical include impairment charges of \$7.3 million related primarily to the impairment of assets from three underperforming Pollo Tropical restaurants, two of which we closed in the third quarter of 2020, the write-down of saucing islands and self-service soda machines that are being removed from dining rooms as a result of COVID-19, and the write-down of assets held for sale to their fair value less costs to sell, and lease termination charges of \$0.9 million for restaurant locations we decided not to develop, net of a gain from lease terminations of \$(0.2) million. Impairment and other lease charges in 2020 for Taco Cabana include impairment charges of \$1.1 million related primarily to the write-down of assets held for sale to their fair value less costs to sell and the impairment of assets for two underperforming Taco Cabana restaurants that we continue to operate, and two offsetting lease terminations.

Impairment and other lease charges decreased to \$13.1 million in 2019 from \$21.1 million in 2018. Impairment and other lease charges in 2019 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$0.8 million and \$13.2 million, respectively, and net lease charge recoveries for Pollo Tropical and Taco Cabana restaurants of \$(0.8) million and \$(0.1) million, respectively. Impairment charges in 2019 also included right-of-use assets and were related primarily to 19 Taco Cabana restaurants that were subsequently closed in January 2020, five of which were initially impaired in prior years, as well as previously closed Pollo Tropical restaurants and other underperforming Taco Cabana restaurants that we continued to operate, while the net lease charge recoveries were related primarily to lease terminations for previously closed restaurants.

Impairment and other lease charges in 2018 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$13.1 million and \$6.0 million, respectively, and lease and other charges for Pollo Tropical and Taco Cabana restaurants (as well as a Taco Cabana office location) of \$0.5 million and \$1.6 million, respectively, net of recoveries. Impairment charges in 2018 were related primarily to 14 Pollo Tropical restaurants that were closed in 2018, two of which were initially impaired in 2017, nine Taco Cabana restaurants that were closed in 2018, one of which was initially impaired in 2017, two Taco Cabana restaurants that were closed in 2020, and one Pollo Tropical restaurant and four Taco Cabana restaurants that we continued to operate. Other lease charges, net of recoveries, in 2018 were related primarily to restaurants and an office location that were closed in 2018 as well as previously closed restaurants.

Each quarter we assess the potential impairment of any long-lived assets that have experienced a triggering event, including restaurants for which the related trailing twelve-month cash flows are below a certain threshold. We determine if there is

impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets, exclusive of operating lease payments, to their respective carrying values, excluding operating lease liabilities. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset group's carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, and for right-of-use lease assets, current market lease rent and discount rates, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material. Due to the uncertainty associated with the unprecedented nature of the COVID-19 pandemic and the impact it will continue to have on restaurant operations and future cash flows, it is reasonably possible that the estimates of future cash flows used in impairment assessments will change in the near term and the effect of the change could be material. Our current estimates assume that operating restrictions, regulations and directives for restaurants and other changes related to COVID-19 will continue to have a significant impact through at least the first half of 2021 with the greatest impact in the near term.

For four Pollo Tropical restaurants and four Taco Cabana restaurants with combined carrying values (excluding right-of-use lease assets) of \$2.8 million and \$1.4 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 combined carrying values (excluding right-of-use lease assets) of \$1.9 million and \$0.9 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 \$67.9 million in 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 was \$6.5 million in 2020 and consisted of closed restaurant rent and ancillary lease costs of \$6.9 million and \$4.9 million net of sublease income of \$(4.8) million and \$(0.5) million for Pollo Tropical and Taco Cabana, respectively.

Closed restaurant rent expense, net of sublease income was \$4.2 million in 2019 and consisted of closed restaurant rent and ancillary lease costs of \$6.8 million and \$1.4 million net of sublease income of \$(3.4) million and \$(0.5) million for Pollo Tropical and Taco Cabana, respectively.

Other Expense (Income), Net. Other expense (income), net was \$(1.7) million in 2020 and primarily consisted of total gains of \$(3.8) million on the sale-leaseback of seven restaurant properties and the sale of six restaurant properties, partially offset by \$1.5 million in costs for the removal, transfer and storage of equipment from closed restaurants and other closed restaurant costs and \$0.7 million for the write-off of site development costs. Other expense (income), net in 2019 primarily consisted of \$0.8 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 expense (income), net in 2018 consisted primarily of \$(3.5) million in insurance recoveries related to the Hurricanes and total gains of \$(1.2) million on the sale of three restaurant properties, partially offset by the write-off of site development costs of \$0.6 million and severance costs related to the closure of restaurants and costs for the removal, transfer and storage of equipment from closed restaurants of \$1.1 million.

Interest Expense. Interest expense increased \$0.9 million to \$4.8 million in 2020 from 2019 due to a higher borrowing level under our former amended senior credit facility and higher interest rates in 2020 and to higher interest rates under the term loan in our new senior credit facility. Interest expense decreased \$0.1 million to \$3.9 million in 2019 from 2018 due primarily to lower interest rates and a lower borrowing level under our former senior credit facility in 2019.

Loss on Extinguishment of Debt. Loss on extinguishment of debt was \$1.2 million in 2020 and consisted of charges to write-off unamortized deferred financing costs related to the capacity reduction and termination of our former senior credit facility.

Provision for (Benefit from) Income Taxes. The effective tax rate was 44.8% for the year ended January 3, 2021, and (12.5)% for the year ended December 29, 2019. The benefit from income taxes for 2020 includes a benefit related to the carryback of net operating losses and reclassifying certain assets as qualified improvement property as permitted by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and other changes to depreciation methods for certain assets made in conjunction with a cost segregation study conducted prior to filing our 2019 federal income tax return, as well as a decrease to the valuation allowance on our deferred tax assets related to changes in our deferred tax assets and liabilities. The provision for income taxes for 2019 included the effect of impairing non-deductible goodwill and establishing a valuation allowance on our deferred income taxes.

The CARES Act, which was signed into law on March 27, 2020, includes provisions that allow net operating losses arising in 2018, 2019, and 2020 to be carried back for up to five years and includes technical amendments that are retroactive to 2018 which permit certain assets to be classified as qualified improvement property and expensed immediately.

The effective tax rate was (12.5)% for 2019 and (55.3)% for 2018. The change in the effective rate was primarily the result of impairing non-deductible goodwill and establishing a valuation allowance on our deferred income tax assets in 2019 and changing the depreciation method for certain assets for federal income tax purposes to accelerate tax deductions in 2018 as well as the impact of lower pre-tax earnings (excluding non-deductible goodwill) in 2019.

Net Income (Loss). As a result of the foregoing, we had a net loss of \$10.2 million in 2020 compared to a net loss of \$84.4 million in 2019, and net income of \$7.8 million in 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. Although, as a result of our substantial cash balance, we did not have a working capital deficit at January 3, 2021, we have the ability to operate with a substantial working capital deficit (and we have historically operated with a working capital deficit) because:

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

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

Operating Activities. Net cash provided by operating activities for 2020, 2019, and 2018 was \$40.3 million, \$65.0 million and \$53.8 million, respectively. The \$24.8 million decrease in net cash provided by operating activities in 2020 compared to 2019 was driven primarily by a decrease in Adjusted EBITDA and the receipt of a tax refund in 2019, partially offset by the timing of payments. The impact of extended vendor payment terms in 2020 was partially offset by the payment of January 2021 rent in fiscal 2020 as a result of the 53rd week in fiscal 2020. The \$11.2 million increase in net cash provided by operating activities in 2019 compared to 2018 was driven primarily by the receipt of a tax refund, partially offset by a decrease in Adjusted EBITDA and the timing of payments.

Investing Activities. Net cash provided by investing activities in 2020 was \$8.4 million. Net cash used in investing activities in 2019, and 2018 was \$39.4 million and \$52.1 million, respectively. Capital expenditures are typically 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
Year ended January 3, 2021:				
New restaurant development	\$ 1,009	\$ 854	\$ —	\$ 1,863
Restaurant remodeling	358	745	—	1,103
Other restaurant capital expenditures ⁽¹⁾	6,542	4,728	—	11,270
Corporate and restaurant information systems	1,254	887	1,992	4,133
Total capital expenditures	<u>\$ 9,163</u>	<u>\$ 7,214</u>	<u>\$ 1,992</u>	<u>\$ 18,369</u>
Number of new restaurant openings	—	1		1
Year ended December 29, 2019:				
New restaurant development	\$ 7,325	\$ 4,065	\$ —	\$ 11,390
Restaurant remodeling	1,654	919	—	2,573
Other restaurant capital expenditures ⁽¹⁾	10,069	9,266	—	19,335
Corporate and restaurant information systems	2,873	3,773	1,303	7,949
Total capital expenditures	<u>\$ 21,921</u>	<u>\$ 18,023</u>	<u>\$ 1,303</u>	<u>\$ 41,247</u>
Number of new restaurant openings	3	3		6
Year ended December 30, 2018:				
New restaurant development	\$ 12,340	\$ 9,105	\$ —	\$ 21,445
Restaurant remodeling	51	531	—	582
Other restaurant capital expenditures ⁽¹⁾	12,157	15,307	—	27,464
Corporate and restaurant information systems	3,119	3,943	1,297	8,359
Total capital expenditures	<u>\$ 27,667</u>	<u>\$ 28,886</u>	<u>\$ 1,297</u>	<u>\$ 57,850</u>
Number of new restaurant openings	7	7		14

(1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the years ended January 3, 2021; December 29, 2019; and December 30, 2018, total restaurant repair and maintenance expenses were approximately \$17.4 million, \$23.1 million, and \$23.4 million, respectively.

Cash provided by investing activities in 2020 included net proceeds of \$17.2 million from the sale-leaseback of seven restaurant properties and \$9.6 million from the sale of an additional six restaurant properties.

In 2019, investing activities also included net proceeds of \$1.8 million from the sale of one restaurant property.

In 2018, investing activities also included \$4.7 million in additional proceeds received related to three restaurant properties and \$1.0 million received 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 2021 are expected to be between \$33.0 million and \$38.0 million including \$12.0 million to \$15.0 million for digital platforms and technology enhancements.

Financing Activities. Net cash used in financing activities in 2020 was \$8.5 million and included net revolving credit borrowing repayments under our former amended senior credit facility of \$75.0 million, \$3.0 million in payment of debt issuance costs associated with our former amended senior credit facility and new senior credit facility combined with \$3.7 million in payments to repurchase our common stock, partially offset by proceeds of \$73.5 million under our new senior credit facility.

Net cash used in financing activities in 2019 included \$14.3 million in payments to repurchase our common stock combined with net revolving credit borrowing repayments under our former senior credit facility of \$3.0 million.

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

New Senior Credit Facility. On November 23, 2020, we terminated our former amended senior secured revolving credit facility, referred to as the "former senior credit facility," and entered into a new senior secured credit facility, which is referred to as the "new senior credit facility." The new senior credit facility is comprised of a term loan facility (the "term loan facility") of \$75.0 million and a revolving credit facility (the "revolving credit facility") of up to \$10.0 million and matures on November 23, 2025. The new senior credit facility also provides for potential incremental term loan borrowing increases of up to \$37.5 million in the aggregate, subject to, among other items, compliance with a minimum Total Leverage Ratio and other terms specified in the new senior credit facility. On January 3, 2021, there were \$75.0 million in outstanding borrowings, subject to an original issue discount, under the term loan facility and no borrowings under the revolving credit facility.

Under the new senior credit facility, we must repay the unpaid principal amount of the term loan facility quarterly which commences on March 31, 2021, in an amount equal to 0.25% of the aggregate principal amount of the term loan facility on the effective date of the new senior credit facility, resulting in annual mandatory repayments of \$0.8 million.

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

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

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

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

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

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

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

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

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

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

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

Initial Share Repurchase Plan

In 2018, our board of directors approved a share repurchase program for up to 1.5 million shares of our common stock. In 2019, our board of directors approved increases to the share repurchase program of an additional 1.5 million shares of our common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume, general market and economic conditions, and other corporate considerations. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by our board of directors. Our new senior credit facility prohibits share repurchases, and we currently do not intend to repurchase additional shares of our common stock for the foreseeable future.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of January 3, 2021 (in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Credit facility debt obligations, including interest ⁽¹⁾	\$ 106,633	\$ 7,338	\$ 14,479	\$ 84,816	\$ —
Finance lease obligations, including interest ⁽²⁾	2,734	455	921	645	713
Operating lease obligations ⁽³⁾	450,488	40,741	84,086	73,425	252,236
Purchase obligations ⁽⁴⁾	10,328	6,862	3,323	143	—
Total contractual obligations	\$ 570,183	\$ 55,396	\$ 102,809	\$ 159,029	\$ 252,949

(1) Our credit facility debt obligations at January 3, 2021, totaled \$75.0 million. Total interest payments on the obligations of \$31.4 million for all years presented are included at the cash interest rate of 8.75%. Total credit facility fees of \$0.2 million for all years presented are included based on January 3, 2021, rates and balances. Actual interest and fee payments will vary based on our outstanding credit facility balances and the rates in effect during those years. Refer to Note 8 of the consolidated financial statements included in this Annual Report on Form 10-K for details of our debt.

