

Fiesta Restaurant Group, Inc.
Form 424B3
March 18, 2013
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-184866

The information contained in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to the securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 18, 2013

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated November 21, 2012)

2,500,000 Shares

Fiesta Restaurant Group, Inc.

Common Stock

This prospectus supplement relates to the offering of 2,500,000 shares of our common stock, which are held by the selling stockholders named in this prospectus supplement. We are not selling any common stock under this prospectus supplement and will not receive any of the proceeds from the sale of shares by the selling stockholders. Our common stock is quoted on The NASDAQ Global Select Market under the symbol FRGI . On March 15, 2013, the last reported sale price of our common stock on The NASDAQ Global Select Market was \$24.86 per share.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page S-15 of this prospectus supplement, on page 3 of the accompanying prospectus and in the documents incorporated by reference into this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We are an emerging growth company under the federal securities laws and may take advantage of certain reduced public company reporting requirements.

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	PER SHARE	TOTAL
Public Offering Price	\$	\$
Underwriting Discounts and Commissions(1)	\$	\$
Proceeds to Selling Stockholders (Before Expenses)	\$	\$

(1) We refer you to Underwriting (Conflicts of Interest) on page S-58 of this prospectus supplement for additional information regarding underwriting compensation.

Delivery of the shares of common stock is expected to be made on or about March , 2013. The selling stockholders named in this prospectus supplement have granted the underwriters an option for a period of 30 days to purchase up to an additional 375,000 shares of our common stock held by the selling stockholders. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by the selling stockholders will be \$, and the total proceeds to the selling stockholders, before expenses, will be \$.

Joint Book-Running Managers

Jefferies

Piper Jaffray

Raymond James

Co-Manager

Stephens Inc.

Prospectus Supplement dated March , 2013

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is comprised of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters relating to us, and adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, dated November 21, 2012, which gives more general information, some of which may not apply to this offering of common stock. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described under the headings **Information Incorporated By Reference** and **Where You Can Find More Information**.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any free writing prospectus that we have authorized for use in connection with this offering. We have not, the selling stockholders have not, and the underwriters have not, authorized anyone to provide you with additional or different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we, nor the selling stockholders, nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and in any free writing prospectus that we have authorized for use in connection with this offering is accurate only as of the date on the front of this prospectus supplement, the accompanying prospectus and in any free writing prospectus that we have authorized for use in connection with this offering, as applicable, and that any information incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate only as of the date given in the document incorporated by reference, regardless of the time of delivery of this prospectus supplement, the accompanying prospectus or any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement. If the information conflicts with any statement in a document that we have incorporated by reference, then you should consider only the statement in the more recent document.

It is important for you to read and consider all information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus filed by us with the Securities and Exchange Commission, which we refer to as the **SEC**, related to this offering before making an investment decision, including the information contained in the documents identified under the headings **Information Incorporated By Reference** and **Where You Can Find More Information** below.

PRESENTATION OF INFORMATION

Throughout this prospectus supplement, we refer to Fiesta Restaurant Group, Inc. as **Fiesta Restaurant Group** or **Fiesta** and, together with its consolidated subsidiaries, as **we**, **our** and **us** unless otherwise indicated or the context otherwise requires. Any reference to **Carrols Restaurant Group** refers to Carrols Restaurant Group, Inc., a Delaware corporation and our former indirect parent company, and its consolidated subsidiaries (other than Fiesta Restaurant Group and its subsidiaries after the distribution date), unless otherwise indicated or the context otherwise requires. Any reference to **Carrols** refers to Carrols Corporation, a Delaware corporation and our former direct parent company prior to the spin-off, and its consolidated subsidiaries (other than Fiesta Restaurant Group and its subsidiaries after the distribution date), unless otherwise indicated or the context otherwise requires. Any reference to **Carrols LLC** refers to Carrols' direct subsidiary, Carrols LLC, a Delaware limited liability company, unless otherwise indicated or the context otherwise requires.

In addition, we describe in this prospectus supplement the Pollo Tropical and Taco Cabana restaurant brands as if they were our business for all historical periods described unless otherwise indicated or the context otherwise requires. References in this prospectus supplement to our historical assets, liabilities, products, businesses or activities of our business are generally intended to refer to the historical assets, liabilities, products, businesses or

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activities of Pollo Tropical and Taco Cabana as the businesses were conducted as part of Carrols Restaurant Group prior to the distribution date.

We use a 52 or 53 week fiscal year ending on the Sunday closest to December 31. Our fiscal year ended January 3, 2010 contained 53 weeks. The fiscal years ended December 28, 2008, January 2, 2011, January 1, 2012, and December 30, 2012 each contained 52 weeks.

We use the terms Adjusted Segment EBITDA and Adjusted Segment EBITDA margin in this prospectus supplement because they are financial indicators that are reported to the chief operating decision maker for purposes of allocating resources to our segments and assessing their performance. Adjusted Segment EBITDA 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 Segment EBITDA may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation. Adjusted Segment EBITDA margin means Adjusted Segment EBITDA as a percentage of the total revenues of the applicable segment. We consider our Pollo Tropical restaurants and Taco Cabana restaurants to each constitute a separate segment at the brand level.

USE OF NON-GAAP FINANCIAL MEASURES

Total Adjusted Segment EBITDA, Total Adjusted Segment EBITDA margin, Restaurant-Level Adjusted Segment EBITDA and Restaurant-Level Adjusted Segment EBITDA margin for both of our brands and Total Restaurant-Level Adjusted Segment EBITDA and Total Restaurant-Level Adjusted Segment EBITDA margin are all non-GAAP financial measures. Total Adjusted Segment EBITDA represents the sum of Adjusted Segment EBITDA for both of our Pollo Tropical and Taco Cabana segments. Total Adjusted Segment EBITDA margin represents Total Adjusted Segment EBITDA divided by total revenues. Restaurant-Level Adjusted Segment EBITDA represents Adjusted Segment EBITDA for the applicable segment excluding franchise royalty revenues and fees and general and administrative expenses attributable to the applicable segment (including corporate-level general and administrative expenses allocable to the applicable segment). Restaurant-Level Adjusted Segment EBITDA margin represents Restaurant-Level Adjusted Segment EBITDA divided by restaurant sales for the applicable segment. Total Restaurant-Level Adjusted Segment EBITDA represents the sum of Restaurant-Level Adjusted Segment EBITDA for both of our Pollo Tropical and Taco Cabana segments. Total Restaurant-Level Adjusted Segment EBITDA margin represents Total Restaurant-Level Adjusted Segment EBITDA divided by total restaurant sales.

Management believes that such financial measures, when viewed with our results of operations calculated in accordance with GAAP and our reconciliation of Total Restaurant-Level Adjusted Segment EBITDA (and Restaurant-Level Adjusted Segment EBITDA for each of our Pollo Tropical and Taco Cabana segments) and Total Adjusted Segment EBITDA to net income (i) provide useful information about our operating performance and period-over-period growth (including at the restaurant level), (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:

- n such financial information does not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;

- n such financial information does not reflect interest expense or the cash requirements necessary to service principal or interest payments on our debt;

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- n 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;

- n such financial information does not reflect the effect of earning or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges (such as impairment and other lease charges, other income and expense and stock compensation expense) have recurred and may recur; and

- n Restaurant-Level Adjusted Segment EBITDA and Total Restaurant-Level Adjusted Segment EBITDA do not reflect segment level or corporate level general and administrative expenses which are recurring expenses.

See **Summary Historical Financial and Operating Data** for a quantitative reconciliation of Total Adjusted Segment EBITDA, Restaurant-Level Adjusted Segment EBITDA and Total Restaurant-Level Adjusted Segment EBITDA to the most directly comparable GAAP financial performance measure, which we believe is net income.

SPIN-OFF

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical and Taco Cabana, through our wholly-owned subsidiaries Pollo Operations, Inc. and Pollo Franchise, Inc., which we collectively refer to as Pollo Tropical, and Taco Cabana, Inc. and its subsidiaries, which we collectively refer to as Taco Cabana. We were incorporated in April 2011. In May 2011, Carrols contributed all of the outstanding capital stock of Pollo Tropical and Taco Cabana to Fiesta Restaurant Group in exchange for all of its outstanding capital stock, and Fiesta Restaurant Group became a wholly-owned subsidiary of Carrols Restaurant Group. On May 7, 2012, which we refer to as the distribution date, Carrols Restaurant Group completed the spin-off of Fiesta, and Fiesta became an independent public company, through the distribution of all of the outstanding shares of Fiesta Restaurant Group's common stock to the stockholders of Carrols Restaurant Group, which we refer to as the Spin-off. As a result of the Spin-off, as of the distribution date we became an independent public company and our common stock is traded on The NASDAQ Global Select Market under the symbol FRGI. The consolidated financial information discussed and incorporated by reference in this prospectus supplement has been prepared as if Fiesta Restaurant Group was in existence for all periods presented. In addition, unless otherwise expressly stated or the context otherwise requires, the information in this prospectus supplement gives effect to a 23,161.822 for one split of our outstanding common stock, which occurred on April 19, 2012.

INDUSTRY AND MARKET DATA

In this prospectus supplement, we refer to information, forecasts and statistics regarding the restaurant industry. Unless otherwise indicated, all restaurant industry data in this information statement refers to the U.S. restaurant industry and is taken from or based upon the Technomic, Inc. (Technomic) report titled 2012 Technomic Top 500 Chain Restaurant Report. In this prospectus supplement we also refer to information, forecasts and statistics from the U.S. Census Bureau and the U.S. Department of Agriculture. The information, forecasts and statistics we have used from Technomic may reflect rounding adjustments.

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PROSPECTUS SUMMARY

Our Company

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical® and Taco Cabana®, which have over 25 and 35 years, respectively, of operating history and loyal customer bases. Our Pollo Tropical restaurants offer a wide variety of freshly-prepared Caribbean inspired food, while our Taco Cabana restaurants offer a broad selection of hand-made, fresh and authentic Mexican 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.

For the fiscal year ended December 30, 2012, the average annual sales per restaurant for our company-owned Pollo Tropical restaurants was approximately \$2.5 million and approximately \$1.8 million for our company-owned Taco Cabana restaurants, which we believe are among the highest in the fast-casual and quick-service segments based on industry data from Technomic. As of December 30, 2012, we owned and operated 91 Pollo Tropical and 160 Taco Cabana restaurants for a total of 251 restaurants across four states. We have opened an additional four company-owned restaurants during the first quarter of 2013 as of the date of this prospectus supplement, including our first company-owned Pollo Tropical restaurant in Tennessee, located in the Nashville market. We franchise our Pollo Tropical restaurants primarily in international markets, and as of December 30, 2012, we had 35 franchised Pollo Tropical restaurants. We have opened one franchised Pollo Tropical restaurant in 2013 as of the date of this prospectus supplement. As of December 30, 2012, we had eight Taco Cabana franchised restaurants located in Georgia, New Mexico and Texas. For the fiscal year ended December 30, 2012, we generated consolidated revenues of \$509.7 million and comparable restaurant sales for 2012 increased 8.1% for Pollo Tropical and 4.7% for Taco Cabana. The quarter ended December 30, 2012 represents the thirteenth consecutive quarter that Pollo Tropical has achieved positive comparable restaurant sales, and the tenth consecutive quarter that Taco Cabana has achieved positive comparable restaurant sales.

Pollo Tropical. Our Pollo Tropical restaurants offer Caribbean inspired menu items, featuring our bone-in chicken marinated for 24 hours in our proprietary blend of tropical fruit juices and grilled over an open flame. Our diverse menu also includes a line of TropiChop® (a casserole bowl of grilled chicken, roast pork, shrimp or grilled vegetables served over white, brown or yellow rice and red or black beans and topped with a variety of freshly-made sauces and salsas), a variety of sandwiches, wraps, salads, grilled ribs and wings offered with an array of freshly made salsas, sauces and Caribbean style made-from-scratch side dishes, including black beans and rice, Yucatan fries and sweet plantains, as well as more traditional menu items such as french fries and corn. We also offer a self-service salsa bar which includes a wide selection of made-from-scratch salsas, sauces, jalapeños, cilantro, onions and other items which allows our guests to further customize their orders. Our restaurants offer Caribbean dessert favorites, such as flan and tres leches, and at certain locations, we offer sangria, wine and beer. Most menu items are prepared daily in each of our restaurants, which feature open display cooking on large, open-flame grills. We offer both individual and family meal-sized portions which enable us to provide a home meal replacement for our guests. We also offer catering for parties and corporate events.

Our Pollo Tropical restaurants feature dining areas designed to create an inviting, festive and tropical atmosphere. We also provide our guests the option of take-out, and nearly all of our restaurants provide the convenience of drive-thru windows. Our Pollo Tropical restaurants are generally open for lunch, dinner and late night seven days a week. As of December 30, 2012, substantially all of our company-owned Pollo Tropical restaurants were freestanding buildings. Our typical free-standing Pollo Tropical restaurant ranges from 2,800 to 3,500 square feet and provides interior seating for approximately 70 guests. For the fiscal year ended December 30, 2012, the average sales transaction at our company-owned Pollo Tropical restaurants was \$9.68, with dinner and late night sales representing the largest day-part at 53.4%. For the fiscal year ended

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December 30, 2012, our Pollo Tropical brand generated total revenues of \$229.3 million, Adjusted Segment EBITDA of \$38.6 million and Restaurant-Level Adjusted Segment EBITDA of \$57.1 million, including pre-opening expenses of \$1.0 million (which include costs incurred prior to opening a restaurant, including restaurant employee wages and related expenses, travel expenditures, recruiting, training and rent, in addition to promotional costs associated with the restaurant opening).

Pollo Tropical opened its first restaurant in 1988 in Miami, Florida. As of December 30, 2012, we owned and operated a total of 91 Pollo Tropical restaurants, of which 89 were located in Florida and two were located in Georgia. We have opened two additional company-owned Pollo Tropical restaurants, one in Florida and one in the Nashville, Tennessee market in 2013 as of the date of this prospectus supplement. In 2009, through a select upgrade strategy, we introduced an elevated Pollo Tropical concept. This elevated format provides guests the same Caribbean inspired menu items with an elevated fast-casual experience that we believe better positions the brand for a broader target market and growth outside our existing markets. In addition to remodeling the restaurant, key enhancements include guests ordering at the counter and having the food brought to their table, hand held menus, reusable tableware, Wi-Fi and additional menu items. This format serves as our new restaurant model for Pollo Tropical's expansion outside of its core South Florida market. We are franchising our Pollo Tropical restaurants primarily internationally, and as of December 30, 2012, we had 35 franchised Pollo Tropical restaurants located in Puerto Rico, Ecuador, Honduras, Trinidad & Tobago, the Bahamas, Venezuela, Costa Rica, Panama and on college campuses in Florida. We have opened one franchised Pollo Tropical restaurant in 2013 as of the date of this prospectus supplement. We also have agreements for the future development of franchised Pollo Tropical restaurants in Trinidad & Tobago, Aruba, Curacao, Bonaire, Guatemala and India.

Taco Cabana. Our Taco Cabana restaurants serve fresh, authentic Mexican food, including flame-grilled beef and chicken fajitas served on sizzling iron skillets, quesadillas, hand-rolled flautas, enchiladas, burritos, tacos, fresh-made flour tortillas, a selection of made-from-scratch salsas and sauces, customizable salads served in our Cabana bowl, and traditional Mexican and American breakfasts. We also offer a self-service salsa bar which includes a wide selection of made-from-scratch salsas, sauces, jalapeños, cilantro, onions and other items which allows our guests to further customize their orders. We also offer a variety of beverage choices that include soft drinks, our signature frozen margaritas and beer. Most of the menu items are freshly prepared at each restaurant daily.

