UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2017

OR

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

Commission File Number: 001-35373

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

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if smaller reporting company)	
		Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of May 3, 2017 , Fiesta Restaurant Group, Inc. had 27,063,649 shares of its common stock, $.01 par value, outstanding.

FIESTA RESTAURANT GROUP, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED APRIL 2, 2017

PART I—FINANCIAL INFORMATION

ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	April 2, 2017	January 1, 2017
ASSETS		
Current assets:		
Cash	$ 7,712	$ 4,196
Trade receivables	9,207	8,771
Inventories	2,688	2,865
Prepaid rent	3,639	3,575
Income tax receivable	210	3,304
Prepaid expenses and other current assets	5,908	4,231
Total current assets	29,364	26,942
Property and equipment, net	241,705	270,920
Goodwill	123,484	123,484
Deferred income taxes	26,225	14,377
Other assets	5,867	5,842
Total assets	$ 426,645	$ 441,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 91	$ 89
Accounts payable	14,481	16,165
Accrued payroll, related taxes and benefits	12,999	12,275
Accrued real estate taxes	3,537	6,924
Other liabilities	12,455	11,316
Total current liabilities	43,563	46,769
Long-term debt, net of current portion	74,399	71,423
Lease financing obligations	1,664	1,664
Deferred income—sale-leaseback of real estate	26,264	27,165
Other liabilities	30,967	30,369
Total liabilities	176,857	177,390
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $.01; authorized 100,000,000 shares, issued 27,063,800 and 26,884,992 shares, respectively, and outstanding 26,787,205 and 26,755,640 shares, respectively.	268	267
Additional paid-in capital	163,923	163,204
Retained earnings	85,597	100,704
Total stockholders' equity	249,788	264,175
Total liabilities and stockholders' equity	$ 426,645	$ 441,565

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

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED APRIL 2, 2017 AND APRIL 3, 2016
(In thousands of dollars, except share and per share amounts)
(Unaudited)

	Three Months Ended	
	April 2, 2017	**April 3, 2016**
Revenues:		
Restaurant sales	$ 174,977	$ 175,939
Franchise royalty revenues and fees	630	738
Total revenues	175,607	176,677
Costs and expenses:		
Cost of sales	50,948	54,050
Restaurant wages and related expenses (including stock-based compensation expense of $109 and $36, respectively)	48,132	45,052
Restaurant rent expense	9,862	8,921
Other restaurant operating expenses	24,068	22,388
Advertising expense	7,539	6,995
General and administrative (including stock-based compensation expense of $537 and $975, respectively)	16,008	13,848
Depreciation and amortization	9,186	8,336
Pre-opening costs	424	1,182
Impairment and other lease charges	32,414	12
Other expense (income), net	144	(248)
Total operating expenses	198,725	160,536
Income (loss) from operations	(23,118)	16,141
Interest expense	584	558
Income (loss) before income taxes	(23,702)	15,583
Provision for (benefit from) income taxes	(8,642)	5,688
Net income (loss)	$ (15,060)	$ 9,895
Basic net income (loss) per share	$ (0.56)	$ 0.37
Diluted net income (loss) per share	$ (0.56)	$ 0.37
Basic weighted average common shares outstanding	26,774,103	26,605,717
Diluted weighted average common shares outstanding	26,774,103	26,612,021

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

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED APRIL 2, 2017 AND APRIL 3, 2016
(In thousands of dollars, except share amounts)
(Unaudited)

	Number of Common Stock Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at January 3, 2016	26,571,602	$ 266	$ 159,724	$ 83,992	$ 243,982
Stock-based compensation	—	—	1,011	—	1,011
Vesting of restricted shares	59,040	—	—	—	—
Tax deficiency from stock-based compensation			(43)		(43)
Net income	—	—	—	9,895	9,895
Balance at April 3, 2016	26,630,642	$ 266	$ 160,692	$ 93,887	$ 254,845
Balance at January 1, 2017	26,755,640	$ 267	$ 163,204	$ 100,704	$ 264,175
Stock-based compensation	—	—	646	—	646
Vesting of restricted shares	31,565	1	—	—	1
Cumulative effect of adopting a new accounting standard (Note 1)			73	(47)	26
Net loss	—	—	—	(15,060)	(15,060)
Balance at April 2, 2017	26,787,205	$ 268	$ 163,923	$ 85,597	$ 249,788

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

FIESTA RESTAURANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED APRIL 2, 2017 AND APRIL 3, 2016
(In thousands of dollars)
(Unaudited)

	Three Months Ended	
	April 2, 2017	April 3, 2016
Cash flows from operating activities:		
Net income (loss)	$ (15,060)	$ 9,895
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss (gain) on disposals of property and equipment	838	(39)
Stock-based compensation	646	1,011
Impairment and other lease charges	32,414	12
Depreciation and amortization	9,186	8,336
Amortization of deferred financing costs	77	77
Amortization of deferred gains from sale-leaseback transactions	(901)	(901)
Deferred income taxes	(11,848)	—
Changes in other operating assets and liabilities	(3,140)	(380)
Net cash provided from operating activities	12,212	18,011
Cash flows from investing activities:		
Capital expenditures:		
New restaurant development	(8,571)	(14,086)
Restaurant remodeling	(217)	(243)
Other restaurant capital expenditures	(1,689)	(910)
Corporate and restaurant information systems	(1,197)	(1,552)
Total capital expenditures	(11,674)	(16,791)
Properties purchased for sale-leaseback	—	(2,663)
Proceeds from disposals of other properties	—	236
Net cash used in investing activities	(11,674)	(19,218)
Cash flows from financing activities:		
Excess tax benefit from vesting of restricted shares	—	92
Borrowings on revolving credit facility	5,000	6,400
Repayments on revolving credit facility	(2,000)	(6,500)
Principal payments on capital leases	(22)	(13)
Net cash provided by (used in) financing activities	2,978	(21)
Net increase (decrease) in cash	3,516	(1,228)
Cash, beginning of period	4,196	5,281
Cash, end of period	$ 7,712	$ 4,053
Supplemental disclosures:		
Interest paid on long-term debt	$ 522	$ 473
Interest paid on lease financing obligations	$ 36	$ 35
Accruals for capital expenditures	$ 6,754	$ 7,764
Income tax payments, net	$ 86	$ 282

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

FIESTA RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except share and per share amounts)

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, 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 April 2, 2017 , the Company owned and operated 180 Pollo Tropical ® restaurants and 167 Taco Cabana ® restaurants. The Pollo Tropical restaurants included 131 located in Florida, 30 located in Texas, 16 located in Georgia and three located in Tennessee. The Taco Cabana restaurants included 166 located in Texas and one located in Oklahoma. At April 2, 2017 , the Company franchised a total of 34 Pollo Tropical restaurants and seven Taco Cabana restaurants. The franchised Pollo Tropical restaurants included 17 in Puerto Rico, one in the Bahamas, two in Guyana, one in Venezuela, four in Panama, two in Guatemala, and seven on college campuses and at a hospital in Florida. The franchised Taco Cabana restaurants included five in New Mexico and two on college campuses in Texas.