(2) Includes total interest of \$0.9 million for all years presented.

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

(4) Represents contractual obligations under various agreements to purchase goods or services that are enforceable and legally binding and include \$7.7 million related to the master subscription agreement for an ERP system through April 27, 2024.

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements. 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 consolidated balance sheet as of January 3, 2021.

Inflation

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

Application of Critical Accounting Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the "Basis of Presentation" note in the Notes to our Consolidated Financial Statements. Critical accounting estimates are those that require application of management's most difficult, subjective, or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods.

Sales recognition at our restaurants is straightforward as customers pay for products at the time of sale and inventory turns over very quickly. Payments to vendors for products sold in the restaurants are generally settled within 60 days. The earnings reporting process is covered by our system of internal controls and generally does not require significant management estimates and judgments. However, critical accounting estimates and judgments, as noted below, are inherent in the assessment and recording of insurance liabilities, the valuation of goodwill for impairment, assessing impairment of long-lived assets, lease accounting matters and the valuation of deferred income tax assets. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions.

Insurance liabilities. We are insured for workers' compensation, general liability and medical insurance claims under policies where we pay all claims, subject to annual stop-loss limitations both for individual claims and for general liability, medical insurance and certain workers' compensation claims in the aggregate. At January 3, 2021, we had \$10.4 million accrued for these insurance claims. We record insurance liabilities based on historical and industry trends, which are continually monitored, with the assistance of actuaries, and adjust accruals as warranted by changing circumstances. Since there are estimates and assumptions inherent in recording these insurance liabilities, including the ability to estimate the future development of incurred claims based on historical trends or the severity of the claims, differences between actual future events and prior estimates and assumptions could result in adjustments to these liabilities.

Evaluation of Goodwill. We must evaluate our recorded goodwill for impairment 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. We may first qualitatively assess goodwill impairment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This qualitative analysis is performed by examining key events and circumstances affecting fair value. If it is determined it is more likely than not that the reporting unit's fair value is not greater than its carrying amount, we perform a quantitative assessment. We adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04") 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.

In performing the quantitative assessment 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.

We performed a qualitative assessment, which included examining key events and circumstances affecting fair value, for our annual impairment review as of January 3, 2021, and determined it was more likely than not that the Pollo Tropical reporting unit's fair value was greater than its carrying amount. As of January 3, 2021, our Pollo Tropical reporting unit goodwill has a carrying value of \$56.3 million and our Taco Cabana reporting unit goodwill has no remaining carrying value as it was fully impaired in 2019. See Note 4 to our audited consolidated financial statements.

We estimate the fair value of the Pollo Tropical reporting unit significantly exceeds its carrying value as of January 3, 2021. The estimates and assumptions used to determine and assess fair value may differ from actual future events and if these estimates or related projections change significantly in the future, we may be required to record material impairment charges for goodwill assets.

Impairment of Long-lived Assets. We assess the potential impairment of long-lived assets, principally property and equipment and operating lease right-of-use assets, whenever events or changes in circumstances indicate that the carrying value of the restaurant asset group may not be recoverable. In addition to considering management's plans, known regulatory/governmental actions and damage due to acts of God (hurricanes, tornadoes, etc.), we consider an event indicating that the carrying value may not be recoverable to have occurred related to a specific restaurant if the restaurant's cash flows for the last twelve months are less than a minimum threshold or if consistent levels of cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values. We have elected to exclude operating lease payments and liabilities from future cash flows and carrying values, respectively, in the comparison. 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 and, for right-of-use lease assets, current market lease rent and discount rates, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material.

For four Pollo Tropical restaurants and four Taco Cabana restaurants with combined carrying values (excluding right-of-use lease assets) of \$2.8 million and \$1.4 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 combined carrying values (excluding right-of-use lease assets) of \$1.9 million and \$0.9 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.

Lease Accounting. We adopted Accounting Standards Update ("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 standalone 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.

Valuation of Deferred Income Tax Assets. Deferred tax assets and liabilities, which represent temporary differences between the financial statement and tax basis of assets and liabilities, are measured using enacted tax rates expected to apply to

the years in which those differences are expected to be recovered or settled. Deferred tax assets are recognized to the extent we believe these assets will more likely than not be realized. A valuation allowance is established to reduce the carrying amount of deferred tax assets if we believe it is more likely than not that a portion or all of the tax benefit from these deferred tax assets will not be realized. The realization of a deferred tax asset is dependent on the generation of sufficient taxable income in future periods, and the reversal of existing taxable temporary differences in the applicable periods. In evaluating the realizability of our net deferred tax assets, we perform an assessment of positive and negative evidence. The weight given to negative and positive evidence is commensurate only to the extent that such evidence can be objectively verified. Objective historical evidence is given greater weight than subjective evidence such as forecasts of future taxable income. We considered three years of cumulative operating income (loss) in evaluating the objective evidence that historical results provide. Objective negative evidence limits our ability to consider other subjective evidence, such as our future earnings projections. Based on our evaluation of all available positive and negative evidence, and placing greater weight on the objective evidence, we determined that it is more likely than not that our deferred tax assets will not be fully realized in future periods. We recorded a \$13.5 million valuation allowance to reduce our deferred tax assets in the fourth quarter of 2019, which increased our tax expense. Based on changes in our deferred tax assets and liabilities in 2020, adjustments to our valuation allowance totaling \$0.8 million were recorded in 2020 resulting in a valuation allowance of \$12.7 million as of January 3, 2021. If we generate sufficient taxable income in the future to fully utilize the tax benefits of the deferred tax assets on which a valuation allowance was recorded, a portion or all of the valuation allowance could be reversed, which would decrease our tax expense in the period or periods in which the valuation allowance is reversed. We will continue to monitor and evaluate the positive and negative evidence considered in arriving at the above conclusion in order to assess whether such conclusion remains appropriate in future periods.

New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("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). We adopted this new accounting standard on December 30, 2019, and applied it prospectively to all implementation costs incurred after the date of adoption. The adoption of this standard did not have a material effect on our financial statements. We deferred and amortized application development stage costs for cloud-based computing arrangements over the life of the related service (subscription) agreement in the same line item that the fees associated with the subscription arrangement were presented prior to adoption of the new standard.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)* ("ASU No. 2019-12"), which is a part of the Simplification Initiative being undertaken by the FASB to reduce complexity of accounting standards. The amendments in this update simplify the accounting for income taxes by removing certain exceptions, the most notable for us being the exception to the general methodology for calculating income taxes in an interim period when the year-to-date loss exceeds the anticipated loss for the full year. The guidance will be effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted and any adjustments should be reflected as of the beginning of the annual period of adoption. Amendments relevant to us should be applied on a prospective basis. The impact of the standard is largely dependent on interim and anticipated profit or loss in a given period, however we do not expect ASU No. 2019-12 to have a significant impact on our financial statements.

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

Management's Use of Non-GAAP Financial Measures

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

The primary measure of segment profit or loss used by the chief operating decision maker to assess performance and allocate resources is Adjusted EBITDA, which is defined as earnings attributable to the applicable operating segments before interest expense, income taxes, depreciation and amortization, impairment and other lease charges, goodwill impairment, closed restaurant rent expense, net of sublease income, stock-based compensation expense, other expense (income), net, and certain significant items for each segment that management believes are related to strategic changes and/or are not related to the ongoing operation of our restaurants as set forth in the reconciliation table below. Adjusted EBITDA for each of our segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain finance, legal, supply chain, human resources, construction and other administrative functions. See Note 11 to our audited consolidated financial statements.

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

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

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

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

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

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Net income (loss)	\$ (10,211)	\$ (84,386)	\$ 7,787
Provision for (benefit from) income taxes	(8,302)	9,369	(2,772)
Income (loss) before taxes	(18,513)	(75,017)	5,015
Add:			
Non-general and administrative expense adjustments:			
Depreciation and amortization	38,206	39,195	37,604
Impairment and other lease charges	9,139	13,101	21,144
Goodwill impairment ⁽¹⁾	—	67,909	—
Interest expense	4,756	3,872	3,966
Closed restaurant rent expense, net of sublease income ⁽²⁾	6,487	4,163	—
Loss on extinguishment of debt	1,241	—	—
Other expense (income), net	(1,697)	1,041	(3,007)
Stock-based compensation expense in restaurant wages	200	195	90
Total non-general and administrative expense adjustments	58,332	129,476	59,797
General and administrative expense adjustments:			
Stock-based compensation expense	3,284	2,649	3,379
Board and shareholder matter costs ⁽³⁾	—	—	(597)
Restructuring costs and retention bonuses ⁽⁴⁾	1,107	964	545
Legal settlements and related costs ⁽⁵⁾	—	—	(177)
Digital and brand repositioning costs ⁽⁶⁾	770	377	—
Total general and administrative expense adjustments	5,161	3,990	3,150
Consolidated Adjusted EBITDA	\$ 44,980	\$ 58,449	\$ 67,962
Total revenues	\$ 554,803	\$ 660,943	\$ 688,597
Adjusted EBITDA as a percentage of total revenues	8.1 %	8.8 %	9.9 %

- (1) Goodwill impairment for the twelve months ended December 29, 2019, consists of a non-cash impairment charge to write down the value of goodwill for the Taco Cabana reporting unit. The related benefit from income taxes is the benefit attributable to the portion of the goodwill that was tax deductible.
- (2) Closed restaurant rent, net of sublease income for the twelve months ended January 3, 2021, and December 29, 2019, primarily consists of closed restaurant lease costs of \$11.8 million and \$8.2 million, respectively, partially offset by sublease income of \$(5.3) million and \$(4.0) million, respectively. As a result of adopting ASC 842, lease costs related to closed restaurants are recorded as closed restaurant rent. Prior to December 31, 2018, these costs were recorded as lease charges within impairment and other lease charges when a restaurant closed.
- (3) Board and shareholder matter costs for the twelve months ended December 30, 2018, include fee reductions and final insurance recoveries related to 2017 shareholder activism costs.
- (4) Restructuring costs and retention bonuses for the twelve months ended January 3, 2021, include severance costs related to eliminated positions related to terminations in response to the COVID-19 pandemic. Restructuring costs and retention bonuses for the twelve months ended December 29, 2019, include severance costs related to eliminated positions. Restructuring costs and retention bonuses for the twelve months ended December 30, 2018, include severance costs related to the Strategic Renewal Plan and reduction in force and bonuses paid to certain employees for retention purposes.
- (5) Legal settlements and related costs for the twelve months ended December 30, 2018, include reductions to final settlement amounts and benefits related to litigation matters.
- (6) Digital and brand repositioning costs for the twelve months ended January 3, 2021, and December 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):

Twelve Months Ended	Pollo Tropical		Taco Cabana	
January 3, 2021:				
Adjusted EBITDA	\$	36,517	\$	8,463
Restaurant-level adjustments:				
Add: Pre-opening costs		—		69
Add: Other general and administrative expense ⁽¹⁾		25,995		21,921
Less: Franchise royalty revenue and fees		1,246		760
Restaurant-level Adjusted EBITDA	\$	61,266	\$	29,693
Restaurant sales	\$	314,112	\$	238,685
Restaurant-level Adjusted EBITDA as a percentage of restaurant sales		19.5 %		12.4 %
December 29, 2019:				
Adjusted EBITDA	\$	50,560	\$	7,889
Restaurant-level adjustments:				
Add: Pre-opening costs		380		592
Add: Other general and administrative expense ⁽¹⁾		28,400		23,805
Less: Franchise royalty revenue and fees		1,780		900
Restaurant-level Adjusted EBITDA	\$	77,560	\$	31,386
Restaurant sales	\$	361,693	\$	296,570
Restaurant-level Adjusted EBITDA as a percentage of restaurant sales		21.4 %		10.6 %
December 30, 2018:				
Adjusted EBITDA	\$	54,903	\$	13,059
Restaurant-level adjustments:				
Add: Pre-opening costs		933		783
Add: Other general and administrative expense ⁽¹⁾		28,045		23,330
Less: Franchise royalty revenue and fees		1,815		857
Restaurant-level Adjusted EBITDA	\$	82,066	\$	36,315
Restaurant sales	\$	374,381	\$	311,544
Restaurant-level Adjusted EBITDA as a percentage of restaurant sales		21.9 %		11.7 %

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risk associated with fluctuations in interest rates, primarily limited to our senior credit facility, under which we had outstanding borrowings of \$75.0 million as of January 3, 2021. Borrowings under the senior credit facility bear interest at a per annum rate, at our option, of either (all terms as defined in the senior credit facility):

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

For variable rate debt instruments, market risk is defined as the potential change in earnings resulting from a hypothetical adverse change in interest rates. As of January 3, 2021, we had primarily elected to be charged interest on borrowings under our senior credit facility at the LIBOR Rate plus the applicable margin. We elected a one-month LIBOR Rate for \$75.0 million of borrowings under the senior credit facility as of January 3, 2021. The stated interest rate applicable to these borrowings as of January 3, 2021 was 8.75%, which would result in interest expense in 2021 of \$6.6 million assuming that outstanding borrowings and interest rates remain unchanged during the year. A hypothetical increase of 100 basis points in the variable interest rate would increase interest expense in 2021 by \$0.1 million.