Taco Cabana restaurants feature open display cooking that enables guests to observe fajitas cooking on an open grill, a tortilla machine pressing and grilling fresh flour tortillas and the fresh preparation of other menu items. Our Taco Cabana restaurants feature interior dining areas as well as semi-enclosed and outdoor patio areas, which provide a vibrant, contemporary decor and relaxing atmosphere. Additionally, we provide our guests the option of take-out, as well as the convenience of drive-thru windows and catering. Our typical freestanding Taco Cabana restaurants average approximately 3,500 square feet (exclusive of the exterior dining area) and provide seating for approximately 80 guests, with additional outside patio seating for approximately 50 guests. As of December 30, 2012, substantially all of our company-owned Taco Cabana restaurants were freestanding buildings.

Taco Cabana pioneered the Mexican patio cafe concept with its first restaurant in San Antonio, Texas in 1978. As of December 30, 2012, we owned and operated 160 Taco Cabana restaurants, of which 156 are located in Texas and four in Oklahoma and we also had eight franchised restaurants. We have opened two company-owned Taco Cabana restaurants in 2013 as of the date of this prospectus supplement. A majority of our Taco Cabana restaurants are open 24 hours a day, generating guest traffic and restaurant sales balanced across multiple day-parts, with dinner sales representing the largest day-part at 26.3% for the fiscal year ended December 30, 2012. For the fiscal year ended December 30, 2012, the average sales transaction at our company-owned Taco Cabana restaurants was \$8.36. For the fiscal year ended December 30, 2012, our Taco Cabana brand generated total revenues of \$280.4 million, Adjusted Segment EBITDA of \$25.6 million and Restaurant-Level Adjusted Segment EBITDA of \$46.6 million, including pre-opening expenses of \$0.6 million.

In 2010 we began initiatives to enhance the Taco Cabana concept in certain existing markets with the goal of providing guests with an elevated fast-casual experience and to better position the brand for sustainable growth

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both within and outside our existing markets. In addition to remodeling the restaurant, service enhancements included our guests ordering at the counter and having their food brought to the table, hand held menus, Wi-Fi as well as new menu items. As of December 30, 2012, we had upgraded a total of 79 Taco Cabana restaurants. As a continuation of our brand positioning efforts, we plan to bring these brand elevating enhancements to the remaining Taco Cabana restaurants in 2014. The cost of these enhancements has been, and is expected to be, approximately \$50,000 to \$250,000 per restaurant.

We believe the success of our Pollo Tropical and Taco Cabana brands is a result of the following key attributes:

- n A variety of made-from-scratch signature dishes with differentiated Caribbean and Mexican flavor profiles designed to appeal to consumers' desire for freshly-prepared food and healthful menu options;
- n Balanced sales by day-part with the dinner day-part representing the largest sales day-part, providing a higher average check than our other day-parts;
- n Broad appeal that attracts consumers that desire differentiated and ethnic flavor profiles and customized and varied quality product offerings at competitive prices in an appealing atmosphere;
- n Healthful dining options which include grilled entrée choices and freshly-made menu items;
- n Operating primarily company-owned restaurants which gives us the ability to control the consistency and quality of the guest experience and the strategic growth of our restaurant operations;
- n Significant brand recognition due to high market penetration of company-owned restaurants in our core markets, which provides operating, marketing and distribution efficiencies, convenience for our guests and the ability to effectively manage and enhance brand awareness;
- n Established infrastructure to manage operations and develop and introduce new menu offerings, positioning us to build guest frequency and broaden our customer base;
- n Ability to capitalize on the continuing trend towards the fast-casual segment, home meal replacement and the increasing popularity and acceptance of Hispanic food; and
- n A strong and well defined corporate culture at all levels based on a commitment to provide high quality food and service at a great value.

The Restaurant Industry

According to Technomic, in 2011 total restaurant industry revenue in the United States was \$370.2 billion, which represents an increase of 2.5% over the prior year. The historical growth of sales in the U.S. restaurant industry may not be indicative of future growth, and there can be no assurance that sales in the U.S. restaurant industry will grow in the future. In 2011, 48.7% of food dollars were spent on food away from home, and demand for out-of-home dining continues to outpace at-home dining, according to the U.S. Department of Agriculture.

We operate in the 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. We believe that the fast-casual restaurant segment is one of the fastest growing segments of the restaurant industry. According to Technomic, 2011 sales growth as compared to 2010 for fast-casual chains in the

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Technomic Top 500 restaurant chains was 8.6% as compared to 3.5% for the overall Top 500 restaurant chains.

Competitive Strengths

We believe we benefit from the following competitive strengths:

Leading Brands in the Attractive Fast-Casual Segment. As of December 30, 2012, we owned, operated and franchised 294 fast-casual restaurants under our Pollo Tropical and Taco Cabana brands which have over 25 and 35 years, respectively, of operating history and loyal customer bases. We offer a variety of signature dishes with Caribbean and Mexican flavor profiles designed to appeal to consumers' desire for distinctive and flavorful freshly-prepared food and healthful menu options. According to Technomic, the fast-casual segment is one of the fastest growing segments of the restaurant industry with sales growth of 8.6% in 2011 over 2010 for fast-casual chains in the Technomic Top 500 restaurant chains as compared to 3.5% growth for the overall Top 500 restaurant chains. We believe our brands are well positioned to benefit from the growing consumer demand for fast-casual restaurants because of our high quality, freshly-prepared food, value and differentiation

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of flavor profiles. In addition, we believe our brand elevation initiatives and remodeling programs have enhanced our Pollo Tropical and Taco Cabana restaurants in certain existing and new markets by providing our guests with an elevated fast-casual experience while better positioning our brands for successful and sustainable future growth.

Commitment to Serving Fresh, High Quality Foods With Broad Appeal. Our Pollo Tropical and Taco Cabana brands are differentiated from other dining options and offer distinct flavor profiles and healthful menu choices that we believe have broad consumer appeal, attract a more diverse customer base and drive guest frequency and loyalty. Pollo Tropical and Taco Cabana are committed to serving made-from-scratch, freshly-prepared food using quality ingredients that are made-to-order and customized for each guest. Our open display kitchen format allows guests to view and experience our food being freshly-prepared and cooked to order. Pollo Tropical's menu offers dishes inspired from multiple regions throughout the Caribbean, including our featured bone-in chicken marinated for 24 hours in our proprietary blend of tropical fruit juices and grilled over an open flame. Taco Cabana's menu offers favorites such as sizzling fajitas served hot on an iron skillet and other authentic Mexican dishes. In order to provide variety to our guests and to address changes in consumer preferences, we frequently enhance our menu with seasonal offerings and new menu items such as sandwiches at our Pollo Tropical restaurants and brisket tacos and Shrimp Tampico at our Taco Cabana restaurants. Additionally, our menus include a number of options to address consumers' increasing focus on healthful eating, convenience and home meal replacement.

Differentiated Menus Offering a Compelling Value Proposition. We believe our fresh, flavorful, high quality food at affordable prices provides guests with a compelling value proposition, enabling us to benefit from consumers' desire for a more value-oriented fast-casual experience. We believe that the inviting atmosphere, great tasting made-from-scratch menu items, modified table service in our elevated concept and open display cooking format offer guests freshly-prepared food and a quality dining experience comparable to casual dining, but with the convenience and affordability similar to that of quick-service restaurants. Both of our brands offer a wide range of menu offerings with regional taste profiles and home meal replacement options in generous portion sizes and at price points which appeal to a broad customer base. For the fiscal year ended December 30, 2012, the average sales transaction at our company-owned Pollo Tropical and Taco Cabana restaurants was \$9.68 and \$8.36, respectively, with dinner sales (including home meal replacement) representing the largest day-part at both of our brands and contributing to a higher average transaction. In addition to our every-day value pricing, we selectively use promotions and limited time offers which are intended to reinforce our value proposition. Additionally, we offer our guests drive-thru service at the majority of our restaurants in order to provide an additional convenience option and capture more meal occasions for people on-the-go.

Industry Leading AUVs, Comparable Restaurant Sales Growth and Restaurant-Level Operating Margins. For the fiscal year ended December 30, 2012, the average annual sales per restaurant for our company-owned Pollo Tropical restaurants was approximately \$2.5 million and \$1.8 million for our company-owned Taco Cabana restaurants, which we believe are among the highest in the fast-casual and quick-service segments based on industry data from Technomic. Our comparable restaurant sales increased 8.1% and 4.7% at our Pollo Tropical and Taco Cabana restaurants, respectively, for the fiscal year ended December 30, 2012 and 8.3% and 6.8% at our Pollo Tropical and Taco Cabana restaurants, respectively, for the quarter ended December 30, 2012. The quarter ended December 30, 2012 represents the thirteenth consecutive quarter that Pollo Tropical has achieved positive comparable restaurant sales, and the tenth consecutive quarter that Taco Cabana has achieved positive comparable restaurant sales. During the fiscal year ended December 30, 2012, we experienced comparable guest traffic growth of 6.6% at Pollo Tropical and 1.9% at Taco Cabana. We believe this growth is attributable to a combination of our attractive price/value offering, improvement in the overall dining experience and service levels supported by a refocused marketing strategy as well as our ongoing remodeling program. For the fiscal year ended December 30, 2012, our company-owned Pollo Tropical restaurants generated Adjusted Segment EBITDA margins of 16.8% and Restaurant-Level Adjusted Segment EBITDA margins of 25.1%, including pre-opening expenses of \$1.0 million, and our company-owned Taco Cabana restaurants generated Adjusted Segment EBITDA margins of 9.1% and Restaurant-Level Adjusted Segment EBITDA margins of 16.7%, including pre-opening expenses of \$0.6 million.

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Significant New Restaurant Growth Potential. Since our Spin-off from Carrols Restaurant Group in May 2012, we have refocused our strategy on growing both of our brands which we believe have significant growth potential. We have achieved attractive average restaurant sales volumes in our recently opened company-owned restaurants in both new and existing markets which we believe provides us with a strong foundation for expansion in both new and existing markets. As a part of our expansion strategy for both concepts, we have enhanced our site selection criteria, implemented new initiatives to lower development costs and elevated the format of our restaurants, which we believe will be attractive to a broad customer base as we continue to open new restaurants. We recently opened our first Pollo Tropical restaurant in the Nashville, Tennessee market and plan to develop at least three to four restaurants in a new market within 24 months of entering such new market. We opened a total of ten new restaurants during the fiscal year ended December 30, 2012 and have commenced development on our 2013 pipeline and we anticipate opening 14 to 17 restaurants in 2013. In addition to growth within their existing markets, we believe both brands can operate successfully in the same markets as we move the Pollo Tropical brand west from Florida and Taco Cabana brand east from Texas, thereby leveraging the real estate knowledge and operating infrastructure already in place in our core markets. Additionally, we believe there is significant expansion potential for both brands outside of their respective core markets based upon the initial performance of our restaurants opened in new markets.

Well Positioned to Continue to Benefit From a Growing Influence of Hispanic Brands on the General U.S. Population. We expect sales from our restaurants to benefit from the increased popularity and acceptance of Hispanic food in the United States by non-Hispanic consumers. The U.S. Census Bureau forecasts that the growth of the Hispanic population is expected to outpace overall population growth, and the Hispanic population, as a percentage of the total U.S. population, is expected to increase from 16.3% in 2011 to 21.9% by 2030. We believe that the continued growth of the Hispanic population has contributed to an increased acceptance of Hispanic food by the general population.

Well Positioned to Capitalize on Long-Term Population Growth in Markets Served by Our Brands. We expect sales from our restaurants in Florida and Texas to benefit from the projected long-term overall population growth in these markets. The U.S. Census Bureau forecasts these markets to grow at a faster rate than the national average. According to the U.S. Census Bureau, the U.S. population is forecasted to grow by 8.0% from 2012 to 2022, while the populations in Florida and Texas are forecasted to grow by 21.6% and 16.2%, respectively, during the 10 years from 2010 to 2020.

Multiple Levers to Drive Comparable Restaurant Sales and Restaurant-Level Adjusted Segment EBITDA. In 2009, we commenced the launch of a brand elevation program with the intent to increase comparable restaurant sales, maximize profitability and broaden our customer base. Since the launch, our concepts have consistently generated positive comparable restaurant sales and increased Restaurant-Level Adjusted Segment EBITDA. With a focus to elevate the guest experience and drive comparable restaurant sales, we have completed restaurant renovations and enhancements based on site specific needs, added portable menu items and new innovative products to drive guest traffic and increase guest frequency, reconfigured indoor/outdoor menu boards to drive average check and product mix and enhanced our brand positioning through our elevated service platform. In addition, we recently enhanced our advertising strategy to build brand awareness and position both brands as preferred fast-casual destinations. Concurrent with our sales growth strategy, we implemented profit enhancement initiatives focused on reducing food and labor costs and leveraging our scale. We have also enhanced our supply chain expertise resulting in reduced costs and improved food quality, consistency and yield.

Experienced Management Team. We believe that our senior management team's extensive experience in the restaurant industry, its history of developing and operating quick-service and fast-casual restaurants and deep brand-level operating teams with extensive experience provide us with a competitive advantage. Our Chief Executive Officer, Timothy P. Taft has been with us since August 2011 and has over 30 years of experience in the restaurant and hospitality industry, including more than a decade in various senior management positions at Whataburger, Inc., including as President and Chief Operating Officer from 2001 to 2005.

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Growth Strategies

Our strategies for growth primarily include:

Develop New Restaurants Within and Outside of Existing Markets. We believe that we have significant opportunities to develop additional Pollo Tropical and Taco Cabana restaurants within our existing markets in Florida and Texas, as well as expansion opportunities into other regions of the United States that match our targeted demographic and site selection criteria, which initially include markets in the Southeast. We are currently seeking new restaurant openings in high profile areas with high household incomes and target population density. We plan to develop at least three to four restaurants within 24 months of entering a new market which we believe will increase brand awareness and effectively leverage our field supervision, corporate infrastructure and marketing initiatives. We are currently planning to open 14 to 17 new company-owned restaurants in 2013, with approximately two-thirds of the restaurants being Pollo Tropical and the remaining one-third being Taco Cabana. Pollo Tropical has developed an elevated format which we believe will allow it to be accepted as a general market concept with a broad target audience. This format includes a more upscale décor; an elevated service platform where food is ordered and then brought to the guest at the table; new menu offerings including sangria, wine and beer; and numerous other enhancements. The elevated format serves as the model for Pollo Tropical's expansion outside its core South Florida markets. Pollo Tropical has recently opened its third restaurant in Jacksonville, Florida, two restaurants in Atlanta, Georgia and one restaurant in the Nashville, Tennessee market utilizing this format. Similarly, we believe we have an opportunity to develop an elevated format for our Taco Cabana restaurants that will enable us to expand the concept outside our core Texas markets within the next two years.