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

Fiscal Year . The Company uses a 52 - 53 week fiscal year ending on the Sunday closest to December 31. The fiscal year ended January 1, 2017 contained 52 weeks. The three months ended April 2, 2017 and April 3, 2016 each contained thirteen weeks. The fiscal year ending December 31, 2017 will contain 52 weeks.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements for the three months ended April 2, 2017 have been prepared without an audit pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain information and footnotes required by U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three months ended April 2, 2017 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended January 1, 2017 included in the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2017 . The January 1, 2017 balance sheet data is derived from those audited financial statements.

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

- *Current Assets and Liabilities.* The carrying values reported on the balance sheet of cash, accounts receivable and accounts payable approximate fair value because of the short maturity of those financial instruments.
- *Revolving Credit Borrowings.* The fair value of outstanding revolving credit borrowings under the Company's senior credit facility, which is considered Level 2, is based on current LIBOR rates. The fair value and carrying value of the Company's senior credit facility were approximately $72.9 million at April 2, 2017 and $69.9 million at January 1, 2017 .

Long-Lived Assets . The Company assesses the recoverability of property and equipment and definite-lived intangible assets by determining whether the carrying value of these assets can be recovered over their respective remaining lives through undiscounted future operating cash flows. Impairment is reviewed when events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. See Note 2.

Use of Estimates . The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements. Estimates also affect the reported amounts of expenses during the reporting periods. Significant items subject to such estimates and assumptions include: accrued occupancy costs, insurance liabilities, evaluation for impairment of goodwill and long-lived assets and lease accounting matters. Actual results could differ from those estimates.

(In thousands of dollars, except share and per share amounts)

Guidance Adopted in 2017. In March 2016, the Financial Accounting Standards Board issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), to simplify various aspects of the accounting and presentation of share-based payments, including the income tax effects of awards and forfeiture assumptions. In the first quarter of 2017, the Company prospectively adopted the amendments in this guidance that relate to the classification of excess tax benefits or tax benefit deficiencies from share-based payment arrangements in the statement of cash flows and income statement. Excess tax benefits from share-based payment arrangements result from share-based compensation windfall deductions in excess of compensation costs for financial reporting purposes and tax benefit deficiencies result from share-based compensation deduction shortfalls. During the three months ended April 2, 2017 , the Company recognized $0.1 million of tax benefit deficiencies, which pursuant to the adopted guidance increased income tax expense and decreased net income by $0.1 million . Effective January 2, 2017, the Company elected to change its accounting policy to recognize forfeitures as they occur. The new forfeiture policy election was adopted using a modified retrospective approach with a $0.1 million cumulative-effect adjustment to beginning retained earnings in the first quarter of 2017 as a result of adopting the standard.

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

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

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

	Three Months Ended	
	April 2, 2017	April 3, 2016
Pollo Tropical	$ 32,071	$ —
Taco Cabana	343	12
	$ 32,414	$ 12

On April 24, 2017, the Company announced a strategic renewal plan to drive long-term value that includes the closure of 30 Pollo Tropical restaurants outside its core Florida markets. The Company has subsequently closed all Pollo Tropical locations in Dallas-Fort Worth and Austin, Texas, and Nashville, Tennessee. The Company will continue to operate 19 Pollo Tropical restaurants outside of Florida, including 13 in Atlanta and six in south Texas. Up to five closed restaurants in Texas may be rebranded as Taco Cabana restaurants.

In the first quarter of 2017 , the Company recognized impairment charges with respect to the 30 restaurants that it subsequently closed in the second quarter of 2017, seven of which were impaired in 2016, as well as an additional impairment charge related to previously closed restaurants primarily as a result of the decision not to convert a location to a Taco Cabana restaurant. The Company also recognized an impairment charge with respect to three Taco Cabana restaurants that it continues to operate. Impairment and other lease charges for the three months ended April 2, 2017 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of $32.0 million and $0.3 million , respectively, and lease and other charges related to closed Pollo Tropical restaurants of $0.1 million , net of recoveries. The Company will recognize lease and other charges related to the closed restaurants in the second quarter of 2017.

(In thousands of dollars, except share and per share amounts)

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. 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 three months ended April 2, 2017 totaled $15.2 million , which primarily consist of leasehold improvements related to Pollo Tropical restaurants that may be rebranded as Taco Cabana restaurants and the estimated fair value of owned properties.

3. Other Liabilities

Other liabilities, current, consist of the following:

	April 2, 2017	January 1, 2017
Accrued workers' compensation and general liability claims	$ 5,673	$ 4,838
Sales and property taxes	1,834	1,844
Accrued occupancy costs	2,104	2,161
Other	2,844	2,473
	$ 12,455	$ 11,316

Other liabilities, long-term, consist of the following:

	April 2, 2017	January 1, 2017
Accrued occupancy costs	$ 20,175	$ 20,172
Deferred compensation	1,826	2,027
Accrued workers' compensation and general liability claims	4,030	4,030
Other	4,936	4,140
	$ 30,967	$ 30,369

Accrued occupancy costs include obligations pertaining to closed restaurant locations and accruals to expense operating lease rental payments on a straight-line basis over the lease term.

The following table presents the activity in the closed-store reserve, of which $ 2.6 million and $ 3.1 million are included in long-term accrued occupancy costs at April 2, 2017 and January 1, 2017 , respectively, with the remainder in other current liabilities.

	Three Months Ended April 2, 2017	Year Ended January 1, 2017
Balance, beginning of period	$ 4,912	$ 1,832
Provisions for restaurant closures	421	3,093
Additional lease charges, net of (recoveries)	(281)	(237)
Payments, net	(708)	(806)
Other adjustments	171	1,030
Balance, end of period	$ 4,515	$ 4,912

4. Stock-Based Compensation

During the three months ended April 2, 2017 and April 3, 2016 , the Company granted certain employees 187,342 and 50,087 non-vested restricted shares, respectively, under the Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan (the "Fiesta Plan"). These shares generally vest and become non-forfeitable over a four year vesting period. The weighted average fair value at grant date for these non-vested shares issued to employees during the three months ended April 2, 2017 and April 3, 2016 was $20.75 and $35.25 , respectively.

During the three months ended April 2, 2017 and April 3, 2016 , the Company granted certain employees 11,745 and 5,762 restricted stock units, respectively, under the Fiesta Plan. The restricted stock units granted during the three months ended April 2, 2017 and April 3, 2016 vest and become non-forfeitable at the end of a four year vesting period. The weighted average fair value at grant date for these restricted stock units issued to employees during the three months ended April 2, 2017 and April 3, 2016 was $20.75 and $35.25 , respectively.

