POLLO FRANCHISE INC
Form 424B3
June 26, 2012
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-181050

PROSPECTUS

FIESTA RESTAURANT GROUP, INC.

Offer to Exchange

up to $200,000,000 aggregate principal amount of 8.875% Senior Secured Second Lien Notes due 2016,

which have been registered under the Securities Act of 1933,

for any and all of its outstanding 8.875% Senior Secured Second Lien Notes due 2016

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, up to $200.0 million aggregate principal amount of our 8.875% Senior Secured Second Lien Notes due 2016 that have been registered under the Securities Act of 1933, or the exchange notes, for our currently outstanding 8.875% Senior Secured Second Lien Notes due 2016, or the outstanding notes, and together with the exchange notes, the notes.

Terms of the exchange notes offered in this exchange offer:

- The terms of the exchange notes are identical to the terms of the outstanding notes, except that the exchange notes have been registered under the Securities Act and will not contain restrictions on transfer.

- The exchange notes will represent the same debt as the outstanding notes, and we will issue the exchange notes under the same indenture.

Terms of this exchange offer:

- All outstanding notes that you validly tender and do not validly withdraw before this exchange offer expires will be exchanged for an equal principal amount of the relevant exchange notes.

- This exchange offer expires at 5:00 p.m., New York City time, on July 25, 2012, unless extended.

Tenders of outstanding notes may be withdrawn at any time prior to the expiration of this exchange offer.

The exchange of exchange notes for outstanding notes will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from this exchange offer.

Resales of exchange notes:

There is no existing public market for the outstanding notes or the exchange notes. We do not intend to list the exchange notes on any securities exchange or seek approval for quotation through any automated trading system. The exchange notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of these methods.

If you fail to tender your outstanding notes for the exchange notes, you will continue to hold unregistered securities and it may be difficult for you to transfer them.

We are an emerging growth company as defined under the federal securities laws and, as such, may elect to comply with certain reduced public company reporting requirements in future filings. Investing in the notes involves risks. You should consider carefully the Risk Factors beginning on page 22 of this prospectus before participating in this exchange offer.

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

Broker-dealers who acquired outstanding notes from us in the initial offering are not eligible to participate in this exchange offer with respect to such outstanding notes. Each broker-dealer registered as such under the Securities Exchange Act of 1934, as amended, that receives exchange notes for its own account pursuant to this exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. The letter of transmittal that accompanies this prospectus states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer only in connection with resales of exchange notes received in exchange for outstanding notes where the outstanding notes were acquired by the broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date of the applicable exchange offer and ending on the close of business 180 days after the registration statement of which this prospectus forms a part is declared effective by the SEC, or such shorter period as will terminate when broker-dealers are no longer required to deliver a prospectus in connection with market-making or other trading activities, we will make this prospectus available to any broker-dealer for use in connection with any resale of exchange notes received by a broker-dealer for its own account. A broker-dealer may not participate in this exchange offer with respect to outstanding notes acquired other than as a result of market-making activities or trading activities. See Plan of Distribution.

The date of this prospectus is June 26, 2012.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is an offer to exchange only the notes offered by this prospectus and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is accurate only as of its date.

This prospectus contains summaries of the terms of several material documents. These summaries include the terms that we believe to be material, but we urge you to review these documents in their entirety. We will provide without charge to each person to whom a copy of this prospectus is delivered, upon written or oral request of that person, a copy of any and all of this information. Written or oral requests should be directed to Joseph A. Zirkman, Vice President, General Counsel and Secretary, Fiesta Restaurant Group, Inc., 7300 North Kendall Drive, 8th Floor, Miami, Florida 33156, whose telephone number is (305) 670-7696. You should request this information at least five business days in advance of the date on which you expect to make your decision with respect to the exchange offer. In any event, you must request this information prior to July 18, 2012, in order to receive the information prior to the expiration of the exchange offer.

PRESENTATION OF INFORMATION

Throughout this prospectus, we refer to Fiesta Restaurant Group, Inc. as Fiesta Restaurant Group 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 formerly our indirect parent company prior to our spin-off from Carrols Restaurant Group which occurred on May 7, 2012, and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires. Any reference to Carrols refers to Carrols Corporation, a Delaware corporation and formerly our direct parent company prior to the spin-off, and its consolidated subsidiaries, unless otherwise

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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.

We own and operate two quick-casual restaurant brands, Pollo Tropical and Taco Cabana, through our wholly-owned subsidiaries Pollo Operations, Inc. and Pollo Franchise, Inc., (collectively Pollo Tropical) and Taco Cabana, Inc. and its subsidiaries (collectively 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. The consolidated financial information discussed in this prospectus 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 gives effect to a 23,161.822 for one split of our outstanding common stock, which occurred on April 19, 2012.

On May 7, 2012, each holder of record on April 26, 2012 of Carrols Restaurant Group common stock received one share of our common stock for every one share of Carrols Restaurant Group common stock held, which we refer to as the spin-off.

In addition, we describe in this prospectus 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 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 activities of Pollo Tropical and Taco Cabana as the businesses were conducted as part of Carrols Restaurant Group prior to May 7, 2012 the date of the completion of the spin-off, which we refer to as the distribution date.

We use a 52 or 53 week fiscal year ending on the Sunday closest to December 31. For convenience, all references herein to the fiscal years ended December 30, 2007, December 28, 2008, January 3, 2010, January 2, 2011 and January 1, 2012 will hereinafter be referred to as the fiscal years ended December 31, 2007, 2008, 2009, 2010 and 2011, respectively. Similarly, all references herein to the three months ended April 3, 2011 and April 1, 2012 will be referred to as the three months ended March 31, 2011 and 2012, respectively. Our fiscal year ended December 31, 2009 contained 53 weeks. The fiscal years ended December 31, 2007, 2008, 2010 and 2011 each contained 52 weeks. The three months ended March 31, 2011 and 2012 each contained 13 weeks.

We use the terms Adjusted Segment EBITDA and Adjusted Segment EBITDA margin in this prospectus 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.

MARKET AND INDUSTRY DATA

In this prospectus, we refer to information, forecasts and statistics regarding the restaurant industry. Unless otherwise indicated, all restaurant industry data in this prospectus refers to the U.S. restaurant industry and is taken from or based upon the Technomic, Inc. (Technomic) report titled 2011 Technomic Top 500 Chain Restaurant Report. In this prospectus 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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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this prospectus, 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 o negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or cautionary statements, include, but are not limited to:

- The effect of the spin-off of Fiesta Restaurant Group;
- The potential tax liability associated with the proposed spin-off of Fiesta Restaurant Group;
- Increases in food costs;
- Competitive conditions;
- Regulatory factors;
- Environmental conditions and regulations;
- General economic conditions, particularly in the retail sector;
- Weather conditions;
- Increases in commodity costs;
- Fuel prices;
- Significant disruptions in service or supply by any of our suppliers or distributors;
- Changes in consumer perception of dietary health and food safety;

- Labor and employment benefit costs;

- The outcome of pending or future legal claims or proceedings;

- Our ability to manage our growth and successfully implement our business strategy;

- Risks associated with the expansion of our business;

- Our ability to integrate any businesses we acquire;

- Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;

- The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties;

- The risk of an act of terrorism or escalation of any insurrection or armed conflict involving the United States or any other national or international calamity;

- Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, 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

- Other factors discussed under Risk Factors herein.

Developments in any of these areas, which are more fully described elsewhere in this prospectus and which descriptions are incorporated into this section by reference, could cause our results to differ materially from results that have been or may be projected by or on our behalf.

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SUMMARY

The following is a summary of material information discussed in this prospectus. This summary may not contain all the details concerning the exchange offer or other information that may be important to you. To better understand the exchange offer and our business and financial position, you should carefully review this entire prospectus.

Our Company

We own and operate two quick-casual restaurant brands, Pollo Tropical® and Taco Cabana®. Our Pollo Tropical restaurants offer a wide selection of tropical and Caribbean inspired food, while our Taco Cabana restaurants offer a wide selection of fresh Tex-Mex and traditional Mexican food. Our brands are differentiated and positioned within the value oriented quick-casual restaurant segment, which combines the convenience of quick-service restaurants with the menu variety, use of fresh ingredients, food quality, decor and service more typical of casual dining restaurants. As of April 1, 2012, we owned and operated a total of 243 restaurants across five states, which included 86 Pollo Tropical and 157 Taco Cabana restaurants. We franchise our Pollo Tropical restaurants primarily internationally, and as of April 1, 2012, we had 33 franchised Pollo Tropical restaurants located in Puerto Rico, Ecuador, Honduras, Trinidad, Venezuela, the Bahamas and on college campuses in Florida. We also have agreements for the future development of franchised Pollo Tropical restaurants in Panama, Tobago, Aruba, Curacao, Bonaire, and Guatemala. Although we are not actively franchising our Taco Cabana restaurants, as of April 1, 2012, we had five Taco Cabana franchised restaurants located in the United States. Our company-owned Pollo Tropical and Taco Cabana restaurants generated average annual sales per restaurant of approximately $2,287,000 and $1,690,000, respectively, for the fiscal year ended December 31, 2011, which we believe are among the highest in the quick-casual segment based on industry data from Technomic.

On May 7, 2012, each holder of record on April 26, 2012 of Carrols Restaurant Group common stock received one share of our common stock for every one share of Carrols Restaurant Group common stock held.

Until the completion of the spin-off on May 7, 2012, we were an indirect wholly-owned subsidiary of Carrols Restaurant Group. Carrols Restaurant Group, through its wholly-owned subsidiaries Carrols and Carrols LLC, is the largest Burger King® franchisee, based on number of restaurants. The common stock of Carrols Restaurant Group is listed on The NASDAQ Global Market under the symbol TAST. We have been an independent publicly traded company since the completion of the spin-off on May 7, 2012, and our common stock is listed on The NASDAQ Global Select Market under the symbol FRGI. Carrols Restaurant Group does not hold any direct or indirect ownership interest in us.

For the fiscal year ended December 31, 2011 and the three months ended March 31, 2012, we generated consolidated revenues of $475.0 million and $126.1 million, respectively. Comparable restaurant sales for 2011 and the three months ended March 31, 2012 increased 9.9% and 9.4%, respectively, for Pollo Tropical and 3.7% and 6.1%, respectively, for Taco Cabana.

Pollo Tropical

Our Pollo Tropical restaurants offer tropical and Caribbean inspired menu items, featuring grilled chicken marinated in our proprietary blend of tropical fruit juices and spices. Our diverse menu also includes a variety of chicken sandwiches, wraps, salads, roast pork, grilled ribs and wings offered with an array of freshly made salsas and sauces, Caribbean style made from scratch side dishes, desserts and snacks. Most menu items are made fresh daily in each of our Pollo Tropical restaurants, which feature open display cooking on large, open-flame grills that enable our customers to observe the fresh preparation of our food. Our Pollo Tropical restaurants feature signature dining areas, designed to create an airy, inviting and tropical atmosphere. Additionally, our

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Pollo Tropical restaurants provide our guests the option of take-out, as well as the convenience of drive-thru windows.

Pollo Tropical opened its first restaurant in 1988 in Miami, Florida. Carrols acquired the Pollo Tropical restaurant brand in 1998. As of April 1, 2012, we owned and operated a total of 86 Pollo Tropical restaurants, of which 85 were located in Florida and one was located in Georgia. For the year ended December 31, 2011, the average sales transaction at our company-owned Pollo Tropical restaurants was $9.56 reflecting, in part, strong dinner and late night traffic, with dinner and late night sales representing the largest day-part at 53.3%. For the year ended December 31, 2011 and the three months ended March 31, 2012, our Pollo Tropical brand generated total revenues of $209.5 million and $57.8 million, respectively, and Adjusted Segment EBITDA of $35.6 million and $11.2 million, respectively.

Taco Cabana

Our Taco Cabana restaurants serve fresh Tex-Mex and traditional Mexican food, including sizzling fajitas, quesadillas, hand rolled flautas, enchiladas, burritos, tacos, fresh-made flour tortillas, a selection of made from scratch salsas and sauces, frozen margaritas and beer. Most menu items are handmade daily in each of our Taco Cabana restaurants, which feature open display cooking, including fajitas cooking on an open-flame grill and a machine making our fresh tortillas. Our Taco Cabana restaurants feature interior, semi-enclosed and patio dining areas, which provide a vibrant decor and relaxing atmosphere. Additionally, our Taco Cabana restaurants provide our guests the option of take-out, as well as the convenience of drive-thru windows.

Taco Cabana opened its first restaurant in San Antonio, Texas in 1978. Carrols acquired the Taco Cabana brand in 2000. As of April 1, 2012, we owned and operated 157 Taco Cabana restaurants located in Texas, Oklahoma and New Mexico, of which 151 were located in Texas. A majority of our Taco Cabana restaurants are open 24 hours a day, generating customer traffic and restaurant sales balanced across multiple day-parts, with dinner sales representing the largest day-part at 26.0% for the year ended December 31, 2011. For the year ended December 31, 2011, the average sales transaction at our company-owned Taco Cabana restaurants was $8.14. For the fiscal year ended December 31, 2011 and the three months ended March 31, 2012, our Taco Cabana brand generated total revenues of $265.4 million and $68.3 million, respectively, and Adjusted Segment EBITDA of $26.8 million and $6.2 million, respectively.

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

- A variety of signature dishes with Caribbean and Mexican flavor profiles designed to appeal to consumers desire for freshly-prepared food and healthful menu options;

- 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;

- Broad appeal that attracts consumers that desire new and ethnic flavor profiles, grilled rather than fried entree choices, customization of orders and varied product offerings at competitive prices in an appealing atmosphere;

- The majority of our restaurants are company-owned which gives us the ability to control the consistency and quality of the customer experience and the strategic growth of our restaurant operations as compared to competing brands that focus on franchising;

- High market penetration of company-owned restaurants in our core markets that provides operating and marketing efficiencies, convenience for our customers and the ability to effectively manage and enhance brand awareness;

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- Ability to continue to benefit from the projected long-term population growth in Florida and Texas;

- Established infrastructure to manage operations and develop and introduce new menu offerings, positioning us to build customer frequency and broaden our customer base; and

- Ability to capitalize on the continuing trend towards home meal replacement.

Industry Overview

The Restaurant Market. According to Technomic, in 2010 total restaurant industry revenues in the United States were $361.1 billion. Sales in the overall U.S. restaurant industry as reported by Technomic have increased from $257.8 billion in 2000 to $361.1 billion in 2010. The growth of sales in the overall U.S. restaurant industry from 2000 through 2010 may not be indicative of future growth and there can be no assurance that sales in the overall U.S. restaurant industry will grow in the future. In 2010, 48% of food dollars were spent on food away from home and demand continues to outpace at-home dining, with food away from home projected to surpass at-home dining by 2015, according to the U.S. Department of Agriculture.