We target opening free-standing company-owned restaurant locations in order to provide drive-thru service which is an important convenience and sales element for our brands. For our new company-owned Pollo Tropical free-standing restaurants we are targeting average unit volumes of approximately \$2.2 million by the end of the second operating year. We estimate that our new company-owned Pollo Tropical restaurant prototype will require a total cash investment, excluding costs incurred to lease or acquire land, of approximately \$1.5 million to \$1.8 million depending on the market and whether we construct a new building or convert an existing building. We target a cash-on-cash return at the end of the second operating year of such restaurants of approximately 25% or greater. For our new company-owned Taco Cabana restaurants we are targeting average unit volumes of approximately \$1.9 million by the end of the second operating year. We estimate that our new company-owned Taco Cabana restaurant prototype will require a total cash investment, excluding costs incurred to lease or acquire land, of approximately \$1.4 million to \$1.6 million depending on whether we construct a new building or convert an existing building. We target a cash-on-cash return at the end of the second operating year of such restaurants of approximately 20% or greater. Our strategy as we enter new markets has been to invest in the guest experience including additional promotional activity and labor, which may impact our ability to achieve our targeted returns until we reach additional scale in these markets. We may utilize sale-leaseback financing where possible which we anticipate will reduce investment costs. We are currently studying our restaurant development costs and believe we may have an opportunity to reduce such new restaurant development costs in the future.

Increase Comparable Restaurant Sales. We intend to continue to increase comparable restaurant sales by attracting new customers and increasing guest frequency through the following strategies:

- n *Focus on consistency of operations and food quality:* We believe the quality, consistency and accuracy of our operations result in an enjoyable guest experience, which drives guest frequency. We will continue to refine our menu offering, supply chain and food preparation processes to ensure high quality, freshness and consistency of our food which we believe are critical components to the continued success of our brands.
- n *New product innovation:* Across both brands, our menus are centered on fresh, high quality food offerings that have both broad appeal and provide everyday value. Pollo Tropical and Taco Cabana each have separate teams of product research and development professionals that enables us to

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continually refine our menu offerings and develop new products. Maintaining a strong product pipeline is critical to keeping our offerings compelling and we intend to introduce innovative new items and enhancements to existing menu favorites throughout the year to drive further guest traffic and maximize guest frequency. Also, the addition of portable menu items, such as wraps, sandwiches, bowls and salads, as well as home meal replacement/family meals will continue to be a key focus for both brands as we look to capture more meal occasions for people on the go.

- n *Focus on effective advertising to highlight our everyday value proposition:* We plan to continue to refine our advertising and media strategy to continue to reinforce the key attributes of our brands which include high quality, freshly-prepared food, an enhanced guest experience and everyday value. We have experienced success emphasizing the attractive price points of our menu items and believe the reconfiguration of our indoor/outdoor menu boards will continue to drive average check and product mix. Additionally, we recently revamped our Pollo Tropical and Taco Cabana websites as part of our initiative to elevate our brand positioning across all guest touch points and seek to leverage social media marketing. Through our websites, we now provide guests with the opportunity to sign up for our respective eClubs to stay informed regarding product and promotional launches.

- n *Continue our brand elevation and remodel program:* We believe that our elevated brand position continues to resonate with guests by enhancing the quality of the guest experience at our restaurants by aligning our image and service with our high quality food offerings. We continue to implement restaurant enhancement initiatives to elevate the dining experience at our Pollo Tropical and Taco Cabana restaurants in select markets. We believe these enhancements improve our brands positioning in the fast-casual segment while appealing to a broader demographic. Our restaurant enhancements create an updated, contemporary look that is more relevant to today's consumers and include changes to both the interior and exterior of our restaurants with the addition of new tables and chairs, upgraded salsa bars and the addition of photos and murals to create a more inviting feel and highlight our fresh ingredients. Our new Pollo Tropical and Taco Cabana enhanced store models also feature modified table service, Wi-Fi and new menu items, as well as hand-held menus and real plates and silverware in certain locations. We believe our elevated Pollo Tropical and Taco Cabana restaurants continue to differentiate us from our competitors. Additionally, we plan to continue our restaurant remodeling efforts as we refresh and upgrade our entire system. As of December 30, 2012, we have completed all of the planned facility renovations within our Pollo Tropical system and over 50% of planned Taco Cabana renovations have been completed with the remainder to be completed in 2014.

Improve Profitability and Optimize Our Infrastructure. Through new restaurant development, growing comparable restaurant sales and growing franchise revenues, we believe we will increase our Adjusted Segment EBITDA and improve our Adjusted Segment EBITDA margins. We also believe that our large restaurant base, skilled management team, operating systems and training and development programs support our strategy of enhancing operating efficiencies for our existing restaurants while concurrently growing our restaurant base. We continue to focus on maximizing cost efficiencies, including optimizing our labor model and supply chain initiatives. In addition, as we continue to grow our restaurant base we believe that we will be able to further leverage our size to realize certain benefits from economies of scale.

Franchise Pollo Tropical Restaurants Internationally and Expand Domestic Non-Traditional Licensing. We believe that there are a number of markets outside the United States with the appropriate demographics and consumer preferences to support additional strategic franchising of the Pollo Tropical brand. Internationally, our franchisees are currently operating restaurants in Puerto Rico, Ecuador, Honduras, Trinidad & Tobago, the Bahamas, Venezuela, Costa Rica and Panama. We also have agreements for the future development of franchised Pollo Tropical restaurants in Trinidad & Tobago, Aruba, Curacao, Bonaire, Guatemala and India. We believe there will be further opportunities to expand outside of our traditional franchise footprint in the Caribbean and Central America. We intend to be selective with our franchise partners and ensure that our growth is strategically aligned with our overall business objectives. We are still in the early stages of franchise development and plan to add to our international presence this year with at least ten new Pollo Tropical franchised restaurants, including our first location in India. Since restaurant development in foreign

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jurisdictions requires certain local knowledge and expertise that we do not necessarily possess, we utilize franchisees to expand in international markets. This permits us to leverage the local knowledge and expertise of our franchisees and also provides a lower cost method of penetrating foreign markets. We also believe that there are opportunities in the United States for licensing both the Pollo Tropical and Taco Cabana brands to concessionaires operating in non-traditional venues such as college campuses, airports and sports arenas where we already have a modest presence.

Implications of Being an Emerging Growth Company

As a company with less than \$1.0 billion in revenue during our last fiscal year, we qualify as an emerging growth company as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company,

- n we may present only two years of audited financial statements and only two years of related Management's Discussion & Analysis of Financial Condition and Results of Operations, or MD&A;
- n we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;
- n we are permitted to provide less extensive disclosure about our executive compensation arrangements; and
- n we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements.

We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenue, have more than \$700.0 million in market value of our common stock held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt over a three-year period. We may choose to take advantage of some but not all of these reduced burdens. We have taken advantage of reduced reporting requirements in this prospectus supplement and the accompanying prospectus. Accordingly, the information contained herein may be different from the information you receive from other public companies in which you hold stock. Also, we have irrevocably elected to opt out of the exemption for the delayed adoption of certain accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

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THE OFFERING

Issuer	Fiesta Restaurant Group, Inc.
Common stock offered by the selling stockholders	2,500,000 shares
Over-allotment option	The selling stockholders have granted the underwriters an option to purchase up to a total of 375,000 shares.
Use of Proceeds	We will not receive any proceeds from the sale of shares of common stock by the selling shareholders.
Dividend Policy	<p>We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future.</p> <p>Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements and such other factors as our board of directors deems relevant. The indenture governing our 8.875% Senior Secured Second Lien Notes due 2016 and our senior credit facility limit, and the debt instruments that we and our subsidiaries may enter into in the future may limit our ability to pay dividends to our stockholders.</p>
NASDAQ Global Select Market Symbol	Our common stock is listed on The NASDAQ Global Select Market under the symbol FRGI .
Conflicts of Interest	Affiliates of Jefferies LLC own in excess of 10% of our issued and outstanding common stock and, as selling stockholders in this offering, will receive in excess of 5% of the net proceeds of this offering. Because Jefferies LLC is an underwriter on this offering, Jefferies LLC is deemed to have a conflict of interest under both Rule 5121(f)(5)(B) and (C) (Rule 5121) of the Financial Industry Regulatory Authority, Inc. (FINRA). Accordingly, this offering is being made in compliance with the requirements of Rule 5121. The appointment of a qualified independent underwriter is not required in connection with this offering as a bona fide public market, as defined in FINRA Rule 5121, exists for our common stock. In accordance with FINRA Rule 5121, Jefferies LLC will not confirm sales of the common stock to any account over which it exercises discretionary authority without the prior written consent of the account holder.
Risk Factors	Investing in our common stock involves a high degree of risk. Potential investors are urged to read and consider the risk factors relating to an investment in our common stock set forth under Risk Factors in this prospectus supplement, the accompanying prospectus and under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 30, 2012, incorporated by reference herein.

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The following table sets forth our summary consolidated financial data derived from our audited consolidated financial statements for each of the fiscal years ended December 28, 2008; January 3, 2010; January 2, 2011; January 1, 2012; and December 30, 2012. The information in the following table should be read together with our consolidated financial statements and accompanying notes as of January 1, 2012 and December 30, 2012 and for the fiscal years ended January 2, 2011, January 1, 2012 and December 30, 2012, and Management's Discussion and Analysis of Financial Condition and Results of Operations included or incorporated by reference in this prospectus supplement and the accompanying prospectus. These historical results are not necessarily indicative of the results to be expected in the future. Our fiscal years ended December 28, 2008; January 2, 2011; January 1, 2012 and December 30, 2012 each contained 52 weeks. Our fiscal year ended January 3, 2010 contained 53 weeks.

(Dollars in thousands, except per share data)	DECEMBER 28, 2008	JANUARY 3, 2010	YEAR ENDED JANUARY 2, 2011	JANUARY 1, 2012	DECEMBER 30, 2012
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Restaurant sales	\$ 423,344	\$ 430,514	\$ 437,538	\$ 473,249	\$ 507,351
Franchise royalty revenues and fees	1,434	1,606	1,533	1,719	2,375
Total revenues	424,778	432,120	439,071	474,968	509,726
Costs and expenses:					
Cost of sales	134,241	132,070	135,236	152,711	163,514
Restaurant wages and related expenses (including stock-based compensation expense of \$93, \$88, \$28, \$18 and \$11, respectively)	116,070	120,105	122,519	129,083	136,265
Restaurant rent expense	16,968	17,437	16,620	16,930	22,006
Other restaurant operating expenses	63,268	60,384	60,041	61,877	64,819
Advertising expense	13,860	14,959	15,396	16,264	17,047
General and administrative (including stock-based compensation expense of \$970, \$669, \$974, \$1,690 and \$2,025, respectively)	33,016	32,148	32,865	37,459	43,870
Depreciation and amortization	18,233	19,676	19,075	19,537	18,278
Impairment and other lease charges	5,371	2,284	6,614	2,744	7,039
Other expense (income) ⁽¹⁾	(580)	(799)		146	(92)
Total operating expenses	400,447	398,264	408,366	436,751	472,746
Income from operations	24,331	33,856	30,705	38,217	36,980
Interest expense	21,898	20,447	19,898	24,041	24,424
Income before income taxes	2,433	13,409	10,807	14,176	12,556
Provision for income taxes	1,103	5,045	3,764	4,635	4,289
Net income	\$ 1,330	\$ 8,364	\$ 7,043	\$ 9,541	\$ 8,267
PER SHARE DATA:					
Basic and diluted net income per share ⁽⁶⁾	\$ 0.06	\$ 0.36	\$ 0.30	\$ 0.41	\$ 0.35

WEIGHTED AVERAGE SHARES**OUTSTANDING:**

Basic and diluted weighted average shares outstanding ⁽⁶⁾	23,161,822	23,161,822	23,161,822	23,161,822	22,890,018
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OTHER FINANCIAL DATA:

Net cash provided from operating activities	\$ 26,302	\$ 33,244	\$ 32,529	\$ 43,167	\$ 37,975
Net cash used for investing activities	(44,053)	(17,266)	(21,380)	(15,082)	(32,718)
Net cash provided from (used for) financing activities	17,792	(14,649)	(12,420)	(16,998)	(3,394)
Total capital expenditures	(44,172)	(16,127)	(23,398)	(22,865)	(40,996)

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(Dollars in thousands)	AS OF OR YEAR ENDED				
	DECEMBER 28, 2008	JANUARY 3, 2010	JANUARY 2, 2011	JANUARY 1, 2012	DECEMBER 30, 2012
BALANCE SHEET DATA:					
Total assets ⁽⁷⁾	\$ 365,375	\$ 360,125	\$ 357,886	\$ 370,166	\$ 303,729
Working capital	(6,492)	(6,744)	(8,453)	(9,064)	(10,321)
Long-term debt:					
Due to former parent company	\$ 174,000	\$ 155,793	\$ 138,756	\$ 1,511	\$
8.875% Senior Secured Second Lien Notes				200,000	200,000
Lease financing obligations ⁽⁷⁾	111,726	116,651	122,975	123,019	3,029
Capital leases	1,060	1,020	1,064	1,008	949
Total long-term debt	\$ 286,786	\$ 273,464	\$ 262,795	\$ 325,538	\$ 203,978
Stockholders' equity (deficit)	\$ 42,504	\$ 50,868	\$ 57,911	\$ (4,672)	\$ 10,504
OPERATING STATISTICS:					
CONSOLIDATED:					
Total Restaurant-Level Adjusted Segment EBITDA ⁽³⁾⁽⁸⁾			\$ 87,754	\$ 96,402	\$ 103,711
Total Restaurant-Level Adjusted Segment EBITDA margin ⁽⁴⁾⁽⁸⁾			20.1%	20.4%	20.4%
Total Adjusted Segment EBITDA ⁽³⁾⁽⁸⁾			57,396	62,352	64,241
Total Adjusted Segment EBITDA margin ⁽⁴⁾⁽⁸⁾			13.1%	13.1%	12.6%
Total number of restaurants	245	247	246	249	251
POLLO TROPICAL:					
Company-owned restaurants	91	91	91	91	91
Average number of company-owned restaurants	87.5	90.8	90.5	91	89.6
Revenues:					
Restaurant sales	\$ 173,979	\$ 176,525	\$ 186,045	\$ 208,115	\$ 227,428
Franchise royalty revenues and fees	1,145	1,315	1,248	1,410	1,915
Total revenues	175,124	177,840	187,293	209,525	229,343
Average annual sales per company-owned restaurant ⁽²⁾	1,988	1,911	2,056	2,287	2,538
Restaurant-Level Adjusted Segment EBITDA ⁽³⁾⁽⁸⁾			44,826	51,748	57,094
Restaurant-Level Adjusted Segment EBITDA margin ⁽⁴⁾⁽⁸⁾			24.1%	24.9%	25.1%
Adjusted Segment EBITDA ⁽³⁾	22,765	25,322	30,062	35,567	38,592
Adjusted Segment EBITDA margin ⁽⁴⁾	13.0%	14.2%	16.1%	17.0%	16.8%
Change in comparable company-owned restaurant sales ⁽⁵⁾	(1.0)%	(1.3)%	7.4%	9.9%	8.1%

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(Dollars in thousands)	AS OF OR YEAR ENDED				
	DECEMBER 28, 2008	JANUARY 3, 2010	JANUARY 2, 2011	JANUARY 1, 2012	DECEMBER 30, 2012
TACO CABANA:					
Company-owned restaurants	154	156	155	158	160
Average number of company-owned restaurants	149.9	154.6	155.6	156.9	158.3
Revenues:					
Restaurant sales	\$ 249,365	\$ 253,989	\$ 251,493	\$ 265,134	\$ 279,923
Franchise royalty revenues and fees	289	291	285	309	460
Total revenues	249,654	254,280	251,778	265,443	280,383
Average annual sales per company-owned restaurant ⁽²⁾	1,664	1,607	1,616	1,690	1,768
Restaurant-Level Adjusted Segment EBITDA ⁽³⁾⁽⁸⁾			42,928	44,654	46,617
Restaurant-Level Adjusted Segment EBITDA margin ⁽⁴⁾⁽⁸⁾			17.1%	16.8%	16.7%
Adjusted Segment EBITDA ⁽³⁾	25,653	30,452	27,334	26,785	25,649
Adjusted Segment EBITDA margin ⁽⁴⁾	10.3%	12.0%	10.9%	10.1%	9.1%
Change in comparable company-owned restaurant sales ⁽⁵⁾	0.0%	(3.7)%	0.3%	3.7%	4.7%

⁽¹⁾ Other income for the fiscal year ended December 28, 2008 resulted from a Taco Cabana insurance gain of \$0.5 million related to Hurricane Ike and a \$0.1 million gain on the sale of a Taco Cabana property. Other income in the fiscal year ended January 2, 2010 resulted from a Taco Cabana insurance gain of \$0.6 million related to Hurricane Ike and \$0.2 million gain on the sale of a Taco Cabana non-operating property. Other expense in the fiscal year ended January 1, 2012 resulted from a loss of \$0.1 million from the sale of a Taco Cabana restaurant property in a sale-leaseback transaction. Other income for the fiscal year ended December 30, 2012 resulted from a gain of \$0.1 million from the sale of a non-operating Pollo Tropical restaurant property.