(In thousands of dollars, except share and per share amounts)

Also during the three months ended April 3, 2016 , the Company granted 33,691 non-vested restricted shares and 33,691 restricted stock units, respectively, under the Fiesta Plan to certain employees subject to performance conditions. The non-vested restricted shares vest and become non-forfeitable over a four year vesting period subject to the attainment of financial performance conditions. The restricted stock units vest and become non-forfeitable at the end of a three year vesting period. The number of shares into which the restricted stock units convert is based on the attainment of certain financial performance conditions and for the restricted stock units granted during the three months ended April 3, 2016 , ranges from no shares, if the minimum financial performance condition is not met, to 67,382 shares, if the maximum performance condition is met. The weighted average fair value at grant date for both restricted non-vested shares and restricted stock units subject to financial performance conditions granted during the three months ended April 3, 2016 was $35.25 .

Stock-based compensation expense for the three months ended April 2, 2017 was $0.6 million , and for the three months ended April 3, 2016 was $1.0 million . At April 2, 2017 , the total unrecognized stock-based compensation expense related to non-vested restricted shares and restricted stock units was approximately $ 7.0 million . At April 2, 2017 , the remaining weighted average vesting period for non-vested restricted shares was 3.2 years and restricted stock units was 2.0 years.

A summary of all non-vested restricted shares and restricted stock units activity for the three months ended April 2, 2017 is as follows:

	Non-Vested Shares		Restricted Stock Units	
	Shares	Weighted Average Grant Date Price	Units	Weighted Average Grant Date Price
Outstanding at January 1, 2017	129,352	$ 37.94	51,445	$ 46.59
Granted	187,342	20.75	11,745	20.75
Vested/Released	(31,463)	35.04	(102)	50.38
Forfeited	(8,636)	40.95	(914)	42.39
Outstanding at April 2, 2017	276,595	$ 26.53	62,174	$ 41.76

The fair value of the non-vested restricted shares and restricted stock units is based on the closing price on the date of grant.

5. Business Segment Information

The Company is engaged in the fast-casual restaurant industry, with two restaurant concepts (each of which is an operating segment): Pollo Tropical and Taco Cabana. Pollo Tropical restaurants offer a wide variety of freshly prepared Caribbean inspired food while our Taco Cabana restaurants offer a broad selection of freshly prepared Mexican inspired food.

Each segment's accounting policies are the same as those described in the summary of significant accounting policies in Note 1 to the Company's audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2017 . The Company reports more than one measure of segment profit or loss to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The primary measures of segment profit or loss used to assess performance and allocate resources are income (loss) before taxes and Adjusted EBITDA, which is defined as earnings attributable to the applicable operating segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. Although the chief operating decision maker uses Adjusted EBITDA as a measure of segment profitability, in accordance with Accounting Standards Codification 280, Segment Reporting, the following table includes segment income (loss) before taxes, which is the measure of segment profit or loss determined in accordance with the measurement principles that are most consistent with the principles used in measuring the corresponding amounts in the consolidated financial statements.

(In thousands of dollars, except share and per share amounts)

The “Other” column includes corporate-related items not allocated to reportable segments and consists primarily of corporate-owned property and equipment, miscellaneous prepaid costs, capitalized costs associated with the issuance of indebtedness, corporate cash accounts, a current income tax receivable, and advisory fees related to a previously proposed and terminated separation transaction.

Three Months Ended	Pollo Tropical	Taco Cabana	Other	Consolidated
April 2, 2017:				
Restaurant sales	$ 99,310	$ 75,667	$ —	$ 174,977
Franchise revenue	449	181	—	630
Cost of sales	29,947	21,001	—	50,948
Restaurant wages and related expenses (1)	24,046	24,086	—	48,132
Restaurant rent expense	5,375	4,487	—	9,862
Other restaurant operating expenses	13,389	10,679	—	24,068
Advertising expense	4,325	3,214	—	7,539
General and administrative expense (2)	8,894	7,114	—	16,008
Depreciation and amortization	6,083	3,103	—	9,186
Pre-opening costs	332	92	—	424
Impairment and other lease charges	32,071	343	—	32,414
Interest expense	249	335	—	584
Income (loss) before taxes	(25,096)	1,394	—	(23,702)
Capital expenditures	8,663	2,696	315	11,674
April 3, 2016:				
Restaurant sales	$ 98,906	$ 77,033	$ —	$ 175,939
Franchise revenue	577	161	—	738
Cost of sales	31,604	22,446	—	54,050
Restaurant wages and related expenses (1)	22,896	22,156	—	45,052
Restaurant rent expense	4,644	4,277	—	8,921
Other restaurant operating expenses	12,592	9,796	—	22,388
Advertising expense	3,762	3,233	—	6,995
General and administrative expense (2)	7,685	5,462	701	13,848
Depreciation and amortization	5,278	3,058	—	8,336
Pre-opening costs	1,114	68	—	1,182
Impairment and other lease charges	—	12	—	12
Interest expense	251	307	—	558
Income (loss) before taxes	9,669	6,615	(701)	15,583
Capital expenditures	14,099	1,634	1,058	16,791
Identifiable Assets:				
April 2, 2017	$ 247,967	$ 170,169	$ 8,509	$ 426,645
January 1, 2017	263,868	165,195	12,502	441,565

(1) Includes stock-based compensation expense of $109 and $ 36 for the three months ended April 2, 2017 and April 3, 2016 , respectively.
(2) Includes stock-based compensation expense of $537 and $ 975 for the three months ended April 2, 2017 and April 3, 2016 , respectively.

6. Net Income (Loss) per Share

The Company computes basic net income (loss) per share by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding during each period. Our 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 net income per share pursuant to th e two-class method. The two-class method of computing earnings per share 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. Net income per common share 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.

(In thousands of dollars, except share and per share amounts)

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

For the three months ended April 2, 2017 , all restricted stock units outstanding were excluded from the computation of diluted earnings per share because to do so would have been antidilutive as a result of the net loss in the first quarter of 2017. Weighted average outstanding restricted stock units totaling 7,407 shares for the three months ended April 3, 2016 , were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

The computation of basic and diluted net income (loss) per share is as follows:

	Three Months Ended	
	April 2, 2017	April 3, 2016
Basic and diluted net income (loss) per share:		
Net income (loss)	$ (15,060)	$ 9,895
Less: income allocated to participating securities	—	(93)
Net income (loss) available to common shareholders	$ (15,060)	$ 9,802
Weighted average common shares, basic	26,774,103	26,605,717
Restricted stock units	—	6,304
Weighted average common shares, diluted	26,774,103	26,612,021
Basic net income (loss) per share	$ (0.56)	$ 0.37
Diluted net income (loss) per share	$ (0.56)	$ 0.37

7. Commitments and Contingencies

Lease Assignments . Taco Cabana has assigned three leases to various parties on properties where it no longer operates restaurants with lease terms expiring on various dates through 2029. The assignees are responsible for making the payments required by the leases. The Company is a guarantor under one of the leases, and it remains secondarily liable as a surety with respect to two of the leases. The maximum potential liability for future rental payments that the Company could be required to make under these leases at April 2, 2017 was $1.6 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 legal proceedings incidental to the conduct of business, including the matter described below. 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.