Quick-Casual Restaurants. We operate in the quick-casual restaurant segment in which the convenience of quick-service restaurants is combined with the menu variety, use of fresh ingredients and food quality more typical of casual dining. We believe that the quick-casual restaurant segment is one of the fastest growing segments of the restaurant industry. According to Technomic, 2010 sales growth as compared to 2009 for quick-casual chains in the Technomic Top 500 restaurant chains was 5.7% as compared to 1.8% for the overall Top 500 restaurant chains.

Quick-casual restaurants are primarily distinguished by the following characteristics:

- *Quick-service or self-service format.* Meals are purchased prior to receiving food. In some cases, payment may be made at a separate station from where the order was placed and servers may bring orders to the customers tables.

- *Higher check averages than quick-service restaurants.* Technomic reports that the average check at quick-casual restaurants in 2010 was generally higher than the average check at quick-service restaurants.

- *Food prepared to order.* Customization of orders and open display cooking is common.

- *Fresh ingredients.* Many concepts use the word fresh in their positioning and feature descriptive menus highlighting the use of fresh ingredients.

- *Broader range of menu offerings.* Typically greater variety and diversity of menu offerings relative to quick-service restaurants.

- *Enhanced décor and services.* Generally offer a more upscale dining atmosphere than quick-service restaurants and enhanced features such as silverware and plates.

Our Competitive Strengths

Differentiated Menu Offerings with Broad Appeal. Both of our brands offer differentiated menu items that we believe have broad consumer appeal, attract a more diverse customer base and increase customer frequency. Pollo Tropical s menu offers dishes inspired from multiple regions throughout the Caribbean, including our featured grilled chicken marinated in our proprietary blend of tropical fruit juices and spices. Taco Cabana s menu offers favorites such as sizzling fajitas served hot on the skillet and other authentic Mexican dishes. We frequently enhance our menu with seasonal offerings and new menu items to provide variety to our guests and to address changes in consumer preferences such as sandwiches at our Pollo Tropical restaurants and brisket tacos and shrimp tampico at our Taco Cabana restaurants. Additionally, our menu includes a number of options to address consumers increasing focus on healthy eating.

Leading Quick-Casual Brands with Attractive Value Proposition. We believe that our brands are positioned to benefit from growing consumer demand for quick-casual restaurants because of food quality, value, differentiation of flavors and the increasing acceptance of ethnic foods. In addition, we believe our recent initiatives to enhance our Pollo Tropical and Taco Cabana restaurants in certain existing and new markets provide our customers an elevated quick-casual experience while better positioning our brands for successful and sustainable future growth. We believe our fresh, quality food at affordable price points provides customers a compelling value proposition, enabling us to benefit from consumers desire for a more value oriented quick-casual alternative. We believe that the inviting atmosphere, made from scratch menu items and open display cooking format of our restaurants offer customers a quality food and dining experience comparable to casual dining, but with the convenience and affordability similar to that of quick-service restaurants.

Strong Restaurant Level Economics and Operating Metrics. Our comparable restaurant sales increased 9.9% and 3.7% at our Pollo Tropical and Taco Cabana restaurants, respectively, for the year ended December 31, 2011 and 9.4% and 6.1% at our Pollo Tropical and Taco Cabana restaurants, respectively, for the three months ended March 31, 2012. Based on industry data from Technomic, we believe that the average annual sales at our company-owned restaurants for the fiscal year ended December 31, 2011 of approximately $2,287,000 and $1,690,000 for Pollo Tropical and Taco Cabana, respectively, are among the highest in the quick-casual segment. As a percentage of total Pollo Tropical revenues, for the year ended December 31, 2011 and the three months ended March 31, 2012, our Pollo Tropical restaurants generated Adjusted Segment EBITDA margin of 17.0% and 19.4%, respectively, which included general and administrative expenses of 8.8% and 9.0%, respectively. As a percentage of total Taco Cabana revenues, for the year ended December 31, 2011 and the three months ended March 31, 2012, our Taco Cabana restaurants generated Adjusted Segment EBITDA margin of 10.1% and 9.1%, respectively, which included general and administrative expenses of 7.2% and 8.6%, respectively. We believe that the average annual sales at our company-owned restaurants and our strong operating margins generate unit economics and returns on invested capital which will enable us to support new unit growth.

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 8.7% from 2010 to 2020 and the population in Florida and Texas is forecasted to grow by 21.6% and 16.2%, respectively, during that same time period. However, there can be no assurance that we will be able to benefit from any long-term population growth in Florida and Texas.

Well Positioned to Continue to Benefit From the Growth of the Hispanic Population in the United States. We expect sales from our restaurants to benefit from the growth of the U.S. Hispanic population, which is projected by the U.S. Census Bureau to grow at a faster rate than the national average. 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 2010 to 23.7% by 2030. We believe that the continued growth of the Hispanic population has contributed to the increased popularity and acceptance of Hispanic food in the United States by non-Hispanic consumers. However, there can be no assurance that we will be able to benefit from any growth of the Hispanic population in the United States.

Our Large Number of Company-Owned Restaurants Enable us to Effectively Manage Our Brands. Our restaurants in the United States are substantially company-owned and we therefore exercise control over the day-to-day operations of our restaurants unlike many of our competitors that are largely comprised of independent franchisees. Consequently, our success does not depend on our control of our franchisees, or their support of our marketing programs, new product offerings, strategic initiatives or new restaurant development strategies. In addition, because our restaurants are primarily company-owned, we believe we are better able to provide customers with a more consistent experience relative to competing brands that utilize franchisee-operated restaurants.

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Experienced Management Team. We believe that our senior management team s extensive experience in the restaurant industry and its history of developing and operating quick-service and quick-casual restaurants provides us with a competitive advantage. Furthermore, our executive management team is supported by deep brand-level operating teams with extensive experience. 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. Our Executive Vice Presidents of Pollo Tropical and Taco Cabana have been with us and Carrols for over 30 years and in their current positions since 2003 and 2002, respectively, with us and Carrols. We believe that the breadth of industry experience of our management team and their longstanding experience with our restaurant brands provide us with a competitive advantage. We believe that our operating disciplines, seasoned management team, including real estate professionals responsible for site selection, and marketing and product development capabilities, supported by our management information systems and comprehensive training and development programs, will support our expansion.

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Our Business Strategy

Our primary business strategies are as follows:

Increase Comparable Restaurant Sales. We intend to grow sales by attracting new customers and increasing customer frequency by continuing to develop new menu offerings and enhance the effectiveness of our advertising and promotional programs, further capitalizing on attractive industry and demographic trends and enhancing the quality of the customer experience at our restaurants.

Enhance Our Brand Positioning. We have implemented 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 quick-casual segment while appealing to a broader demographic. Our restaurant enhancements 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 table service, hand held menus, Wi-Fi, new menu items as well as real plates and silverware. We believe our elevated Pollo Tropical and Taco Cabana restaurants further differentiate us from price-driven, quick-service restaurants. As of April 1, 2012, we had upgraded a total of 55 Taco Cabana restaurants in Texas which included 34 locations in the Dallas market, 18 in the Austin market, and one location each in College Station, Corpus Christi and Temple. During 2012, as a continuation of our brand positioning efforts, we plan to upgrade a total of 37 Taco Cabana restaurants including the remaining restaurants in our Austin market, twelve restaurants in our San Antonio market and eight restaurants in our Houston market. The cost of the restaurant enhancements for our Taco Cabana restaurants has been and is expected to be approximately $200,000 to $300,000 per restaurant. Prior to 2011, we had upgraded a total of twelve Pollo Tropical restaurants. Although we continue to reinvest in our core markets through remodeling certain locations to maintain a competitive image, we did not upgrade any of our existing Pollo Tropical restaurants in 2011 and we do not anticipate any upgrades to our existing Pollo Tropical restaurants in 2012. The cost of the restaurant enhancements for our Pollo Tropical restaurants has generally ranged between $150,000 to $200,000.

Develop New Restaurants Within and Outside of Our Existing Markets. We believe that we have 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. By increasing the number of restaurants we operate in a particular market, we believe that we can increase brand awareness and effectively leverage our field supervision, corporate infrastructure and marketing initiatives. We currently anticipate opening a total of ten to twelve new restaurants in 2012.

As discussed above, Pollo Tropical has developed an elevated format which we believe will permit it to be accepted as a general market concept and broaden its 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 and wine, and numerous other enhancements. Pollo Tropical has recently opened three restaurants in Jacksonville, Florida, and two restaurants in Atlanta, Georgia utilizing this format and we believe it will serve as the model for Pollo Tropical s expansion outside its core Florida markets. 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.

Our staff of real estate and development professionals is responsible for new restaurant development. Prior to developing a new restaurant, we conduct an extensive site selection and evaluation process that includes in depth demographic, market and financial analyses. Where possible, we intend to continue to utilize real estate leasing as a means of reducing the amount of cash invested in new restaurants. We believe that cash generated from operations, borrowings under our revolving credit facility and leasing will enable us to continue to pursue our long-term new unit development strategy.

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Improve Income from Operations. We believe that our long-term development of new company-owned restaurants, combined with our strategy to increase sales at our existing restaurants, will increase revenues and position us to improve our overall income from operations. 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 growing our restaurant base. Our operating systems allow us to effectively manage restaurant labor and food costs and promote consistent application of operating controls at each of our restaurants. In addition, our size enables us to realize certain benefits from economies of scale.

Franchise Our 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 preference to support additional franchising of the Pollo Tropical brand. 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. Internationally, our franchisees are currently operating or have development rights to open Pollo Tropical restaurants under multi-unit development agreements in the Bahamas, Ecuador, Puerto Rico, Trinidad & Tobago, Panama, Aruba, Bonaire, Curacao, Venezuela, Honduras, Costa Rica and Guatemala. Since restaurant development in foreign jurisdictions requires certain local knowledge and expertise that we do not necessarily possess, we utilize franchising 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. In addition to certain minimum financial requirements, the criteria for our franchisees includes individuals or entities that have multi-unit hospitality industry experience and have demonstrated local commercial real estate development experience. We believe that there are significant opportunities to develop Pollo Tropical restaurants in additional international markets and are seeking new multi-unit franchisees and licensees who meet our qualification criteria in strategically targeted markets.

Corporate Information

Fiesta Restaurant Group is a Delaware corporation, incorporated in April 2011. Fiesta Restaurant Group was formed, in contemplation of the financing transactions and the spin-off, to hold the subsidiaries engaged in the Pollo Tropical and Taco Cabana businesses. Prior to the completion of the spin-off on May 7, 2012, we were an indirect wholly-owned subsidiary of Carrols Restaurant Group, a Delaware corporation, incorporated in 1986 and also formerly a wholly-owned subsidiary of Carrols, a Delaware corporation. We are currently an independent publicly traded company and Carrols Restaurant Group does not hold any direct or indirect ownership interest in us. We are a holding company and all of our operations are conducted through our subsidiaries Pollo Operations, Inc., Pollo Franchise, Inc. and Taco Cabana, Inc. and its subsidiaries. Our principal executive offices are located at 968 James Street, Syracuse, New York 13203 and our telephone number at that address is (315) 424-0513. Our corporate website address is *www.frgi.com*. Such website address is a textual reference only, meaning that the information contained on our website is not a part of this prospectus and is not incorporated by reference in this prospectus.

Recent Developments

The Spin-Off

On April 24, 2012, we entered into a separation and distribution agreement, which we refer to as the separation agreement, with Carrols Restaurant Group and Carrols, pursuant to which we were legally and structurally separated from Carrols Restaurant Group. The separation was accomplished through the distribution, in the form of a dividend, by Carrols of all of our outstanding common stock to Carrols Restaurant Group and, immediately thereafter, the distribution, in the form of a dividend, by Carrols Restaurant Group of all of our outstanding common stock to stockholders of record of Carrols Restaurant Group as of the record date of

April 26, 2012, which we refer to as the record date. The distribution occurred on the distribution date of May 7, 2012. On the distribution date, each holder of Carrols Restaurant Group common stock on the record date received one share of our common stock for every one share of Carrols Restaurant Group common stock held. Neither Carrols Restaurant Group nor Carrols owns any equity interest in our company.

In connection with the spin-off, on April 24, 2012, we also entered into a transition services agreement with Carrols Restaurant Group and Carrols, pursuant to which Carrols Restaurant Group and Carrols have agreed to provide certain 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) to us, and we have agreed to provide certain limited management services (including certain legal services) to Carrols Restaurant Group and Carrols. To help ensure an orderly transition following the spin-off by providing us with sufficient time to develop our own infrastructure, Carrols will provide services under the transition services agreement for a period of three years following the spin-off, provided that we may extend the term of the transition services agreement by one additional year upon 90 days prior written notice to Carrols Restaurant Group and Carrols, provided further that we may terminate the transition services agreement 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. Our revolving credit facility provides that payments made by us to Carrols under the transition services agreement will not exceed $10 million in the aggregate during any fiscal year; provided, that such amount will be increased (i) at the beginning of each fiscal year (beginning with fiscal year 2012) by an amount equal to the percentage increase in the consumer price index during the previous fiscal year period and (ii) at the beginning of each fiscal quarter by an amount equal to $35,000 for each new restaurant opened or acquired during the previous fiscal quarter period. In addition to the separation agreement and the transition services agreement, in connection with the spin-off, on April 24, 2012, we entered into a tax matters agreement and an employee matters agreement with Carrols Restaurant Group and Carrols. For more information on the separation agreement, transition services agreement, tax matters agreement, employee matters agreement and our relationship with Carrols Restaurant Group after the spin-off, see Certain Relationships and Related Party Transactions Agreements with Carrols Restaurant Group.

Closure of Pollo Tropical Restaurants in New Jersey

On March 27, 2012, we closed our five Pollo Tropical restaurants located in New Jersey, after an evaluation of the performance of the individual restaurants, the New Jersey market in general, and our other development alternatives, which resulted in our decision to not pursue any further expansion in this market. Two of the five Pollo Tropical restaurant locations assets had been previously impaired as of January 1, 2012 and each has a base lease term ending in 2012.

As a result of the closing of these Pollo Tropical restaurants, we recorded additional impairment and other lease charges in the first quarter of 2012 of $5.9 million. These charges include asset impairment charges of $4.1 million and other lease charges of $1.7 million, for the accrual of lease liabilities, net of estimated sublease recoveries.