⁽²⁾ Average annual sales per restaurant are derived by dividing restaurant sales for the applicable segment by the average number of company-owned and operated restaurants. For comparative purposes, the calculation of average annual sales per restaurant is based on a 52-week fiscal year. For purposes of calculating average annual sales per restaurant for the fiscal year ended January 3, 2010, a 53-week fiscal year, we have excluded restaurant sales data for the extra week in the fiscal year ended January 3, 2010.

⁽³⁾ Adjusted Segment EBITDA 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. Total Adjusted Segment EBITDA is defined as the sum of Adjusted Segment EBITDA for both of our Pollo Tropical and Taco Cabana segments.

Restaurant-Level Adjusted Segment EBITDA is defined as earnings attributable to the applicable segment before franchise royalty revenue and fees, general and administrative expense, interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense. Total Restaurant-Level Adjusted Segment EBITDA is defined as the sum of Restaurant-Level Adjusted Segment EBITDA for both of our Pollo Tropical and Taco Cabana segments.

A reconciliation of Restaurant-Level Adjusted Segment EBITDA, Total Restaurant-Level Adjusted Segment EBITDA, Adjusted Segment EBITDA and Total Adjusted Segment EBITDA to consolidated net income is presented below:

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(Dollars in thousands)	YEAR ENDED				
	DECEMBER 28, 2008	JANUARY 3, 2010	JANUARY 2, 2011	JANUARY 1, 2012	DECEMBER 30, 2012
Restaurant-Level Adjusted Segment EBITDA:					
Pollo Tropical			\$ 44,826	\$ 51,748	\$ 57,094
Taco Cabana			42,928	44,654	46,617
Total			87,754	96,402	103,711
Add:					
Franchise royalty revenues and fees			1,533	1,719	2,375
Less:					
General and administrative (excluding stock-based compensation expense of \$974, \$1,690 and \$2,025, respectively)			31,891	35,769	41,845
Adjusted Segment EBITDA:					
Pollo Tropical	\$ 22,765	\$ 25,322	30,062	35,567	38,592
Taco Cabana	25,653	30,452	27,334	26,785	25,649
Total	48,418	55,774	57,396	62,352	64,241
Less:					
Depreciation and amortization	18,233	19,676	19,075	19,537	18,278
Impairment and other lease charges	5,371	2,284	6,614	2,744	7,039
Interest expense	21,898	20,447	19,898	24,041	24,424
Provision for income taxes	1,103	5,045	3,764	4,635	4,289
Stock-based compensation	1,063	757	1,002	1,708	2,036
Other expense (income)	(580)	(799)		146	(92)
Net income	\$ 1,330	\$ 8,364	\$ 7,043	\$ 9,541	\$ 8,267

(4) Adjusted Segment EBITDA margin is derived by dividing Adjusted Segment EBITDA by the total revenues applicable to the segment. Restaurant-Level Adjusted Segment EBITDA margin is derived by dividing Restaurant-Level Adjusted Segment EBITDA by the restaurant sales attributable to the segment. Total Adjusted Segment EBITDA margin is derived by dividing Total Adjusted Segment EBITDA by total revenues. Total Restaurant-Level Adjusted Segment EBITDA margin is derived by dividing Total Restaurant-Level Adjusted Segment EBITDA by total restaurant sales.

(5) Restaurants are included in comparable restaurant sales after they have been open for 18 months. For comparative purposes, the calculation of the changes in comparable restaurant sales is based on a 52-week fiscal year. For purposes of calculating the changes in comparable restaurant sales for the fiscal year ended January 3, 2010, a 53-week fiscal year, we have excluded restaurant sales data for the extra week in the fiscal year ended January 3, 2010.

(6) Basic and diluted weighted average common shares outstanding reflect a 23,161.822 for one split of our outstanding common stock, which occurred on April 19, 2012.

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- (7) Prior to the Spin-off, certain sale-leaseback transactions were classified as lease financing transactions because Carrols guaranteed the related lease payments. Effective upon the Spin-off, the provisions that previously precluded sale-leaseback accounting were cured or eliminated. As a result, the real property leases entered into in connection with these transactions are now recorded as operating leases. Because of this change in accounting treatment, we recorded a decrease in lease financing obligations of \$114.2 million, a decrease in assets under lease financing obligations of \$80.4 million, and a decrease of \$1.6 million in deferred financing fees.
- (8) Total Adjusted Segment EBITDA, Total Adjusted Segment EBITDA margin, Restaurant-Level Adjusted Segment EBITDA and Restaurant-Level Adjusted Segment EBITDA margin for both of our brands and Total Restaurant-Level Adjusted Segment EBITDA and Total Restaurant-Level Adjusted Segment EBITDA margin are all non-GAAP financial measures. Management believes that such financial measures, when viewed with our results of operations calculated in accordance with GAAP and our reconciliation of Total Restaurant-Level Adjusted Segment EBITDA (and Restaurant-Level Adjusted Segment EBITDA for each of

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our Pollo Tropical and Taco Cabana segments) and Total Adjusted Segment EBITDA (and Adjusted Segment EBITDA for each of our Pollo Tropical and Taco Cabana segments) to net income (i) provide useful information about our operating performance and period-over-period growth (including at the restaurant level), (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.

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RISK FACTORS

You should carefully consider the risks described below, as well as other information and data included in this prospectus supplement. Any of the following risks, as well as additional risks and uncertainties not currently known to us, could materially adversely affect our business, consolidated financial condition or results of operations and could also adversely affect the trading price of our common stock.

Risks Related to Our Business

Intense competition in the restaurant industry could make it more difficult to expand our business and could also have a negative impact on our operating results if guests favor our competitors or we are forced to change our pricing and other marketing strategies.

The restaurant industry is highly competitive. In each of our markets, our restaurants compete with a large number of national and regional restaurant chains, as well as locally owned restaurants, offering low and medium-priced fare. We also compete with convenience stores, delicatessens and prepared food counters in grocery stores, supermarkets, cafeterias and other purveyors of moderately priced and quickly prepared food.

Pollo Tropical's competitors include national and regional chicken-based concepts as well as quick-service hamburger restaurant chains and other types of quick-service and fast-casual restaurants. Our Taco Cabana restaurants compete with quick-service restaurants, including those in the quick-service Mexican segment, other fast-casual restaurants and traditional casual dining Mexican restaurants.

To remain competitive, we, as well as certain of the other major fast-casual chains, have increasingly offered selected food items and combination meals at discounted prices. These pricing and other marketing strategies have had, and in the future may have, a negative impact on our sales and earnings.

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

The fast-casual restaurant segment is highly competitive and can be materially adversely affected by many factors, including:

- n changes in local, regional or national economic conditions;
- n changes in demographic trends;
- n changes in consumer tastes;
- n changes in traffic patterns;
- n increases in fuel prices and utility costs;
- n consumer concerns about health, diet and nutrition;
- n increases in the number of, and particular locations of, competing restaurants;
- n changes in discretionary consumer spending;

- n inflation;
- n increases in the cost of food, such as beef, chicken, produce and packaging;
- n increased labor costs, including unemployment insurance, minimum wage requirements, and increases in the cost of providing healthcare, including as a result of the implementation of the Affordable Care Act;
- n the availability of experienced management and hourly-paid employees; and
- n regional weather conditions.

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Our continued growth depends on our ability to open and operate new restaurants profitably, which in turn depends on our continued access to capital, and newly acquired or developed restaurants may not perform as we expect and we cannot assure you that our growth and development plans will be achieved.

Our continued growth depends on our ability to develop additional Pollo Tropical and Taco Cabana restaurants. Development involves substantial risks, including the following:

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

We cannot assure you that our growth and development plans can be achieved. Our long-term development plans will require additional management, operational and financial resources. For example, we will be required to recruit managers and other personnel for each new restaurant. We cannot assure you that we will be able to manage our expanding operations effectively and our failure to do so could adversely affect our results of operations. In addition, our ability to open new restaurants and to grow, as well as our ability to meet other anticipated capital needs, may depend on our continued access to external financing, including borrowing under our \$25 million senior secured revolving credit facility, which we refer to as our senior credit facility. We cannot assure you that we will have access to the capital we need at acceptable terms or at all, which could materially adversely affect our business. In addition, our need to manage our indebtedness levels to ensure continued compliance with financial leverage ratio covenants under our senior credit facility may reduce our ability to develop new restaurants.

Additionally, we may encounter difficulties developing restaurants outside of our existing markets. We cannot assure you that we will be able to successfully grow our market presence beyond our existing markets, as we may encounter well-established competitors in new areas. In addition, we may be unable to find attractive locations or successfully market our products as we attempt to expand beyond our existing markets, as the competitive circumstances and consumer characteristics in these new areas may differ substantially from those in areas in which we currently operate. We may also not open a sufficient number of restaurants in new markets to adequately leverage distribution, supervision and marketing costs. As a result of the foregoing, we cannot assure you that we will be able to successfully or profitably operate our new restaurants

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outside our existing markets. In addition, there can be no assurance that we will achieve our operating and performance targets at every new company-owned restaurant opened in existing or new markets.

Our substantial indebtedness could adversely affect our financial condition.

We have a substantial amount of indebtedness. As of December 30, 2012, we had \$203.9 million of outstanding indebtedness comprised of \$200.0 million of 8.875% Senior Secured Second Lien Notes due 2016, which we refer to as the *Fiesta Notes*, lease financing obligations of \$3.0 million and capital lease obligations of \$0.9 million. As a result, we are a highly leveraged company.

As a result of our substantial indebtedness, a significant portion of our cash flow will be required to pay interest and principal on our outstanding indebtedness, and we may not generate sufficient cash flow from operations, or have future borrowings available under our senior credit facility, to enable us to repay our indebtedness, including the *Fiesta Notes*, or to fund other liquidity needs.

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

- n make it more difficult for us to satisfy our obligations with respect to the notes and our other debt;

- n increase our vulnerability to general adverse economic and industry conditions;

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- n require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and related interest, including indebtedness we may incur in the future, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- n limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- n increase our cost of borrowing;
- n place us at a competitive disadvantage compared to our competitors that may have less debt; and
- n limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes.

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

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

We and our subsidiaries may be able to incur additional debt in the future, including debt that may be revolving on a first lien basis or pari passu with the Fiesta Notes. Although our senior credit facility and the indenture governing the Fiesta Notes contain restrictions on our ability to incur indebtedness, those restrictions are subject to a number of exceptions. In addition, if we are able to designate some of our restricted subsidiaries under the indenture governing the Fiesta Notes as unrestricted subsidiaries, those unrestricted subsidiaries would be permitted to borrow beyond the limitations specified in the indenture and engage in other activities in which restricted subsidiaries may not engage. We may also consider investments in joint ventures or acquisitions, which may increase our indebtedness. Moreover, although our senior credit facility and the indenture governing the Fiesta Notes contain restrictions on our ability to make restricted payments, including the declaration and payment of dividends, we are able to make such restricted payments under certain circumstances. Adding new debt to current debt levels or making restricted payments could intensify the related risks that we and our subsidiaries now face.

We may not have the funds necessary to satisfy all of our obligations under our senior credit facility, the Fiesta Notes or other indebtedness in connection with certain change of control events.

Upon the occurrence of specific kinds of change of control events, the indenture governing the Fiesta Notes requires us to make an offer to repurchase all outstanding notes at 101% of the principal amount thereof, plus accrued and unpaid interest (and additional interest, if any) to the date of repurchase. However, it is possible that we will not have sufficient funds, or the ability to raise sufficient funds, at the time of the change of control to make the required repurchase of the Fiesta Notes. In addition, restrictions under our senior credit facility may not allow us to repurchase the Fiesta Notes upon a change of control. If we could not refinance such debt or otherwise obtain a waiver from the holders of such debt, we would be prohibited from repurchasing the Fiesta Notes, which would constitute an event of default under the indenture. Certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a Change of Control under the indenture.

In addition, our senior credit facility provides that certain change of control events constitute an event of default under our senior credit facility. Such an event of default entitles the lenders thereunder to, among other things, cause all outstanding debt obligations under our senior credit facility to become due and payable and to proceed against the collateral securing our senior credit facility. Any event of default or acceleration of our senior credit facility will likely also cause a default under the terms of our other indebtedness.

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The agreements governing our debt agreements restrict our ability to engage in some business and financial transactions.

Our debt agreements, including the indenture governing the Fiesta Notes and the agreement governing our senior credit facility, restrict our ability in certain circumstances to, among other things:

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

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

A breach of any of these covenants or other provisions in our debt agreements could result in an event of default, which if not cured or waived, could result in such debt becoming immediately due and payable. This, in turn, could cause our other debt to become due and payable as a result of cross-acceleration provisions contained in the agreements governing such other debt. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt. In addition, in the event that the Fiesta Notes become immediately due and payable, the holders of the Fiesta Notes would not be entitled to receive any payment in respect of the Fiesta Notes until all of our senior debt has been paid in full.

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

Some of our new restaurants are and will be located in areas where there is a limited or a lack of market awareness of the Pollo Tropical or Taco Cabana brand and therefore it may be more challenging for us to attract guests to our restaurants. Restaurants opened in new markets may open at lower sales volumes than restaurants opened in existing markets, and may have lower restaurant-level operating margins than in existing markets. Sales at restaurants opened in new markets may take longer to reach average restaurant volumes, if at all, thereby adversely affecting our operating results, including the recognition of future impairment and other lease charges. Opening new restaurants in areas in which potential guests may not be familiar with our restaurants may include costs related to the opening and marketing of those restaurants that are substantially greater than those incurred by our restaurants in other areas. Even though we may incur substantial additional costs with respect to these new restaurants, they may attract fewer guests than our more established restaurants in existing markets.

We could be adversely affected by food-borne illnesses, as well as widespread negative publicity regarding food quality, illness, injury or other health concerns.

Negative publicity about food quality, illness, injury or other health concerns (including health implications of obesity) or similar issues stemming from one restaurant or a number of restaurants could materially adversely affect us, regardless of whether they pertain to our own

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restaurants or to restaurants owned or operated by other companies. For example, health concerns about the consumption of beef or chicken or by specific events such as the outbreak of mad cow disease or avian flu could lead to changes in consumer preferences, reduce consumption of our products and adversely affect our financial performance. These events could also reduce the available supply of beef or chicken or significantly raise the price of beef or chicken.