On November 24, 2015, Pollo Tropical received a legal demand letter alleging that assistant managers were misclassified as exempt from overtime wages under the Fair Labor Standards Act. On September 30, 2016, prior to any suit being filed, Pollo Tropical reached a settlement with seven named individuals and a proposed collective action class that will allow current and former assistant managers to receive notice and opt-in to the settlement. Pollo Tropical denies any liability or unlawful conduct. The Company has recorded a charge of $0.8 million to cover the estimated costs related to the settlement, including estimated payments to individuals that opt-in to the settlement, premium payments to named individuals, attorneys’ fees for the individuals' counsel, and related settlement administration costs. The charge does not include legal fees incurred by Pollo Tropical in defending the action. The settlement, which is subject to approval by an arbitrator and a judicial body, will result in dismissal with prejudice for the named individuals and all individuals that opt-in to the settlement.

The Company is also a party to various other litigation matters incidental to the conduct of business. The Company does not believe that the outcome of any of these matters will have a material effect on its consolidated financial statements.

8. Recent Accounting Pronouncements

In May 2014, and in subsequent updates, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the guidance in former Topic 605, Revenue Recognition, and provides for either a full retrospective adoption in which the standard is applied to all of the periods presented or a modified retrospective adoption in which the cumulative effect of initially applying the standard is recognized at the date of initial application. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers unless the contracts are in the scope of other US GAAP requirements. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property and equipment, including real estate. The Company is currently evaluating the impact of the provisions of Topic 606; however, the Company does not believe the standard will impact its recognition of revenue from company-owned restaurants or its recognition of franchise royalty revenues, which are based on a percent of gross sales. The Company expects the provisions to primarily impact franchise and development fees as well as gift card programs and does not expect the standard to have a material effect on its financial statements. The Company does not plan to early adopt the standard and plans to use the modified retrospective approach to adopt the standard. For the Company, the new standard is effective for interim and annual periods beginning after December 15, 2017.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessee recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. For the Company, the new standard is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required with an option to use certain practical expedients. The new guidance is required to be applied at the beginning of the earliest comparative period presented. The Company is currently evaluating the impact on its financial statements. Although the impact is not currently estimable, the Company expects to recognize lease assets and lease liabilities for most of the leases it currently accounts for as operating leases. In addition, for the Company's leases that are classified as sale-leaseback transactions, the Company will be required to record an initial adjustment to retained earnings associated with the previously deferred gains, and for any future transactions, the gain, adjusted for any off-market terms, will be recorded immediately. Currently the Company amortizes sale-leaseback gains over the lease term. The Company is continuing its assessment, which may identify other impacts.

In March 2016, the FASB issued ASU No. 2016-04, Recognition of Breakage for Certain Prepaid Stored-Value Products (Topic 405-20), which creates an exception under Topic 405-20 to derecognize financial liabilities related to certain prepaid stored-value products using a breakage model consistent with the revenue breakage model in Topic 606. The new guidance will be effective concurrent with Topic 606, which is effective for the Company for interim and annual periods beginning after December 15, 2017. The Company does not expect this standard to have a material effect on its financial statements.

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

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

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. The fiscal year ended January 1, 2017 contained 52 weeks. The three months ended April 2, 2017 and April 3, 2016 each contained thirteen weeks. The fiscal year ending December 31, 2017 will contain 52 weeks.

Company Overview

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical ® and Taco Cabana ® , which have almost 30 years and 40 years, respectively, of operating history and loyal customer bases in their core markets. Our Pollo Tropical restaurants offer a wide variety of freshly prepared Caribbean inspired food, while our Taco Cabana restaurants offer a broad selection of freshly prepared Mexican inspired food. We believe that both brands are differentiated from other restaurant concepts and offer a unique dining experience. We are positioned within the value-oriented fast-casual restaurant segment, which combines the convenience and value of quick-service restaurants with the variety, food quality, décor and atmosphere more typical of casual dining restaurants. Our open display kitchen format allows guests to view and experience our food being freshly-prepared and cooked to order. Additionally, nearly all of our restaurants offer the convenience of drive-thru windows. As of April 2, 2017 , our company-owned restaurants included 180 Pollo Tropical restaurants and 167 Taco Cabana restaurants.

We franchise our Pollo Tropical restaurants primarily internationally and as of April 2, 2017 , we had 27 franchised Pollo Tropical restaurants located in Puerto Rico, the Bahamas, Venezuela, Panama, Guatemala and Guyana, and seven licensed locations on college campuses and at a hospital in Florida. We have agreements for the continued development of franchised Pollo Tropical restaurants in certain of our existing franchised markets.

As of April 2, 2017 , we had five franchised Taco Cabana restaurants located in New Mexico and two non-traditional Taco Cabana licensed locations on college campuses in Texas.

Recent Events Affecting our Results of Operations

On April 24, 2017, we announced a strategic renewal plan to drive long-term value (the "Renewal Plan") that initially focuses on revitalizing restaurant performance in core markets and included the closure of 30 Pollo Tropical restaurants outside our core Florida markets. We closed all Pollo Tropical locations in Dallas-Fort Worth and Austin, Texas, and Nashville, Tennessee. We will continue to operate 19 Pollo Tropical restaurants outside of Florida, including 13 in Atlanta and six in south Texas. Up to five closed restaurants in Texas may be rebranded as Taco Cabana restaurants.

Strategic Renewal Plan Designed to Drive Long-Term Value Creation

As part of the Renewal Plan, we intend to relaunch the Pollo Tropical brand in September of this year and to relaunch the Taco Cabana brand late in the year once priority initiatives under the Renewal Plan are achieved.

Priority initiatives include the following:

Revitalizing Our Brands in Core Markets

- Return to the founding principles that made each brand iconic
- Improve quality and freshness of natural ingredients across the entire menu at both brands
- Staff and manage restaurants to deliver the exceptional hospitality necessary to further build affinity and loyalty
- Implement high quality systems that improve the guest experience and operational efficiency, including state-of-the-art digital platforms
- Address deferred maintenance needs to bring restaurants up to a high quality standard

Managing Capital and Financial Discipline

- Reduce costs throughout the organization to offset investments being made to enhance the guest experience
- Until the relaunch, reduce broadcast media where possible and optimize post-launch advertising support
- Analyze price elasticity across the restaurant portfolio, retaining a strong value proposition

- Curtail new restaurant development and remodeling until revitalization is established

Establishing Platforms for Long Term Growth

- Differentiate brands through refined positioning, marketing and digital strategies
- Enhance catering and delivery capabilities, utilizing digital platforms including online ordering
- Reformulate strategy to position each brand for successful future expansion outside of its core markets by leveraging a robust analytical process and deep industry expertise
- Maximize cash-on-cash returns by refining restaurant prototypes to appeal to our target audience and optimizing the restaurant footprint