Refinancing of Outstanding Indebtedness of Carrols and Our Completion of Separate Financing Arrangements

On August 5, 2011, we and Carrols LLC each entered into new and independent financing arrangements to refinance the then outstanding indebtedness of Carrols and to separately finance our business and the business of Carrols Restaurant Group in anticipation of the spin-off. The proceeds of such financings were distributed to Carrols to enable Carrols to repay all of its outstanding borrowings under its existing senior credit facility and repurchase (in a tender offer) and redeem all of its outstanding 9% senior subordinated notes due 2013, as well as

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to pay all related fees and expenses. Excess cash from the financings was $9.5 million and is available to Carrols for corporate purposes, including the disbursement of funds prior to the spin-off to us and/or Carrols LLC. In January 2012, Carrols disbursed $2.5 million of the excess cash from the financings to us and the balance to Carrols LLC.

On August 5, 2011 we sold $200 million principal amount of 8.875% Senior Secured Second Lien Notes due 2016 in a Rule 144A and Regulation S private placement subject to subsequent registration with the SEC. The terms of the outstanding notes are governed by an indenture entered into by us on August 5, 2011, as issuer, and our material subsidiaries party thereto, as guarantors, with The Bank of New York Mellon Trust Company, N.A., as trustee.

On August 5, 2011, we also entered into a senior secured credit agreement with Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto, which provides for a $25 million secured revolving credit facility which was undrawn at closing, which we refer to as our revolving credit facility .

As part of the refinancing, on August 5, 2011, Carrols LLC entered into a secured credit agreement, which we refer to as the Carrols LLC senior credit facility, with Wells Fargo Bank, National Associations, as administrative agent, M&T Bank, as syndication agent, Regions Bank, as documentation agent and the lenders party thereto. The Carrols LLC senior credit facility provides for term loan borrowing of $65 million (which were borrowed at closing) and a $20 million revolving credit facility which was undrawn at closing. On May 30, 2012 Carrols Restaurant Group sold $150 million principal amount of 11.25% Senior Secured Second Lien Notes due 2018 in a Rule 144A and Regulation S private placement subject to subsequent registration with the SEC, which we refer to as the Carrols Restaurant Group notes. The terms of the outstanding notes are governed by an indenture entered into by Carrols Restaurant Group on May 30, 2012, as issuer, and its material subsidiaries party thereto, as guarantors, with The Bank of New York Mellon Trust Company, N.A., as trustee. Additionally, on May 30, 2012, Carrols Restaurant Group entered into a secured credit agreement, which we refer to as the Carrols Restaurant Group senior credit facility, with Wells Fargo Bank, National Associations, as administrative agent and the lenders party thereto. The Carrols Restaurant Group senior credit facility provides for a $20 million revolving credit facility which was undrawn at closing. On May 30, 2012, Carrols LLC repaid all outstanding borrowings and other obligations under the Carrols LLC senior credit facility with a portion of the net proceeds from the issuance and sale of $150 million principal amount of the Carrols Restaurant Group notes. On May 30, 2012, Carrols LLC terminated the Carrols LLC senior credit facility and all instruments and documents related thereto.

Effective on August 5, 2011, as a result of the refinancing transactions, all amounts due from us to Carrols as of August 5, 2011 of $117.1 million were repaid and we have been independently funding our operations, including payment to Carrols for our pro-rata share for executive management and administrative support provided to us by Carrols prior to the completion of the spin-off, as further described below.

We refer to the issuance of the outstanding notes, our entry into our revolving credit facility, the entry by Carrols LLC into the Carrols LLC senior credit facility and the borrowings thereunder, the repayment of all outstanding borrowings under the Carrols senior credit facility and the repurchase (in a tender offer) and redemption of all of Carrols outstanding 9% senior subordinated notes due 2013 as the refinancing. For a further discussion of the refinancing, including the outstanding notes and our revolving credit facility, see Management s Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources, Capitalization and Unaudited Condensed Consolidated Pro Forma Financial Information.

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Termination of Management Services Agreement

Certain corporate administrative support has historically been provided to us by Carrols and Carrols Restaurant Group. On August 5, 2011, in connection with the refinancing we entered into a management services agreement with Carrols, which we refer to as the Fiesta management services agreement, pursuant to which Carrols continued to provide certain corporate services to Fiesta Restaurant Group prior to completion of the spin-off, including executive management services, accounting services, information systems support, treasury functions, legal functions, employee compensation and benefits management, risk management, lease administration and investor relations. Under the Fiesta management services agreement, Fiesta Restaurant Group paid fees and expenses related thereto to Carrols as determined by Carrols, in its sole discretion, consistent with past practices. The indenture governing the outstanding notes and our revolving credit facility provide that payments under the Fiesta management services agreement could not exceed $12 million annually with an increase of $1 million permitted per year. The Fiesta management services agreement terminated automatically upon the consummation of the spin-off.

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Summary of the Exchange Offer

The Initial Offering of Outstanding Notes	We sold the outstanding notes on August 5, 2011 to the initial purchasers. The initial purchasers subsequently resold the outstanding notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons outside the United States in reliance on Regulation S.
The Exchange Offer	We are offering to exchange up to $200.0 million aggregate principal amount of 8.875% Senior Secured Second Lien Notes due 2016, which will be registered under the Securities Act, for up to $200.0 million aggregate principal amount of outstanding 8.875% Senior Secured Second Lien Notes due 2016. In order to be exchanged, an outstanding note must be properly tendered and accepted. We will issue $1,000 principal amount of exchange notes for each respective $1,000 principal amount of outstanding notes validly tendered and not withdrawn pursuant to this exchange offer. We will issue exchange notes promptly after the expiration of this exchange offer.
Expiration Date	This exchange offer expires at 5:00 p.m., New York City time, on July 25, 2012, unless we decide to extend the expiration date, in which case the term expiration date means the latest date and time to which we extend this exchange offer. For more information, see The Exchange Offer Expiration Date; Extensions; Amendments.
Withdrawal Rights	You may withdraw the tender of your outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date. To withdraw, you must deliver a written or facsimile transmission notice of withdrawal to the exchange agent at its address indicated on the cover page of the letter of transmittal before 5:00 p.m., New York City time, on the expiration date of this exchange offer. For more information, see The Exchange Offer Withdrawal of Tenders.
Acceptance of Outstanding Notes and Delivery of Exchange Notes	If you fulfill all conditions required for proper acceptance of outstanding notes, we will accept any and all outstanding notes that you properly tender in this exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return any outstanding notes that we do not accept for exchange to you as promptly as practicable after the expiration date and acceptance of the outstanding notes for exchange. See The Exchange Offer Terms of the Exchange Offer.
Conditions to the Exchange Offer	This exchange offer is subject to customary conditions. See The Exchange Offer Conditions.

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Procedures for Tendering Outstanding Notes	If you wish to tender your outstanding notes for exchange in this exchange offer, you must transmit to the exchange agent on or before 5:00 p.m., New York City time, on the expiration date either: an original or a facsimile of a properly completed and duly executed copy of the letter of transmittal which accompanies this prospectus, together with your outstanding notes and any other documentation required by the letter of transmittal, at the address provided on the cover page of the letter of transmittal; or if the outstanding notes you own are held of record by The Depositary Trust Company, or DTC, in book-entry form and you are making delivery by book-entry transfer, a computer-generated message transmitted by means of DTC s Automated Tender Offer Program System, or ATOP, in which you acknowledge and agree to be bound by the terms of the letter of transmittal and which, when received by the exchange agent, will form a part of a confirmation of book-entry transfer, DTC will facilitate the exchange of your outstanding notes and update your account to reflect the issuance of the exchange notes to you. ATOP allows you to electronically transmit your acceptance of this exchange offer to DTC instead of physically completing and delivering a letter of transmittal to the exchange agent. For more information see The Exchange Offer Procedures for Tendering.
Special Procedures for Beneficial Owners	If you are the beneficial owner of book-entry interests and your name does not appear on a security position listing of DTC as the holder of the book-entry interests or if you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender the book-entry interest or outstanding notes in this exchange offer, you should contact the person in whose name your book-entry interests or outstanding notes are registered promptly and instruct that person to tender on your behalf. For more information, see The Exchange Offer Procedures for Tendering.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and: time will not permit your notes or other required documents to reach the exchange agent by 5:00 p.m., New York City time, on the expiration date; or the procedure for book-entry transfer cannot be completed on time; you may tender your outstanding notes by completing a notice of guaranteed delivery and complying with the guaranteed delivery procedures. For more information, see The Exchange Offer Guaranteed Delivery Procedures.

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Resales of the Exchange Notes

Based on an interpretation by the staff of the Securities and Exchange Commission, or the SEC, set forth in no-action letters issued to third parties, we believe that the exchange notes you receive in this exchange offer may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

you are acquiring the exchange notes in the ordinary course of your business;

you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the exchange notes issued to you in this exchange offer; and

you are not an affiliate of ours within the meaning of Rule 405 of the Securities Act.

If any of these conditions are not satisfied and you transfer any exchange notes issued to you in this exchange offer without delivering a resale prospectus meeting the requirements of the Securities Act or without an exemption from registration of your exchange notes from these requirements, you may incur liability under the Securities Act. We will not assume, nor will we indemnify you against, any such liability.

Each broker-dealer that is issued exchange notes in this exchange offer for its own account in exchange for outstanding notes must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange notes. A broker-dealer may use this prospectus for an offer to resell, resale or other retransfer of the exchange notes issued to it in this exchange offer in exchange for outstanding notes that were acquired by that broker-dealer as a result of market-making or other trading activities. For more information, see The Exchange Offer Resale of the Exchange Notes.

Any holder of outstanding notes who:

is our affiliate

does not acquire exchange notes in the ordinary course of its business; or

tenders its outstanding notes in this exchange offer with the intention to participate, or for the purpose of participating, in a distribution of exchange notes cannot rely on the position of the staff of the SEC enunciated in Exxon Capital Holdings Corporation (available May 13, 1988), Morgan Stanley & Co. Incorporated (available June 5, 1991), and Shearman & Sterling (available July 2, 1993) or similar no-action letters and, in the absence of an exemption therefrom, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.

Registration Rights Agreement	In connection with the initial sale of the outstanding notes, we entered into a registration rights agreement with the initial purchasers. In that agreement we agreed, among other things, to use our reasonable best efforts to file the registration statement of which this prospectus forms a part with the SEC within 270 days after the date we issued the outstanding notes and to use our reasonable best efforts to consummate this exchange offer within 360 days after the date we issued the outstanding notes. This exchange offer is intended to satisfy your rights and our obligations with respect to an exchange offer under the registration rights agreement. If we fail to consummate this exchange offer within 360 days after the date we issued the outstanding notes, we agreed to pay additional interest on the outstanding notes. After this exchange offer is complete, you will no longer be entitled to any exchange and certain registration rights with respect to your outstanding notes.
	Under certain circumstances set forth in the registration rights agreement, holders of notes, including holders who are not permitted to participate in this exchange offer or who may not freely sell exchange notes received in this exchange offer, may require us to file and cause to become effective, a shelf registration statement covering resales of the notes by these holders.
Effect on Holders of Outstanding Notes	As a result of making this exchange offer, and upon acceptance for exchange of all validly tendered outstanding notes pursuant to the terms thereof, we will have fulfilled one of the covenants contained in the registration rights agreement and, accordingly, we will not be obligated thereunder to pay additional interest for failure to take these actions. If you are a holder of outstanding notes and you do not tender them in this exchange offer, you will continue to hold them and you will be entitled to all the rights and subject to all the limitations applicable to the outstanding notes in the indenture, and you may continue to be entitled to certain limited rights and be subject to certain limitations under the registration rights agreement.
	To the extent that outstanding notes are tendered and accepted in this exchange offer, the trading market for the outstanding notes could be adversely affected.
Broker-Dealers	Each broker-dealer registered as such under the Exchange Act that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of those exchange notes. See Plan of Distribution.

Consequences of Failure to Exchange	All untendered outstanding notes will continue to be subject to the restrictions on transfer provided for therein and in the indenture governing the notes. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with this exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act. For more information, see The Exchange Offer Consequences of Failure to Exchange.
Exchange Agent	The Bank of New York Mellon Trust Company, N.A. is serving as the exchange agent in connection with this exchange offer. The address and telephone number of the exchange agent are set forth under The Exchange Offer Exchange Agent at page 142.
Federal Income Tax Considerations	Based upon advice from counsel, we believe that the exchange of outstanding notes for exchange notes will not be a taxable event for U.S. federal income tax purposes. See Certain U.S. Federal Income Tax Considerations.
Use of Proceeds	We will not receive any proceeds from the issuance of exchange notes pursuant to this exchange offer. We will pay all of our expenses incident to this exchange offer.

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Summary of Terms of the Exchange Notes

The terms of the exchange notes to be issued in this exchange offer are substantially identical in all material respects to those of the outstanding notes, except that:

- the exchange notes will be registered under the Securities Act; and
- the exchange notes will not be entitled to certain registration rights under the registration rights agreement.

The exchange notes will represent the same debt as the outstanding notes. Both the outstanding notes and the exchange notes are governed by the same indenture.

Issuer	Fiesta Restaurant Group, Inc.
Notes Offered	$200,000,000 aggregate principal amount of 8.875% Senior Secured Second Lien Notes due 2016.
Maturity Date	August 15, 2016.
Interest Payment Dates	Interest on the exchange notes accrues from the last interest payment date on which interest was paid on the outstanding notes surrendered for them, or, if no interest has been paid on such outstanding notes, from August 5, 2011. We will not pay interest on the outstanding notes accepted for exchange. Interest on the exchange notes is payable on February 15 and August 15, commencing August 15, 2012.
Subsidiary Guarantees	The notes are guaranteed on a senior secured basis by each of our existing and future direct and indirect domestic restricted subsidiaries, subject to certain exceptions.
Ranking	The notes and guarantees are our and the guarantors senior secured obligations and:

- rank equal in right of payment to our and the guarantors existing and future senior obligations;
- rank senior in right of payment to all of our and the guarantors existing and future subordinated obligations;
- rank effectively senior to all of our and the guarantors existing and future unsecured obligations to the extent of the value of the collateral securing the exchange notes;

are effectively subordinated to our and the guarantors indebtedness and obligations that are secured by priority liens on the collateral, including indebtedness under our revolving credit facility, to the extent of the value of such collateral; and

are structurally subordinated to the obligations of all our subsidiaries that do not serve as guarantors of the notes.