In addition, we cannot guarantee that our operational controls and employee training will be effective in preventing food-borne illnesses, food tampering and other food safety issues that may affect our restaurants. Food-borne illness or food tampering incidents could be caused by guests, employees or food suppliers and transporters and, therefore, could be outside of our control. Any publicity relating to health concerns or the perceived or specific outbreaks of food-borne illnesses, food tampering or other food safety issues attributed to one or more of our restaurants, could result in a significant decrease in guest traffic in all of our restaurants and could have a material adverse effect on

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our results of operations. In addition, similar publicity or occurrences with respect to other restaurants or restaurant chains could also decrease our guest traffic and have a similar material adverse effect on our business.

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

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

Our franchisees could take actions that harm our reputation.

As of December 30, 2012, a total of 43 Pollo Tropical and Taco Cabana restaurants were owned and operated by our franchisees. We do not exercise control of the day-to-day operations of our franchisees. We expect our number of franchised restaurants to increase in the future as a result of our international franchising strategy for Pollo Tropical and our strategy of expanding domestic non-traditional licensing for both Pollo Tropical and Taco Cabana. While we attempt to ensure that franchisee-owned restaurants maintain the same high operating standards as our company-owned restaurants, one or more of these franchisees may fail to meet these standards. Any shortcomings at our franchisee-owned restaurants could be attributed to our company as a whole and could adversely affect our reputation and damage our brands.

If the sale-leaseback market requires significantly higher yields, we may not enter into sale-leaseback transactions and as a result would not receive the related net proceeds.

From time to time, we sell our restaurant properties in sale-leaseback transactions. We historically have used, and intend to use, the net proceeds from such transactions to reduce outstanding debt and fund future capital expenditures for new restaurant development. However, the sale-leaseback market may cease to be a reliable source of additional cash flows for us in the future if capitalization rates become less attractive or other unfavorable market conditions develop. For example, should the sale-leaseback market require significantly higher yields (which may occur as interest rates rise), we may not enter into sale-leaseback transactions, which could adversely affect our ability to reduce outstanding debt and fund capital expenditures for future restaurant development.

Changes in consumer tastes could negatively impact our business.

We obtain a significant portion of our revenues from the sale of foods that are characterized as Caribbean and Mexican and if consumer preferences for these types of foods change, it could have a material adverse effect on our operating results. The fast-casual segment is characterized by the frequent introduction of new products, often accompanied by substantial promotional campaigns and are subject to changing consumer preferences, tastes, and eating and purchasing habits. Our success depends on our ability to anticipate and respond to changing consumer preferences, tastes and dining and purchasing habits, as well as other factors affecting the restaurant industry, including new market entrants and demographic changes. We may be forced to make changes to our menu items in order to respond to changes in consumer tastes or dining patterns, and we may lose guests who do not prefer the new menu items. In recent years, numerous companies in the fast-casual segment have introduced products positioned to capitalize on the growing consumer preference for food products that are, or are perceived to be, promoting good health, nutritious,

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low in calories and low in fat content. If we do not continually develop and successfully introduce new menu offerings that appeal to changing consumer preferences or if we do not timely capitalize on new products, our operating results could suffer. In addition, any significant event that adversely affects consumption of our products, such as cost, changing tastes or health concerns, could adversely affect our financial performance.

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

Our profitability and operating margins are dependent in part on our ability to anticipate and react to changes in food costs. Changes in the availability of certain food products or price could affect our ability to offer a broad menu and price offering to guests and could materially adversely affect our profitability and reputation. In 2012, higher commodity costs increased cost of sales for our Pollo Tropical restaurants by 0.4%, as a percentage of Pollo Tropical restaurant sales. Higher commodity costs also increased cost of sales in 2012 for our Taco Cabana restaurants by 0.8%, as a percentage of Taco Cabana restaurant sales. Although we anticipate that overall commodity costs will increase in 2013 as compared to 2012, we do not believe commodity price increases in 2013 will be material to our results of operations, however there can be no assurance in such regard. The type, variety, quality and price of produce, beef and poultry and cheese can be subject to change and to factors beyond our control, including weather, governmental regulation, availability and seasonality, each of which may affect our food costs or cause a disruption in our supply. For example, weather patterns in recent years have resulted in lower than normal levels of rainfall in key agricultural states such as California, impacting the price of water and the corresponding prices of food commodities grown in states facing drought conditions. Our food distributors or suppliers also may be affected by higher costs to produce and transport commodities used in our restaurants, including higher minimum wage and benefit costs and other expenses that they pass through to their customers, which could result in higher costs for goods and services supplied to us. Although we are able to utilize purchasing contracts to lock in the prices for certain of the food commodities used in our restaurants, some of the commodities used in our operations cannot be locked in for periods of longer than one week or at all. Currently, we have contracts of varying lengths with several of our distributors and suppliers, including our distributors and suppliers of poultry and beef. We do not use financial instruments to hedge our risk against market fluctuations in the price of commodities at this time. We may not be able to anticipate and react to changing food costs (including anticipated increases in food costs in 2013) through our purchasing practices and menu price adjustments in the future, and failure to do so could negatively impact our revenues and results of operations.

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

Our financial performance is dependent on our continuing ability to offer fresh, quality food at competitive prices. If a significant disruption in service or supply by our suppliers or distributors were to occur, it could create disruptions in the operations of our restaurants, which could have a material adverse effect on us.

We negotiate directly with local and national suppliers for the purchase of food and beverage products and supplies. Our restaurants' food and supplies are ordered from approved suppliers and are shipped via distributors to the restaurants. For our Pollo Tropical restaurants, Performance Food Group, Inc. is our primary distributor of food and paper products under an agreement that expires on May 13, 2017, while Kelly Food Service is our primary distributor for chicken under an agreement that expires on December 31, 2017. We also currently rely on two suppliers for chicken for our Pollo Tropical restaurants under agreements that expire on December 31, 2013. For our Taco Cabana restaurants, SYGMA Network, Inc. is our primary distributor of food and beverage products and supplies under a distribution services agreement that expires on June 30, 2014. If our distributors or suppliers were unable to service us, this could lead to a material disruption of service or supply until a new distributor or supplier is engaged, which could have a material adverse effect on our business.

If labor costs increase, we may not be able to make a corresponding increase in our prices and our operating results may be adversely affected.

Wage rates for a substantial number of our employees are above the federal and/or state minimum wage rates. As federal and/or state minimum wage rates increase, we may need to increase not only the wage rates of our minimum wage employees but also the wages paid to the employees at wage rates which are above the minimum wage, which will increase our costs. To the extent that we are not able to raise our prices to compensate for increases in wage rates, including increases in state unemployment insurance costs or other costs including mandated health insurance, this

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could have a material adverse effect on our operating results. In addition, even if minimum wage rates do not increase, we may still be required to raise wage rates in order to compete for an adequate supply of labor for our restaurants.

The efficiency and quality of our competitors' advertising and promotional programs and the extent and cost of our advertising could have a material adverse effect on our results of operations and financial condition.

If our competitors increase spending on advertising and promotions, or the cost of television or radio advertising increases, or our advertising and promotions are less effective than our competitors', there could be a material adverse effect on our results of operations and financial condition.

Newly developed restaurants may reduce sales at our neighboring restaurants.

We intend to continue to open restaurants in our existing markets served by our Pollo Tropical and Taco Cabana restaurants. To the extent that we open a new restaurant in the vicinity of one or more of our existing restaurants, it is possible that some of the guests who previously patronized those existing restaurants may choose instead to patronize the new restaurant, which may result in decreased sales at our existing restaurants. Accordingly, to the extent we open new restaurants in our existing markets, sales at some of our existing restaurants in those markets may decline.

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

As of December 30, 2012, excluding our franchised locations, all but two of our Pollo Tropical restaurants were located in Florida and all but four of our Taco Cabana restaurants were located in Texas. Therefore, the economic conditions, state and local government regulations, weather conditions or other conditions affecting Florida and Texas, the tourism industry affecting Florida and other unforeseen events, including war, terrorism and other international conflicts may have a material impact on the success of our restaurants in those locations.

Many of our restaurants are located in regions that may be susceptible to severe weather conditions. As a result, adverse weather conditions in any of these areas could damage these restaurants, result in fewer guest visits to these restaurants and otherwise have a material adverse impact on our business. For example, our Florida and certain of our Texas restaurants are susceptible to hurricanes and other severe tropical weather events, and in the past, our Taco Cabana restaurants have been periodically affected by severe winter weather.

Economic downturns may adversely impact consumer spending patterns.

The U.S. economy has undergone, and is currently continuing to undergo, a significant slowdown and volatility due to uncertainties related to availability of credit, difficulties in the banking and financial services sectors, softness in the housing market, diminished market liquidity, falling consumer confidence and high unemployment rates.

Our business is dependent to a significant extent on national, regional and local economic conditions, particularly those that affect our guests that frequently patronize our restaurants. In particular, where our guests' disposable income is reduced (such as by job losses, credit constraints and higher housing, tax, energy, interest or other costs) or where the perceived wealth of guests has decreased (because of circumstances such as lower residential real estate values, increased foreclosure rates, increased tax rates or other economic disruptions), our restaurants have in the past experienced, and may in the future experience, lower sales and guest traffic as guests choose lower-cost alternatives or choose alternatives to dining out. The resulting decrease in our guest traffic or average sales per transaction has had an adverse effect in the past, and could in the future have a material adverse effect, on our business.

We cannot assure you that the current locations of our existing restaurants will continue to be economically viable or that additional locations will be acquired at reasonable costs.

The location of our restaurants has significant influence on their success. We cannot assure you that current locations will continue to be economically viable or that additional locations can be acquired at reasonable costs. In addition, the economic environment where restaurants are located could decline in the future, which could result in reduced sales in those locations. We cannot assure you that new sites will be profitable or as profitable as existing sites.

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

We are subject to extensive laws and regulations relating to the development and operation of restaurants, including regulations relating to the following:

- n health care;
 - n requirements relating to labeling of caloric and other nutritional information on menu boards, advertising and food packaging;
 - n the preparation and sale of food;
 - n liquor licenses which allow us to serve alcoholic beverages at our Taco Cabana restaurants and at certain Pollo Tropical restaurants;
 - n employer/employee relationships, including minimum wage requirements, overtime, working and safety conditions, and citizenship requirements;
 - n zoning;
 - n federal and state laws that prohibit discrimination and laws regulating design and operation of, and access to, facilities, such as the Americans With Disabilities Act of 1990; and
 - n federal and state regulations governing the operations of franchises, including rules promulgated by the Federal Trade Commission.
- In the event that legislation having a negative impact on our business is adopted, it could have a material adverse impact on us. For example, substantial increases in the minimum wage or state or Federal unemployment taxes could adversely affect our financial condition and results of operations. Local zoning or building codes or regulations and liquor license approvals can cause substantial delays in our ability to build and open new restaurants. Local authorities may revoke, suspend or deny renewal of our liquor licenses if they determine that our conduct violates applicable regulations. Any failure to obtain and maintain required licenses, permits and approvals could adversely affect our operating results.

In addition, we are currently considering the impacts of implementing the Affordable Care Act on our labor costs. Although most provisions will not be effective until 2014 or later, whether our employees are covered under the provisions of the Affordable Care Act will partially be determined based on hours worked during 2013. We are currently reviewing our strategy for employing part-time versus full-time employees, and the related impact that strategy will have on the costs of complying with the Affordable Care Act.

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

We serve alcoholic beverages at our Taco Cabana restaurants and at some of our Pollo Tropical restaurant locations and are subject to the dram-shop statutes of the jurisdictions in which we serve alcoholic beverages. Dram-shop statutes generally provide that serving alcohol to an intoxicated or minor patron is a violation of the law.

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

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amounts; implementing improved training and heightened control procedures for our employees; and paying any damages or settlements on such claims.

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

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

Failure to comply with environmental laws could result in the imposition of fines or penalties, restrictions on operations by governmental agencies or courts of law, as well as investigatory or remedial liabilities and claims for

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alleged personal injury or damages to property or natural resources. Some environmental laws impose strict, and under some circumstances joint and several, liability for costs of investigation and remediation of contaminated sites on current and prior owners or operators of the sites, as well as those entities that send regulated materials to the sites. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. Therefore, our costs of complying with current and future environmental, health and safety laws could adversely affect our results of operations.

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

The leases for our restaurant locations generally have initial terms of 10 to 20 years, and typically provide for renewal options in five year increments as well as for rent escalations. Generally, our leases are net leases, which require us to pay all of the costs of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. If an existing or future restaurant is not profitable, and we decide to close it, we may nonetheless be obligated to perform our monetary obligations under the applicable lease including, among other things, paying all amounts due for the balance of the lease term. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close restaurants in desirable locations.

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

We own certain common law trademark rights and a number of federal and international trademark and service mark registrations, including the Pollo Tropical name and logo and Taco Cabana name and logo, and proprietary rights relating to certain of our core menu offerings. We believe that our trademarks and other proprietary rights are important to our success and our competitive position. We, therefore, devote appropriate resources to the protection of our trademarks and proprietary rights. The protective actions that we take, however, may not be enough to prevent unauthorized usage or imitation by others, which could harm our image, brand or competitive position and, if we commence litigation to enforce our rights, cause us to incur significant legal fees.

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

Security breaches of confidential guest information in connection with our electronic processing of credit and debit card transactions may adversely affect our business.

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

We are dependent on information technology, and any material failure of that technology could impair our ability to efficiently operate our business.

We rely on information systems across our operations, including, for example, point-of-sale processing in our restaurants, management of our supply chain, collection of cash, and payment of obligations and various other processes and procedures. We will also rely on information systems, processes and procedures managed and administered by Carrols due to the provision of services by Carrols pursuant to the Transition Services Agreement dated as of April 24, 2012, which we refer to as the TSA. Our ability to efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrading or transitioning to replacement systems or a breach in security of these systems could cause delays in guest service and reduce efficiency in our operations. These risks may be increased as a result of integration challenges following the Spin-off. Significant capital investments might be required to remediate any problems.

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Risks Related to the Spin-off

Our historical financial information is not necessarily indicative of our results as a separate company and therefore may not be a reliable indicator of our future financial results.

Our audited and unaudited historical consolidated financial statements for periods prior to the Spin-off have been created from Carrols Restaurant Group's financial statements using our historical results of operations and historical bases of assets and liabilities as part of Carrols Restaurant Group and reflect certain general corporate overhead and interest expenses allocated by Carrols to us, which are not necessarily indicative of what our financial position, results of operations and cash flows would have been if we had been a separate, standalone entity during the periods presented.

The historical consolidated financial information for periods prior to the Spin-off is not necessarily indicative of what our results of operations, financial position and cash flows will be in the future and does not reflect many significant changes that have occurred or will occur in our cost structure, funding, and operations as a result of the Spin-off. While our historical results of operations prior to the Spin-off include all costs of the Pollo Tropical and Taco Cabana businesses, our historical costs and expenses do not include all of the costs that have been or will be incurred by us as an independent company after the Spin-off. In addition, we have not made adjustments to our historical consolidated financial information for periods prior to the Spin-off to reflect changes, many of which are significant, that have occurred or will occur in our cost structure, financing and operations as a result of the Spin-off. As a result, our historical financial information may not be a reliable indicator of our future financial results.

We, Carrols Restaurant Group and Carrols Restaurant Group's stockholders may be subject to substantial liabilities if the Spin-off is treated as a taxable transaction.