Store Closures

- We closed all Pollo Tropical locations in Dallas-Fort Worth and Austin, Texas, and Nashville, Tennessee, however, we will continue to own and operate 19 Pollo Tropical restaurants outside of Florida, including 13 in Atlanta and six in south Texas in which to apply and prove successful regional strategies for future Pollo Tropical expansion beyond Florida
- Up to five closed restaurants in Texas may be rebranded as Taco Cabana restaurants
- Where possible, employees impacted by restaurant closures were offered positions at nearby restaurants

As a result, we recognized impairment charges in the first quarter of 2017, with respect to the 30 restaurants that we subsequently closed in the second quarter of 2017, seven of which were impaired in 2016, as well as an additional impairment charge related to previously closed restaurants primarily as a result of the decision not to convert a location to a Taco Cabana restaurant. We also recognized an impairment charge with respect to three Taco Cabana restaurants that we continue to operate. Impairment and other lease charges for the three months ended April 2, 2017 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of $32.0 million and $0.3 million , respectively, and lease and other charges related to closed Pollo Tropical restaurants of $0.1 million , net of recoveries. We will recognize lease and other charges related to the closed restaurants in the second quarter of 2017.

The 30 closed restaurants contributed approximately $3.8 million in restaurant-level operating losses to income from operations, including $1.2 million of depreciation expense for the three months ended April 2, 2017 .

The fast-casual restaurant industry experienced a continued general slowdown in 2016 that continued into the first quarter of 2017, specifically in Florida and Texas. We believe the challenging market and industry conditions in Florida and Texas and, in the case of Pollo Tropical, sales cannibalization from new restaurants on existing restaurants contributed to a decline in comparable restaurant transactions and sales in the first quarter of 2017.

Executive Summary - Consolidated Operating Performance for the Three Months Ended April 2, 2017

Our first quarter 2017 results and highlights include the following:

- Net income (loss) decreased $25.0 million to $(15.1) million in the first quarter of 2017 , or $(0.56) per diluted share, compared to net income of $9.9 million , or $0.37 per diluted share in the first quarter of 2016 , due primarily to impairment charges, new restaurant performance, lower comparable restaurant sales and higher operating expenses and general and administrative costs.
- Total revenues decreased 0.6% in the first quarter of 2017 to $175.6 million compared to $176.7 million in the first quarter of 2016 , driven primarily by a decrease in comparable restaurant sales. Comparable restaurant sales decreased 4.5% for our Taco Cabana restaurants resulting primarily from a decrease in comparable restaurant transactions of 4.0% and a decrease in average check of 0.5% . Comparable restaurant sales decreased 6.7% for our Pollo Tropical restaurants resulting primarily from a decrease in comparable restaurant transactions of 8.9% partially offset by an increase in average check of 2.2% .
- During the first quarter of 2017 , we opened three company-owned Pollo Tropical restaurants and one Taco Cabana restaurant. During the first quarter of 2016 , we opened six company-owned Pollo Tropical restaurants.
- Adjusted EBITDA decreased $6.0 million in the first quarter of 2017 to $19.3 million compared to $25.3 million in the first quarter of 2016 , driven by lower profitability as a result of new restaurant performance, lower comparable restaurant sales, higher operating expenses and general and administrative costs. Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and a reconciliation from net income to 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.

	Pollo Tropical			Taco Cabana		
	Owned	Franchised	Total	Owned	Franchised	Total
January 1, 2017	177	35	212	166	7	173
New	3	2	5	1	—	1
Closed	—	(3)	(3)	—	—	—
April 2, 2017	180	34	214	167	7	174
January 3, 2016	155	35	190	162	6	168
New	6	1	7	—	—	—
Closed	—	—	—	—	—	—
April 3, 2016	161	36	197	162	6	168

Three Months Ended April 2, 2017 Compared to Three Months Ended April 3, 2016

The following table sets forth, for the three months ended April 2, 2017 and April 3, 2016 , selected consolidated operating results as a percentage of consolidated restaurant sales and selected segment operating results as a percentage of applicable segment restaurant sales.

	Three Months Ended					
	April 2, 2017	April 3, 2016	April 2, 2017	April 3, 2016	April 2, 2017	April 3, 2016
	Pollo Tropical		Taco Cabana		Consolidated	
Restaurant sales:						
Pollo Tropical					56.8%	56.2%
Taco Cabana					43.2%	43.8%
Consolidated restaurant sales					100.0%	100.0%
Costs and expenses:						
Cost of sales	30.2%	32.0%	27.8%	29.1%	29.1%	30.7%
Restaurant wages and related expenses	24.2%	23.1%	31.8%	28.8%	27.5%	25.6%
Restaurant rent expense	5.4%	4.7%	5.9%	5.6%	5.6%	5.1%
Other restaurant operating expenses	13.5%	12.7%	14.1%	12.7%	13.8%	12.7%
Advertising expense	4.4%	3.8%	4.2%	4.2%	4.3%	4.0%
Pre-opening costs	0.3%	1.1%	0.1%	0.1%	0.2%	0.7%

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

Total revenues decreased 0.6% to $175.6 million in the first quarter of 2017 from $176.7 million in the first quarter of 2016 . Restaurant sales decreased 0.5% to $175.0 million in the first quarter of 2017 from $175.9 million in the first quarter of 2016 .

The following table presents the primary drivers of the increase or decrease in restaurant sales for both Pollo Tropical and Taco Cabana for the first quarter of 2017 compared to the first quarter of 2016 (in millions).

Pollo Tropical:		
Decrease in comparable restaurant sales	$	(6.0)
Incremental sales related to new restaurants, net of closed restaurants		6.4
Total increase	$	0.4
Taco Cabana:		
Decrease in comparable restaurant sales	$	(3.4)
Incremental sales related to new restaurants, net of closed restaurants		2.0
Total decrease	$	(1.4)

Comparable restaurant sales for Pollo Tropical restaurants decreased 6.7% in the first quarter of 2017 . Comparable restaurant sales for Taco Cabana restaurants decreased 4.5% in the first quarter of 2017 . Restaurants are included in comparable restaurant sales after they have been open for 18 months. Increases or decreases in comparable restaurant sales result primarily from an increase or decrease in comparable restaurant transactions and in average check. The increase in average check is primarily driven by menu price increases. For Pollo Tropical, a decrease in comparable restaurant transactions of 8.9% was partially offset by menu price increases that drove an increase in restaurant sales of 2.0% in the first quarter of 2017 as compared to the first quarter of 2016 . For Taco Cabana, a decrease in comparable restaurant transactions of 4.0% and a decrease in average check driven by unfavorable sales mix was partially offset by menu price increases that positively impacted restaurant sales by 2.2% in the first quarter of 2017 as compared to the first quarter of 2016 . As a result of new restaurant openings, expected sales cannibalization of existing restaurants negatively impacted comparable restaurant sales for Pollo Tropical by 0.7% in the first quarter of 2017 . Comparable restaurant sales for both brands continue to be negatively impacted by the general fast-casual industrywide slowdown in restaurant sales in Florida and Texas.