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	As of April 1, 2012, we had $324.2 million of outstanding indebtedness comprised of $200.0 million of the outstanding notes, lease financing obligations of $123.2 million and capital lease obligations of $1.0 million. See Capitalization, Unaudited Condensed Consolidated Pro Forma Financial Information and Management s Discussion and Analysis of Financial Condition and Results of Operations.
Collateral	The notes and the guarantees are secured by a second priority lien on the assets owned by us and the guarantors that also secure obligations under our revolving credit facility and obligations under certain hedging and cash management arrangements, subject to certain exceptions. The lenders under our revolving credit facility, and such lenders and their affiliates providing hedging and cash management arrangements, benefit from first priority liens on the collateral. Under the security agreement, we and the guarantors, subject to certain exceptions, granted security interests in substantially all of our and their real, personal and fixture property, including all of the equity interests held by us in subsidiaries (but, (a) as to the voting stock of any foreign subsidiary, not to exceed 65% of the outstanding voting stock, (b) excluding any capital stock of a subsidiary to the extent necessary for such subsidiary not to be subject to any requirement pursuant to Rule 3-16 or Rule 3-10 of Regulation S-X under the Exchange Act, due to the fact that such subsidiary s capital stock secured the notes or guarantees, to file separate financial statements with the SEC and (c) subject to other exceptions) and all proceeds and products of the foregoing. See Description of Notes Security.
	The value of the collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers for the collateral. The liens on the collateral may be released without the consent of the holders of exchange notes if collateral is disposed of in a transaction that complies with the indenture and related security documents or in accordance with the provisions of the intercreditor agreement. See Risk Factors Risks Related to the Notes and Description of Notes Security and Intercreditor Agreement.
Intercreditor Agreement	Pursuant to an intercreditor agreement, the liens securing the notes are second priority liens that are expressly junior in priority to the liens that secure obligations under our revolving credit facility. The holders of the first priority lien obligations will receive all proceeds from any realization of the collateral or from the collateral or proceeds thereof in any insolvency or liquidation proceeding, in each case until the first priority lien obligations are paid in full. See Description of Notes Intercreditor Agreement.
Use of Proceeds	We will not receive any cash proceeds from this exchange offer.

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Optional Redemption

On or after February 15, 2014, we may redeem some or all of the notes at any time at the redemption prices specified under Description of Notes Optional Redemption.

Before February 15, 2014, we may redeem some or all of the notes at a redemption price equal to 100% of the principal amount of each note to be redeemed plus a make-whole premium described under Description of Notes Optional Redemption together with accrued and unpaid interest.

In addition, at any time prior to February 15, 2014, we may redeem up to 35% of the 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.

Change of Control

Upon a change of control (as defined in Description of Notes Certain Definitions), we must offer to repurchase the notes at 101% of the principal amount, plus accrued and unpaid interest to the purchase date.

Certain Covenants

The indenture governing the notes contains certain covenants, including limitations and restrictions on our and our restricted subsidiaries ability to:

- incur additional indebtedness or issue preferred stock;
- make dividend payments or other restricted payments;
- create liens;
- sell assets;
- enter into transactions with affiliates; and
- enter into mergers, consolidations, or sales of all or substantially all of our assets.

The restrictive covenants set forth in the indenture are subject to important exceptions and qualifications. See Description of Notes Certain Covenants.

No Public Market

The exchange notes are new securities and there is currently no established trading market for the exchange notes. The initial purchasers have advised us that they presently intend to make a market in the exchange notes. However, you should be aware that they are not obligated to make a market and may discontinue its market-making activities at any time without notice. As result, a liquid market for the exchange notes may not be available if you try to sell your exchange notes. We do not intend to list the exchange

	notes on any securities exchange.
Risk Factors	Potential investors in the notes should carefully consider the matters set forth under the caption Risk Factors prior to making an investment decision with respect to the notes.

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Summary Historical Financial and Operating Data

The following table sets forth our summary historical financial statements and operating information for the periods presented. The summary historical financial data has been derived from our audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) for each of the fiscal years ended December 31, 2009, 2010 and 2011 and our unaudited consolidated financial statements for the three months ended March 31, 2011 and 2012, all of which are included elsewhere in this prospectus.

The information in the table below is only a summary and should be read together with our consolidated financial statements as of December 31, 2010 and 2011, and for the years ended December 31, 2009, 2010 and 2011, and as of March 31, 2012 and for the three months ended March 31, 2011 and 2012, Selected Historical Financial and Operating Information and Management s Discussion and Analysis of Financial Condition and Results of Operations, all as included elsewhere in this prospectus.

	Year ended December 31,			Three months ended March 31,	
(Dollars in thousands, except per share data)	**2009**	**2010**	**2011**	**2011**	**2012**
Statement of operations data:					
Revenues:					
Restaurant sales	$ 430,514	$ 437,538	$ 473,249	$ 115,251	$ 125,566
Franchise royalty revenues and fees	1,606	1,533	1,719	365	576
Total revenues	432,120	439,071	474,968	115,616	126,142
Costs and expenses:					
Cost of sales	132,070	135,236	152,711	36,344	40,784
Restaurant wages and related expenses (including stock- based compensation expense of $88, $28, $18, $5 and $4, respectively)	120,105	122,519	129,083	31,633	33,825
Restaurant rent expense	17,437	16,620	16,930	4,060	3,967
Other restaurant operating expenses	60,384	60,041	61,877	14,743	15,829
Advertising expense	14,959	15,396	16,264	4,119	4,295
General and administrative (including stock-based compensation expense of $669, $974, $1,690, $411 and $1,046, respectively)	32,148	32,865	37,459	8,921	11,080
Depreciation and amortization	19,676	19,075	19,537	4,797	4,840
Impairment and other lease charges	2,284	6,614	2,744	264	6,900
Other expense (income) (1)	(799)		146		
Total operating expenses	398,264	408,366	436,751	104,881	121,520
Income from operations	33,856	30,705	38,217	10,735	4,622
Interest expense	20,447	19,898	24,041	4,845	7,969
Income (loss) before income taxes	13,409	10,807	14,176	5,890	(3,347)
Provision (benefit) for income taxes	5,045	3,764	4,635	2,276	(1,482)
Net income (loss)	$ 8,364	$ 7,043	$ 9,541	$ 3,614	$ (1,865)
Per share data:					
Basic and diluted net income (loss) per share (6)	$ .36	$ .30	$ .41	$ .16	$ (.08)
Weighted average shares outstanding:					
Basic and diluted weighted average common shares outstanding (6)	23,161,822	23,161,822	23,161,822	23,161,822	23,161,822

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(Dollars in thousands)	Year ended December 31, 2009	2010	2011	Three months ended March 31, 2011	2012
Other financial data:					
Net cash provided from (used for) operating activities	$ 33,244	$ 32,529	$ 43,167	$ 6,195	$ (622)
Net cash used for investing activities	(17,266)	(21,380)	(15,082)	(3,264)	(10,625)
Net cash provided from (used for) financing activities	(14,649)	(12,420)	(16,998)	(2,913)	2,304
Total capital expenditures	(16,127)	(23,398)	(22,865)	(5,125)	(8,543)
Ratio of earnings to fixed charges (7)	1.51x	1.42x	1.48x	1.95x	

	As of December 31, 2009	2010	2011	As of March 31, 2012
Balance sheet data:				
Total assets	$ 360,125	$ 357,886	$ 370,166	$ 364,788
Working capital	(6,744)	(8,453)	(9,064)	(8,977)
Long-term debt:				
Due to parent company	$ 155,793	$ 138,756	$	$
8.875% Senior Secured Second Lien Notes			200,000	200,000
Lease financing obligations	116,651	122,975	123,019	123,232
Capital leases	1,020	1,064	1,008	993
Total long-term debt	$ 273,464	$ 262,795	$ 324,027	$ 324,225
Stockholder s equity (deficit)	$ 50,868	$ 57,911	$ (4,672)	$ (3,166)

	Year ended December 31, 2009	2010	2011	Three months ended March 31, 2011	2012
Operating statistics:					
Total number of restaurants (at end of period)	247	246	249	246	243
Pollo Tropical:					
Company-owned restaurants (at end of period)	91	91	91	90	86
Average number of company-owned restaurants	90.8	90.5	91.0	90.1	90.7
Revenues:					
Restaurant sales	$ 176,525	$ 186,045	$ 208,115	$ 51,949	$ 57,333
Franchise royalty revenues and fees	1,315	1,248	1,410	286	501
Total revenues	177,840	187,293	209,525	52,235	57,834
Average annual sales per company-owned restaurant (2)	1,911	2,056	2,287		
Adjusted Segment EBITDA (3)	25,322	30,062	35,567	9,870	11,214
Adjusted Segment EBITDA margin (4)	14.2%	16.1%	17.0%	18.9%	19.4%
Change in comparable company-owned restaurant sales (5)	(1.3%)	7.4%	9.9%	13.5%	9.4%
Taco Cabana:					
Company-owned restaurants (at end of period)	156	155	158	156	157
Average number of company-owned restaurants	154.6	155.6	156.9	155.1	157.2
Revenues:					
Restaurant sales	$ 253,989	$ 251,493	$ 265,134	$ 63,302	$ 68,233
Franchise royalty revenues and fees	291	285	309	79	75
Total revenues	254,280	251,778	265,443	63,381	68,308
Average annual sales per company-owned restaurant (2)	1,607	1,616	1,690		
Adjusted Segment EBITDA (3)	30,452	27,334	26,785	6,342	6,198
Adjusted Segment EBITDA margin (4)	12.0%	10.9%	10.1%	10.0%	9.1%
Change in comparable company-owned restaurant sales (5)	(3.7%)	0.3%	3.7%	2.0%	6.1%

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(1) Other income in 2009 resulted from a Taco Cabana insurance gain of $0.6 million related to Hurricane Ike and $0.2 million gain on a sale of a Taco Cabana non-operating property. Other expense in 2011 resulted from a loss of $0.1 million from the sale of a Taco Cabana restaurant property in a sale-leaseback transaction.

(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 2009, a 53-week fiscal year, we have excluded restaurant sales data for the extra week in 2009.

(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. A reconciliation of Adjusted Segment EBITDA to consolidated net income (loss) is presented below:

	Year ended December 31,			Three months ended March 31	
(Dollars in thousands)	**2009**	**2010**	**2011**	**2011**	**2012**
Adjusted Segment EBITDA					
Pollo Tropical	$ 25,322	$ 30,062	$ 35,567	$ 9,870	$ 11,214
Taco Cabana	30,452	27,334	26,785	6,342	6,198
Less:					
Depreciation and amortization	19,676	19,075	19,537	4,797	4,840
Impairment and other lease charges	2,284	6,614	2,744	264	6,900
Interest expense	20,447	19,898	24,041	4,845	7,969
Provision (benefit) for income taxes	5,045	3,764	4,635	2,276	(1,482)
Stock-based compensation	757	1,002	1,708	416	1,050
Other expense (income)	(799)		146		
Net income (loss)	$ 8,364	$ 7,043	$ 9,541	$ 3,614	$ (1,865)

(4) Adjusted Segment EBITDA margin is derived by dividing Adjusted Segment EBITDA by the total revenues applicable to the segment.

(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 2009, a 53-week fiscal year, we have excluded restaurant sales data for the extra week in 2009.

(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.

(7) For the purpose of determining the ratio of earnings to fixed charges, earnings included earnings from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest on all indebtedness plus that portion of operating lease rentals representative of the interest factor. Earnings were insufficient to cover fixed charges by $3,347 for the three months ended March 31, 2012.

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RISK FACTORS

Any investment in the notes involves a high degree of risk. You should carefully consider all of the information contained in this prospectus before making an investment decision. The risks and uncertainties described below are not the only risks and uncertainties that we face. Any of the following risk, as well as additional risks and uncertainties not currently known to us could materially and adversely affect our business, results of operations and financial condition. If any of those risks actually occurs, our business, financial condition and results of operations would suffer. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See Forward-Looking Statements in this prospectus.

Risks Related to the Exchange Offer

Your outstanding notes will not be accepted for exchange if you fail to follow the exchange offer procedures.

We will not accept your outstanding notes for exchange if you do not follow the exchange offer procedures. We will issue exchange notes as part of this exchange offer only after a timely receipt of your outstanding notes, a properly completed and duly executed letter of transmittal and all other required documents. Therefore, if you want to tender your outstanding notes, please allow sufficient time to ensure timely delivery. If we do not receive your outstanding notes, letter of transmittal and other required documents by the expiration date of this exchange offer or you do not otherwise comply with the guaranteed delivery procedures for tendering your notes, we may not accept your outstanding notes for exchange. Neither we nor the exchange agent is under a duty to give notification of defects or irregularities with respect to the tenders of outstanding notes for exchange. If there are defects or irregularities with respect to your tender of outstanding notes, we will not accept your outstanding notes for exchange unless we decide in our sole discretion to waive those defects or irregularities. Each broker or dealer that receives exchange notes for its own account in exchange for outstanding notes that were acquired in market-making or other trading activities must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes.

Some holders who exchange their outstanding notes may be deemed to be underwriters and these holders will be required to comply with the registration and prospectus delivery requirements in connection with any resale transaction.

If you exchange your outstanding notes in this exchange offer for the purpose of participating in a distribution of the exchange notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

Because there is no public market for the exchange notes, you may not be able to resell them.

The exchange notes will be registered under the Securities Act, but will constitute a new issue of securities with no established trading market, and there can be no assurance as to:

- the liquidity of any trading market that may develop;
- the ability of holders to sell their exchange notes; or
- the price at which the holders will be able to sell their exchange notes.

We do not intend to apply for listing of the exchange notes on any securities exchange or for quotation through an automated quotation system. If a trading market were to develop, the exchange notes might trade at higher or lower prices than their principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar debentures, our financial performance and the interest of securities dealers in making a market in the exchange notes.

We understand that the initial purchasers presently intend to make a market in the exchange notes. However, they are not obligated to do so, and any market-making activity with respect to the exchange notes may be discontinued at any time without notice. In addition, any market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act, and may be limited during this exchange offer or the pendency of an applicable shelf registration statement. There can be no assurance that an active market will exist for the exchange notes or that any trading market that does develop will be liquid.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the exchange notes will be subject to disruptions. Any such disruptions may have a negative effect on you, as a holder of the exchange notes, regardless of our prospects and financial performance.

Broker-dealers may become subject to the registration and prospectus delivery requirements of the Securities Act and any profit on the resale of the exchange notes may be deemed to be underwriting compensation under the Securities Act.

Any broker-dealer that acquires exchange notes in the exchange offer for its own account in exchange for outstanding notes which it acquired through market-making or other trading activities must acknowledge that it will comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction by that broker-dealer. Any profit on the resale of the exchange notes and any commission or concessions received by a broker-dealer may be deemed to be underwriting compensation under the Securities Act.