Commodity Price Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures. We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and 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 January 3, 2021.

Changes in Internal Control over Financial Reporting. No change occurred in our internal control over financial reporting during the fourth quarter of 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our senior management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

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

Management has evaluated the effectiveness of its internal control over financial reporting as of January 3, 2021 based on the criteria set forth in a report entitled *Internal Control-Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, we have concluded that, as of January 3, 2021, our internal control over financial reporting was effective based on those criteria.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Fiesta Restaurant Group, Inc. and subsidiaries (the "Company") as of January 3, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 3, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended January 3, 2021, of the Company and our report dated March 4, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP
Dallas, Texas
March 4, 2021

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2021 Annual Meeting of Stockholders.

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

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2021 Annual Meeting of Stockholders.

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

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2021 Annual Meeting of Stockholders.

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

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2021 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from our Definitive Proxy Statement to be filed in connection with the 2021 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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(a) (2) Financial Statement Schedules

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Schedules other than those listed are omitted for the reason that they are not required, not applicable, or the required information is shown in the financial statements or notes thereto.

(a) (3) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Fiesta Restaurant Group, Inc. ("Fiesta") (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012)
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Fiesta (incorporated by reference to Exhibit 3.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended July 2, 2017)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Fiesta (incorporated by reference to Exhibit 3.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended April 1, 2018)
3.4	Amended and Restated Bylaws of Fiesta (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to Fiesta's Form 10, File No. 001-35373, filed on January 26, 2012)
3.5	Amendment to Amended and Restated Bylaws of Fiesta (incorporated by reference to Exhibit 3.2 of Fiesta's Quarterly Report on Form 10-Q for the period ended July 2, 2017)
3.6	Amendment to Amended and Restated ByLaws of Fiesta (incorporated by reference to Exhibit 3.2 of Fiesta's Quarterly Report on Form 10-Q for the period ended April 1, 2018)
4.1	Form of Stock Certificate for Common Stock (incorporated by reference to Exhibit 4.4 to Amendment No.2 to Fiesta's Form 10, File No. 001-35373, filed on March 14, 2012)
4.2	Description of Common Stock (incorporated by reference to Exhibit 4.2 to Fiesta's Annual Report on Form 10-K for the fiscal year ended December 29, 2019)

- [10.1](#) [Form of Separation and Distribution Agreement among Fiesta, Carrols Restaurant Group, Inc. \("Carrols Restaurant Group"\) and Carrols Corporation \("Carrols"\) \(incorporated by reference to Exhibit 10.1 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012\)](#)
- [10.2](#) [Form of Tax Matters Agreement between Fiesta, Carrols and Carrols Restaurant Group \(incorporated by reference to Exhibit 10.2 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012\)](#)
- [10.3](#) [Form of Employee Matters Agreement between Fiesta, Carrols and Carrols Restaurant Group \(incorporated by reference to Exhibit 10.3 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012\)](#)
- [10.4](#) [Form of Transition Services Agreement among Fiesta, Carrols Restaurant Group and Carrols \(incorporated by reference to Exhibit 10.4 to Amendment No. 3 to Fiesta's Form 10, File No. 001-35373, filed on April 5, 2012\)](#)
- [10.5](#) [Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan \(incorporated by reference to Exhibit 10.2 to Fiesta's Current Report on Form 8-K filed on May 8, 2012\)+](#)
- [10.6](#) [Executive Employment Agreement, dated as of February 24, 2017, between Fiesta and Richard Stockinger \(incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on February 27, 2017\)+](#)
- [10.7](#) [Fiesta Restaurant Group, Inc. and Subsidiaries Deferred Compensation Plan \(incorporated by reference to Exhibit 10.10 of Fiesta's Amendment No. 1 to Registration Statement on Form 10 filed on January 26, 2012\)+](#)
- [10.8](#) [Offer letter dated November 2, 2018 between Fiesta and Louis DiPietro \(incorporated by reference to Exhibit 10.16 to Fiesta's Annual Report on Form 10-K for the fiscal year ended December 29, 2019\)+](#)
- [10.9](#) [Offer letter dated as of September 9, 2019 between Fiesta and Dirk Montgomery \(incorporated by reference to Exhibit 10.1 of Fiesta's Quarterly Report on Form 10-Q for the period ended September 29, 2019\)+](#)
- [10.10](#) [Form of Agreement \(incorporated by reference to Exhibit 10.18 to Fiesta's Annual Report on Form 10-K for the fiscal year ended December 29, 2019\)+](#)
- [10.11](#) [Credit Agreement, dated as of November 30, 2017, among Fiesta, the guarantors named therein, the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent \(incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on December 4, 2017\)](#)
- [10.12](#) [Pledge and Security Agreement, dated as of November 30, 2017, among Fiesta, the guarantors named therein and JP Morgan Chase Bank, N.A., as administrative agent \(incorporated by reference to Exhibit 10.2 of Fiesta's Current Report on Form 8-K filed on December 4, 2017\)](#)
- [10.13](#) [Amendment to Credit Agreement, dated as of March 9, 2018, among Fiesta, the guarantors named therein, the lenders named therein and JPMorgan Chase Bank, N.A., individually as a lender and as administrative agent \(incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on March 12, 2018\)](#)
- [10.14](#) [Amendment to Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 of Fiesta's Annual Report on Form 10-K filed on February 19, 2015\)+](#)
- [10.15](#) [Cooperation Agreement, dated February 5, 2020, by and among Fiesta, AREX Capital Management, LP, AREX Capital Master Fund, LP, AREX Capital GP, LLC, AREX Capital Management GP, LLC and Andrew Rechtschaffen \(incorporated by reference to Exhibit 10.1 of Fiesta's Current Report on Form 8-K filed on February 7, 2020\)](#)

<u>10.16</u>	<u>Second Amendment to Credit Agreement dated as of July 10, 2020 among Fiesta, the guarantors named therein, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to Fiesta's Current Report on Form 8-K filed on July 16, 2020)</u>
<u>10.17</u>	<u>First Amended and Restated Pledge and Security Agreement dated as of July 10, 2020 among Fiesta, the guarantors named therein and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to Fiesta's Current Report on Form 8-K filed on July 16, 2020)</u>
<u>10.18</u>	<u>Credit Agreement dated as of November 23, 2020 among Fiesta, Fortress Credit Corp., as administrative agent and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to Fiesta's Current Report on Form 8-K filed on November 30, 2020)</u>
<u>10.19</u>	<u>Security Agreement dated as of November 23, 2020 among Fiesta, the guarantors named therein and Fortress Credit Corp., as administrative agent and collateral agent (incorporated by reference to Exhibit 10.2 to Fiesta's Current Report on Form 8-K filed on November 30, 2020)</u>
<u>10.20</u>	<u>Guarantee Agreement dated as of November 23, 2020 among the guarantors named therein and Fortress Credit Corp., as administrative agent and collateral agent (incorporated by reference to Exhibit 10.3 to Fiesta's Current Report on Form 8-K filed on November 30, 2020)</u>
<u>10.21</u>	<u>Offer letter dated as of August 5, 2019 between Fiesta and Hope Diaz#+</u>
<u>21.1</u>	<u>Subsidiaries of Fiesta#</u>
<u>23.1</u>	<u>Consent of Deloitte & Touche LLP#</u>
<u>31.1</u>	<u>Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.#</u>
<u>31.2</u>	<u>Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.#</u>
<u>32.1</u>	<u>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.#</u>
<u>32.2</u>	<u>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.#</u>
101.INS	Inline 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

Filed herewith.

+ Compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fiesta Restaurant Group, Inc. and subsidiaries (the "Company") as of January 3, 2021 and December 29, 2019, the related consolidated statements of operations, changes in stockholders' equity, and cash flows, for each of the three years in the period ended January 3, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 3, 2021 and December 29, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 3, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 3, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for leases effective December 31, 2018 due to adoption of FASB ASC 842, *Leases*, using the modified retrospective method.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of Long-Lived Assets – Refer to Notes 1 and 5 to the financial statements

Critical Audit Matter Description

The Company assesses the potential impairment of long-lived assets, principally property and equipment and operating lease right-of-use assets, whenever events or changes in circumstances indicate that the carrying value of the restaurant asset group may not be fully recoverable. 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, exclusive of operating lease payments, for the last twelve months are less than a minimum threshold or if consistent levels of cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. If an indicator of impairment exists for any of its assets, an estimate of undiscounted future cash

flows, exclusive of operating lease payments, over the life of the primary asset for each restaurant is compared to that long-lived asset group's carrying value, excluding operating lease liabilities. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. This process of assessing fair values requires the use of estimates and assumptions, including the Company's ability to sell or reuse the related assets and market conditions and, for right-of-use lease assets, current market lease rent and discount rates, which are subject to a high degree of judgment. There is uncertainty in the projected undiscounted future cash flows used in the Company's impairment review analysis. Property and equipment, net as of January 3, 2021 was \$161.1 million and Operating lease right-of-use assets was \$261.3 million. During the year ended January 3, 2021 the Company recorded impairment charges of \$8.4 million.

Given the judgment used by the Company to evaluate whether there are impairment indicators for long-lived assets as well as judgment in determining the undiscounted future cash flows when an impairment indicator has been identified and the fair value of the asset, auditing management's judgments regarding indicators of potential impairment, estimated future cash flows and the fair value of assets involved especially subjective audit judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures in connection with identification of impairment indicators, recoverability of asset groups, determination of fair value of assets, and impairment charges included the following, among others

- We tested the effectiveness of controls over the evaluation for impairment of long-lived assets
- We evaluated the impairment indicators considered by management and evaluated whether management had contemplated other potential factors that may be an indicator of impairment.
- We evaluated the reasonableness of management's estimated future cash flows by comparing them to:
 - Historical actual cash flows for the restaurant being evaluated
 - Strategic business plans and actions planned by the Company to support estimated future revenue
 - Chain and Fast Food Restaurants industry reports
- With the assistance of our fair value specialists, we evaluated current market lease rent and discount rate assumptions utilized in evaluating right-of-use assets for potential impairment.

/s/ Deloitte & Touche LLP
Dallas, Texas
March 4, 2021

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

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

	January 3, 2021	December 29, 2019
ASSETS		
Current assets:		
Cash	\$ 50,035	\$ 13,413
Restricted cash	3,584	—
Accounts receivable	8,884	7,933
Inventories	4,205	3,394
Prepaid rent	115	117
Income tax receivable	9,399	3,821
Prepaid expenses and other current assets	7,804	10,605
Total current assets	84,026	39,283
Property and equipment, net	161,081	211,944
Operating lease right-of-use assets	261,304	251,272
Goodwill	56,307	56,307
Other assets	6,025	9,835
Total assets	\$ 568,743	\$ 568,641
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,015	\$ 212
Accounts payable	13,339	14,776
Accrued payroll, related taxes and benefits	14,236	9,866
Accrued real estate taxes	6,600	6,497
Other current liabilities	29,719	32,269
Total current liabilities	64,909	63,620
Long-term debt, net of current portion	72,328	76,823
Operating lease liabilities	268,086	256,798
Deferred tax liabilities	4,109	4,759
Other non-current liabilities	11,530	8,405
Total liabilities	420,962	410,405
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized, 28,278,320 and 27,461,697 shares issued, respectively, and 25,293,149 and 25,612,597 shares outstanding, respectively	273	271
Additional paid-in capital	176,614	173,132
Retained earnings (accumulated deficit)	(8,327)	1,884
Treasury stock, at cost; 1,993,495 and 1,493,495 shares, respectively	(20,779)	(17,051)
Total stockholders' equity	147,781	158,236
Total liabilities and stockholders' equity	\$ 568,743	\$ 568,641