According to data reported by TDn2K's Black Box Intelligence, in the first quarter of 2017 comparable restaurant transactions in the fast casual segment declined 680 bps and 650 bps in Florida and Texas, respectively. Pollo Tropical comparable restaurant transactions in Florida were approximately 100 basis points lower than fast casual restaurant peers and Taco Cabana comparable restaurant transactions in Texas were 250 basis points higher than fast casual restaurant peers. Sales cannibalization negatively impacted Pollo Tropical comparable restaurant transactions in Florida by approximately 0.7%.

In addition, restaurants in newer markets generally have lower sales than restaurants in mature markets. As a result, Pollo Tropical revenues have grown at a slower rate than the average number of restaurants.

Franchise revenues remained relatively stable and decreased by $0.1 million to $0.6 million in the first quarter of 2017 from $0.7 million in the first quarter of 2016 .

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

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

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

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

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

The following tables present the primary drivers of the changes in the components of restaurant operating margins for Pollo Tropical and Taco Cabana for the first quarter of 2017 compared to the first quarter of 2016 . All percentages are stated as a percentage of applicable segment restaurant sales.

Pollo Tropical:

Cost of sales:	
Lower commodity costs	(0.8)%
Menu price increases	(0.8)%
Improved operating efficiencies	(0.4)%
Lower promotions and discounts	(0.2)%
Sales mix	0.3 %
Other	0.1 %
Net decrease in cost of sales as a percentage of restaurant sales	(1.8)%
Restaurant wages and related expenses:	
Higher labor costs for new restaurants [(1)]	0.5 %
Higher labor costs for comparable restaurants [(1)]	0.4 %
Higher workers compensation costs [(1)]	0.1 %
Higher incentive bonus costs [(2)]	0.2 %
Lower medical benefit costs [(1)]	(0.2)%
Other	0.1 %
Net increase in restaurant wages and related costs as a percentage of restaurant sales	1.1 %
Other operating expenses:	
Higher utility costs [(1)]	0.3 %
Higher insurance costs [(1)]	0.2 %
Higher real estate taxes generally related to new restaurants [(1)]	0.2 %
Other	0.1 %
Net increase in other restaurant operating expenses as a percentage of restaurant sales	0.8 %
Advertising expense:	
Unused pre-production costs and increase in advertising	0.6 %
Net increase in advertising expense as a percentage of restaurant sales	0.6 %
Pre-opening costs:	
Decrease in the number of restaurant openings	(0.8)%
Net decrease in pre-opening costs as a percentage of restaurant sales	(0.8)%

(1) Includes the impact of lower sales on fixed and semi-fixed costs.

(2) Includes the impact of a one-time revised bonus plan designed to promote retention.

Taco Cabana:

Cost of sales:	
Lower commodity costs	(1.3)%
Menu price increases	(0.6)%
Higher promotions and discounts	0.8 %
Other	(0.2)%
Net decrease in cost of sales as a percentage of restaurant sales	(1.3)%
Restaurant wages and related expenses:	
Higher labor costs (1)	2.2 %
Higher medical costs (1)	0.3 %
Higher incentive bonus costs (2)	0.5 %
Net increase in restaurant wages and related costs as a percentage of restaurant sales	3.0 %
Other operating expenses:	
Higher repairs and maintenance costs (1)	0.2 %
Higher operating supplies (1)	0.2 %
Higher real estate taxes (1)	0.4 %
Other (1)	0.6 %
Net increase in other restaurant operating expenses as a percentage of restaurant sales	1.4 %
Advertising expense:	
Net change in advertising expense as a percentage of restaurant sales	— %
Pre-opening costs:	
Net change in pre-opening costs as a percentage of restaurant sales	— %

(1) Includes the impact of lower sales on fixed and semi-fixed costs.

(2) Includes the impact of a one-time revised bonus plan designed to promote retention.

Consolidated Restaurant Rent Expense . Restaurant rent expense includes 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 5.6% in the first quarter of 2017 from 5.1% in the first quarter of 2016 primarily as a result of new restaurants that generally have higher rent and lower sales, and the impact of lower comparable restaurant sales.

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

General and administrative expenses were $16.0 million in the first quarter of 2017 and $13.8 million in the first quarter of 2016 , and as a percentage of total revenues, general and administrative expenses increased to 9.1% in the first quarter of 2017 compared to 7.8% in the first quarter of 2016 , due primarily to the costs described below, higher incentive-based compensation costs and higher medical costs. The increase in incentive-based compensation costs was due primarily to retention-related bonus costs in the first quarter of 2017 and favorable adjustments related to 2015 bonuses in the first quarter of 2016. General and administrative expenses in the first quarter of 2017 included a $0.8 million charge for terminated capital project costs, $0.8 million of financial and legal advisory and other fees related to the Company's CEO and board member searches, shareholder activism and related matters and a $0.3 million write-off of site development costs related to locations that we decided not to develop, partially offset by the benefit of $0.5 million related to litigation matters. General and administrative expenses in the first quarter of 2016 included $0.7 million of financial and legal advisory fees and $0.1 million for the write-off of site costs related to locations that we decided not to develop, partially offset by the benefit of $0.3 million related to litigation matters.

Adjusted EBITDA. Adjusted EBITDA, which is one of the measures of segment profit or loss used by our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance, is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. Adjusted EBITDA may not necessarily be comparable to other similarly titled captions of other companies due to differences in methods of calculation. Adjusted EBITDA for each of our segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain accounting, legal, supply chain, human resources, development, and other administrative functions. Adjusted EBITDA is a non-GAAP financial measure of performance. For a discussion of our use of Adjusted EBITDA and a reconciliation from net income to Adjusted EBITDA, see the heading entitled "Management's Use of Non-GAAP Financial Measures".

Adjusted EBITDA for Pollo Tropical decreased to $13.8 million in the first quarter of 2017 from $15.7 million in the first quarter of 2016 primarily as a result of lower profitability at new restaurants, the impact of lower comparable restaurant sales and higher operating expenses and general and administrative costs. Adjusted EBITDA for Taco Cabana decreased to $5.5 million in the first quarter of 2017 from $ 10.2 million in the first quarter of 2016 primarily as a result of the impact of lower comparable restaurant sales, and higher operating expenses and general and administrative costs. Consolidated Adjusted EBITDA decreased to $19.3 million in the first quarter of 2017 from $25.3 million in the first quarter of 2016 .

Depreciation and Amortization. Depreciation and amortization expense increased to $9.2 million in the first quarter of 2017 from $8.3 million in the first quarter of 2016 due primarily to increased depreciation related to new restaurant openings.