Carrols Restaurant Group has received a private letter ruling from the Internal Revenue Service, which we refer to as the "IRS Ruling", to the effect that, among other things, the Spin-off qualified as a tax-free distribution for U.S. federal income tax purposes under Section 355 of the Internal Revenue Code of 1986, as amended, which we refer to as the "Code", and as part of a tax-free reorganization under Section 368(a)(1)(D) of the Code, and the transfer to us of assets and the assumption by us of liabilities in connection with the Spin-off did not result in the recognition of any gain or loss for U.S. federal income tax purposes to Carrols Restaurant Group. Carrols Restaurant Group's tax advisor also provided Carrols Restaurant Group with a tax opinion covering certain matters not covered in the private letter ruling. Said tax opinion is not binding on the IRS or the courts.

Although a private letter ruling is generally binding on the IRS, the continuing validity of the ruling will be subject to the accuracy of factual representations and assumptions made in connection with obtaining such private letter ruling, including with respect to post-spin-off operations and conduct of the parties. Also, as part of the IRS's general policy with respect to rulings on spin-off transactions under Section 355 of the Code, the private letter ruling obtained by Carrols Restaurant Group is based upon representations by Carrols Restaurant Group that certain conditions which are necessary to obtain tax-free treatment under the Code have been satisfied, rather than a determination by the IRS that these conditions have been satisfied. Failure to satisfy such necessary conditions, or any inaccuracy in any representations made by Carrols Restaurant Group in connection with the ruling, could invalidate the ruling.

If the Spin-off does not qualify for tax-free treatment for U.S. federal income tax purposes, then, in general, Carrols would be subject to tax as if it has sold the common stock of Fiesta Restaurant Group in a taxable sale for its fair market value, and Carrols Restaurant Group's stockholders would be subject to tax as if they had received a taxable distribution in an amount equal to the fair market value of our common stock distributed to them. It is expected that the amount of any such taxes to Carrols Restaurant Group's stockholders and to Carrols would be substantial. Under applicable law and regulations, Fiesta Restaurant Group and Carrols Restaurant Group would be jointly and severally liable for taxes incurred by them in connection with the distribution.

We entered into a Tax Matters Agreement dated as of April 24, 2012 with Carrols Restaurant Group and Carrols, which we refer to as the "tax matters agreement", in connection with the Spin-off that (1) governs the allocation of the tax assets and liabilities between us, Carrols Restaurant Group and Carrols, (2) provides for certain restrictions and indemnities in connection with the tax treatment of the Spin-off and (3) addresses certain other tax related matters including, without limitation, those relating to (a) the obligations of Carrols Restaurant Group and Carrols and us with respect to the preparation of filing of tax returns for all periods, and (b) the control of any income tax audits and any indemnities with respect thereto. Further, in the tax matters agreement we agreed to indemnify Carrols Restaurant Group, without limitation, (a) for losses and taxes of Carrols Restaurant Group and its affiliates resulting from our

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breach of our representations or covenants or our undertaking not to take certain post-Spin-off actions, including with respect to our stock or assets, that would be inconsistent with or cause to be untrue any material information, covenant, or representation made in connection with the private letter ruling obtained by Carrols Restaurant Group from the IRS and (b) for 50% of the losses and taxes of Carrols Restaurant Group and its affiliates resulting from the Spin-off not attributable to a breach described in (a) or an equivalent breach by Carrols Restaurant Group. However, the tax matters agreement is not the product of arm's length negotiations. The terms of the tax matters agreement and the structure of the Spin-off may not be as favorable to us as would have resulted from arm's length negotiations among unrelated third parties, and may allocate a greater amount of tax liabilities and indemnification obligations to us than would have resulted from arm's length negotiations among unrelated third parties. Our indemnification obligations to Carrols Restaurant Group and its affiliates will not be limited in amount or subject to any cap. It is expected that the amount of any such indemnification to Carrols Restaurant Group would be substantial.

We agreed to certain restrictions in order to comply with U.S. federal income tax requirements for a tax-free spin-off and may not be able to engage in acquisitions with related parties and other strategic transactions that may otherwise be in our best interests.

Current U.S. federal tax law that applies to spin-offs generally creates a presumption that the Spin-off would be taxable to Carrols Restaurant Group but not to its stockholders if we engage in, or enter into an agreement to engage in, a plan or series of related transactions that would result in the acquisition of a 50% or greater interest (by vote or by value) in our stock ownership during the four-year period beginning on the date that begins two years before the Spin-off, unless it is established that the transaction is not pursuant to a plan related to the Spin-off. United States Treasury Regulations generally provide that whether an acquisition of our stock and a spin-off are part of a plan is determined based on all of the facts and circumstances, including specific factors listed in the regulations. In addition, the regulations provide certain safe harbors for acquisitions of our stock that are not considered to be part of a plan related to the Spin-off.

There are other restrictions imposed on us under current U.S. federal tax law for spin-offs and with which we will need to comply in order to preserve the favorable tax treatment of the distribution, such as limitations on sales or redemptions of our common stock for cash or other property following the distribution.

In the tax matters agreement with Carrols Restaurant Group and Carrols, we agreed that, among other things, we will not take any actions that would result in any tax being imposed on Carrols Restaurant Group as a result of the Spin-off. Further, for the two-year period following the Spin-off, we agreed not to: (1) enter into, approve, agree to enter into, or substantially negotiate any transaction or series of transactions (in whatever form) resulting in a greater than 45% change in ownership of the vote or value of our equity or the equity of the surviving or successor entity, (2) merge, consolidate, liquidate, or partially liquidate itself or any of the entities conducting the business relied upon in the IRS ruling as the active business of Fiesta Restaurant Group (generally the Pollo Tropical business and the Taco Cabana business), (3) permit the termination, sale, or transfer of, or a material change in, the business relied upon in the IRS ruling as the active business of Fiesta Restaurant Group (generally the Pollo Tropical business and the Taco Cabana business) or the sale, issuance, or other disposition of the equity of the entities conducting such business, (4) sell or otherwise dispose of assets in a way that would adversely affect tax-free status, (5) repurchase any of our stock except in circumstances permitted by IRS guidelines, or (6) take any actions inconsistent with the representations or covenants in the IRS ruling request, inconsistent with the ruling or tax opinion, or that would be reasonably likely to otherwise jeopardize tax-free status.

We will, however, be permitted to take certain actions otherwise prohibited by the tax matters agreement if we provide Carrols Restaurant Group with an opinion of tax counsel or private letter ruling from the IRS, reasonably acceptable to Carrols Restaurant Group, to the effect that these actions will not affect the tax-free nature of the Spin-off. These restrictions could substantially limit our strategic and operational flexibility, including our ability to finance our operations by issuing equity securities, make acquisitions using equity securities, repurchase our equity securities, raise money by selling assets, or enter into business combination transactions.

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We have only a brief operating history as an independent company upon which you can evaluate our performance and, accordingly, our prospects must be considered in light of the risks that any newly independent company encounters.

Prior to the Spin-off, we operated as part of Carrols Restaurant Group. Accordingly, we have limited experience operating as an independent company and performing various corporate functions, including human resources, tax administration, legal (including compliance with the Sarbanes-Oxley Act of 2002 and with the periodic reporting obligations of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act), treasury administration, investor relations, internal audit, insurance, information technology and telecommunications services, as well as the accounting for many items such as lease accounting and stock-based compensation, income taxes and intangible assets. After the Spin-off, our prospects must be considered in light of the risks, expenses and difficulties encountered by companies in the early stages of independent business operations, all of which could have a material adverse effect on our business.

We historically have obtained benefits of being part of Carrols Restaurant Group, but those benefits have not continued following the completion of the Spin-off.

While we believe the benefits of being an independent company outweigh the drawbacks, we have historically received certain benefits from being part of a larger organization, including access to certain resources and certain economies of scale. In the future, we may be unable to replace many of these benefits as an independent company, or only be able to do so at significant expense, which may adversely affect our business.

Carrols Restaurant Group and Carrols provide a number of services to us pursuant to the TSA. When the TSA terminates, we will be required to replace Carrols Restaurant Group's and Carrols' services internally or through third parties on terms that may be less favorable to us.

Under the terms of the TSA that we entered into with Carrols Restaurant Group and Carrols which became effective on the distribution date, Carrols Restaurant Group and Carrols provide to us, for a fee, specified support services (including accounting, tax accounting, internal audit, financial reporting and analysis, human resources, and employee benefits management, information systems, restaurant systems support, legal, property management and insurance and risk management services) for a period of three years following the distribution date, provided that we may extend the term of the TSA by one additional year upon 90 days prior written notice to Carrols Restaurant Group and Carrols, provided further that we may terminate the TSA with respect to any service provided thereunder at any time and from time to time upon 90 days prior written notice to Carrols Restaurant Group and Carrols. When the TSA terminates, Carrols Restaurant Group and Carrols will no longer be obligated to provide any of these services to us, and we will be required to assume the responsibility for these functions ourselves. While we anticipate being prepared to perform these functions on our own at or before the expiration of the TSA, there is no assurance of our ability to do so. If we cannot perform these services for ourselves, we may be required to retain an outside service provider at rates in excess of the fees that we will pay under the TSA, which could adversely affect us.

Our internal systems and resources might not be adequately prepared to meet the financial reporting and other requirements to which we are subject since the distribution date.

Since the completion of the Spin-off, our management has been responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Any failure to achieve and maintain effective internal controls could have an adverse effect on our business, financial position and results of operations.

Our financial results previously were included within the consolidated results of Carrols Restaurant Group. However, we were not directly subject to the reporting and other requirements of the Exchange Act. As a result of the Spin-off, we are now directly subject to the reporting and other obligations under the Exchange Act. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company as defined in the recently enacted Jumpstart Our Business Startups Act of 2012, or the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. If we avail ourselves of such exemptions, we could remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross

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revenues exceed \$1 billion, (ii) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

Pursuant to the TSA with Carrols Restaurant Group and Carrols, Carrols Restaurant Group and Carrols have agreed to provide certain support services to us for a period of time following the distribution date. For us to establish our own financial and management controls, reporting systems, information technology and procedures, we will need to implement accounting systems and our own financial and internal controls, financial reporting systems and procedures and hire our own legal, accounting and finance staff. If Carrols Restaurant Group is unable to provide, or we are unable to establish, our financial and management controls, reporting systems, information technology and procedures in a timely and effective manner, our ability to comply with our financial reporting requirements and other rules that apply to reporting companies could be impaired. In addition, if we are unable to conclude that our internal control over financial reporting is effective (or if the auditors are unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports.

Risks Related to Our Common Stock

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

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

- n price and volume fluctuations in the overall stock market from time to time;
- n significant volatility in the market price and trading volume of companies generally or restaurant companies;
- n actual or anticipated variations in the earnings or operating results of our company or our competitors;
- n actual or anticipated changes in financial estimates by us or by any securities analysts who might cover our stock or the stock of other companies in our industry;
- n market conditions or trends in our industry and the economy as a whole;
- n announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures and our ability to complete any such transaction;
- n announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- n capital commitments;

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- n changes in accounting principles;

- n additions or departures of key personnel; and

- n sales of our common stock, including sales of large blocks of our common stock or sales by our directors and officers.

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

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

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We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive if we avail ourselves of such exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, which we refer to as the Securities Act, for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we chose to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

The concentrated ownership of our capital stock by insiders will likely limit your ability to influence corporate matters.

Our executive officers, directors, and the selling stockholders in this offering, Jefferies Capital Partners IV LP, Jefferies Employee Partners IV LLC and JCP Partners IV LLC, which we collectively refer to as the JCP Group, together beneficially owns approximately 30% of our common stock based on shares outstanding of Fiesta Restaurant Group as of February 22, 2013 and will own approximately 19.4% of our common stock outstanding immediately after this offering (or approximately 17.9% if the underwriters over-allotment option is exercised in full). In particular, the JCP Group, our largest stockholder, beneficially owns approximately 27.7% of our outstanding common stock, based on shares outstanding of Fiesta Restaurant Group as of February 22, 2013 and will own approximately 17.2% of our common stock outstanding immediately after this offering (or approximately 15.6% if the underwriters over-allotment option is exercised in full). In addition, our executive officers and directors (excluding directors affiliated with the JCP Group) together beneficially own approximately 2.3% of our common stock outstanding, based on shares outstanding of Fiesta Restaurant Group as of February 22, 2013. As a result, our executive officers, directors and the JCP Group, if they act as a group, will be able to significantly influence matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions such as mergers and acquisitions. The directors have the authority to make decisions affecting our capital structure, including the issuance of additional debt and the declaration of dividends. The JCP Group may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. Corporate action might be taken even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately depress the market price of our common stock.

The sale of a substantial number of shares of our common stock after this offering may cause the market price of shares of our common stock to decline.

Sales of substantial amounts of our common stock following this offering by the selling stockholders, our other existing stockholders, or by persons who acquire shares in this offering or if the market perceives that these sales could occur, may cause the market price of shares of our common stock to decline. Upon the completion of this offering and assuming the underwriters exercise of their over-allotment option in full, the selling stockholders will have an aggregate of 3,684,739 shares of our common stock available for resale under a registration statement on Form S-3 (File No. 333-184866). These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate, or to use equity as consideration for future acquisitions.

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Upon completion of this offering and assuming the underwriters exercise of their over-allotment option in full, we will have 23,644,639 outstanding shares of common stock. Of these shares, 19,421,185 shares, including those to be sold in this offering and assuming the underwriters exercise of their over-allotment option in full, will be freely tradable. We, our executive officers and directors and the selling stockholders have entered into agreements with the underwriters not to sell or otherwise dispose of shares of our common stock for a period of at least 90 days following completion of this offering, with certain exceptions. Immediately upon the expiration of the applicable lock-up period our executive officers and directors or the selling stockholders may choose to sell additional shares.

We do not expect to pay any cash dividends for the foreseeable future, and the indenture governing the Fiesta Notes and our senior credit facility limit our ability to pay dividends to our stockholders.

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

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

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

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

Your percentage ownership of our common stock may be diluted in the future because of equity awards that we expect will be granted to our directors, officers and employees. The Fiesta Restaurant Group, Inc. 2012 Stock Incentive Plan provides for the grant of equity-based awards, including restricted stock, restricted stock units, stock options, and other equity-based awards to our directors, officers and other employees, advisors and consultants.

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

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

- n require that special meetings of our stockholders be called only by our board of directors or certain of our officers, thus prohibiting our stockholders from calling special meetings;
- n deny holders of our common stock cumulative voting rights in the election of directors, meaning that stockholders owning a majority of our outstanding common stock will be able to elect all of our directors;
- n authorize the issuance of blank check preferred stock that our board could issue to dilute the voting and economic rights of our common stock and to discourage a takeover attempt;
- n provide the approval of our board or directors or a supermajority of stockholders is necessary to make, alter or repeal our amended and restated bylaws and that approval of a supermajority of stockholders is necessary to amend, alter or change certain provisions of our

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restated certificate of incorporation;

- n establish advance notice requirements for stockholder nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- n divided our board into three classes of directors, with each class serving a staggered 3-year term, which generally increases the difficulty of replacing a majority of the directors;
- n provide that directors only may be removed for cause by a majority of the board and/or by a supermajority of our stockholders; and
- n require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement contains forward-looking statements. Forward-looking statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this prospectus supplement, 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 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:

- n The effect of the Spin-off;
- n The potential tax liability associated with the Spin-off;
- n Increases in food and other commodity costs;
- n Competitive conditions;
- n Regulatory factors;
- n Environmental conditions and regulations;
- n General economic conditions, particularly in the retail sector;
- n Weather conditions;
- n Fuel prices;
- n Significant disruptions in service or supply by any of our suppliers or distributors;
- n Changes in consumer perception of dietary health and food safety;
- n Labor and employment benefit costs;
- n The outcome of pending or future legal claims or proceedings;

- n Our ability to manage our growth and successfully implement our business strategy;
- n Risks associated with the expansion of our business;
- n Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;
- n The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties;
- n The risk of an act of terrorism, insurrection or armed conflict involving the United States or any other national or international calamity;
- n Factors that affect the restaurant industry generally, including product recalls, liability if our products cause injury, ingredient disclosure and labeling laws and regulations, reports of cases of food borne illnesses such as mad cow disease and avian flu, and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as negative publicity regarding food quality, illness, injury or other health concerns; and
- n Other factors discussed under the headings Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and in documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Readers are cautioned not to place undue reliance on any forward-looking statements contained in this prospectus supplement which reflect management's opinions only as of their respective dates. Except as required by law, we undertake no obligation to revise or publicly release the results of any revisions to any forward-looking statements. You are advised, however, to consult any additional disclosures we have made or will make in our reports to the SEC that are incorporated by reference herein and in the accompanying prospectus. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this prospectus supplement.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following MD&A is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying financial statement notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

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

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. The fiscal years ended December 30, 2012, January 1, 2012 and January 3, 2011 each contained 52 weeks.