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

FIESTA RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Revenues:			
Restaurant sales	\$ 552,797	\$ 658,263	\$ 685,925
Franchise royalty revenues and fees	2,006	2,680	2,672
Total revenues	554,803	660,943	688,597
Costs and expenses:			
Cost of sales	170,513	207,453	218,946
Restaurant wages and related expenses (including stock-based compensation expense of \$200, \$195, and \$90, respectively)	149,145	179,178	188,131
Restaurant rent expense	45,361	47,805	36,034
Other restaurant operating expenses	82,180	91,897	100,828
Advertising expense	14,839	23,179	23,695
General and administrative (including stock-based compensation expense of \$3,284, \$2,649, and \$3,379, respectively)	53,077	56,195	54,525
Depreciation and amortization	38,206	39,195	37,604
Pre-opening costs	69	972	1,716
Impairment and other lease charges	9,139	13,101	21,144
Goodwill impairment	—	67,909	—
Closed restaurant rent expense, net of sublease income	6,487	4,163	—
Other expense (income), net	(1,697)	1,041	(3,007)
Total operating expenses	567,319	732,088	679,616
Income (loss) from operations	(12,516)	(71,145)	8,981
Interest expense	4,756	3,872	3,966
Loss on extinguishment of debt	1,241	—	—
Income (loss) before income taxes	(18,513)	(75,017)	5,015
Provision for (benefit from) income taxes	(8,302)	9,369	(2,772)
Net income (loss)	\$ (10,211)	\$ (84,386)	\$ 7,787
Earnings (loss) per common share:			
Basic	\$ (0.40)	\$ (3.18)	\$ 0.29
Diluted	(0.40)	(3.18)	0.29
Weighted average common shares outstanding:			
Basic	25,341,415	26,500,356	26,890,577
Diluted	25,341,415	26,500,356	26,894,083

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

FIESTA RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	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	—	—	3,469	—	—	3,469
Vesting of restricted shares	123,888	2	(2)	—	—	—
Cumulative effect of adopting a new accounting standard	—	—	—	56	—	56
Purchase of treasury stock	(112,358)	—	—	—	(2,769)	(2,769)
Net income	—	—	—	7,787	—	7,787
Balance at December 30, 2018	26,858,988	270	170,290	72,268	(2,769)	240,059
Stock-based compensation	—	—	2,844	—	—	2,844
Vesting of restricted shares	134,746	1	(2)	—	—	(1)
Cumulative effect of adopting a new accounting standard	—	—	—	14,002	—	14,002
Purchase of treasury stock	(1,381,137)	—	—	—	(14,282)	(14,282)
Net loss	—	—	—	(84,386)	—	(84,386)
Balance at December 29, 2019	25,612,597	271	173,132	1,884	(17,051)	158,236
Stock-based compensation	—	—	3,484	—	—	3,484
Vesting of restricted shares	180,552	2	(2)	—	—	—
Purchase of treasury stock	(500,000)	—	—	—	(3,728)	(3,728)
Net loss	—	—	—	(10,211)	—	(10,211)
Balance at January 3, 2021	25,293,149	\$ 273	\$ 176,614	\$ (8,327)	\$ (20,779)	\$ 147,781

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

FIESTA RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Operating activities:			
Net income (loss)	\$ (10,211)	\$ (84,386)	\$ 7,787
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on disposals of property and equipment, net	(3,267)	(6)	(757)
Stock-based compensation	3,484	2,844	3,469
Impairment and other lease charges	9,139	13,101	21,144
Goodwill impairment	—	67,909	—
Loss on extinguishment of debt	1,241	—	—
Depreciation and amortization	38,206	39,195	37,604
Amortization of deferred financing costs	437	270	270
Amortization of deferred gains from sale-leaseback transactions	—	—	(3,564)
Deferred income taxes	(650)	10,888	6,830
Changes in other operating assets and liabilities:			
Accounts receivable	(951)	640	805
Prepaid expenses and other current assets	340	364	894
Operating lease right-of-use assets	24,213	23,780	—
Other non-current assets	3,396	(1,360)	(1,491)
Accounts payable	1,309	504	(1,797)
Accrued payroll, related taxes and benefits	4,370	(220)	(1,690)
Accrued real estate taxes	103	626	11
Other current liabilities	(3,396)	(2,618)	(10,583)
Operating lease liabilities	(23,264)	(19,765)	—
Other non-current liabilities	2,166	(162)	1,358
Income tax receivable/payable	(5,578)	14,036	(6,523)
Other	(815)	(608)	36
Net cash provided by operating activities	40,272	65,032	53,803
Investing activities:			
Capital expenditures:			
New restaurant development	(1,863)	(11,390)	(21,445)
Restaurant remodeling	(1,103)	(2,573)	(582)
Other restaurant capital expenditures	(11,270)	(19,335)	(27,464)
Corporate and restaurant information systems	(4,133)	(7,949)	(8,359)
Total capital expenditures	(18,369)	(41,247)	(57,850)
Proceeds from disposals of properties	9,559	1,774	4,743
Proceeds from sale-leaseback transactions	17,222	—	—
Proceeds from insurance recoveries	—	42	983
Net cash provided by (used in) investing activities	8,412	(39,431)	(52,124)
Financing activities:			
Borrowings on revolving credit facility	154,143	32,000	26,000
Repayments on revolving credit facility	(229,143)	(35,000)	(23,000)
Borrowings of unsecured debt	15,000	—	—
Repayments of unsecured debt	(15,000)	—	—
Borrowings of secured debt	73,500	—	—
Principal payments on finance/capital leases	(237)	(164)	(101)
Financing costs associated with debt	(3,013)	—	(150)
Payments to purchase treasury stock	(3,728)	(14,282)	(2,769)
Net cash used in financing activities	(8,478)	(17,446)	(20)
Net change in cash and restricted cash	40,206	8,155	1,659
Cash and restricted cash, beginning of year	13,413	5,258	3,599
Cash and restricted cash, end of year	\$ 53,619	\$ 13,413	\$ 5,258

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

FIESTA RESTAURANT GROUP, INC.
NOTES TO 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 fast-casual restaurant brands through its wholly-owned subsidiaries Pollo Operations, Inc., and its subsidiaries, and Pollo Franchise, Inc., (collectively "Pollo Tropical") and Taco Cabana, Inc. and its subsidiaries (collectively "Taco Cabana"). Unless the context otherwise requires, Fiesta and its subsidiaries, Pollo Tropical and Taco Cabana, are collectively referred to as the "Company." At January 3, 2021, the Company owned and operated 138 Pollo Tropical® restaurants and 143 Taco Cabana® restaurants. All of the Company-owned Pollo Tropical restaurants are located in Florida, and all of the Company-owned Taco Cabana restaurants are located in Texas. At January 3, 2021, Fiesta franchised a total of 29 Pollo Tropical restaurants and six Taco Cabana restaurants. The franchised Pollo Tropical restaurants include 17 in Puerto Rico, two in Panama, one in Guyana, two in Ecuador, one in the Bahamas, and five on college campuses and one at a hospital in Florida. The franchised Taco Cabana restaurants include six in New Mexico.

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

Fiscal Year. The Company uses a 52–53 week fiscal year ending on the Sunday closest to December 31. The fiscal years ended December 29, 2019 and December 30, 2018, each contained 52 weeks. The fiscal year ended January 3, 2021 contained 53 weeks.

Use of Estimates. The preparation of the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements. Estimates also affect the reported amounts of expenses during the reporting periods. Significant items subject to such estimates and assumptions include: insurance liabilities, evaluation for impairment of goodwill and long-lived assets, lease accounting matters, and deferred income tax assets. Actual results could differ from those estimates. Due to the uncertainty associated with the unprecedented nature of the COVID-19 pandemic and the impact it will have on the Company's operations and future cash flows, it is reasonably possible that the estimates of future cash flows used in impairment assessments will change in the near term and the effect of the change could be material. The Company's current estimates assume that operating restrictions, regulations and directives for restaurants and other changes related to COVID-19 will continue to have a significant impact through at least the first half of 2021 with the greatest impact in the near term.

Concentrations of Risk. Food and supplies are ordered from approved suppliers and are shipped to the restaurants via distributors. Performance Food Group, Inc. is the primary distributor of food and beverage products and supplies for both Pollo Tropical and Taco Cabana. In the twelve months ended January 3, 2021, and December 29, 2019, Performance Food Group, Inc. accounted for approximately 96% and 85%, respectively, of the food and supplies delivered to restaurants. The Company's limited distributor relationships could have an adverse effect on the Company's operations.

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

Restricted Cash. The Company's restricted cash is comprised of certain cash balances that are reserved as cash collateral for the Company's existing letters of credit.

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

Property and Equipment. The Company capitalizes all direct costs incurred to construct and substantially improve its restaurants. These costs are depreciated and charged to expense based upon their property classification when placed in service. Property and equipment is recorded at cost. Application development stage costs for significant internally developed software

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

projects are capitalized and amortized. Repairs and maintenance activities are expensed as incurred. Depreciation and amortization is provided using the straight-line method over the following estimated useful lives:

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

Leasehold improvements, including new buildings constructed on leased land, are depreciated over the shorter of their estimated useful lives or the underlying lease term. In circumstances where an economic penalty would be presumed by the non-exercise of one or more renewal options under the lease, the Company includes those renewal option periods when determining the lease term for depreciation purposes. For significant leasehold improvements made during the latter part of the lease term, the Company amortizes those improvements over the shorter of their useful life or an extended lease term. The extended lease term would consider the exercise of renewal options if the value of the improvements would imply that an economic penalty would be incurred without the renewal of the option. For significant leasehold improvements made during the latter part of the lease term prior to the adoption of Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 842"), this extended term may differ from the lease term used to determine lease assets and liabilities. Building costs incurred for new restaurants on leased land are depreciated over the lease term, which is generally a 20-year period.

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

Goodwill. Goodwill represents the excess purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets acquired by Carrols Restaurant Group, Inc. ("Carrols"), Fiesta's former parent company, from the acquisition of Pollo Tropical in 1998. Prior to September 29, 2019, goodwill also represented the excess purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets acquired by Carrols from the acquisition of Taco Cabana in 2000. Goodwill is not amortized but is assessed for impairment at least annually as of the last day of the fiscal year or more frequently if impairment indicators exist. See Note 4—Goodwill.

Long-Lived Assets. The Company assesses the recoverability of property and equipment and definite-lived intangible assets, including right-of-use ("ROU") lease assets, by determining whether the carrying value of these assets can be recovered over their respective remaining lives through undiscounted future operating cash flows. Impairment is reviewed whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. See Note 5—Impairment of Long-Lived Assets.

Deferred Financing Costs. Financing costs incurred and the original issue discount recognized in obtaining revolving credit facilities are capitalized and included within other assets on the consolidated balance sheets and are amortized over the life of the related credit facility as interest expense on a straight-line basis. Financing costs incurred and original issue discount recognized in obtaining long-term debt are capitalized and amortized over the term of the associated debt agreement as interest expense using the effective interest method. These financing costs and the original issue discount are presented as a reduction from the carrying amount of the related long-term debt balance on the consolidated balance sheets.

Leases. The Company assesses whether an agreement contains a lease at inception. Subsequent to the adoption of ASC 842, all leases are reviewed for finance or operating classification once control is obtained. The majority of the Company's leases are operating leases. Operating leases are included within operating lease ROU assets, other current liabilities, and operating lease liabilities on 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 on 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 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

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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 7—Leases.

Upon adoption of ASC 842 at the beginning of fiscal year 2019, the Company recognized lease liabilities and corresponding 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 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. Gains or losses (adjusted for any off-market terms) from sale-leaseback transactions subsequent to the adoption of ASC 842 are recognized immediately.

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

Advertising Costs. All advertising costs are expensed as incurred.

Cost of Sales. The Company includes the cost of food, beverage and paper, net of any discounts, in cost of sales. Cost of sales excludes depreciation and amortization expense, which are presented separately on the consolidated statement of operations.

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

Insurance. The Company is insured for workers' compensation, general liability and medical insurance claims under policies where it pays all claims, subject to stop-loss limitations both for individual claims and for general liability, medical insurance and certain workers' compensation claims in the aggregate. Losses are accrued based upon estimates of the aggregate liability for claims based on the Company's experience and certain actuarial methods used to measure such estimates. The Company does not discount any of its self-insurance obligations.

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

- *Current Assets and Liabilities.* The carrying values reported on the consolidated balance sheets of cash and restricted 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 former senior credit facility, which was considered Level 2, was based on current LIBOR rates. The fair value of the Company's former senior credit facility was approximately \$75.0 million at December 29, 2019. The carrying value of the Company's former senior credit facility was \$75.0 million at December 29, 2019.
- *Term Loan Borrowings.* The fair value of outstanding term loan borrowings under the Company's new senior credit facility, which is considered Level 2, is based on current LIBOR rates. The fair value of the Company's senior credit facility was approximately \$74.4 million at January 3, 2021. The carrying value of Company's new senior credit facility was \$71.5 million at January 3, 2021.

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

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. See Note 11—Business Segment Information.

Gift Cards. The Company sells gift cards to its customers in its restaurants and through select third parties. The Company recognizes revenue from gift cards upon redemption by the customer. For unredeemed gift cards that the Company expects to be entitled to breakage, the Company recognizes expected breakage as revenue in proportion to the pattern of redemption by the customers. The gift cards have no stated expiration dates. Revenues from unredeemed gift cards and gift card liabilities, which are recorded in other current liabilities, are not material to the Company's financial statements.

Loyalty Programs. The Company's loyalty programs for Pollo Tropical (My Pollo™) and Taco Cabana (My TC™) allow eligible customers who enroll in the program to earn points for every dollar spent. After accumulating a certain number of points, the customer earns a reward that can be used for future purchases at the Company's respective restaurants. Earned rewards generally expire 90 days after they are issued, however, certain issued rewards outstanding have expirations up to ten months from January 3, 2021. Earned points that have not been converted to rewards do not currently expire.