If you do not exchange your outstanding notes, they may be difficult to resell.

It may be difficult for you to sell outstanding notes that are not exchanged in the exchange offer, since any outstanding notes not exchanged will continue to be subject to the restrictions on transfer described in the legend on the global security representing the outstanding notes. These restrictions on transfer exist because we issued the outstanding notes pursuant to an exemption from the registration requirements of the Securities Act and applicable state securities laws. Generally, the outstanding notes that are not exchanged for exchange notes will remain restricted securities. Accordingly, those outstanding notes may not be offered or sold, unless registered under the Securities Act and applicable state securities laws, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We currently do not plan to register the outstanding notes under the Securities Act.

Risks Related to the Notes

Our substantial indebtedness could adversely affect our financial condition.

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 revolving credit facility, to enable us to repay our indebtedness, including the notes, or to fund other liquidity needs. As of April 1, 2012, we had $324.2 million of outstanding indebtedness comprised of $200.0 million of the outstanding notes, lease financing obligations of $123.2 million and capital lease obligations of $1.0 million. See Capitalization, Unaudited Condensed Consolidated Pro Forma Financial Information and Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

- make it more difficult for us to satisfy our obligations with respect to the notes and our other debt;
- increase our vulnerability to general adverse economic and industry conditions;

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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;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

increase our cost of borrowing;

place us at a competitive disadvantage compared to our competitors that may have less debt; and

limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes.

We expect to use cash flow from operations 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 revolving credit facility and the 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 revolving 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 secured on a first lien basis or pari passu with the notes. Although the revolving credit facility and the indenture governing the 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 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 revolving credit facility and the indenture governing the 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. See Capitalization and Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

Our debt agreements, such as the indenture governing the notes and the agreement governing our revolving credit facility, restrict our ability in certain circumstances to, among other things:

incur additional debt;

pay dividends and make other distributions on, redeem or repurchase, capital stock;

make investments or other restricted payments;

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- enter into transactions with affiliates;
- engage in sale and leaseback transactions;
- sell all, or substantially all, of our assets;
- create liens on assets to secure debt; or
- effect a consolidation or merger.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. In addition, our revolving 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 notes become immediately due and payable, the holders of the notes would not be entitled to receive any payment in respect of the notes until all of our senior debt has been paid in full.

Our ability to make payments on the notes depends on our ability to receive dividends and other distributions from our subsidiaries.

We are a holding company and depend in part on dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations, including the payment of principal of and interest on their outstanding debt. Our subsidiaries are legally distinct from us. Payment to us by our subsidiaries will be contingent upon our subsidiaries earnings and other business considerations. The ability of our subsidiaries to pay dividends, make distributions, provide loans or make other payments to us may be restricted by applicable state and foreign laws, potentially adverse tax consequences and their agreements, including agreements governing their debt. As a result, we may not be able to access their cash flow to service our debt, including the notes, and we cannot assure you that the amount of cash and cash flow reflected on our financial statements will be fully available to us.

We may not have the funds necessary to satisfy all of our obligations under our revolving credit facility, the 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 notes requires us to make an offer to repurchase all notes that are outstanding 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 notes. In addition, restrictions under our revolving credit facility may not allow us to repurchase the 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 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. See Description of Notes Change of Control.

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

We may enter into transactions that would not constitute a change of control that could affect our ability to satisfy our obligations under the notes.

Legal uncertainty regarding what constitutes a change of control and the provisions of the indenture may allow us to enter into transactions, such as acquisitions, refinancings or recapitalizations, that would not constitute a change of control but may increase our outstanding indebtedness or otherwise affect our ability to satisfy our obligations under the notes. The definition of change of control includes a phrase relating to the transfer of all or substantially all of our assets and subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, your ability to require the issuer to repurchase notes as a result of a transfer of less than all of our assets to another person may be uncertain.

Risks Related to the Collateral and Guarantees

The lien on the collateral securing the notes and the guarantees is junior and subordinate to the lien on the collateral securing our revolving credit facility and certain other first lien obligations.

The notes and the guarantees are secured by second priority liens granted by us and the existing guarantors and any future guarantor on our assets and the assets of the guarantors that secure obligations under our revolving credit facility and certain hedging and cash management obligations, subject to certain permitted liens, exceptions and encumbrances described in the indenture governing the notes and the security documents relating to the notes. As set out in more detail under Description of Notes, the lenders under our revolving credit facility and holders of certain of our hedging and cash management obligations will be entitled to receive all proceeds from the realization of the collateral under certain circumstances, including upon default in payment on, or the acceleration of, any obligations under our revolving credit facility, or in the event of our, or any of our subsidiary guarantors , bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding, to repay such obligations in full before the holders of the notes will be entitled to any recovery from such collateral. In addition, the indenture governing the notes permits us and the guarantors to create additional liens under specified circumstances, including liens senior in priority to and pari passu with the liens securing the notes. Any obligations secured by such liens may further limit the recovery from the realization of the collateral available to satisfy holders of the notes.

Holders of the notes will not control decisions regarding collateral.

The lenders under our revolving credit facility, as holders of first priority lien obligations, will control substantially all matters related to the collateral pursuant to the terms of the intercreditor agreement. The holders of the first priority lien obligations may cause the collateral agent thereunder (the first lien agent) to dispose of, release, or foreclose on, or take other actions with respect to, the collateral (including amendments of and waivers under the security documents) with which holders of the notes may disagree or that may be contrary to the interests of holders of the notes, even after a default under the notes. To the extent collateral is released from securing the first priority lien obligations, the intercreditor agreement provides that in certain circumstances, the second priority liens securing the notes will also be released. In addition, the security documents related to the second priority lien generally provide that, so long as the first priority lien obligations are in effect, the holders of the first priority lien obligations may change, waive, modify or vary the security documents governing such first priority liens without the consent of the holders of the notes (except under certain limited circumstances) and that the security documents governing the second priority liens will be automatically changed, waived and modified in the same manner. Further, the security documents governing the second priority liens may not be amended in any manner adverse to the holders of the first-priority obligations without the consent of the first lien agent until the first priority lien obligations are paid in full. The intercreditor agreement prohibits second priority lienholders

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from foreclosing on the collateral for 180 day stand still period until payment in full of the first priority lien obligations. We cannot assure you that in the event of a foreclosure by the holders of the first priority lien obligations, the proceeds from the sale of collateral would be sufficient to satisfy all or any of the amounts outstanding under the notes after payment in full of the obligations secured by first priority liens on the collateral.

There may not be sufficient collateral to pay all or any of the notes, especially if we incur additional secured indebtedness ranking prior to or pari passu with the notes, which will dilute the value of the collateral securing the notes and guarantees.

No appraisals of any collateral have been prepared in connection with the issuance of the exchange notes offered hereby. The fair market value of the collateral is subject to fluctuations based on factors that include, among others, the condition of the markets and sectors in which we operate, the ability to sell the collateral in an orderly sale, the condition of the national and local economies, the availability of buyers and similar factors. The value of the assets pledged as collateral for the notes could also be impaired in the future as a result of our failure to implement our business strategy, competition or other future trends. In the event of foreclosure, liquidation, bankruptcy or similar proceeding on the collateral, the proceeds from the sale of the collateral may not be sufficient to satisfy in full or at all our obligations under the notes and any additional indebtedness secured equally and ratably with the notes. The amount to be received upon such a sale would be dependent on numerous factors, including but not limited to the timing and the manner of the sale. In addition, the book value of the collateral should not be relied on as a measure of realizable value for such assets. By its nature, portions of the collateral may be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the collateral can be sold in a short period of time in an orderly manner. A significant portion of the collateral includes assets that may only be usable, and thus retain value, as part of our existing operating business. Accordingly, any such sale of the collateral separate from the sale of certain of our operating businesses may not be feasible or of significant value.

To the extent that pre-existing liens, liens permitted under the indenture and other rights, including liens on excluded assets (such as those securing purchase money obligations and capital lease obligations granted to other parties in addition to the holders of obligations secured by liens ranking prior to the notes, including liens under our revolving credit facility) encumber any of the collateral securing the notes and the guarantees, those parties have or may exercise rights and remedies with respect to the collateral that could adversely affect the value of the collateral and the ability of the collateral agent, the trustee under the indenture or the holders of the notes to realize or foreclose on the collateral. Consequently, liquidating the collateral securing the notes may not result in proceeds in an amount sufficient to pay any amounts due under the notes after also satisfying the obligations to pay any creditors with prior liens. If the proceeds of any sale of collateral are not sufficient to repay all amounts due on the notes, the holders of the notes (to the extent not repaid from the proceeds of the sale of the collateral) would have only an unsecured, unsubordinated claim against our and the guarantors remaining assets.

Other consequences of a finding of under-collateralization would be, among other things, a lack of entitlement on the part of the notes to receive post-petition interest and collect fees and costs. In addition, under these circumstances, the unsecured portion of the notes would not be entitled to receive adequate protection under federal bankruptcy laws. In addition, if any payments of post-petition interest had been made at any time prior to such a finding of under-collateralization, those payments would be recharacterized by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the notes.

We or any subsidiary guarantor may incur additional secured indebtedness under the indenture, including the issuance of additional notes or the incurrence of other forms of indebtedness secured equally and ratably with the notes and borrowings under our revolving credit facility or other senior lien obligations, subject to certain specified conditions. See Description of Notes Certain Covenants Limitation on Incurrence of Debt. Any such incurrences could dilute the value of the collateral securing the notes and guarantees.

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The pledge of the capital stock, other securities and similar items of our subsidiaries that secure the notes may automatically be released from the lien on them and no longer constitute collateral for so long as the pledge of such capital stock or such other securities would require the filing of separate financial statements with the SEC for that subsidiary.

The exchange notes will be secured by a pledge of the stock of some of our subsidiaries. Under the SEC regulations in effect as of the issue date of the outstanding notes, if the par value, book value as carried by us or market value (whichever is greatest) of the capital stock, other securities or similar items of a subsidiary pledged as part of the collateral securing our revolving credit facility is greater than or equal to 20% of the aggregate principal amount of the notes then outstanding, such subsidiary would be required to provide separate financial statements to the SEC. Therefore, the indenture and the collateral documents provide that any capital stock and other securities of any of our subsidiaries will be excluded from the collateral securing our revolving credit facility for so long as the pledge of such capital stock or other securities to secure the notes would cause such subsidiary to be required to file separate financial statements with the SEC pursuant to Rule 3-16 or Rule 3-10 of Regulation S-X (as in effect from time to time). As a result, holders of the notes could lose a portion or all of their security interest in the capital stock or other securities of those subsidiaries during such period. It may be more difficult, costly and time-consuming for holders of the notes to foreclose on the assets of a subsidiary than to foreclose on its capital stock or other securities, so the proceeds realized upon any such foreclosure could be significantly less than those that would have been received upon any sale of the capital stock or other securities of such subsidiary. In addition, in the event that the capital stock or other securities of a subsidiary is included in the collateral as described above, the collateral agent under our revolving credit facility would be entitled to maintain possession of such capital stock or other securities until the payment in full of the obligations under our revolving credit facility. See Description of Notes Collateral.

State law may limit the ability of the collateral agent, trustee under the indenture or the holders of the notes to foreclose on the real property and improvements included in the collateral.

The exchange notes will be secured by, among other things, liens on certain owned real property and improvements which we and/or the guarantors own. The laws of those states may limit the ability of collateral agent, the trustee under the indenture or the holders of the notes to foreclose on the improved real property collateral located in those states. Laws of those states govern the perfection, enforceability and foreclosure of mortgage liens against real property interests which secure debt obligations such as the notes. These laws may impose procedural requirements for foreclosure different from and necessitating a longer time period for completion than the requirements for foreclosure of security interests in personal property. Debtors may have the right to reinstate defaulted debt (even it is has been accelerated) before the foreclosure date by paying the past due amounts and a right of redemption after foreclosure. Governing laws may also impose security first and one form of action rules which can affect the ability to foreclose or the timing of foreclosure on real and personal property collateral regardless of the location of the collateral and may limit the right to recover a deficiency following a foreclosure.

Rights of holders of the notes in the collateral may be adversely affected by the failure to perfect liens on certain collateral acquired in the future.

Applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at the time such property and rights are acquired and identified. The trustee or the collateral agent may not monitor, or we may not inform the trustee or the collateral agent of, the future acquisition of property and rights that constitute collateral, and necessary action may not be taken to properly perfect the security interest in such after-acquired collateral. The collateral agent for the notes has no obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest in favor of the notes against third-parties. Such failure may result in the loss of the security interest therein or the priority of the security interest in favor of the notes against third-parties.

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Rights of holders of the notes in their collateral may be adversely affected by bankruptcy proceedings.

The right of the collateral agent for the notes to repossess and dispose of the collateral securing the notes upon acceleration is likely to be significantly impaired by federal bankruptcy law if bankruptcy proceedings are commenced by or against us. This could be true even if bankruptcy proceedings are commenced after the collateral agent has repossessed and disposed of the collateral. Under federal bankruptcy law, a secured creditor such as a collateral agent for the notes is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from a debtor, without bankruptcy court approval. Moreover, federal bankruptcy law permits the debtor to continue to retain and to use collateral, and the proceeds, products, rents, or profits of the collateral, even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given adequate protection.

The meaning of the term adequate protection varies according to circumstance, but in general the doctrine of adequate protection requires a troubled debtor to protect the value of a secured creditor s interest in the collateral, through cash payments, the granting of an additional security interest or otherwise, if and at such time as the court in its discretion may determine during the pendency of the bankruptcy case. In view of the broad discretionary powers of a bankruptcy court, it is impossible to predict how long payments under the notes could be delayed following commencement of a bankruptcy case, whether or when the collateral agent would repossess or dispose of the collateral, or whether or to what extent holders of the notes would be compensated for any delay in payment or loss of value of the collateral through the requirements of adequate protection. Furthermore, in the event that the value of the collateral is not sufficient to repay all amounts due on the notes, the holders of the notes would have unsecured deficiency claims for the balance of the principal on the notes (excluding unmatured interest, as described above). Federal bankruptcy laws do not generally permit the payment or accrual of interest, costs, or attorneys fees for unsecured or undersecured claims during the debtor s bankruptcy case.

Certain pledges of collateral and payments on the notes might be avoidable by a trustee in bankruptcy.