Company Overview

We own, operate and franchise two fast-casual restaurant brands, Pollo Tropical® and Taco Cabana®. Our Pollo Tropical restaurants offer a wide selection of Caribbean inspired food, while our Taco Cabana restaurants offer a wide selection of authentic Mexican food. 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, decor and atmosphere more typical of casual dining restaurants. As of December 30, 2012, our company-owned restaurants included 91 Pollo Tropical restaurants and 160 Taco Cabana restaurants. We opened two company-owned Pollo Tropical restaurants and two company-owned Taco Cabana restaurants in 2013 as of the date of the prospectus supplement.

We franchise our Pollo Tropical restaurants and as of December 30, 2012, we had 35 franchised Pollo Tropical restaurants located in Puerto Rico, Ecuador, Honduras, Trinidad & Tobago, the Bahamas, Venezuela, Costa Rica, Panama and on college campuses in Florida. We have opened one franchised Pollo Tropical restaurant in 2013 as of the date of this prospectus supplement. We also have agreements for the future development of franchised Pollo Tropical restaurants in Trinidad & Tobago, Aruba, Curacao, Bonaire, Guatemala and India. As of December 30, 2012, we had eight Taco Cabana franchised restaurants located in Texas, New Mexico and Georgia.

Recent and Future Events Affecting our Results of Operations

Spin-off of Fiesta Restaurant Group, Inc.

On May 7, 2012, Carrols Restaurant Group completed the Spin-off of Fiesta in the form of a pro rata dividend of all of our issued and outstanding common stock to Carrols Restaurant Group's stockholders whereby each holder of Carrols Restaurant Group's common stock of record on April 26, 2012 received one share of our common stock for every one share of Carrols Restaurant Group common stock held.

In connection with the Spin-off, on April 24, 2012, Carrols Restaurant Group and Carrols entered into several agreements with us that govern the transition and Carrols Restaurant Group's post Spin-off relationship with us, including a Separation and Distribution Agreement, Tax Matters Agreement, Employee Matters Agreement and Transition Services Agreement.

We incurred costs of \$3.7 million in 2012 related to the TSA which became effective on May 7, 2012.

Lease Financing Obligations

For certain of our sale-leaseback transactions, Carrols has guaranteed the lease payments on an unsecured basis or is the primary lessee on the leases associated with certain of our sale-leaseback transactions. Prior to the Spin-off, ASC 840-40 Sale-Leaseback Transactions required us to classify these leases as lease financing transactions because the guarantee from a related party constituted continuing involvement and caused the sale to not qualify for sale-leaseback accounting. Under the financing method, the assets remain on our consolidated balance sheet and continue to be depreciated and the net proceeds received by us from these transactions are recorded as a lease financing liability. Payments under these leases were applied as payments of imputed interest and deemed principal on the underlying financing obligations rather than as rent expense.

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Such leases qualified for sale-leaseback accounting upon the Spin-off due to the cure or elimination of certain provisions that previously precluded sale-leaseback accounting (and the treatment of such leases as operating leases) in our consolidated financial statements, primarily the guarantees from Carrols. As a result of the qualification for sale-leaseback accounting during the second quarter of 2012 due to the Spin-off, such leases were treated as operating leases and we removed the associated lease financing obligations, property and equipment, and deferred financing costs from our balance sheet, and recognized deferred gains on sale-leaseback transactions related to the qualification of \$32.1 million that will be amortized as a reduction of rent expense over the individual remaining lease terms. This resulted in a decrease in lease financing obligations of \$114.2 million, a decrease in assets under lease financing obligations of \$80.4 million, and a decrease of \$1.6 million in deferred financing fees.

Additionally in the second quarter of 2012, we exercised purchase options associated with the leases for five restaurant properties previously accounted for as lease financing obligations and purchased these properties from the lessor. As a result, we reduced our lease financing obligations by \$6.0 million during the second quarter of 2012.

As a result of the qualification of these leases discussed above and purchase of the five properties mentioned above, restaurant rent expense was \$4.4 million higher, depreciation expense was \$1.4 million lower and interest expense was \$7.1 million lower in 2012 compared to 2011.

Refinancing of Outstanding Indebtedness

On August 5, 2011, we sold \$200.0 million of 8.875% Senior Secured Second Lien Notes due 2016, the proceeds from which were used to distribute funds to Carrols Restaurant Group to enable Carrols Restaurant Group to repay its existing indebtedness, as well as to pay all related fees and expenses. Effective with the issuance of the Fiesta Notes, amounts due to Carrols Restaurant Group were repaid. In the first quarter of 2012 Carrols Restaurant Group transferred to us \$2.5 million of excess cash proceeds from the financings as a contribution of capital.

On July 30, 2012, we exchanged all of the \$200.0 million of the Fiesta Notes for newly issued notes that have terms which are identical to the Fiesta Notes that are registered under the Securities Act. On August 5, 2011, we also entered into a \$25.0 million senior secured revolving credit facility which was undrawn at closing.

Executive Summary-Consolidated Operating Performance for the Fiscal Year Ended December 30, 2012

Our fiscal year 2012 results and highlights include the following:

- n Net income decreased \$1.3 million to \$8.3 million in 2012, or \$0.35 per diluted share, compared to net income of \$9.5 million, or \$0.41 per diluted share, primarily due to the impact of the Spin-off from Carrols Restaurant Group and impairment charges recognized in the first quarter of 2012 related to the closure of five Pollo Tropical restaurants in New Jersey, partially offset by the positive impact of revenue growth as noted below and related profitability, and the positive impact of the qualification for sale treatment of sale-leaseback transactions upon the consummation of the Spin-off.
- n Total revenues increased 7.3% in 2012 to \$509.7 million from \$475.0 million in 2011, driven primarily by an increase in comparable restaurant sales of 8.1% for the Pollo Tropical restaurants and 4.7% for the Taco Cabana restaurants. The growth in comparable restaurant sales resulted from an increase in comparable guest traffic of 6.6% at Pollo Tropical and 1.9% at Taco Cabana, with an increase in average check of 1.5% at Pollo Tropical and 2.8% at Taco Cabana.
- n During 2012, we opened five new Pollo Tropical restaurants and five new Taco Cabana restaurants and permanently closed five Pollo Tropical restaurants and one Taco Cabana restaurant. In addition, during the fourth quarter of 2012, we sold two company-owned Taco Cabana restaurants to an existing franchisee, resulting in two net restaurant openings in 2012.

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The following table sets forth, for the fiscal years ended January 2, 2011, January 1, 2012, and December 30, 2012, selected consolidated operating results as a percentage of consolidated restaurant sales:

	JANUARY 2, 2011	JANUARY 1, 2012	DECEMBER 30, 2012
Restaurant sales:			
Pollo Tropical	42.5%	44.0%	44.8%
Taco Cabana	57.5%	56.0%	55.2%
Consolidated restaurant sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales	30.9%	32.3%	32.2%
Restaurant wages and related expenses	28.0%	27.3%	26.9%
Restaurant rent expense	3.8%	3.6%	4.3%
Other restaurant operating expenses	13.7%	13.1%	12.8%
Advertising expense	3.5%	3.4%	3.4%
General and administrative	7.5%	7.9%	8.6%

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

	2010			2011			2012		
	OWNED	FRANCHISE	TOTAL	OWNED	FRANCHISE	TOTAL	OWNED	FRANCHISE	TOTAL
Pollo Tropical:									
Beginning of year	91	28	119	91	29	120	91	31	122
New	2	1	3	2	2	4	5	5	10
Closed	(2)		(2)	(2)		(2)	(5)	(1)	(6)
End of year	91	29	120	91	31	122	91	35	126
Taco Cabana:									
Beginning of year	156	4	160	155	4	159	158	5	163
New	1		1	4	1	5	5	1	6
Sold to franchisee							(2)	2	
Closed	(2)		(2)	(1)		(1)	(1)		(1)
End of year	155	4	159	158	5	163	160	8	168

Consolidated Revenues. Revenues include restaurant sales, which consist of food and beverage sales, net of discounts, at our company-owned and operated restaurants, and franchise royalty revenues and fees, which 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 and closures of restaurants, and changes in comparable restaurant sales.

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Total revenues increased 7.3% to \$509.7 million in 2012 from \$475.0 million in 2011, while the 2011 revenues represent an increase of 8.2% from \$439.1 million in 2010. Restaurant sales also increased 7.2% to \$507.4 million in 2012 from \$473.2 million in 2011, which in turn also represents an increase of 8.2% from \$437.5 million in 2010. The following table presents the primary drivers of the increase in restaurant sales for both Pollo Tropical and Taco Cabana:

	2011 VS. 2010	2012 VS. 2011
Pollo Tropical:		
Increase in comparable restaurant sales	\$ 18.0	\$ 15.8
Impact of new stores, net of closed stores	5.9	3.6
Other	(1.8)	(0.1)
Total increase	\$ 22.1	\$ 19.3
Taco Cabana:		
Increase in comparable restaurant sales	\$ 9.1	\$ 12.2
Impact of new stores, net of closed stores	5.6	2.5
Other	(1.1)	0.1
Total increase	\$ 13.6	\$ 14.8

The increase in comparable restaurant sales for Pollo Tropical in 2012 versus 2011 represents an increase of 8.1%, while the increase in 2011 as compared to 2010 represents an increase of 9.9%. The increase in comparable restaurant sales for Taco Cabana in 2012 as compared to 2011 represents an increase of 4.7%, while the increase in 2011 versus 2010 represents an increase of 3.7%. Restaurants are included in comparable restaurant sales after they have been open for 18 months. For comparative purposes, the calculation of the changes in comparable restaurant sales is based on a 52-week year. Increases in comparable restaurant sales result primarily from an increase in guest traffic, and to a lesser extent, an increase in average check. The increase in average check is primarily driven by menu price increases. For Pollo Tropical, menu price increases drove an increase in restaurant sales of 2.6% in 2012 as compared to 2011, and 1.5% in 2011 as compared to 2010. For Taco Cabana, menu price increases drove an increase in restaurant sales of 2.7% in 2012 as compared to 2011, and 2.9% in 2011 as compared to 2010.

Franchise revenues increased to \$2.4 million in 2012 from \$1.7 million in 2011 due primarily to the number of new franchise locations opened during the year and an increase in sales at the franchised locations. Franchise revenues in 2011 increased \$0.2 million from \$1.5 million in 2010.

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 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, real estate taxes and credit card fees.

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

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The following table presents the primary drivers of the changes in the components of restaurant operating margins for Pollo Tropical and Taco Cabana. All percentages are stated as a percentage of applicable segment restaurant sales.

	2011 VS. 2010	2012 VS. 2011
Pollo Tropical:		
Cost of sales:		
Higher commodity costs	1.4%	0.4%
Menu price increases	(0.4)%	(0.9)%
Favorable sales mix	(0.4)%	(0.2)%
Other	0.5%	0.5%
Net increase (decrease) in cost of sales as a percentage of restaurant sales	1.1%	(0.2)%
Restaurant wages and related expenses:		
Impact of higher sales volumes on fixed labor costs	(0.6)%	(0.5)%
Higher (lower) workers' compensation claim costs	(0.5)%	0.5%
Net decrease in restaurant wages and related costs as a percentage of restaurant sales	(1.1)%	
Other operating expenses:		
Lower utility costs	(0.3)%	(0.5)%
Impact of higher sales volumes on fixed operating costs	0.1%	(0.1)%
Lower real estate taxes	(0.3)%	
Higher pre-opening expenses due to increase in number of new restaurants opened		0.2%
Net decrease in other restaurant operating expenses as a percentage of restaurant sales	(0.5)%	(0.4)%
Advertising expense:		
Timing of promotions		(0.1)%
Net decrease in advertising expense as a percentage of restaurant sales		(0.1)%

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	2011 VS. 2010	2012 VS. 2011
Taco Cabana:		
Cost of sales:		
Higher commodity costs	2.1%	0.8%
Menu price increases	(0.9)%	(0.9)%
Favorable sales mix		(0.3)%
Other	0.2%	0.5%
Net increase in cost of sales as a percentage of restaurant sales	1.5%	0.1%
Restaurant wages and related expenses:		
Impact of higher sales volumes on fixed labor costs		(0.3)%
Lower medical and other benefit costs	(0.3)%	(0.4)%
Net decrease in restaurant wages and related costs as a percentage of restaurant sales	(0.3)%	(0.7)%
Other operating expenses:		
Lower utility costs	(0.4)%	(0.4)%
Increase (decrease) in operating supply costs	(0.4)%	0.2%
Net decrease in other restaurant operating expenses as a percentage of restaurant sales	(0.8)%	(0.2)%
Advertising expense:		
Timing of promotions	(0.1)%	
Net decrease in advertising expense as a percentage of restaurant sales	(0.1)%	

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 4.3% in 2012 from 3.6% in 2011 due primarily to the qualification for sale treatment of the sale-leaseback transactions discussed above which increased rent expense in 2012 by \$4.4 million. This was partially offset by the effect of higher restaurant sales volumes at both Pollo Tropical and Taco Cabana on fixed rental costs. Restaurant rent expense, as a percentage of restaurant sales, decreased to 3.6% in 2011 from 3.8% in 2010 due primarily to the effects of sales increases at our restaurants on fixed rental costs.

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; (2) legal, auditing and other professional fees and stock-based compensation expense; and (3) subsequent to the Spin-off, costs incurred under the TSA for administrative support services.

General and administrative expenses increased to \$43.9 million in 2012 from \$37.5 million in 2011 and, as a percentage of total restaurant sales, increased to 8.6% compared to 7.9% in 2011, due to the hiring of certain Fiesta executive management and administrative staff as well as legal and other costs of \$0.8 million incurred in connection with the Spin-off. General and administrative expense also includes stock-based compensation expense and other costs of \$1.1 million in the first quarter of 2012 related to the conversion of Carrols Restaurant Group outstanding stock options into either shares of Carrols Restaurant Group common stock or restricted stock in connection with the Spin-off and the acceleration of vesting of restricted stock awards of our former Chairman upon his departure from our board of directors. In addition, general and administrative costs during 2012 included \$0.6 million associated with retirement agreements entered into during the third quarter.

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General and administrative expenses increased \$4.6 million in 2011 to \$37.5 million and, as a percentage of restaurant sales, increased to 7.9% from 7.5% in 2010 due in part to an increase of \$1.2 million in performance-based administrative bonus accruals and higher allocated stock-based compensation expense of \$0.7 million.