The Company defers revenue associated with the estimated standalone selling price of points earned by customers as each point is earned, net of points the Company does not expect to be redeemed. The estimated standalone selling price of each point earned is based on the estimated value of the reward which is expected to be redeemed.

Loyalty revenue is recognized when a customer redeems an earned reward. For unredeemed rewards that the Company expects to be entitled to breakage, the Company recognizes expected breakage as revenue in proportion to the pattern of redemption of the rewards by the customers. The costs associated with rewards are recorded when they are redeemed and are included within cost of sales on the consolidated statements of operations. Deferred revenue associated with the rewards is included within other current liabilities on the consolidated balance sheets.

Guidance Adopted in 2020. In August 2018, the Financial Accounting Standards Board ("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 Company adopted this new accounting standard

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as of December 30, 2019 and applied it prospectively to all implementation costs incurred after the date of adoption. The standard did not have a material effect on the Company's financial statements. The Company deferred and amortized application development stage costs for cloud-based computing arrangements over the life of the related service (subscription) agreement in the same line item that the fees associated with the subscription arrangement were presented prior to adoption of the new standard.

Recent Accounting Pronouncements. In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)* ("ASU No. 2019-12"), which is a part of the Simplification Initiative being undertaken by the FASB to reduce complexity of accounting standards. The amendments in this update simplify the accounting for income taxes by removing certain exceptions, the most notable for the Company being the exception to the general methodology for calculating income taxes in an interim period when the year-to-date loss exceeds the anticipated loss for the full year. The guidance will be effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted and any adjustments should be reflected as of the beginning of the annual period of adoption. Amendments relevant to the Company should be applied on a prospective basis. The impact of the standard is largely dependent on interim and anticipated profit or loss in a given period, however the Company does not expect ASU No. 2019-12 to have a significant impact on its financial statements.

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

2. Prepaid Expenses and Other Current Assets

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

	January 3, 2021	December 29, 2019
Prepaid contract expenses	\$ 4,279	\$ 4,410
Assets held for sale ⁽¹⁾	1,257	4,110
Other	2,268	2,085
	<u>\$ 7,804</u>	<u>\$ 10,605</u>

(1) As of January 3, 2021, one closed Taco Cabana restaurant property owned by the Company was classified as held for sale. As of December 29, 2019, one closed Pollo Tropical restaurant property and two closed Taco Cabana restaurant properties owned by the Company were classified as held for sale.

3. Property and Equipment

Property and equipment consisted of the following:

	January 3, 2021	December 29, 2019
Land and land improvements	\$ 2,162	\$ 21,051
Owned buildings	1,841	13,978
Leasehold improvements ⁽¹⁾	217,000	212,413
Equipment	212,526	219,610
Assets subject to finance leases	2,733	2,713
	<u>436,262</u>	<u>469,765</u>
Less accumulated depreciation and amortization	(275,181)	(257,821)
	<u>\$ 161,081</u>	<u>\$ 211,944</u>

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

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Assets subject to finance leases primarily pertain to buildings leased for certain restaurant locations and fleet vehicles, and had accumulated amortization at January 3, 2021, and December 29, 2019, of \$1.6 million and \$1.3 million, respectively.

During the year ended January 3, 2021, the Company sold 13 properties, including seven properties as a part of sale-leaseback transactions. The net proceeds of the sales were \$26.8 million and resulted in a net gain of \$(3.8) million, which is included within other expense (income), net on the consolidated statement of operations.

Depreciation and amortization expense for all property and equipment for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, was \$38.2 million, \$39.2 million, and \$37.6 million, respectively.

4. Goodwill

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

There were no changes in goodwill or goodwill impairment losses recorded during the years ended January 3, 2021 and December 30, 2018.

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 represented 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 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 at the time of acquisition 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.

The Company's annual goodwill impairment assessments as of January 3, 2021, and December 29, 2019, were performed using a qualitative assessment, which included examining key events and circumstances affecting fair value and indicated that it is more likely than not that the Pollo Tropical reporting unit's fair value is greater than its carrying value. There were no changes in goodwill or goodwill impairment losses for the Pollo Tropical reporting unit recorded during the year ended December 29, 2019.

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A summary of changes in goodwill during the twelve months ended January 3, 2021, is as follows:

	Pollo Tropical	Taco Cabana⁽¹⁾	Total
Balance at December 30, 2018:			
Goodwill, gross	\$ 56,307	\$ 67,177	\$ 123,484
Accumulated impairment losses	—	—	—
Goodwill	56,307	67,177	123,484
Impairment charges ⁽¹⁾	—	(67,177)	(67,177)
Balance at December 29, 2019:			
Goodwill, gross	56,307	67,177	123,484
Accumulated impairment losses ⁽¹⁾	—	(67,177)	(67,177)
Goodwill	56,307	—	56,307
Balance at January 3, 2021:			
Goodwill, gross	56,307	67,177	123,484
Accumulated impairment losses ⁽¹⁾	—	(67,177)	(67,177)
Goodwill	<u>\$ 56,307</u>	<u>\$ —</u>	<u>\$ 56,307</u>

(1) Impairment charges for the year ended December 29, 2019, and accumulated impairment losses at January 3, 2021 and December 29, 2019, represent the full goodwill balance of the Taco Cabana reporting unit. Impairment charges during the year ended December 29, 2019, include \$0.7 million previously classified as an intangible asset and included in other assets.

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

The Company reviews its long-lived assets, principally property and equipment and lease ROU assets, for impairment at the restaurant level. The Company has elected to exclude operating lease payments and liabilities from future cash flows and carrying values, respectively, in its impairment review. In addition to considering management's plans, known regulatory or governmental actions and damage due to acts of God (hurricanes, tornadoes, etc.), the Company considers a triggering event to have occurred related to a specific restaurant if the restaurant's cash flows, exclusive of operating lease payments, for the last twelve months are less than a minimum threshold or if consistent levels of cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. If an indicator of impairment exists for any of its assets, an estimate of undiscounted future cash flows, exclusive of operating lease payments, over the life of the primary asset for each restaurant is compared to that long-lived asset group's carrying value, excluding operating lease liabilities. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. There is uncertainty in the projected undiscounted future cash flows used in the Company's impairment review analysis. If actual performance does not achieve the projections, the Company may recognize impairment charges in future periods, and such charges could be material. Prior to the adoption of ASC 842 on December 31, 2018, for closed restaurant locations, the Company reviewed the future minimum lease payments and related ancillary costs from the date of the restaurant closure to the end of the remaining lease term and recorded a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries.

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

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Pollo Tropical	\$ 8,023	\$ 15	\$ 13,587
Taco Cabana	1,116	13,086	7,557
	<u>\$ 9,139</u>	<u>\$ 13,101</u>	<u>\$ 21,144</u>

In December 2018, based on a restaurant portfolio examination, the Company closed 14 Pollo Tropical restaurants and nine Taco Cabana restaurants. The Company also closed two Taco Cabana restaurants in the second quarter of 2018 as a result of the sale of a property and a lease termination, one Taco Cabana restaurant in the fourth quarter of 2019 as a result of a lease termination, and 19 Taco Cabana restaurants in January 2020 as a result of a restaurant portfolio review. Additionally, the Company closed one Pollo Tropical restaurant in the first quarter of 2020 as a result of a lease termination, one Pollo Tropical restaurant and one Taco Cabana restaurant as the result of the sale of a property and two Pollo Tropical restaurants as a result of a limited restaurant portfolio review in the third quarter of 2020, and two Taco Cabana restaurants in the fourth quarter of 2020 as the result of the sale of a property and a lease termination.

Impairment and other lease charges for the twelve months ended January 3, 2021, consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$7.3 million and \$1.1 million, respectively, and other lease charges for Pollo Tropical of \$0.7 million. Impairment charges in 2020, which also included right-of-use asset impairment, were related primarily to three underperforming Pollo Tropical restaurants, two of which were closed in the third quarter of 2020, as well as two underperforming Taco Cabana restaurants, for which continued sales declines coupled with the impact of expected sales declines resulted in a decrease in the estimated future cash flows. Additionally, impairment charges consisted of the write-down of saucing islands and self-service soda machines that were removed from Pollo Tropical dining rooms as a result of COVID-19 and the write-down of assets held for sale to their fair value less costs to sell for Pollo Tropical and Taco Cabana. Other lease charges in 2020 related primarily to lease termination charges of \$0.9 million for Pollo Tropical restaurant locations the Company decided not to develop and other lease termination charges of \$0.2 million, net of a gain from lease terminations of \$(0.4) million.

Impairment and other lease charges for the twelve months ended December 29, 2019, consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of \$0.8 million and \$13.2 million, respectively, and net lease charge recoveries for Pollo Tropical and Taco Cabana restaurants of \$(0.8) million and \$(0.1) million, respectively. Impairment charges in 2019, which also included right-of-use asset impairment, were related primarily to 19 Taco Cabana restaurants that were subsequently closed in 2020, five of which were initially impaired in prior years, as well as previously closed Pollo Tropical restaurants and other underperforming Taco Cabana restaurants that the Company continued to operate. Net lease charge recoveries in 2019 were related primarily to lease terminations for previously closed restaurants.

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

The Company determined the fair value of restaurant equipment, for those restaurants reviewed for impairment, based on current economic conditions, the Company's history of using these assets in the operation of its business and the Company's expectation of how a market participant would value the assets. In addition, for those restaurants reviewed for impairment where the Company owns the land and building, the Company utilized third-party information such as a broker quoted value to determine the fair value of the property. The Company also utilized discounted future cash flows to determine the fair value of assets for certain leased restaurants with positive discounted projected future cash flows. The Company utilized current market lease rent and discount rates to determine the fair value of right-of-use lease assets. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. The Level 3 assets measured at fair value associated with impairment charges recorded during the twelve months ended January 3, 2021, and December 29, 2019, totaled \$2.8 million and \$5.8 million, respectively.

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6. Other Liabilities

Other current liabilities consist of the following:

	January 3, 2021	December 29, 2019
Operating lease liabilities	\$ 19,803	\$ 22,338
Accrued workers' compensation and general liability claims	3,619	4,354
Sales and property taxes	2,347	1,889
Accrued occupancy costs	330	891
Other	3,620	2,797
	<u>\$ 29,719</u>	<u>\$ 32,269</u>

Other non-current liabilities consist of the following:

	January 3, 2021	December 29, 2019
Accrued workers' compensation and general liability claims	6,791	7,348
Accrued payroll taxes ⁽¹⁾	3,003	—
Deferred compensation	491	424
Other	1,245	633
	<u>\$ 11,530</u>	<u>\$ 8,405</u>

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

The following table presents the activity in the closed restaurant reserve, which is included within other current liabilities on the consolidated balance sheets at January 3, 2021 and December 29, 2019.

	Year Ended	
	January 3, 2021	December 29, 2019
Balance, beginning of period	\$ 752	\$ 8,819
Payments, net	(259)	(1,405)
Other adjustments ⁽¹⁾	(275)	(6,662)
Balance, end of period	<u>\$ 218</u>	<u>\$ 752</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 \$6.0 million was reclassified and included as a component of the related ROU assets during the twelve months ended December 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.

7. 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 January 3, 2021, the Company's leases have remaining lease terms of 0.1 years to 21.4 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.

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During fiscal 2020, the Company completed seven sale-leaseback transactions with third parties, with transactions for two Pollo Tropical properties occurring in the third quarter of 2020 and transactions for three Pollo Tropical properties and two Taco Cabana properties occurring in the fourth quarter of 2020. The sale-leaseback transactions do not provide for any continuing involvement by the Company other than normal leases where the Company intends to use the property during the lease term. The net proceeds of the sales were \$17.2 million which resulted in a net gain of \$3.0 million which is included within other expense (income), net on the consolidated statement of operations. The leases have initial terms of 20 years plus renewal options and have been accounted for as operating leases.