Any future pledge of collateral, or any future perfection of any other pledge, to secure the notes might be avoidable under the U.S. bankruptcy preference laws by the pledgor (as debtor in possession), by its trustee in bankruptcy or by someone else acting on behalf of the bankruptcy estate, if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the holders of the notes to receive a greater recovery than they would in a liquidation case under Chapter 7, Title 11 of the United States Code (the Bankruptcy Code), if the pledge had not been given, and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the later of the pledge, and perfection of the pledge, or, in certain circumstances, a longer period. If any pledges of collateral are avoided, the collateral will not be available to the holders of the notes or the guarantees to satisfy the obligations under the notes.

Certain payments on the notes might be avoidable under the U.S. bankruptcy preference laws by the issuer (as debtor in possession), by its trustee in bankruptcy or by someone else acting on behalf of the bankruptcy estate if certain events or circumstances exist or occur, including, among others, if the issuer is insolvent at the time of the payment, the payment permits the holders of the notes to receive a greater recovery than they would have received in a liquidation case under Chapter 7 of the Bankruptcy Code if the payment had not been made, and a bankruptcy proceeding in respect of the issuer is commenced within 90 days following the payment, or, in certain circumstances, a longer period.

The collateral is subject to casualty risks.

We intend to maintain insurance or otherwise insure against hazards in a manner appropriate and customary for our business. There are, however, certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate us fully for our losses. If there is a complete or partial loss of any of the collateral, the insurance proceeds may not be sufficient to satisfy all of the secured obligations, including the notes and the guarantees.

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In the event of a total or partial loss to any of the mortgaged facilities, certain items of equipment, fixtures and other improvements may not be easily replaced. Accordingly, even though there may be insurance coverage, the extended period needed to manufacture or construct replacement of such items could cause significant delays.

We will in most cases have control over the collateral, and the sale of particular assets by us could reduce the pool of assets securing the notes and the guarantees.

The collateral documents allow us to remain in possession of, retain exclusive control over, freely operate and collect, invest and dispose of any income from, the collateral securing the notes and the guarantees.

In addition, we will not be required to comply with all or any portion of Section 314 of the Trust Indenture Act of 1939, or Trust Indenture Act. With respect to any release of collateral, we must deliver to the notes collateral agent, from time to time, an officer s certificate to the effect that all releases and withdrawals during the preceding twelve-month period in which no release or consent of the notes collateral agent was obtained in the ordinary course of business were not prohibited by the indenture. Description of Notes.

The imposition of certain permitted liens will cause the asset on which such liens are imposed to be excluded from the collateral securing the notes and the guarantees. There are also certain other categories of property that are also excluded from the collateral.

The indenture permits liens in favor of third-parties to secure purchase money indebtedness and capital lease obligations, and any assets subject to such liens will be automatically excluded from the collateral securing the notes and the guarantees. Our ability to incur purchase money indebtedness and capital lease obligations is subject to the limitations, as described in Description of Notes Certain Covenants Limitation on Incurrence of Debt. Other categories of excluded assets and property include substantially all of the assets and property excluded from the definition of collateral under our revolving credit facility, including any rights or interest in certain intent-to-use trademark or service mark applications, any leasehold interest in real property and any deposit account that is used exclusively for payroll, payroll taxes and other employee wage and benefit payments to or for employees, and there are certain limited exceptions of collateral securing our revolving credit facility. See Description of Notes Security. Excluded assets will not be available as collateral to secure the issuer s and the guarantors obligations under the notes. As a result, with respect to the excluded assets, the notes and the guarantees will effectively rank equally with any other unsubordinated indebtedness of the issuer and the guarantors that is not itself secured by the excluded assets.

It may be difficult to realize the value of the collateral pledged to secure the notes and the guarantees.

The security interest of the collateral agent may be subject to practical problems generally associated with the realization of security interests in the collateral. For example, the collateral agent may need to obtain the consent of a third-party or governmental agency to obtain or enforce a security interest in a license or contract or to otherwise operate our business. We cannot assure you that the collateral agent will be able to obtain any such consent. If the trustee exercises its rights to foreclose on certain assets, transferring required government approvals to, or obtaining new approvals by, a purchaser of assets may require governmental proceedings with consequent delays. In addition, any foreclosure on the assets of a subsidiary, rather than upon its capital stock as a result of the stock of such subsidiary being an excluded asset, may result in delays and additional expense, as well as less proceeds than would otherwise have been the case.

In addition, the collateral agent for the notes may need to evaluate the impact of potential liabilities before determining to foreclose on the collateral, because entities that hold a security interest in real property may be held liable under environmental laws for the costs of remediating or preventing release or threatened releases of hazardous substances at the secured property. In this regard, the collateral agent may decline to foreclose on the collateral or exercise remedies available if it does not receive indemnification to its satisfaction from the holders. Finally, the collateral agent s ability to foreclose on the collateral on behalf of the holders of the notes may be subject to lack of perfection, the consent of third-parties, prior liens and practical problems associated with the realization of the collateral agent s lien on the collateral.

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The notes will be structurally subordinated to all liabilities of our future subsidiaries that are not guarantors of the notes.

Not all of our future subsidiaries will guarantee the notes. The notes are structurally subordinated to the indebtedness and other liabilities of our future subsidiaries that do not guarantee the notes. These future non-guarantor subsidiaries are separate and distinct legal entities and will have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that we or the subsidiary guarantors have to receive any assets of any of the non-guarantor subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of the notes to realize proceeds from the sale of any of those subsidiaries assets, will be effectively subordinated to the claims of those subsidiaries creditors, including trade creditors, and holders of preferred equity interests of those subsidiaries. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of our future non-guarantor subsidiaries, absent a decision of the court, such as in the case of substantive consolidation, these future non-guarantor subsidiaries will pay all of their creditors and holders of preferred equity interests before they will be able to distribute any of their assets to us.

The amount that can be collected under the guarantees will be limited.

Each of the guarantees will be limited to the maximum amount that can be guaranteed by a particular guarantor without rendering the guarantee, as it relates to that guarantor, avoidable. See A court could deem the issuance of the notes or the guarantees to be a fraudulent conveyance and avoid all or a portion of the obligations represented by the notes or the guarantees. In general, the maximum amount that can be guaranteed by a particular guarantor may be significantly less than the principal amount of the notes. This provision may not be effective to protect the guarantees from being voided under fraudulent transfer law, or may eliminate the guarantor s obligations or reduce the guarantor s obligations to an amount that effectively makes the guarantee worthless. In a recent Florida bankruptcy case, this kind of provision was found to be ineffective to protect the guarantees.

A court could deem the issuance of the notes or the guarantees to be a fraudulent conveyance and avoid all or a portion of the obligations represented by the notes or the guarantees.

A portion of the proceeds of the sale of the outstanding notes was applied to pay a cash dividend to Carrols. In a bankruptcy proceeding, a trustee, debtor in possession, or someone else acting on behalf of the bankruptcy estate may seek to recover transfers made or avoid obligations incurred prior to the bankruptcy proceeding on the basis that such transfers and obligations constituted fraudulent conveyances. Fraudulent conveyances are generally defined to include transfers made or obligations incurred for inadequate consideration when the debtor was insolvent, inadequately capitalized or in similar financial distress, or transfers made or obligations incurred with the intent of hindering, delaying or defrauding current or future creditors. Under U.S. bankruptcy law, a trustee or such other parties having standing to sue on behalf of the estate may recover such transfers and avoid such obligations made any time within two and possibly up to six years prior to the commencement of a bankruptcy proceeding. Furthermore, under certain circumstances, creditors may recover transfers or avoid obligations under state fraudulent conveyance laws, made within the applicable look-back period, which is typically four years, even if the debtor is not in bankruptcy. In bankruptcy, a representative of the estate may also assert such state law claims. If a court were to find that either an issuer issued the notes or a guarantor issued its guarantee under circumstances constituting a fraudulent conveyance, the court could avoid all or a portion of the obligations under the notes or the guarantees, or the pledge of collateral granted in connection therewith. In addition, under such circumstances, the value of any consideration holders received with respect to the notes, including upon foreclosure of the collateral, could also be subject to recovery from such holders and possibly from subsequent transferees. If the pledge of collateral to secure the notes were avoided and the issuance of the notes and/or guarantees were not avoided, holders of the notes would be unsecured creditors with claims that ranked pari passu with all other unsubordinated creditors of the applicable obligor, including trade creditors, but effectively subordinated to the lenders under our revolving credit facility to the extent of the collateral securing our revolving credit facility.

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A note could be avoided, claims in respect of a note could be subordinated to all other debts of an issuer or the pledge of collateral securing the notes could be avoided, in whole or in part, if such issuer at the time the indebtedness evidenced by the notes was incurred:

- intended to hinder, delay, or defraud any existing or future creditor or contemplated insolvency with a design to prefer one or more creditors to the exclusion in whole or in part of others;

- received less than reasonably equivalent value or fair consideration for the issuance of the notes and:

- was insolvent or rendered insolvent by reason of such issuance or incurrence;

- was engaged in a business or transaction for which such issuer s remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond the ability to pay those debts as they mature.

Similar risks apply to the incurrence by each guarantor of its guarantee of the notes and its pledge of collateral to secure its guarantee of the notes.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a debtor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

We cannot assure you as to what standard a court would apply in determining whether an issuer or a guarantor would be considered to be insolvent. If a court determined that an issuer or a guarantor was insolvent after giving effect to the issuance of the notes or the applicable guarantee, it could avoid the notes or the applicable guarantees of the notes (or the pledge of collateral) and require you to return any payments received in respect of the notes or guarantees (or upon the foreclosure on collateral).

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 customers 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 quick-casual restaurants. Our Taco Cabana restaurants compete with quick-service restaurants, including those in the quick-service Mexican segment, other quick-casual restaurants and traditional casual dining Mexican restaurants.

To remain competitive, we, as well as certain of the other major quick-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.

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

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

- changes in local, regional or national economic conditions;
- changes in demographic trends;
- changes in consumer tastes;
- changes in traffic patterns;
- increases in fuel prices and utility costs;
- consumer concerns about health, diet, and nutrition;
- increases in the number of, and particular locations of, competing restaurants;
- changes in discretionary consumer spending;
- inflation;
- increases in the cost of food, such as beef, chicken, produce and packaging;
- increased labor costs, including healthcare, unemployment insurance and minimum wage requirements;
- the availability of experienced management and hourly-paid employees; and
- regional weather conditions.

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:

- the inability to fund development;
- development costs that exceed budgeted amounts;
- delays in completion of construction;
- the inability to obtain all necessary zoning and construction permits;
- the inability to identify, or the unavailability of, suitable sites on acceptable leasing or purchase terms;
- developed restaurants that do not achieve desired revenue or cash flow levels once opened;
- 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;
- the inability to recruit and retain managers and other employees necessary to staff each new restaurant;
- changes in or interpretations of governmental rules and regulations; and
- 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, will depend on our continued access to external financing, including borrowing under our revolving 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 revolving 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 outside our existing markets.

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 customers 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 unit 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 customers 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 customers 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 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, avian flu or the recent publicity relating to lean finely textured beef or pink slime 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 customers, 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 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.

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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 April 1, 2012, a total of 38 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. 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 taste 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 quick-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 customers who do not prefer the new menu items. In recent years, numerous companies in the quick-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, 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, respectively, to guests and could materially adversely affect our profitability and reputation. In 2011, higher commodity costs increased cost of sales for our Pollo Tropical restaurants by 1.4%, as a percentage of Pollo Tropical restaurant sales, including chicken which increased cost of sales, as a percentage of Pollo Tropical restaurant sales, by 0.8%. Higher commodity costs also increased cost of sales in 2011 for our Taco Cabana restaurants by 2.1%, as a percentage of Taco Cabana restaurant sales, including beef fajita meat which increased cost of sales, as a percentage of Taco Cabana restaurant sales, by 0.9%. For the three months ended March 31, 2012, higher commodity costs increased cost of sales for our Pollo Tropical restaurants by 1.0%, as a percentage of Pollo Tropical restaurant sales, including chicken which increased cost of sales by 0.4%, as a percentage of Pollo Tropical restaurant sales. For the three months ended March 31, 2012, higher commodity costs also increased cost of sales for our Taco Cabana restaurants by 2.4%, as a percentage of Taco Cabana restaurant sales, including beef fajita meat which increased cost of sales by 1.2%, as a percentage of Taco Cabana restaurant sales. Although we anticipate that overall commodity costs will increase in 2012 as compared to 2011, we do not believe commodity price increases for the remainder of 2012 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, 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 contract for certain of the food commodities used in our restaurants for periods of up to one year, the pricing and availability of 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. We do not use financial instruments to hedge our risk to market fluctuations in the price of beef, seafood, produce and other food products at this time. We may not be able to anticipate and react to changing food costs (including anticipated increases in food costs in 2012) 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.

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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. Also for our Pollo Tropical restaurants Kelly Food Service is our primary distributor for chicken under an agreement that expires on December 31, 2012. 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. We currently rely on two suppliers under agreements that expire on December 31, 2012 as our suppliers of chicken for our Pollo Tropical restaurants. 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 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 promotion, 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 customers 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 April 1, 2012, excluding our franchised locations, all but one of our Pollo Tropical restaurants were located in Florida and all but six of our Taco Cabana restaurants were located in Texas. Therefore, the economic

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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 Texas restaurants are susceptible to hurricanes and other severe tropical weather events, and in the past, our Taco Cabana restaurants have been 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 customers 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 customers 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 customer traffic as customers choose lower-cost alternatives or choose alternatives to dining out. The resulting decrease in our customer 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.

The loss of the services of our senior management could have a material adverse effect on our business, financial condition or results of operations.

Our success depends to a large extent upon the continued services of our senior management who have substantial experience in the restaurant industry. We believe that it could be difficult to replace our senior management with individuals having comparable experience. Consequently, the loss of the services of members of our senior management could have a material adverse effect on our business, financial condition or results of operations. We will also be dependent on Carrols providing certain services subject to the transition services agreement and could be negatively impacted by management changes at Carrols Restaurant Group.

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:

- zoning;
- requirements relating to labeling of caloric and other nutritional information on menu boards, advertising and food packaging;

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- the preparation and sale of food;
- liquor licenses which allow us to serve alcoholic beverages at our Taco Cabana restaurants and at certain Pollo Tropical restaurants;
- employer/employee relationships, including minimum wage requirements, overtime, working and safety conditions, and citizenship requirements;
- health care;
- 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
- 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.

We are assessing the various provisions of the comprehensive federal health care reform law enacted in 2010, including its impact on our business as it becomes effective. There are no assurances that a combination of cost management and menu price increases can offset all of the potential increased costs associated with these regulations.

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 select 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 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 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 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.

We may, in the future, seek to pursue acquisitions and we may not find restaurant companies that are suitable acquisition candidates or successfully operate or integrate any restaurant companies we may acquire.