Impairment and Other Lease Charges. As discussed under Recent Events Affecting our Results of Operations, on April 24, 2017, we announced a strategic renewal plan to drive long-term value that includes the closure of 30 Pollo Tropical restaurants outside our core Florida markets. We closed all Pollo Tropical locations in Dallas-Fort Worth and Austin, Texas, and Nashville, Tennessee. we will continue to operate 19 Pollo Tropical restaurants outside of Florida, including 13 in Atlanta and six in south Texas. Up to five closed restaurants in Texas may be rebranded as Taco Cabana restaurants.

In the first quarter of 2017, we recognized impairment charges with respect to the 30 restaurants that we subsequently closed in the second quarter of 2017, seven of which were impaired in 2016, as well as an additional impairment charge related to previously closed restaurants primarily as a result of the decision not to convert a location to a Taco Cabana restaurant. We also recognized an impairment charge with respect to three Taco Cabana restaurants that it continues to operate. Impairment and other lease charges for the three months ended April 2, 2017 consisted of impairment charges for Pollo Tropical and Taco Cabana restaurants of $32.0 million and $0.3 million , respectively, and lease and other charges related to closed Pollo Tropical restaurants of $0.1 million , net of recoveries. We will recognize lease and other charges related to the closed restaurants in the second quarter of 2017.

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

Many new restaurants in Pollo Tropical’s emerging markets have opened at lower sales volumes and have not yet achieved the sales volumes required to generate positive cash flows. Pollo Tropical's emerging markets have included Atlanta, Nashville and Texas. Subsequent to the restaurant closures discussed above, Pollo Tropical’s emerging markets include Atlanta and south Texas. The combined carrying values of the operating restaurants in Atlanta and south Texas are $21.2 million and $12.5 million, respectively, as of April 2, 2017.

We have initiated operational and transactional growth plans to drive improved performance in the Atlanta and south Texas markets and will continue to evaluate their long-term viability. Our estimates of future cash flows assume these plans will succeed and sales will reach the levels required to generate cash flows that exceed the carrying value of the restaurants. Our cash flow projections include, among other things, significant sales growth as the result of the introduction of broadcast media, dedicated sales positions to build our catering business, increased frequency with the launch of our loyalty program, third party delivery and local store marketing. If these assumptions change in the future or 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.

Three operating Pollo Tropical restaurants open more than twelve months in markets outside of Florida with a combined carrying value of $4.9 million had projected cash flows that exceed the restaurant's carrying value by a small margin. In addition, six operating Pollo Tropical restaurants opened during 2016 in markets outside of Florida with a combined carrying value of $11.0 million have initial sales volumes lower than expected, but do not have significant operating history to form a good basis for future projections. The nine restaurants contributed approximately $0.9 million in restaurant-level operating losses to income from operations, including \$0.4 million in depreciation expense for the three months ended April 2, 2017. In addition, one Taco Cabana restaurant with a carrying value of \$1.0 million had projected cash flows that exceed the restaurant's carrying value by a small margin. For these restaurants, if expected performance improvements described above are not realized, an impairment charge may be recognized in future periods, and such charge could be material.

Other Expense (Income), Net. Other expense of \$0.1 million in the first quarter of 2017 primarily consisted of costs for the removal of signs and equipment related to closed Pollo Tropical restaurants. Other income of \$0.2 million in the first quarter of 2016 primarily consisted of expected business interruption insurance proceeds for a Pollo Tropical location that was temporarily closed due to a fire.

Interest Expense. Interest expense was \$0.6 million in the first quarter of 2017 and 2016 .

Provision for (Benefit from) Income Taxes. The effective tax rate was 36.5% for the first quarter of 2017 and the first quarter of 2016. The benefit from income taxes for the first quarter of 2017 was derived using an estimated annual effective tax rate, excluding the discrete impact of a tax benefit deficiency from the vesting of restricted shares and the tax benefit resulting from impairment and other lease charges of \$0.1 million and \$11.8 million, respectively, of 35.6%. The provision for income taxes for the first quarter of 2016 was derived using an estimated effective annual income tax rate of 36.5%. As discussed in Note 1, tax benefit deficiencies and excess tax benefits created upon the vesting of restricted shares are now recorded as a discrete item within the income tax provision. These amounts were previously recorded as an adjustment to Additional paid-in capital.

Net Income (Loss). As a result of the foregoing, we had a net loss of \$15.1 million in the first quarter of 2017 compared to net income of \$9.9 million in the first quarter of 2016 .

Liquidity and Capital Resources

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

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

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

Operating Activities . Net cash provided by operating activities in the first three months of 2017 and 2016 was \$12.2 million and \$18.0 million , respectively. The decrease in net cash provided by operating activities in the first three months of 2017 was primarily driven by the decrease in Adjusted EBITDA and increase in deferred income taxes, partially offset by the timing of payments.

Investing Activities. Net cash used in investing activities in the first three months of 2017 and 2016 was \$11.7 million and \$19.2 million , respectively. Capital expenditures are the largest component of our investing activities and include: (1) new restaurant development, which may include the purchase of real estate; (2) restaurant remodeling/reimaging, which includes the renovation or rebuilding of the interior and exterior of our existing restaurants; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants; and (4) corporate and restaurant information systems.

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

	Pollo Tropical	Taco Cabana	Other	Consolidated
Three Months Ended April 2, 2017:				
New restaurant development	$ 6,719	$ 1,852	$ —	$ 8,571
Restaurant remodeling	212	5	—	217
Other restaurant capital expenditures (1)	896	793	—	1,689
Corporate and restaurant information systems	836	46	315	1,197
Total capital expenditures	$ 8,663	$ 2,696	$ 315	$ 11,674
Number of new restaurant openings	3	1	—	4
Three Months Ended April 3, 2016:				
New restaurant development	$ 13,150	$ 936	$ —	$ 14,086
Restaurant remodeling	243	—	—	243
Other restaurant capital expenditures (1)	425	485	—	910
Corporate and restaurant information systems	281	213	1,058	1,552
Total capital expenditures	$ 14,099	$ 1,634	$ 1,058	$ 16,791
Number of new restaurant openings	6	—	—	6

(1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the three months ended April 2, 2017 and April 3, 2016 , total restaurant repair and maintenance expenses were approximately $4.7 million and $4.6 million, respectively.

In 2017 , we expect to open eight to nine new Company-owned Pollo Tropical restaurants in Florida and six to seven new Company-owned Taco Cabana restaurants in Texas. Up to two and five closed Pollo Tropical restaurants in Texas may be converted to Taco Cabana restaurants in 2017 and 2018, respectively. Total capital expenditures in 2017 are expected to be $60.0 million to $70.0 million . Capital expenditures in 2017 are expected to include $22.0 million to $25.0 million for development of new restaurants. Our capital expenditures in 2017 are also expected to include approximately $21.0 million to $25.0 million for the ongoing reinvestment in our Pollo Tropical and Taco Cabana restaurants for capital maintenance expenditures, approximately $3.0 million to $4.0 million for remodeling costs and approximately $14.0 million to $16.0 million of other expenditures.