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General and administrative expenses included total allocated Carrols Restaurant Group's corporate expenses for executive management, information systems and certain accounting, legal and other administrative functions of \$11.0 million and \$9.1 million in 2011 and 2010, respectively, including costs and related expenses of \$0.9 million incurred in connection with the planned Spin-off from Carrols Restaurant Group.

Adjusted Segment EBITDA. Adjusted Segment EBITDA, which is the measure of segment profit or loss used by our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance, 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 Segment EBITDA may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation. Adjusted Segment 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 and other administrative functions.

As a result of the factors discussed above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to \$38.6 million in 2012 from \$35.6 million in 2011. Adjusted Segment EBITDA for our Pollo Tropical restaurants was negatively impacted by an increase in rent expense of \$1.6 million in 2012 due to the qualification for sale treatment of sale-leaseback transactions, as discussed above. Adjusted Segment EBITDA for our Taco Cabana restaurants decreased to \$25.6 million in 2012 from \$26.8 million in 2011. Adjusted Segment EBITDA for our Taco Cabana restaurants was also negatively impacted by an increase in rent expense of \$2.7 million in 2012 due to the qualification for sale treatment of sale-leaseback transactions, as discussed above.

As a result of the factors discussed above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to \$35.6 million in 2011 from \$30.1 million in 2010. Adjusted Segment EBITDA for our Taco Cabana restaurants decreased to \$26.8 million in 2011 from \$27.3 million in 2010.

Depreciation and Amortization. Depreciation and amortization expense decreased to \$18.3 million in 2012 from \$19.5 million in 2011 due primarily to the qualification for sale treatment of the sale-leaseback transactions discussed above which decreased depreciation expense in 2012 by \$1.4 million. Depreciation and amortization expense increased to \$19.5 million in 2011 from \$19.1 million in 2010 due primarily from our capital expenditures in 2011 of \$22.9 million.

Impairment and Other Lease Charges. Impairment and other lease charges were \$7.0 million in 2012 and primarily consisted of asset impairment charges of \$4.1 million and lease charges of \$1.5 million associated with the closure of our five Pollo Tropical restaurants in New Jersey in the first quarter of 2012 and \$1.0 million of asset impairment charges for two Taco Cabana restaurants. Two of the five closed Pollo Tropical restaurants' assets were previously impaired in 2011.

In 2011 we recorded total impairment and other lease charges of \$2.7 million which included other lease charges of \$1.2 million associated with five closed Pollo Tropical restaurants, \$0.2 million of lease charges for two closed Taco Cabana restaurants and a \$1.3 million impairment charge for an underperforming Pollo Tropical restaurant.

In 2010 we recorded total impairment and other lease charges of \$6.6 million which included impairment charges of \$3.9 million for four underperforming Pollo Tropical restaurants and \$1.4 million for two underperforming Taco Cabana restaurants. We also recorded other lease charges of \$0.7 million for non-operating Pollo Tropical restaurant properties and \$0.5 million for non-operating Taco Cabana restaurant properties.

Interest Expense. Interest expense increased \$0.4 million to \$24.4 million in 2012 from 2011 due primarily to our refinancing activities in the third quarter of 2011, partially offset by the elimination of interest expense of \$7.1 million in 2012 as a result of the qualification for sale treatment of sale-leaseback transactions and the prospective treatment of those payments as rent, as discussed above. Total interest expense increased \$4.1 million to \$24.0 million in 2011 from 2010 due primarily to higher debt balances resulting from our refinancing in the third quarter of 2011. Interest expense on lease financing obligations increased to \$11.3 million in 2011 from \$10.9 million in 2010.

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Provision for Income Taxes. The effective tax rate for 2012 of 34.2% increased as compared to an effective tax rate for 2011 of 32.7%, primarily due to the expiration of the Work Opportunity Tax Credit and the HIRE Act retention tax credit effective December 31, 2011. The 2012 effective tax rate also includes the positive impacts of discrete items totaling approximately \$0.7 million.

The American Taxpayer Relief Act of 2013 (the Act) was signed into law on January 2, 2013. The Act included a provision to retroactively restore several expired business tax provisions, including the Work Opportunity Tax Credit, as of January 1, 2012, with a new expiration date of December 31, 2013. Because a change in tax law is accounted for in the period of enactment, and the Act was enacted after Fiesta's fiscal year-end, the retroactive effect of renewing the Work Opportunity Tax Credit is not reflected in the 2012 provision for income taxes, but will instead be recorded as a discrete item in the first quarter of 2013, which is expected to total approximately \$0.6 million.

The effective tax rate for 2011 decreased to 32.7% from 34.8% in 2010 due primarily from higher Work Opportunity Tax Credits and the HIRE act retention tax credit in 2011 as compared to 2010.

Net Income. As a result of the foregoing, we had net income of \$8.3 million in 2012 compared to net income of \$9.5 million in 2011, and \$7.0 million in 2010.

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:

- n restaurant operations are primarily conducted on a cash basis;

- n rapid turnover results in a limited investment in inventories; and

- n cash from sales is usually received before related liabilities for food, supplies and payroll become due.

On August 5, 2011 we sold \$200.0 million of the Fiesta Notes and entered into a \$25.0 million senior secured revolving credit facility which was undrawn at closing. The proceeds from these borrowings were used to distribute funds to Carrols Restaurant Group to enable Carrols Restaurant Group to repay its existing indebtedness, as well as to pay accrued interest and all related fees and expenses. Excess cash generated from the financings was approximately \$9.5 million. Carrols Restaurant Group transferred \$2.5 million of the excess cash from the financings to us in the first quarter of 2012.

Interest payments under our debt obligations, capital expenditures and payments related to our lease obligations represent significant liquidity requirements for us. We believe cash generated from our operations, availability of senior credit 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 for 2012, 2011 and 2010 was \$38.0 million, \$43.2 million, and \$32.5 million, respectively. The decrease of \$5.2 million in 2012 as compared to 2011 was due primarily to interest payments of \$18.7 million related to the financing activities in the third quarter of 2011, partially offset by an increase in cash from changes in the other components of net working capital. Net cash provided by operating activities increased \$10.6 million in 2011 compared to 2010 primarily due to an increase in cash of \$10.6 million from changes in the components of working capital, including deferred income taxes.

Investing Activities. Net cash used for investing activities in 2012, 2011 and 2010 was \$32.7 million, \$15.1 million and \$21.4 million, respectively. Capital expenditures are the largest component of our investing activities and include: (1) new restaurant development, which may include the purchase of real estate; (2) restaurant remodeling, 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.

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

	POLLO TROPICAL	TACO CABANA	OTHER	CONSOLIDATED
Year ended January 2, 2011:				
New restaurant development	\$ 5,832	\$ 5,550	\$	\$ 11,382
Restaurant remodeling	1,733	4,952		6,685
Other restaurant capital expenditures ⁽¹⁾	2,326	2,852		5,178
Corporate and restaurant information systems	90	63		153
Total capital expenditures	\$ 9,981	\$ 13,417	\$	\$ 23,398
Number of new restaurant openings	2	1		3
Year ended January 1, 2012:				
New restaurant development	\$ 4,956	\$ 7,620	\$	\$ 12,576
Restaurant remodeling	2,547	1,888		4,435
Other restaurant capital expenditures ⁽¹⁾	2,210	2,830		5,040
Corporate and restaurant information systems	528	185	101	814
Total capital expenditures	\$ 10,241	\$ 12,523	\$ 101	\$ 22,865
Number of new restaurant openings	2	4		6
Year Ended December 30, 2012				
New restaurant development	\$ 13,018	\$ 10,596	\$	\$ 23,614
Restaurant remodeling	958	7,715		8,673
Other restaurant capital expenditures ⁽¹⁾	3,301	3,616		6,917
Corporate and restaurant information systems	204	429	1,159	1,792
Total capital expenditures	\$ 17,481	\$ 22,356	\$ 1,159	\$ 40,996
Number of new restaurant openings	5	5		10

¹⁾ Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the fiscal years ended January 2, 2011, January 1, 2012 and December 30, 2012, total restaurant repair and maintenance expenses were approximately \$9.5 million, \$10.7 million, and \$11.8 million, respectively.

In 2013, we anticipate that total capital expenditures will range from \$45 million to \$50 million, although the actual amount of capital expenditures may differ from these estimates. Capital expenditures in 2013 are expected to include \$35 million to \$40 million for development of new restaurants and purchase of related real estate for the opening of a total of 14 to 17 new Pollo Tropical and Taco Cabana restaurants. Our capital expenditures in 2013 are also expected to include expenditures of approximately \$8.0 million to \$10.0 million for the ongoing reinvestment in our Pollo Tropical and Taco Cabana restaurants for remodeling costs and capital maintenance expenditures and approximately \$1.0 million of other expenditures. During 2013, we also expect to incur capital expenditures of approximately \$2.0 million to complete the transition from Carrols Restaurant Group's systems.

Investing activities also include sale-leaseback transactions related to our restaurant properties, the net proceeds from which were \$7.9 million in 2012 and \$7.8 million in 2011, as well as the sale of excess properties and the sale of two Taco Cabana restaurants to an existing franchisee in

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2012, the net proceeds from which were \$2.4 million. The net proceeds from the 2012 sales were used to fund additional new store development, while the net proceeds from the 2011 sales were used to reduce outstanding borrowings under Carrols LLC's prior senior credit facility. In the first quarter of 2012 we purchased for \$2.1 million one of our existing Pollo Tropical restaurant properties, which was subsequently sold in one of the sale-leaseback transactions noted above.

Financing Activities. Net cash used for financing activities in 2012, 2011 and 2010 was \$3.4 million, \$17.0 million and \$12.4 million, respectively, and included in 2012 the purchase of five restaurant properties previously accounted for as lease financing obligations from the lessor for \$6.0 million. Net borrowings on intercompany debt to Carrols Restaurant Group in 2012, prior to the Spin-off, were \$0.5 million. Subsequent to the Spin-off, changes in amounts owed to Carrols Restaurant Group are reflected as a working capital change in net cash

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provided from operating activities in our consolidated statement of cash flows. In the first quarter of 2012 Carrols Restaurant Group also transferred to us \$2.5 million of the excess cash proceeds from the 2011 financings.

Net cash used for financing activities in 2011 included the proceeds from the issuance of \$200.0 million of Fiesta Notes, as further discussed below. As a result of the issuance of the Fiesta Notes and the administrative services provided to us by Carrols Restaurant Group during 2011, we made payments to Carrols Restaurant Group of \$139.0 million in 2011 and a dividend payment to Carrols Restaurant Group of \$75.5 million in the third quarter of 2011. In 2011 we also deferred \$7.5 million of financing costs pertaining to our financing transactions discussed below. In the first six months of 2011 we also sold a restaurant property with net proceeds of \$1.7 million which was accounted for as a lease financing obligation.

In 2010, net cash used from financing activities included net repayments of indebtedness to Carrols Restaurant Group of \$18.0 million, partially offset by proceeds from lease financing obligations of \$5.9 million.

Senior Secured senior Credit Facility. On August 5, 2011 we entered into a first lien senior secured credit facility providing for aggregate revolving credit borrowings of up to \$25.0 million (including \$10.0 million available for letters of credit) which was undrawn at closing. The senior credit facility also provides for incremental increases of up to \$5.0 million, in the aggregate, to the revolving credit borrowings available under the senior credit facility, and matures on February 5, 2016. On December 30, 2012, there were no outstanding borrowings under our senior credit facility.

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

- 1) the Alternate Base Rate plus the applicable margin of 2.00% to 2.75% based on our Adjusted Leverage Ratio (with a margin of 2.25% at December 30, 2012), or
- 2) the LIBOR Rate plus the applicable margin of 3.00% to 3.75% based on our Adjusted Leverage Ratio (with a margin of 3.25% at December 30, 2012).

Our obligations under our senior credit facility are guaranteed by all of our material subsidiaries and are secured by a first priority lien on substantially all of our assets and our material subsidiaries (including a pledge of all of the capital stock and equity interests of our material subsidiaries).

Our senior credit facility contains certain covenants, including without limitation, those limiting our and our guarantor subsidiaries' ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of its business in all material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends. In addition, the senior credit facility requires us to meet certain financial ratios, including a Fixed Charge Coverage Ratio and Adjusted Leverage Ratio (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 \$2.5 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 December 30, 2012, we were in compliance with the covenants under our senior credit facility. After reserving \$9.4 million for letters of credit guaranteed by the senior credit facility, \$15.6 million was available for borrowing at December 30, 2012.

Notes. On August 5, 2011, we issued \$200.0 million of 8.875% Senior Secured Second Lien Notes due 2016 pursuant to an indenture dated as of August 5, 2011 governing such Fiesta Notes. The proceeds from the issuance of the Fiesta Notes were used by Carrols Restaurant Group to repay amounts outstanding under Carrols LLC's prior senior credit facility and Carrols' 9% senior subordinated notes due 2013, as well as to pay related fees and expenses. The Fiesta Notes mature and are payable on August 15, 2016. Interest is payable semi-annually on February 15 and August 15. The Fiesta Notes are guaranteed by all of our material subsidiaries and are secured by second-priority liens on substantially all of our and our material subsidiaries' assets (including a pledge of all of the capital stock and equity interests of our material subsidiaries).

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The indenture governing the Fiesta Notes and the security agreement provide that any capital stock and equity interests of any of our material subsidiaries will be excluded from the collateral to the extent that the par value, book value or market value of such capital stock or equity interests exceeds 20% of the aggregate principal amount of the Fiesta Notes then outstanding.

The Fiesta Notes are redeemable at our option in whole or in part at any time after February 15, 2014 at a price of 104.438% of the principal amount plus accrued and unpaid interest, if any, if redeemed before February 15, 2015, 102.219% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2015 but before February 15, 2016 and 100% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2016. Prior to February 14, 2014, we may redeem some or all of the Fiesta Notes at a redemption price of 100% of the principal amount of each Fiesta Note plus accrued and unpaid interest, if any, and a make-whole premium. In addition, at any time prior to February 15, 2014, we may redeem up to 35% of the Fiesta Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 108.875% of the principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

The Fiesta Notes are jointly and severally guaranteed, unconditionally and in full by all of our subsidiaries which are directly or indirectly wholly-owned by us. Separate condensed consolidating information is not included because we are a holding company with all of our operations conducted through the guarantor subsidiaries. There are no significant restrictions on our ability or any of the guarantor subsidiaries to obtain funds from our respective subsidiaries. All consolidated amounts in our financial statements are representative of the combined guarantors.

The indenture governing the Fiesta Notes includes certain covenants, including limitations and restrictions on us and our material subsidiaries who are guarantors under such indenture to incur additional debt, issue preferred stock, pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments, incur liens, sell assets, enter into transactions with affiliates, agree to payment restrictions affecting certain of our material subsidiaries and enter into mergers, consolidations or sales of all or substantially all of our or our material subsidiaries' assets.

The indenture governing the Fiesta Notes contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under the Fiesta Notes and the indenture if there is a default under any indebtedness of ours having an outstanding principal amount of \$15.0 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. We were in compliance as of December 30, 2012 with the restrictive covenants of the indenture governing the Fiesta Notes.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of December 30, 2012 (in thousands):

Contractual Obligations	TOTAL	PAYMENTS DUE BY PERIOD			
		LESS THAN 1 YEAR	1 YEARS	3 YEARS	MORE THAN 5 YEARS
Long-term debt obligations, including interest ⁽¹⁾	\$ 271,000	\$ 17,750	\$ 35,500		