We may in the future seek to acquire other restaurant chains. Although we believe that opportunities for future acquisitions may be available from time to time, increased competition for acquisition candidates exists and may continue in the future. Consequently, there may be fewer acquisition opportunities available to us as well as higher acquisition prices. There can be no assurance that we will be able to identify, acquire, manage or successfully integrate acquired restaurant companies without substantial costs, delays or operational or financial problems. In the event we are able to acquire other restaurant companies, the integration and operation of the acquired restaurants may place significant demands on our management, which could adversely affect our ability to manage our existing restaurants. We also face the risk that our existing systems, procedures and financial controls will be inadequate to support any restaurant chains we may acquire and that we may be unable to successfully integrate the operations and financial systems of any chains we may acquire with our own systems. While we may evaluate and discuss potential acquisitions from time to time, we currently have no understandings, commitments or agreements with respect to any acquisitions. We may be required to obtain additional financing to fund future acquisitions. There can be no assurance that we will be able to obtain additional financing on acceptable terms or at all. Both the revolving credit facility and the indenture governing the outstanding notes contain restrictive covenants that may prevent us from incurring additional debt or acquiring additional restaurant chains.

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 customers 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. 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 customer 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.

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 recently enacted Jumpstart Our Business Startups Act of 2012, or 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 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 are choosing 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.

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Risks Related to the Spin-off

We currently share members of senior management and directors with Carrols Restaurant Group which means those members of senior management have not devoted their full time and attention to our affairs and the overlap may give rise to conflicts.

Nicolas Daraviras is currently a member of the board of directors of Fiesta Restaurant Group, Carrols Restaurant Group and Carrols. Also, Paul R. Flanders, the Chief Financial Officer of Carrols Restaurant Group, serves as our interim Chief Financial Officer effective as of the distribution date until such time as we hire a permanent Chief Financial Officer. These directors and certain members of management may have actual or apparent conflicts of interest with respect to matters involving or affecting us or Carrols Restaurant Group and Carrols. For example, there could be the potential for a conflict of interest when we or Carrols Restaurant Group look at acquisitions and other corporate opportunities that may be suitable for both companies. Also, conflicts may arise if there are issues or disputes under the commercial arrangements that will exist between Carrols Restaurant Group, Carrols and us. Our board of directors and the board of directors of Carrols Restaurant Group will review and address any potential conflict of interests that may arise between Carrols Restaurant Group, Carrols and us. Although no specific measures to resolve such conflicts of interest have been formulated, our board of directors and the board of directors of Carrols Restaurant Group have a fiduciary obligation to deal fairly and in good faith. Our board of directors intends to exercise reasonable judgment and take such steps as they deem necessary under all of the circumstances in resolving any specific conflict of interest which may occur and will determine what, if any, specific measures, such as retention of an independent advisor, independent counsel or special committee, may be necessary or appropriate. Any such conflict could have a material adverse effect on our business.

Changes in our management could negatively impact our business and financial and operating results.

Effective August 15, 2011, Timothy P. Taft was hired by us and became our new Chief Executive Officer and President. Changes in our management, including but not limited to changes in connection with the spin-off, and including the recent hiring of Mr. Taft as our new CEO and President, could increase uncertainty in our business, result in changes in our business, result in disruptions to our business or in other changes in management, which could have a material adverse effect on our business, results of operations and financial condition.

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 completion of 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 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 will occur in our cost structure, funding, and operations as a result of the spin-off. While our historical results of operations include all costs of the Pollo Tropical and Taco Cabana businesses, our historical costs and expenses do not include all of the costs that would have been or will be incurred by us as an independent company. Additionally, the preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include: allocations of Carrols general and administrative expenses and interest expense on amounts due to Carrols, accrued occupancy costs, insurance liabilities, income taxes, evaluation for impairment of goodwill and long-lived assets and lease accounting matters. Actual results could differ from those estimates. In addition, we have not made adjustments to our historical consolidated financial information to reflect changes, many of which are significant, that 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 IRS to the effect that, among other things, the spin-off will qualify as a tax-free distribution for U.S. federal income tax purposes under Section 355 of 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 will 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 has 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 is 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.

The tax matters agreement entered into by us with Carrols Restaurant Group and Carrols in connection with the spin-off (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. In the tax matters agreement, we have agreed to indemnify Carrols Restaurant Group, without limitation, (a) for losses and taxes of Carrols Restaurant Group and its affiliates resulting from our 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 was not be 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 are not 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 have 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 have 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 have 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 are, however, 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.

We have no 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.

Until the distribution date, 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 Exchange Act), treasury administration, investor relations, internal audit,

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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. 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 will not continue 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. After the spin-off, 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 a transition services agreement. When the transition services agreement 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 a transition services agreement that we have entered into with Carrols Restaurant Group and Carrols, 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 spin-off, provided that we may extend the term of the transition services agreement by one additional year upon 90 days prior written notice to Carrols Restaurant Group and Carrols, provided further that we may terminate the transition services agreement 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 transition services agreement 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 transition services agreement, 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 currently pay under the transition services agreement, which could adversely affect us.

The terms of our spin-off from Carrols Restaurant Group may reduce the likelihood of any potential change of control or unsolicited acquisition proposal that you might consider favorable.

The terms of our spin-off from Carrols Restaurant Group could delay or prevent a change of control that you may favor. An acquisition or issuance of our common stock could trigger the application of Section 355(e) of the Code. Under the tax matters agreement we have entered into with Carrols Restaurant Group and Carrols, we are required to indemnify Carrols Restaurant Group and Carrols for the resulting tax in connection with such an acquisition or issuance and this indemnity obligation might discourage, delay or prevent a change of control that you may consider favorable.

See Certain Relationships and Related Party Transactions Agreements with Carrols Restaurant Group Tax Matters Agreement for a more detailed description of these agreements.

The ownership by our executive officers and some of our directors of shares of common stock of Carrols Restaurant Group may create conflicts of interest.

The ownership by our executive officers and some of our directors of shares of common stock of Carrols Restaurant Group may create, or may create the appearance of, conflicts of interest. Because of their current or former positions with Carrols Restaurant Group, certain of our executive officers, and some of our directors, own shares of Carrols Restaurant Group common stock. The individual holdings of common stock of Carrols Restaurant Group may be significant for some of these persons compared to such persons total assets. Ownership by our directors and officers of common stock of Carrols Restaurant Group creates, or may create the appearance of, conflicts of interest when these directors and officers are faced with decisions that could have different implications for Carrols Restaurant Group than the decisions have for us.

Our internal systems and resources might not be adequately prepared to meet the financial reporting and other requirements to which we will be subject following the spin-off.

Our management is 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. In addition, we expect to be subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 beginning with our financial statements for the year ending December 31, 2013, which will require annual management assessments of the effectiveness of our internal control over financial reporting. 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 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 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 a transition services agreement 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 spin-off, including the services provided by Paul R. Flanders, Vice President, Chief Financial Officer and Treasurer of Carrols Restaurant Group, who has served as our interim Chief Financial Officer since the distribution date and will continue to serve in such capacity until such time as we hire a permanent Chief Financial Officer. 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.

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USE OF PROCEEDS

We will not receive any proceeds from the exchange of outstanding notes pursuant to this exchange offer. In consideration for issuing the exchange notes as contemplated in this prospectus, we will receive in exchange a like principal amount of the outstanding notes, the terms of which are substantially identical in all material respects to the exchange notes. The outstanding notes surrendered in exchange for the exchange notes will be retired and cancelled and cannot be reissued. Accordingly, issuance of the exchange notes will not result in any change in our capitalization.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2012:

- on an actual basis; and
- on a pro forma basis as if the removal of certain lease financing obligations as described in Unaudited Condensed Consolidated Pro Forma Financial Information, included elsewhere in this prospectus, occurred on that date.

You should read this table in conjunction with Unaudited Condensed Consolidated Pro Forma Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements and the notes thereto included elsewhere in this prospectus and the financial data set forth under Selected Historical Financial and Operating Information.

(Dollars in thousands, except per share data)	Actual	Pro Forma Adjustments	Pro Forma
Long-term debt, including current portion:			
Lease financing obligations	$ 123,232	$ (114,160)(1)	$ 9,072
Capital leases	993		993
8.875% Senior Secured Second Lien Notes	200,000		200,000
Total long-term debt	324,225	(114,160)	210,065
Stockholder s deficit:			
Additional paid-in capital	6,716		6,716
Accumulated deficit (2)	(10,109)	(113)(1)	(10,222)
Common Stock, par value $.01, authorized 100,000,000 shares, issued 23,161,822 shares and outstanding 22,727,422 shares (2)	227		227
Total stockholder s deficit	(3,166)	(113)	(3,279)
Total capitalization	$ 321,059	$ (114,273)	$ 206,786

(1) Reflects the qualification for sale-leaseback treatment of leases, previously accounted for as financing leases in our consolidated financial statements appearing elsewhere in this prospectus, which resulted from either the termination of Carrols guarantee of our lease payments upon the completion of the spin-off on the distribution date or, with respect to the leases in which guarantees remain, the elimination of certain conditions upon the completion of the spin-off that caused these transactions to be accounted for as financing leases under FASB Accounting Standards Codification (the ASC) 840-40. Such leases have previously been accounted for as financing leases in our consolidated financial statements appearing elsewhere in this prospectus because the Carrols guarantees are considered guarantees from a related party, a form of continuing involvement under ASC 840-40. Upon the completion of the spin-off on the distribution date, any remaining guarantees no longer disqualified these transactions for sale-leaseback accounting due to the elimination of the related party relationship with Carrols. As a result of the qualification of prior sale-leaseback transactions (and the treatment of the underlying real property leases as operating leases), all of the respective assets subject to lease financing obligations and related liabilities are removed from the unaudited consolidated pro forma balance sheet. Accumulated deficit has been increased by a $0.1 million loss resulting from the qualification for sale-leaseback accounting of one of the aforementioned financing leases.

(2) Reflects a 23,161.822 for one split of our outstanding common stock, which occurred on April 19, 2012.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table sets forth our historical selected consolidated financial and operating information. The selected consolidated financial data for the fiscal year ended December 31, 2007 has been derived from our unaudited consolidated financial statements prepared in accordance with GAAP. The selected consolidated financial data for all other periods has been derived from our audited consolidated financial statements prepared in accordance with GAAP for each of the fiscal years ended December 31, 2008, 2009, 2010 and 2011, of which the audited consolidated financial statements for the fiscal years ended December 31, 2009, 2010 and 2011 are included elsewhere in this prospectus.

The unaudited consolidated financial statements for the three months ended March 31, 2011 and 2012 include all adjustments, consisting of normal recurring adjustments, which, in our opinion are necessary for a fair presentation of the financial position and results of operations for these periods. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements. The results of operations for the three months ended March 31, 2011 and 2012 are not necessarily indicative of the results to be expected for the full year.

The information in the following table should be read together with our audited consolidated financial statements as of December 31, 2010 and 2011, for the years ended December 31, 2009, 2010 and 2011, and our unaudited consolidated financial statements as of March 31, 2012 and for the three months ended March 31, 2011 and 2012 and Management s Discussion and Analysis of Financial Condition and Results of Operations, all as included elsewhere in this prospectus.

(Dollars in thousands, except per share data)	Year ended December 31, 2007	2008	2009	2010	2011	Three months ended March 31, 2011	2012
Statement of operations data:							
Revenues:							
Restaurant sales	$ 406,318	$ 423,344	$ 430,514	$ 437,538	$ 473,249	$ 115,251	$ 125,566
Franchise royalty revenues and fees	1,344	1,434	1,606	1,533	1,719	365	576
Total revenues	407,662	424,778	432,120	439,071	474,968	115,616	126.142
Costs and expenses:							
Cost of sales	125,018	134,241	132,070	135,236	152,711	36,344	40,784
Restaurant wages and related expenses (including stock-based compensation expense of $211, $93, $88, $28, $18, $5 and $4, respectively)	110,919	116,070	120,105	122,519	129,083	31,633	33,825
Restaurant rent expense	15,357	16,968	17,437	16,620	16,930	4,060	3,967
Other restaurant operating expenses	57,911	63,268	60,384	60,041	61,877	14,743	15,829
Advertising expense	13,760	13,860	14,959	15,396	16,264	4,119	4,295
General and administrative (including stock-based compensation expense of $600, $970, $669, $974 and $1,690, $411, and $1,046 respectively)	31,699	33,016	32,148	32,865	37,459	8,921	11,080
Depreciation and amortization	16,910	18,233	19,676	19,075	19,537	4,797	4,840
Impairment and other lease charges	1,823	5,371	2,284	6,614	2,744	264	6,900
Other expense (income) (1)	(347)	(580)	(799)		146		
Total operating expenses	373,050	400,447	398,264	408,366	436,751	104,881	121,520
Income from operations	34,612	24,331	33,856	30,705	38,217	10,735	4,622
Interest expense	22,042	21,898	20,447	19,898	24,041	4,845	7,969
Income (loss) before income taxes	12,570	2,433	13,409	10,807	14,176	5,890	(3,347)
Provision (benefit) for income taxes	4,652	1,103	5,045	3,764	4,635	2,276	(1,482)
Net income (loss)	$ 7,918	$ 1,330	$ 8,364	$ 7,043	$ 9,541	$ 3,614	$ (1,865)
Per share data:							
	$ .34	$ .06	$ .36	$ .30	$ .41	$ .16	$ (.08)

Basic and diluted net income (loss) per share (6)							
Weighted average shares outstanding:							
Basic and diluted weighted average common shares outstanding (6)	23,161,822	23,161,822	23,161,822	23,161,822	23,161,822	23,161,822	23,161,822

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(Dollars in thousands, except per share data)	Year ended December 31, 2007	2008	2009	2010	2011	Three months ended March 31, 2011	2012
Other financial data:							
Net cash provided from (used for) operating activities	$ 29,716	$ 26,302	$ 33,244	$ 32,529	$ 43,167	$ 6,195	$ (622)
Net cash used for investing activities	(41,246)	(44,053)	(17,266)	(21,380)	(15,082)	(3,264)	(10,625)
Net cash provided from (used for) financing activities	11,257	17,792	(14,649)	(12,420)	(16,998)	(2,913)	2,304
Total capital expenditures	(42,520)	(44,172)	(16,127)	(23,398)	(22,865)	(5,125)	(8,543)
Ratio of earnings to fixed charges (7)	1.46x	1.09x	1.51x	1.42x	1.48x	1.95x	