In the first three months of 2016 , investing activities also included $2.7 million for the purchase of a property for a sale-leaseback and a sale-leaseback transaction related to our restaurant properties.

Financing Activities. Net cash provided by financing activities in the first three months of 2017 was $3.0 million and included net revolving credit borrowings under our senior credit facility of $3.0 million . Net cash used in financing activities in the first three months of 2016 primarily included net revolving credit borrowing repayments under our senior credit facility of $0.1 million and the excess tax benefit from vesting of restricted shares of $0.1 million .

Senior Credit Facility. Our senior credit facility provides for aggregate revolving credit borrowings of up to $150 million (including $15 million available for letters of credit) and matures on December 11, 2018 . The senior credit facility also provides for potential incremental increases of up to $50 million to the revolving credit borrowings available under the senior credit facility. On April 2, 2017 , there were $72.9 million in outstanding revolving credit borrowings under our senior credit facility.

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

1) the Alternate Base Rate plus the applicable margin of 0.50% to 1.50% based on our Adjusted Leverage Ratio (with a margin of 0.50% as of April 2, 2017), or

2) the LIBOR Rate plus the applicable margin of 1.50% to 2.50% based on our Adjusted Leverage Ratio (with a margin of 1.50% at April 2, 2017).

In addition, the senior credit facility requires us to pay (i) a commitment fee based on the applicable Commitment Fee margin of 0.25% to 0.45% , based on our Adjusted Leverage Ratio, (with a margin of 0.25% at April 2, 2017) and the unused portion of the facility and (ii) a letter of credit fee based on the applicable LIBOR margin and the dollar amount of outstanding letters of credit.

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

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

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

As of April 2, 2017 , we were in compliance with the covenants under our senior credit facility. After reserving $5.9 million for letters of credit issued under the senior credit facility, $71.2 million was available for borrowing under the senior credit facility at April 2, 2017 .

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements other than our operating leases, which are primarily for our restaurant properties and not recorded on our consolidated balance sheet.

There have been no significant changes outside the ordinary course of business to our contractual obligations since January 1, 2017. Information regarding our contractual obligations is included under "Contractual Obligations" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017 .

Inflation

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

Application of Critical Accounting Policies

Our unaudited interim condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the “Significant Accounting Policies” footnote in the notes to our consolidated financial statements for the year ended January 1, 2017 included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017 . Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. There have been no material changes affecting our critical accounting policies for the three months ended April 2, 2017 .

Management's Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure. We use Adjusted EBITDA in addition to net income, income from operations, and income before income taxes 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. Adjusted EBITDA as calculated by us is not necessarily comparable to similarly titled measures reported by other companies, and should not be considered as an alternative to net income, earnings per share, cash flows from operating activities or other financial information determined under GAAP.

Adjusted EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. Adjusted EBITDA for each of our segments includes an allocation of general and administrative expenses associated with administrative support for executive management, information systems and certain accounting, legal, supply chain, human resources, development and other administrative functions.

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

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

- such financial information does not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;
- such financial information does not reflect interest expense or the cash 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, other income and expense and stock-based compensation expense) have recurred and may recur.

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

	Three Months Ended	
(Dollars in thousands)	April 2, 2017	April 3, 2016
Net income (loss)	$ (15,060)	$ 9,895
Add:		
Depreciation and amortization	9,186	8,336
Impairment and other lease charges	32,414	12
Interest expense	584	558
Provision for (benefit from) income taxes	(8,642)	5,688
Stock-based compensation expense	646	1,011
Other expense (income), net	144	(248)
Adjusted EBITDA:		
Pollo Tropical	$ 13,811	$ 15,748
Taco Cabana	5,461	10,205
Fiesta	—	(701)
Consolidated	$ 19,272	$ 25,252

Forward Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. "Forward-looking statements" are any statements that are not based on historical information. Statements other than statements of historical facts included herein, including, without limitation, statements regarding our future financial position and results of operations, business strategy, budgets, projected costs and plans and objectives of management for future operations, are "forward-looking statements." Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" or "continue" or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or "cautionary statements," include, but are not limited to:

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

ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

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

There were no material changes from the information presented in Item 7A included in our Annual Report on Form 10-K for the year ended January 1, 2017 with respect to our market risk sensitive instruments.

ITEM 4—CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures . We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of April 2, 2017 .

Changes in Internal Control over Financial Reporting. No change occurred in our internal control over financial reporting during the first quarter of 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On November 24, 2015, Pollo Tropical received a legal demand letter alleging that assistant managers were misclassified as exempt from overtime wages under the Fair Labor Standards Act. On September 30, 2016, prior to any suit being filed, Pollo Tropical reached a settlement with seven named individuals and a proposed collective action class that will allow current and former assistant managers to receive notice and opt-in to the settlement. Pollo Tropical denies any liability or unlawful conduct. The Company has recorded a charge of $0.8 million to cover the estimated costs related to the settlement, including estimated payments to individuals that opt-in to the settlement, premium payments to named individuals, attorneys' fees for the individuals' counsel, and related settlement administration costs. The charge does not include legal fees incurred by Pollo Tropical in defending the action. The settlement, which is subject to approval by an arbitrator and a judicial body, will result in dismissal with prejudice for the named individuals and all individuals that opt-in to the settlement.

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

Item 1A. Risk Factors

Part 1 - Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 1, 2017 describes important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time-to-time. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017 .

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

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

Exhibit No.	
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
32.1	Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
32.2	Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fiesta Restaurant Group, Inc.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

FIESTA RESTAURANT GROUP, INC.

Date: May 8, 2017	/ S / RICHARD C. STOCKINGER
	(Signature) **Richard C. Stockinger** **Chief Executive Officer**
Date: May 8, 2017	/ S / LYNN S. SCHWEINFURTH
	(Signature) **Lynn S. Schweinfurth** **Senior Vice President, Chief Financial Officer and Treasurer**
Date: May 8, 2017	/ S / CHERI L. KINDER
	(Signature) **Cheri L. Kinder** **Vice President, Corporate Controller**

Exhibit 31.1

CERTIFICATIONS

I, Richard C. Stockinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 2, 2017 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: May 8, 2017

/s/RICHARD C. STOCKINGER

Richard C. Stockinger
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Lynn Schweinfurth, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 2, 2017 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: May 8, 2017

/s/LYNN SCHWEINFURTH

Lynn Schweinfurth
Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(1) The Company's Quarterly Report on Form 10-Q for the period ended April 2, 2017 , as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ RICHARD C. STOCKINGER

Richard C. Stockinger
Chief Executive Officer

May 8, 2017

Exhibit 32.2

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(1) The Company's Quarterly Report on Form 10-Q for the period ended April 2, 2017 , as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ LYNN SCHWEINFURTH

Lynn Schweinfurth
Senior Vice President, Chief Financial Officer and Treasurer

May 8, 2017