Lease expense consisted of the following:

	Year Ended	
	January 3, 2021	December 29, 2019
Operating lease cost	\$ 45,746	\$ 45,414
Finance lease costs:		
Amortization of right-of-use assets	\$ 272	\$ 202
Interest on lease liabilities	219	226
Total finance lease costs	\$ 491	\$ 428
Variable lease costs	\$ 12,605	\$ 12,050
Sublease income	(5,300)	(4,037)
Total lease costs	<u>\$ 53,542</u>	<u>\$ 53,855</u>

FIESTA RESTAURANT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Supplemental balance sheet information related to leases is as follows:

	January 3, 2021	December 29, 2019
Operating Leases		
Operating lease right-of-use assets	\$ 261,304	\$ 251,272
Other current liabilities	\$ 19,803	\$ 22,338
Operating lease liabilities	268,086	256,798
Total operating lease liabilities	\$ 287,889	\$ 279,136
Finance Leases		
Property and equipment, gross	\$ 2,733	\$ 2,713
Accumulated amortization	(1,599)	(1,323)
Property and equipment, net	\$ 1,134	\$ 1,390
Current portion of long-term debt	\$ 265	\$ 212
Long-term debt, net of current portion	1,593	1,823
Total finance lease liabilities	\$ 1,858	\$ 2,035
Weighted Average Remaining Lease Term (in Years)		
Operating leases	11.6	12.1
Finance leases	6.7	7.9
Weighted Average Discount Rate		
Operating leases	7.60 %	7.67 %
Finance leases	11.89 %	12.67 %

FIESTA RESTAURANT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Supplemental cash flow information related to leases is as follows:

	Year Ended	
	January 3, 2021	December 29, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 47,232	\$ 41,216
Operating cash flows for finance leases	219	226
Financing cash flows for finance leases	237	164
Right-of-use assets obtained in exchange for lease liabilities:		
Operating lease ROU assets	37,616	12,654
Finance lease ROU assets	33	495
Right-of-use assets and lease liabilities reduced for terminated leases:		
Operating lease ROU assets	2,726	4,372
Operating lease liabilities	3,188	5,126
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
2021	\$ 40,741	\$ 455
2022	43,508	484
2023	40,578	437
2024	37,439	352
2025	35,986	293
Thereafter	252,236	713
Total lease payments	450,488	2,734
Less amount representing interest	(162,599)	(876)
Total discounted lease liabilities	287,889	1,858
Less current portion	(19,803)	(265)
Long-term portion of lease liabilities	\$ 268,086	\$ 1,593

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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 January 3, 2021, the Company's subleases have remaining sublease terms of 1.3 years to 18.4 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
2021	\$ 5,004
2022	4,971
2023	4,967
2024	5,024
2025	5,146
Thereafter	41,798
Total	\$ 66,910

Total rent expense on operating leases, including contingent rentals, prior to the adoption of ASC 842 was as follows:

	Year Ended
	December 30, 2018
Minimum rent on real property, excluding rent included in pre-opening costs	\$ 35,881
Additional rent based on percentage of sales	153
Restaurant rent expense	36,034
Rent included in pre-opening costs	861
Administrative and equipment rent	850
	\$ 37,745

8. Long-Term Debt

Long-term debt at January 3, 2021 and December 29, 2019, consisted of the following:

	January 3, 2021	December 29, 2019
Term loan facility	\$ 75,000	\$ —
Revolving credit facility	—	75,000
Finance leases	1,858	2,035
	76,858	77,035
Less: current portion of long-term debt	(1,015)	(212)
Less: unamortized discount and debt issuance costs	(3,515)	—
	\$ 72,328	\$ 76,823

New Senior Credit Facility. On November 23, 2020, the Company terminated its former senior secured revolving credit facility, referred to as the "former senior credit facility," and entered into a new senior secured credit facility among the Company and the lenders, which is referred to as the "new senior credit facility." The new senior credit facility is comprised of a term loan facility (the "term loan facility") of \$75.0 million and a revolving credit facility (the "revolving credit facility") of up to \$10.0 million and matures on November 23, 2025. The new senior credit facility also provides for potential incremental

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term loan borrowing increases of up to \$37.5 million in the aggregate, subject to, among other items, compliance with a minimum Total Leverage Ratio and other terms specified in the new senior credit facility. On January 3, 2021, there were \$75.0 million in outstanding borrowings, subject to an original issue discount, under the term loan facility and no borrowings under the revolving credit facility.

Under the new senior credit facility, the Company must repay the unpaid principal amount of the term loan facility quarterly which commences on March 31, 2021, in an amount equal to 0.25% of the aggregate principal amount of the term loan facility on the effective date of the new senior credit facility, resulting in annual mandatory principal repayments of \$0.8 million.

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

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

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

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

The outstanding borrowings under the revolving credit facility are prepayable without penalty or premium (other than customary breakage costs). The outstanding borrowings under the term loan facility are voluntarily prepayable by the Company, and the new senior credit facility requires that proceeds received when certain prepayment events (as defined in the new senior credit facility) occur must be used to reduce the outstanding revolver and term loan borrowings under the new senior credit facility. Voluntary and mandatory prepayments of the term loan facility are subject to payment of an Applicable Premium as defined under the new senior credit facility.

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

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

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

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

As of January 3, 2021, the Company was in compliance with the financial covenants under its new senior credit facility. At January 3, 2021, \$10.0 million was available for borrowing under the revolving credit facility.

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At January 3, 2021, principal payments required on borrowings under the new senior credit facility over each of the following five years are as follows:

	Term Loan
2021	\$ 750
2022	750
2023	750
2024	750
2025	72,000
Total	<u>\$ 75,000</u>

Interest expense on the Company's long-term debt, was \$4.7 million, \$3.7 million and \$3.9 million for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, respectively.

Former Amended Senior Credit Facility. On July 10, 2020, the Company entered into the Second Amendment to Credit Agreement (the former credit agreement as amended, the "former amended senior credit facility") among the Company and a syndicate of lenders. The former amended senior credit facility was scheduled to mature on November 30, 2022. The former amended senior credit facility included adjustments to the Adjusted Leverage Ratio and Fixed Charge Coverage Ratio (each as amended and defined in the former amended senior credit facility) that were more reflective of the then-current sales and profit trends. Until its termination in November 2020, the only applicable financial covenants under the Company's former amended senior credit facility that required compliance were a minimum liquidity covenant and a maximum capital expenditure covenant discussed below. The former amended senior credit facility reduced the aggregate maximum commitments available for revolving credit borrowings (including standby letters of credit) under the former amended senior credit facility from \$150.0 million to \$95.0 million in a phased reduction beginning with a \$30.0 million permanent reduction that occurred on July 10, 2020. The former amended senior credit facility was terminated on November 23, 2020 and replaced with the new senior credit facility discussed above.

The former amended senior credit facility provided that the Company was not required to be in compliance with the Adjusted Leverage Ratio and Fixed Charge Coverage Ratio under the former amended senior credit facility from July 10, 2020 through April 3, 2021. The former amended senior credit facility also provided that the Company maintain minimum liquidity (as defined and provided in the former amended senior credit facility, generally unrestricted cash plus available borrowings under the former amended senior credit facility).

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

- 1) the Alternate Base Rate plus the Applicable Rate of 4.00% with a minimum Alternate Base Rate of 2.00%, or
- 2) the Adjusted LIBOR Rate plus the Applicable Rate of 5.00% with a minimum Adjusted LIBOR Rate of 1.00%.

In addition, the former amended senior credit facility required the Company to pay (i) a commitment fee of 0.50% per annum on the daily amount of the unused portion of the facility and (ii) a letter of credit participation fee based on the applicable LIBOR margin and the dollar amount of outstanding letters of credit.

Former Senior Credit Facility. The former senior credit facility was entered into in November 2017, provided for aggregate revolving credit borrowings of up to \$150.0 million (including up to \$15.0 million available for letters of credit) and was scheduled to mature on November 30, 2022. The former senior credit facility also provided for potential incremental increases of up to \$50.0 million to the revolving credit borrowings available under the former senior credit facility. The former senior secured credit facility was amended on July 10, 2020 before being terminated on November 23, 2020 and replaced with the new senior credit facility discussed above.

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

- 1) the Alternate Base Rate plus the applicable margin of 0.75% to 1.50% based on the Company's Adjusted Leverage Ratio, or
- 2) the LIBOR Rate plus the applicable margin of 1.75% to 2.50% based on the Company's Adjusted Leverage Ratio.

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

The Company recognized a loss on extinguishment of debt totaling \$1.2 million for unamortized deferred financing costs related to the capacity reduction and termination of its former senior credit facility.

9. Income Taxes

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

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Current:			
Federal	\$ (8,320)	\$ (2,347)	\$ (10,378)
Foreign	278	336	355
State	390	492	421
	<u>(7,652)</u>	<u>(1,519)</u>	<u>(9,602)</u>
Deferred:			
Federal	632	(2,132)	6,591
State	(380)	(425)	297
	<u>252</u>	<u>(2,557)</u>	<u>6,888</u>
Valuation allowance	(902)	13,445	(58)
	<u>\$ (8,302)</u>	<u>\$ 9,369</u>	<u>\$ (2,772)</u>

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Deferred income taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred income tax assets and liabilities at January 3, 2021, and December 29, 2019, were as follows:

	January 3, 2021	December 29, 2019
Deferred income tax assets:		
Accrued vacation benefits	\$ 833	\$ 875
Incentive compensation	1,564	1,024
Other accruals	2,460	2,804
Operating lease liabilities	68,216	65,251
Occupancy costs	51	175
Tax credit carryforwards	1,776	1,949
Federal net operating loss	—	2,770
Other	2,856	973
Gross deferred income tax assets	<u>77,756</u>	<u>75,821</u>
Deferred income tax liabilities:		
Right-of-use operating lease assets	(60,860)	(58,524)
Property and equipment depreciation	(6,191)	(6,509)
Amortization of other intangibles, net	(49)	(34)
Cloud-based software deferred costs	(1,083)	(990)
Other	(461)	(400)
Gross deferred income tax liabilities	<u>(68,644)</u>	<u>(66,457)</u>
Less: Valuation allowance	(13,221)	(14,123)
Net deferred income tax liabilities	<u>\$ (4,109)</u>	<u>\$ (4,759)</u>

The Company establishes a valuation allowance to reduce the carrying amount of deferred income tax assets when it is more likely than not that it will not realize some portion or all of the tax benefit of its deferred tax assets. The Company evaluates whether its deferred income tax assets are probable of realization on a quarterly basis. In performing this analysis, the Company considers all available positive and negative evidence including historical operating results, the estimated timing of future reversals of existing taxable temporary differences and, when appropriate, estimated future taxable income exclusive of reversing temporary differences and carryforwards. In 2019, the Company determined that it was more likely than not that its deferred tax assets would not be fully realized in future periods and established a valuation allowance of \$10.3 million against federal deferred tax assets and \$3.2 million against state deferred tax assets. At January 3, 2021, and December 29, 2019, the Company had a valuation allowance of \$13.2 million and \$14.1 million, respectively, against deferred income tax assets where it was determined to be more likely than not that the deferred income tax assets will not be realized through the reversal of existing deferred tax liabilities. The valuation allowance decreased \$0.9 million in 2020 as a result of changes in the Company's deferred tax assets and liabilities and increased \$13.4 million in 2019 as a result of establishing a valuation allowance in the fourth quarter of 2019. The Company's ability to utilize deferred income tax assets and estimate future taxable income for federal and state purposes can significantly change based on future events and operating results.

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The Company's effective tax rate was 44.8%, (12.5)%, and (55.3)% for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, respectively. A reconciliation of the statutory federal income tax provision (benefit) to the effective tax provision (benefit) was as follows:

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Statutory federal income tax provision (benefit)	\$ (3,888)	\$ (15,753)	\$ 1,053
State income taxes, net of federal benefit	8	49	552
Change in valuation allowance	(902)	13,445	(58)
Change in federal income tax rate and tax methods	(3,846)	(716)	(3,977)
Net share-based compensation-tax benefit deficiencies	352	235	178
Non-deductible goodwill	—	12,357	—
Non-deductible expenses	139	214	53
Foreign taxes	278	336	355
Employment tax credits	(325)	(381)	(897)
Foreign tax credits/deductions	(241)	(71)	(75)
Other	123	(346)	44
	<u>\$ (8,302)</u>	<u>\$ 9,369</u>	<u>\$ (2,772)</u>

Tax Law Changes. In 2018, in conjunction with a cost segregation study conducted prior to filing its 2017 federal income tax return, the Company changed the depreciation method for certain assets for federal income tax purposes to accelerate tax deductions. Changes in the Company's 2017 federal income tax return from the amounts recorded as of December 31, 2017 were primarily the result of changing the depreciable lives of assets for federal income tax purposes. These changes allowed the Company to record an incremental benefit of \$4.0 million during the twelve months ended December 30, 2018.

On March 27, 2020, the CARES Act was signed into law. The CARES Act includes provisions that allow net operating losses in 2018, 2019, and 2020 to be carried back for up to five years and eliminates the 80% taxable income limitation on net operating loss deductions for 2018 through 2020. The CARES Act also includes technical amendments that are retroactive to 2018 which permit certain assets to be classified as qualified improvement property and expensed immediately. These changes allowed the Company to record an incremental benefit of \$3.8 million, which represents the impact of carrying net operating losses from 2018 and 2019 back to years with a higher federal corporate income tax rate as well as reclassifying certain assets as qualified improvement property and other changes to depreciation methods for certain assets made in conjunction with a cost segregation study conducted prior to filing the Company's 2019 federal income tax return in 2020.

The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expense. As of January 3, 2021, and December 29, 2019, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions.

The Company has deferred tax benefits of \$1.3 million related to employment tax credits which, if unutilized after various times beginning in 2038, will have a reduced value of \$0.3 million. The Company also has a deferred tax benefit of \$0.4 million (for which a valuation allowance has been established) related to a Florida net operating loss carryforward that has no expiration date.

The Company is currently under examination by the Internal Revenue Service for the tax years 2015–2017. It is not currently under examination by any other taxing jurisdictions. The tax years 2013–2020 remain open to examination by the taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to uncertainties regarding the timing of any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

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10. Stockholders' Equity

Purchase of Treasury Stock

In 2018, the Company's board of directors approved a share repurchase program for up to 1,500,000 shares of the Company's common stock. In 2019, the Company's board of directors approved increases to the share repurchase program of an additional 1,500,000 shares of the Company's common stock for an aggregate approval of 3,000,000 shares of the Company's common stock. Under the share repurchase program, shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The share repurchase program has no time limit and may be modified, suspended, superseded or terminated at any time by the Company's board of directors. The Company repurchased 500,000 shares of common stock valued at approximately \$3.7 million and 1,381,137 shares of common stock valued at approximately \$14.3 million during the twelve months ended January 3, 2021, and December 29, 2019, respectively. The shares repurchased in 2020 were purchased on or before March 12, 2020. The repurchased shares are held as treasury stock at cost. The Company's new senior credit facility prohibits share repurchases, and the Company currently does not intend to repurchase additional shares of its common stock for the foreseeable future.

Stock-Based Compensation

The Company established the Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan (the "Fiesta Plan") in order to be able to compensate its employees and directors by issuing stock options, stock appreciation rights, or stock awards to them under this plan. The aggregate number of shares of stock authorized for grants or awards under the Fiesta Plan is 3,300,000. As of January 3, 2021, there were 676,853 shares available for future grants or awards under the Fiesta Plan.

During the years ended January 3, 2021; December 29, 2019; and December 30, 2018, the Company granted certain employees, and in 2019 and 2018 a consultant, in the aggregate 422,446, 243,948, and 161,791 non-vested restricted shares, respectively, under the Fiesta Plan. Shares granted to employees during the years ended January 3, 2021; December 29, 2019; and December 30, 2018, vest and become non-forfeitable over a four-year vesting period. The shares granted to the consultant vest over a three-year vesting period. Additionally, during the year ended January 3, 2021, the Company granted certain employees 366,445 non-vested restricted shares that fully vest and become non-forfeitable after two years. The weighted average fair value at the grant date for restricted non-vested shares issued during the years ended January 3, 2021; December 29, 2019; and December 30, 2018, was \$9.33 per share, \$13.06 per share, and \$18.70 per share, respectively.

During the years ended January 3, 2021; December 29, 2019; and December 30, 2018, the Company granted non-employee directors 79,260, 43,054, and 31,146 non-vested restricted shares, respectively, under the Fiesta Plan. The weighted average fair value at the grant date for restricted non-vested shares issued to directors during the twelve months ended January 3, 2021; December 29, 2019; and December 30, 2018, was \$8.16 per share, \$12.66 per share, and \$20.71 per share, respectively. These shares vest and become non-forfeitable over a one-year vesting period, or for certain grants to new directors, over a five-year vesting period.

During the years ended December 29, 2019 and December 30, 2018, the Company also granted certain employees 15,348 and 112,169 restricted stock units, respectively, under the Fiesta Plan subject to continued service requirements and market performance conditions.

- During the year ended and December 30, 2018, the Company granted certain executives 112,169 restricted stock units which vest in three tranches over a three-year vesting period subject to continued service and attainment of specified share price of the Company's common stock. Each tranche vests by the end of a one-year period if the specified target stock price condition for that year is met. If the specified target stock price condition for any tranche is not met for the year, the cumulative unearned units will be rolled over to subsequent tranches on a pro rata basis. The number of shares into which these restricted stock units convert ranges from no shares, if the service and market performance conditions are not met, to 112,169 shares, if the service and market performance conditions are met in the third year. The weighted average fair value at grant date for the restricted stock units granted to executives in the year ended December 30, 2018 was \$6.96 per share.
- During the year ended December 29, 2019, the Company granted a certain executive 15,348 restricted stock units, which vest in two tranches over a two-year vesting period subject to continued service and attainment of specified share price of the Company's common stock. Each tranche vests by the end of a one-year period if the specified target stock price condition for that year is met. If the specified target stock price condition for the first tranche is not met for the year, the cumulative unearned units will be rolled over to the subsequent tranche. The number of shares into which

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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 year ended December 29, 2019 was \$1.76 per share.

Stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable requisite service period of the award (the vesting period) using the straight-line method, or for restricted stock units subject to market performance conditions using the accelerated method. Stock-based compensation expense for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, was \$3.5 million, \$2.8 million, and \$3.5 million, respectively. As of January 3, 2021, the total unrecognized stock-based compensation expense related to non-vested shares and restricted stock units was approximately \$7.9 million. At January 3, 2021, the remaining weighted average vesting period for non-vested restricted shares was 2.3 years and restricted stock units was 0.2 years.

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

	Non-Vested Shares		Restricted Stock Units	
	Shares	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Outstanding at December 29, 2019	355,605	\$ 15.47	176,362	\$ 9.42
Granted	868,151	9.22	—	—
Vested/Released	(179,805)	15.22	(747)	32.44
Forfeited	(52,275)	11.86	(25,030)	8.33
Outstanding at January 3, 2021	991,676	\$ 10.26	150,585	\$ 9.49

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	
	Non-CEO Grant	Non-CEO Grant	Non-CEO Grant	Non-CEO Grant
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 %		

The fair value of the shares vested and released during the years ended January 3, 2021; December 29, 2019; and December 30, 2018, was \$1.2 million, \$1.8 million, and \$2.5 million, respectively.

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11. 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 the same as those described in the summary of significant accounting policies in Note 1. 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 Company has included the presentation of Adjusted EBITDA for all periods presented.

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.

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Year Ended	Pollo Tropical	Taco Cabana	Other	Consolidated
January 3, 2021:				
Restaurant sales	\$ 314,112	\$ 238,685	\$ —	\$ 552,797
Franchise revenue	1,246	760	—	2,006
Cost of sales	100,080	70,433	—	170,513
Restaurant wages and related expenses ⁽¹⁾	74,328	74,817	—	149,145
Restaurant rent expense	22,773	22,588	—	45,361
Other restaurant operating expenses	47,354	34,826	—	82,180
Advertising expense	8,384	6,455	—	14,839
General and administrative expense ⁽²⁾	28,622	24,455	—	53,077
Adjusted EBITDA	36,517	8,463	—	44,980
Depreciation and amortization	21,112	17,094	—	38,206
Capital expenditures	9,163	7,214	1,992	18,369
December 29, 2019:				
Restaurant sales	\$ 361,693	\$ 296,570	\$ —	\$ 658,263
Franchise revenue	1,780	900	—	2,680
Cost of sales	115,119	92,334	—	207,453
Restaurant wages and related expenses ⁽¹⁾	84,909	94,269	—	179,178
Restaurant rent expense	22,050	25,755	—	47,805
Other restaurant operating expenses	49,768	42,129	—	91,897
Advertising expense	12,358	10,821	—	23,179
General and administrative expense ⁽²⁾	31,023	25,172	—	56,195
Adjusted EBITDA	50,560	7,889	—	58,449
Depreciation and amortization	21,476	17,719	—	39,195
Capital expenditures	21,921	18,023	1,303	41,247
December 30, 2018:				
Restaurant sales	\$ 374,381	\$ 311,544	\$ —	\$ 685,925
Franchise revenue	1,815	857	—	2,672
Cost of sales	123,042	95,904	—	218,946
Restaurant wages and related expenses ⁽¹⁾	87,025	101,106	—	188,131
Restaurant rent expense	17,457	18,577	—	36,034
Other restaurant operating expenses	51,757	49,071	—	100,828
Advertising expense	13,068	10,627	—	23,695
General and administrative expense ⁽²⁾	29,621	24,904	—	54,525
Adjusted EBITDA	54,903	13,059	—	67,962
Depreciation and amortization	21,372	16,232	—	37,604
Capital expenditures	27,667	28,886	1,297	57,850
Identifiable Assets:				
January 3, 2021	\$ 311,905	\$ 182,009	\$ 74,829	\$ 568,743
December 29, 2019	340,012	195,883	32,746	568,641

(1) Includes stock-based compensation expense of \$200, \$195 and \$90 for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, respectively.

(2) Includes stock-based compensation expense of \$3,284, \$2,649 and \$3,379 for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, respectively.

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

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

Year Ended	Pollo Tropical	Taco Cabana	Other	Consolidated
January 3, 2021:				
Net loss				\$ (10,211)
Benefit from income taxes				(8,302)
Income (loss) before taxes	\$ 2,557	\$ (19,829)	\$ (1,241)	\$ (18,513)
Add:				
<i>Non-general and administrative expense adjustments:</i>				
Depreciation and amortization	21,112	17,094	—	38,206
Impairment and other lease charges	8,023	1,116	—	9,139
Interest expense	2,405	2,351	—	4,756
Closed restaurant rent expense, net of sublease income	2,093	4,394	—	6,487
Loss on extinguishment of debt	—	—	1,241	1,241
Other expense (income), net	(2,373)	676	—	(1,697)
Stock-based compensation expense in restaurant wages	73	127	—	200
Total non-general and administrative expense adjustments	31,333	25,758	1,241	58,332
<i>General and administrative expense adjustments:</i>				
Stock-based compensation expense	1,652	1,632	—	3,284
Restructuring costs and retention bonuses	551	556	—	1,107
Digital and brand repositioning costs	424	346	—	770
Total general and administrative expense adjustments	2,627	2,534	—	5,161
Adjusted EBITDA	<u>\$ 36,517</u>	<u>\$ 8,463</u>	<u>\$ —</u>	<u>\$ 44,980</u>
December 29, 2019:				
Net loss				\$ (84,386)
Provision for income taxes				9,369
Income (loss) before taxes	\$ 20,300	\$ (95,317)	\$ —	\$ (75,017)
Add:				
<i>Non-general and administrative expense adjustments:</i>				
Depreciation and amortization	21,476	17,719	—	39,195
Impairment and other lease charges	15	13,086	—	13,101
Goodwill impairment	—	67,909	—	67,909
Interest expense	1,953	1,919	—	3,872
Closed restaurant rent expense, net of sublease income	3,260	903	—	4,163
Other expense (income), net	862	179	—	1,041
Stock-based compensation expense in restaurant wages	70	125	—	195
Total non-general and administrative expense adjustments	27,636	101,840	—	129,476
<i>General and administrative expense adjustments:</i>				
Stock-based compensation expense	1,590	1,059	—	2,649
Restructuring costs and retention bonuses	827	137	—	964
Digital and brand repositioning costs	207	170	—	377
Total general and administrative expense adjustments	2,624	1,366	—	3,990
Adjusted EBITDA	<u>\$ 50,560</u>	<u>\$ 7,889</u>	<u>\$ —</u>	<u>\$ 58,449</u>

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

Year Ended:	Pollo Tropical	Taco Cabana	Other	Consolidated
December 30, 2018:				
Net income				\$ 7,787
Benefit from income taxes				(2,772)
Income (loss) before taxes	\$ 17,639	\$ (12,624)	\$ —	\$ 5,015
Add:				
Non-general and administrative expense adjustments:				
Depreciation and amortization	21,372	16,232	—	37,604
Impairment and other lease charges	13,587	7,557	—	21,144
Interest expense	1,920	2,046	—	3,966
Other expense (income), net	(1,225)	(1,782)	—	(3,007)
Stock-based compensation expense in restaurant wages	34	56	—	90
Total non-general and administrative expense adjustments	35,688	24,109	—	59,797
General and administrative expense adjustments:				
Stock-based compensation expense	1,885	1,494	—	3,379
Board and shareholder matter costs	(328)	(269)	—	(597)
Restructuring costs and retention bonuses	196	349	—	545
Legal settlements and related costs	(177)	—	—	(177)
Total general and administrative expense adjustments	1,576	1,574	—	3,150
Adjusted EBITDA	<u>\$ 54,903</u>	<u>\$ 13,059</u>	<u>\$ —</u>	<u>\$ 67,962</u>

12. Earnings (Loss) Per Share

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

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

Weighted average outstanding restricted stock units totaling 560 shares were not included in the computation of diluted earnings per share for the twelve months ended December 30, 2018, because including these restricted stock units would have been antidilutive. For the twelve months ended January 3, 2021 and December 29, 2019, all restricted stock units outstanding were excluded from the computation of diluted earnings per share because including restricted stock units would have been antidilutive as a result of the net loss in the period.

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

The computation of basic and diluted EPS is as follows:

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Basic and diluted EPS:			
Net income (loss)	\$ (10,211)	\$ (84,386)	\$ 7,787
Less: income allocated to participating securities	—	—	85
Net income (loss) available to common stockholders	<u>\$ (10,211)</u>	<u>\$ (84,386)</u>	<u>\$ 7,702</u>
Weighted average common shares—basic	25,341,415	26,500,356	26,890,577
Restricted stock units	—	—	3,506
Weighted average common shares—diluted	<u>25,341,415</u>	<u>26,500,356</u>	<u>26,894,083</u>
Earnings (loss) per common share—basic	<u>\$ (0.40)</u>	<u>\$ (3.18)</u>	<u>\$ 0.29</u>
Earnings (loss) per common share—diluted	<u>\$ (0.40)</u>	<u>\$ (3.18)</u>	<u>\$ 0.29</u>

13. Related Party Transactions

The Company engaged Jefferies LLC ("Jefferies"), an affiliate of two of the members of Fiesta's board of directors and a subsidiary of Jefferies Financial Group, Inc, a holder of more than 20 percent of the total outstanding shares of Fiesta, in the third quarter of 2020 in connection with a refinancing of the Company's former amended senior credit facility and other advisory services, as previously disclosed. The engagement of Jefferies and the corresponding engagement letter was approved by the Audit Committee in accordance with the Company's Related Party Transaction Policy as disclosed in its most recent proxy statement for the 2020 Annual Meeting of Stockholders. The Company paid fees of \$1.7 million to Jefferies and reimbursed Jefferies for reasonable out of pocket and ancillary expenses of less than \$0.1 million when the refinancing was completed in the fourth quarter of 2020. These payments are accounted for as debt issuance costs and are recorded as a reduction from the carrying value of the related term loan within long-term debt and as deferred financing fees related to the revolving line of credit within other assets on the consolidated balance sheet as of January 3, 2021. As of January 3, 2021, there were no amounts due to the related party recognized on the consolidated balance sheet.

14. Supplemental Cash Flow Information

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

	Year Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Supplemental cash flow disclosures:			
Interest paid on long-term debt (including capitalized interest of \$57, \$247 and \$377, respectively)	\$ 4,310	\$ 4,395	\$ 3,508
Income tax payments (refunds), net	(2,073)	(15,557)	(3,081)
Supplemental cash flow disclosures of non-cash investing and financing activities:			
Accruals for capital expenditures	\$ 1,352	\$ 4,097	\$ 6,191
Finance/capital lease obligations incurred	33	495	322
Accruals for financing costs associated with debt	277	—	—
Cash and restricted cash reconciliation:			
Cash	\$ 50,035	\$ 13,413	\$ 5,258
Restricted cash	3,584	—	—
Cash and restricted cash, end of year	<u>\$ 53,619</u>	<u>\$ 13,413</u>	<u>\$ 5,258</u>

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

15. Commitments and Contingencies

Lease Assignments. Taco Cabana assigned one lease to a third party on a property where it no longer operates with a lease term expiring in 2029. Although the assignee is responsible for making the payments required by the lease, the Company remains secondarily liable as a surety with respect to the lease. Pollo Tropical assigned one lease to a third party on a property where it no longer operates with a lease term expiring in 2033. Although 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 January 3, 2021, was \$2.9 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 legal proceedings 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. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability.

Contingency Related to Insurance Recoveries. During the third quarter of 2017, Texas and Florida were struck by Hurricane Harvey and Irma (the "Hurricanes"). Forty-three Taco Cabana and two Pollo Tropical restaurants in the Houston metropolitan area and all Pollo Tropical restaurants in Florida and the Atlanta metropolitan area were temporarily closed and affected by the Hurricanes to varying degrees. In the twelve months ended December 30, 2018, the Company received business interruption and property damage insurance settlement proceeds of \$2.8 million and \$1.7 million, respectively, and recognized other income of \$2.1 million and \$1.4 million for Pollo Tropical and Taco Cabana, respectively, related to the Hurricanes. The Company received a final settlement related to the Hurricanes as of December 30, 2018.

16. Retirement Plans

Fiesta offers certain of the Company's salaried employees the option to participate in the Fiesta Corporation Retirement Savings Plan (the "Retirement Plan"). The Retirement Plan includes a savings option pursuant to section 401(k) of the Internal Revenue Code in addition to a post-tax savings option. Fiesta may elect to contribute to the Retirement Plan on an annual basis. Contributions made by Fiesta to the Retirement Plan for the Company's employees are made after the end of each plan year. For 2019 and 2018, Fiesta's discretionary annual contribution is equal to 50% of the employee's contribution up to the first 6% of eligible compensation for a maximum Fiesta contribution of 3% of eligible compensation per participating employee. Under the Retirement Plan, Fiesta contributions prior to 2020 begin to vest after one year and fully vest after five years of service. A year of service is defined as a plan year during which an employee completes at least 1,000 hours of service. For 2020, Fiesta's discretionary contribution is equal to 100% of the first 3% of eligible compensation plus 50% of the next 2% of eligible compensation through the second quarter of 2020. On July 1, 2020, the Company suspended its employer matching contribution through the end of the year as a result of the COVID-19 Pandemic. Fiesta contributions for 2020 will vest immediately. Participating employees may contribute up to 50% of their salary annually to either of the savings options, subject to other limitations. The employees have various investment options available under a trust established by the Retirement Plan. Retirement Plan employer matching expense for the years ended January 3, 2021; December 29, 2019; and December 30, 2018, was \$0.3 million, \$0.4 million and \$0.5 million respectively.

Fiesta also has a Deferred Compensation Plan which permits employees not eligible to participate in the Retirement Plan because they have been excluded as "highly compensated" employees (as so defined in the Retirement Plan) to voluntarily defer portions of their base salary and annual bonus. All amounts deferred by the participants earn interest at 8% per annum. There is no Company matching on any portion of the funds. At January 3, 2021, and December 29, 2019, a total of \$0.5 million and \$0.4 million, respectively, was deferred by the Company's employees under the Deferred Compensation Plan, including accrued interest.

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

17. Selected Quarterly Financial and Earnings Data (Unaudited)

	Year Ended January 3, 2021			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 146,699	\$ 121,868	\$ 137,332	\$ 148,904
Income (loss) from operations ⁽¹⁾	(9,361)	(8,849)	1,822	3,872
Net income (loss) ⁽²⁾	(7,317)	(8,343)	4,593	856
Earnings (loss) per common share—basic	\$ (0.29)	\$ (0.33)	\$ 0.18	\$ 0.03
Earnings (loss) per common share—diluted	(0.29)	(0.33)	0.18	0.03

	Year Ended December 29, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 165,852	\$ 171,381	\$ 164,248	\$ 159,462
Income (loss) from operations ⁽¹⁾	4,469	(41,850)	(24,305)	(9,459)
Net income (loss)	2,289	(43,440)	(22,182)	(21,053)
Earnings (loss) per common share—basic	\$ 0.08	\$ (1.62)	\$ (0.84)	\$ (0.82)
Earnings (loss) per common share—diluted	0.08	(1.62)	(0.84)	(0.82)

(1) The Company recognized impairment and other lease charges of \$4.2 million, \$2.3 million, \$2.4 million and \$0.2 million in the first, second, third and fourth quarters of 2020, respectively, and \$(0.3) million, \$1.8 million, \$3.3 million and \$8.4 million in the first, second, third and fourth quarters of 2019, respectively. See Note 5—Impairment of Long-lived Assets and Other Lease Charges. The Company recognized goodwill impairment charges of \$46.5 million (which was not tax deductible) and \$21.4 million (of which \$9.1 million was tax deductible) in the second and third quarters of 2019, respectively.

(2) The Company recorded a valuation allowance on its deferred income tax assets, which resulted in a \$13.5 million increase in income taxes in the fourth quarter of 2019.

18. Subsequent Events

Subsequent to January 3, 2021, the Company sold one restaurant property in a sale-leaseback transaction for total net proceeds of \$1.3 million.

FIESTA RESTAURANT GROUP, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(In thousands of dollars)

Description	Column B	Column C		Column D	Column E
	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deduction	Balance at end of period
Year ended January 3, 2021:					
Deferred income tax valuation allowance	\$ 14,123	\$ (902)	\$ —	\$ —	\$ 13,221
Year ended December 29, 2019:					
Deferred income tax valuation allowance	678	13,445	—	—	14,123
Year ended December 30, 2018:					
Deferred income tax valuation allowance	736	(58)	—	—	678

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 4th day of March 2021.

FIESTA RESTAURANT GROUP, INC.

Date: March 4, 2021

/s/ RICHARD C. STOCKINGER

(Signature)

Richard C. Stockinger
Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ STACEY RAUCH</u> Stacey Rauch	Director and Chairman of the Board of Directors	<u>March 4, 2021</u>
<u>/s/ RICHARD C. STOCKINGER</u> Richard C. Stockinger	Chief Executive Officer, President and Director	<u>March 4, 2021</u>
<u>/s/ DIRK MONTGOMERY</u> Dirk Montgomery	Senior Vice President, Chief Financial Officer, and Treasurer	<u>March 4, 2021</u>
<u>/s/ CHERI KINDER</u> Cheri Kinder	Vice President, Corporate Controller, and Chief Accounting Officer	<u>March 4, 2021</u>
<u>/s/ NICHOLAS DARAVIRAS</u> Nicholas Daraviras	Director	<u>March 4, 2021</u>
<u>/s/ STEPHEN P. ELKER</u> Stephen P. Elker	Director	<u>March 4, 2021</u>
<u>/s/ BRIAN P. FRIEDMAN</u> Brian P. Friedman	Director	<u>March 4, 2021</u>
<u>/s/ NICHOLAS P. SHEPHERD</u> Nicholas P. Shepherd	Director	<u>March 4, 2021</u>
<u>/s/ PAUL E. TWOHIG</u> Paul E. Twohig	Director	<u>March 4, 2021</u>
<u>/s/ SHERRILL KAPLAN</u> Sherrill Kaplan	Director	<u>March 4, 2021</u>
<u>/s/ ANDREW RECHTSCHAFFEN</u> Andrew Rechtschaffen	Director	<u>March 4, 2021</u>

August 5, 2019

Dear Ms. Hope Diaz:

I am pleased to extend this conditional offer of employment as Chief Marketing Officer with Fiesta Restaurant Group, Inc. {"Fiesta"}, reporting to Rich Stockinger, President and Chief Executive Officer. Your new office will be located at 7255 Corporate Center Drive, Miami, Florida 33126. I propose a start date of September 14, 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 \$325,000. You will be paid biweekly.

Discretionary Bonus

Your bonus target is equal to 60% 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 \$150,000 to be paid on or before March 15, 2020. In the event you voluntarily terminate from the Company other than for Good Reason (as defined in the Severance Agreement described below) within one year of the payment date of the sign on bonus, the sign on bonus must be refunded 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.

Special Retention Bonus

You are eligible for a one-time special incentive bonus of \$375,000 to be paid over five (5) years in equal annual installments of \$75,000 per year. The first payment will be on January 1, 2020. You will earn each installment 12 months after it is paid. In the event you voluntarily terminate from the Company prior to your final incentive payment you will forfeit any future payments and you will be required to refund any unearned payment to the Company. 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.

Long Term Incentive Plan

Commencing in 2020, you will be eligible for annual equity grants of approximately \$227,500, 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.

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 three (3) 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 (bold items will be provided):

- 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.

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/ Anthony D. Dinkins

Anthony D. Dinkins

Senior Vice President, Human Resources

Fiesta Restaurant Group, Inc.

Accepted:

/s/ Hope Diaz

Hope Diaz

August 6, 2019

Date

FIESTA RESTAURANT GROUP, INC.
Subsidiaries

Name	State of Incorporation or Organization
Pollo Franchise, Inc.	Florida
Pollo Operations, Inc.	Florida
Pollo Tropical Management, LLC	Texas
Pollo Tropical Beverages, LLC	Texas
Taco Cabana, Inc.	Delaware
Cabana Grill, Inc.	Delaware
TP Acquisition Corp.	Texas
T.C. Management, Inc.	Delaware
Texas Taco Cabana, L.P.	Texas
Cabana Bevco LLC	Texas
TC Bevco LLC	Texas
Cabana Beverages, Inc.	Texas
TPAQ Holding Corporation	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-248840, 333-192254 and 333-184866 on Form S-3, and Registration Statement No. 333-181954 on Form S-8 of our reports dated March 4, 2021, relating to the financial statements of Fiesta Restaurant Group, Inc., and the effectiveness of Fiesta Restaurant Group, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K for the year ended January 3, 2021.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 4, 2021

CERTIFICATIONS

I, Richard C. Stockinger, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended January 3, 2021 of Fiesta Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2021

/s/ RICHARD C. STOCKINGER

Richard C. Stockinger
Chief Executive Officer

CERTIFICATIONS

I, Dirk Montgomery, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended January 3, 2021 of Fiesta Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2021

/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 Annual Report on Form 10-K for the period ended January 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Annual 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 Annual 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

March 4, 2021

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 Annual Report on Form 10-K for the period ended January 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Annual 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 Annual 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

March 4, 2021