(Dollars in thousands)	As of December 31, 2007	2008	2009	2010	2011	As of March 31, 2012
Balance sheet data:						
Total assets	$ 343,078	$ 365,375	$ 360,125	$ 357,886	$ 370,166	$ 364,788
Working capital	(7,267)	(6,492)	(6,744)	(8,453)	(9,064)	(8,977)
Long-term debt:						
Due to parent company	$ 161,076	$ 174,000	$ 155,793	$ 138,756	$	$
8.875% Senior Secured Second Lien Notes					200,000	200,000
Lease financing obligations	105,082	111,726	116,651	122,975	123,019	123,232
Capital leases	1,086	1,060	1,020	1,064	1,008	993
Total long-term debt	$ 267,244	$ 286,786	$ 273,464	$ 262,795	$ 324,027	$ 324,225
Stockholder s equity (deficit)	$ 41,174	$ 42,504	$ 50,868	$ 57,911	$ (4,672)	$ (3,166)

	Year ended December 31, 2007	2008	2009	2010	2011	Three months ended March 31, 2011	2012
Operating statistics:							
Total number of restaurants (at end of period)	231	245	247	246	249	246	243
Pollo Tropical:							
Company-owned restaurants (at end of period)	84	91	91	91	91	90	86
Average number of company-owned restaurants	79.6	87.5	90.8	90.5	91.0	90.1	90.7
Revenues:							
Restaurant sales	$ 167,458	$ 173,979	$ 176,525	$ 186,045	$ 208,115	$ 51,949	$ 57,333
Franchise royalty revenues and fees	1,097	1,145	1,315	1,248	1,410	286	501
Total revenues	168,555	175,124	177,840	187,293	209,525	52,235	57,834
Average annual sales per company-owned restaurant (2)	2,104	1,988	1,911	2,056	2,287		
Adjusted Segment EBITDA (3)	27,659	22,765	25,322	30,062	35,567	9,870	11,214
Adjusted Segment EBITDA margin (4)	16.2%	13.0%	14.2%	16.1%	17.0%	18.9%	19.4%
Change in comparable company-owned restaurant sales (5)	1.4%	(1.0%)	(1.3%)	7.4%	9.9%	13.5%	9.4%
Taco Cabana:							
Company-owned restaurants (at end of period)	147	154	156	155	158	156	157
Average number of company-owned restaurants	144.2	149.9	154.6	155.6	156.9	155.1	157.2
Revenues:							
Restaurant sales	$ 238,860	$ 249,365	$ 253,989	$ 251,493	$ 265,134	$ 63,302	$ 68,233
Franchise royalty revenues and fees	247	289	291	285	309	79	75
Total revenues	239,107	249,654	254,280	251,778	265,443	63,381	68,308
Average annual sales per company-owned restaurant (2)	1,656	1,664	1,607	1,616	1,690		
Adjusted Segment EBITDA (3)	26,961	25,653	30,452	27,334	26,785	6,342	6,198
Adjusted Segment EBITDA margin (4)	11.1%	10.3%	12.0%	10.9%	10.1%	10.0%	9.1%
Change in comparable company-owned restaurant sales (5)	0.2%	0.0%	(3.7%)	0.3%	3.7%	2.0%	6.1%

(1) Other income in 2007 includes gains of $0.3 million related to the sale of one Taco Cabana property. Other income in 2008 resulted from a Taco Cabana insurance gain of $0.5 million related to Hurricane Ike and a $0.1 million gain on a sale of a Taco Cabana property. Other income in 2009 resulted from a Taco Cabana insurance gain of $0.6 million related to Hurricane Ike and $0.2 million gain on a sale of a Taco Cabana non-operating property. Other expense in 2011 resulted from a loss of $0.1 million from the sale of a Taco Cabana restaurant property in a sale-leaseback transaction.

(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 2009, a 53-week fiscal year, we have excluded restaurant sales data for the extra week in 2009.

(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. A reconciliation of Adjusted Segment EBITDA to consolidated net income (loss) is presented below:

	Year ended December 31,					Three months ended March 31,	
(Dollars in thousands)	**2007**	**2008**	**2009**	**2010**	**2011**	**2011**	**2012**
Adjusted Segment EBITDA							
Pollo Tropical	$ 27,303	$ 22,765	$ 25,322	$ 30,062	$ 35,567	$ 9,870	$ 11,214
Taco Cabana	26,506	25,653	30,452	27,334	26,785	6,342	6,198
Less:							
Depreciation and amortization	16,910	18,233	19,676	19,075	19,537	4,797	4,840
Impairment and other lease charges	1,823	5,371	2,284	6,614	2,744	264	6,900
Interest expense	22,042	21,898	20,447	19,898	24,041	4,845	7,969
Provision (benefit) for income taxes	4,652	1,103	5,045	3,764	4,635	2,276	(1,482)
Stock-based compensation	811	1,063	757	1,002	1,708	416	1,050
Other expense (income)	(347)	(580)	(799)		146		
Net income (loss)	$ 7,918	$ 1,330	$ 8,364	$ 7,043	$ 9,541	$ 3,614	$ (1,865)

(4) Adjusted Segment EBITDA margin is derived by dividing Adjusted Segment EBITDA by the total revenues applicable to the segment.

(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 2009, a 53-week fiscal year, we have excluded restaurant sales data for the extra week in 2009.

(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.

(7) For the purpose of determining the ratio of earnings to fixed charges, earnings included earnings from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest on all indebtedness plus that portion of operating lease rentals representative of the interest factor. Earnings were insufficient to cover fixed charges by $3,347 for the three months ended March 31, 2012.

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UNAUDITED CONDENSED CONSOLIDATED PRO FORMA FINANCIAL INFORMATION

The following unaudited condensed consolidated pro forma financial information has been derived from the application of pro forma adjustments to our historical consolidated financial statements. The unaudited condensed consolidated pro forma balance sheet as of March 31, 2012 gives effect to the qualification for sale-leaseback accounting of certain real property leases (and the treatment of such leases as operating leases) due to the cure or elimination of certain provisions that previously precluded sale-leaseback accounting and caused these transactions to be accounted under the financing method under ASC Section 840-40 Leases Sale-leaseback Transactions (ASC Section 840-40) as if such events occurred as of such date. The unaudited condensed consolidated pro forma statements of operations for the three months ended March 31, 2011, the year ended December 31, 2011 and the three months ended March 31, 2012 give effect to the qualification for sale-leaseback accounting of certain real property leases (and the treatment of such leases as operating leases) due to the cure or elimination of certain provisions that previously precluded sale-leaseback accounting and caused these transactions to be accounted under the financing method under ASC Section 840-40 as if such events occurred as of January 1, 2011. For a more detailed discussion of our lease financing obligations, see Note 9 to our consolidated financial statements that are included elsewhere in this prospectus.

The unaudited condensed consolidated pro forma statements of operations for the three months ended March 31, 2011 and the year ended December 31, 2011 also give effect to the issuance in August 2011 of $200.0 million of outstanding notes as if such issuance occurred as of January 1, 2011.

The unaudited condensed consolidated pro forma financial statements should be read in conjunction with our historical consolidated financial statements and notes thereto that are included elsewhere in this prospectus.

Pro forma adjustments to historical financial information include adjustments that we deem reasonable and appropriate and are factually supported based on currently available information. These unaudited condensed consolidated pro forma financial statements are included for comparative purposes only, and may not be indicative of what actual results would have been had the refinancing transactions and the qualification for sale-leaseback accounting of certain real property leases (and the treatment of such leases as operating leases) in connection with the spin-off, occurred on the dates described above. The unaudited condensed consolidated pro forma financial statements do not purport to present our financial results for future periods.

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FIESTA RESTAURANT GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED PRO FORMA BALANCE SHEET

March 31, 2012

(Dollars in thousands, except per share amounts)	Historical	Pro Forma Adjustments	Pro Forma
ASSETS			
Current assets:			
Cash	$ 4,727		$ 4,727
Trade receivables	6,154		6,154
Inventories	2,127		2,127
Prepaid rent	2,346		2,346
Prepaid expenses and other current assets	2,854		2,854
Deferred income taxes	1,853		1,853
Total current assets	20,061		20,061
Property and equipment, net	196,359	(80,592)(1)	115,767
Goodwill	123,484		123,484
Intangible assets, net	272		272
Deferred income taxes	13,664		13,664
Deferred financing costs, net	6,578		6,578
Other assets	4,370	(1,631)(1)	2,739
Total assets	$ 364,788	$ (82,223)	$ 282,565
LIABILITIES AND STOCKHOLDER S DEFICIT			
Current liabilities:			
Current portion of long-term debt	$ 60		$ 60
Due to parent company	1,330		1,330
Accounts payable	7,856		7,856
Accrued interest	2,325		2,325
Accrued payroll, related taxes and benefits	9,861		9,861
Accrued real estate taxes	1,902		1,902
Other liabilities	5,704		5,704
Total current liabilities	29,038		29,038
Long-term debt, net of current portion	200,933		200,933
Due to parent company			
Lease financing obligations	123,232	(114,160)(1)	9,072
Deferred income sale-leaseback of real estate	3,985	32,050(1)	36,035
Other liabilities	10,766		10,766
Total liabilities	367,954	(82,110)	285,844
Commitments and contingencies			
Stockholder s deficit:			
Common stock, par value $.01; authorized 100,000,000 shares, issued 23,161,822 shares and outstanding 22,727,422 shares (2)	227		227
Additional paid in capital	6,716		6,716
Accumulated deficit (2)	(10,109)	(113)(1)	(10,222)
Total stockholder s deficit	(3,166)	(113)	(3,279)

Total liabilities and stockholder s deficit	$ 364,788	$ (82,223)	$ 282,565

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FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED PRO FORMA BALANCE SHEET

March 31, 2012

(1) Reflects the qualification for sale-leaseback treatment of leases previously accounted for as financing leases in our standalone consolidated financial statements, which will result from either the termination of Carrols guarantee of our lease payments upon the completion of the spin-off (with respect to property of $37.6 million and lease financing obligations totaling $50.8 million) or, with respect to the leases in which guarantees remain or where Carrols is the primary lessee on a limited number of our restaurant leases (with property of $42.9 million and lease financing obligations totaling $63.4 million), the elimination of certain conditions upon the completion of the spin-off that resulted in the treatment as financing leases under ASC 840-40. Such leases have previously been accounted for as financing leases in our standalone consolidated financial statements appearing elsewhere in this prospectus because the Carrols guarantees are considered guarantees from a related party, a form of continuing involvement under ASC 840-40. Upon completion of the spin-off, any remaining guarantees will no longer disqualify these transactions for sale-leaseback accounting due to the elimination of the related party relationship with Carrols. As a result of the qualification of prior sale-leaseback transactions (and the treatment of the underlying real property leases as operating leases), all of the respective assets subject to lease financing obligations and related liabilities are removed from the unaudited condensed consolidated pro forma balance sheet, including $1.6 million of deferred financing costs included in other assets. The unaudited condensed consolidated pro forma balance sheet includes recognition of deferred gains from the qualified sale-leaseback transactions which will be amortized as an adjustment to rent expense over the remaining term of the underlying leases.

(2) Reflects a 23,161.822 for one split of our outstanding common stock, which occurred on April 19, 2012.

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FIESTA RESTAURANT GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED PRO FORMA STATEMENT OF OPERATIONS

Three months ended March 31, 2011

(Dollars in thousands)	Historical	Pro Forma Adjustments	Pro Forma
Revenues:			
Restaurant sales	$ 115,251	$	$ 115,251
Franchise royalty revenues and fees	365		365
Total revenues	115,616		115,616
Costs and Expenses:			
Cost of sales	36,344		36,344
Restaurant wages and related expenses (including stock-based compensation expense of $5)	31,633		31,633
Restaurant rent expense	4,060	2,031 (1)	6,091
Other restaurant operating expenses	14,743		14,743
Advertising expense	4,119		4,119
General and administrative (including stock-based compensation expense of $411)	8,921		8,921
Depreciation and amortization	4,797	(518)(2)	4,279
Impairment and lease charges	264		264
Total operating expenses	104,881	1,513	106,394
Income from operations	10,735	(1,513)	9,222
Interest expense	4,845	228 (3)	5,073
Income before income taxes	5,890	(1,741)	4,149
Provision for income taxes	2,276	(696)(4)	1,580
Net income	$ 3,614	$ (1,045)	$ 2,569

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FIESTA RESTAURANT GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED PRO FORMA STATEMENT OF OPERATIONS

Year ended December 31, 2011

(Dollars in thousands)	Historical	Pro Forma Adjustments	Pro Forma
Revenues:			
Restaurant sales	$ 473,249	$	$ 473,249
Franchise royalty revenues and fees	1,719		1,719
Total revenues	474,968		474,968
Costs and Expenses:			
Cost of sales	152,711		152,711
Restaurant wages and related expenses (including stock-based compensation expense of $18)	129,083		129,083
Restaurant rent expense	16,930	8,120 (1)	25,050
Other restaurant operating expenses	61,877		61,877
Advertising expense	16,264		16,264
General and administrative (including stock-based compensation expense of $1,690)	37,459		37,459
Depreciation and amortization	19,537	(2,073) (2)	17,464
Impairment and lease charges	2,744		2,744
Other expense	146		146
Total operating expenses	436,751	6,047	442,798
Income from operations	38,217	(6,047)	32,170
Interest expense	24,041	(3,416) (3)	20,625
Income before income taxes	14,176	(2,631)	11,545
Provision for income taxes	4,635	(1,052) (4)	3,583
Net income	$ 9,541	$ (1,579)	$ 7,962

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FIESTA RESTAURANT GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED PRO FORMA STATEMENT OF OPERATIONS

Three months ended March 31, 2012

(Dollars in thousands)	Historical	Pro Forma Adjustments	Pro Forma
Revenues:			
Restaurant sales	$ 125,566	$	$ 125,566
Franchise royalty revenues and fees	576		576
Total revenues	126,142		126,142
Costs and Expenses:			
Cost of sales	40,784		40,784
Restaurant wages and related expenses (including stock-based compensation expense of $4)	33,825		33,825
Restaurant rent expense	3,967	2,031(1)	5,998
Other restaurant operating expenses	15,829		15,829
Advertising expense	4,295		4,295
General and administrative (including stock-based compensation expense of $1,046)	11,080		11,080
Depreciation and amortization	4,840	(518) (2)	4,322
Impairment and lease charges	6,900		6,900
Total operating expenses	121,520	1,513	123,033
Income from operations	4,622	(1,513)	3,109
Interest expense	7,969	(2,587) (3)	5,382
Income (loss) before income taxes	(3,347)	1,074	(2,273)
Provision (benefit) for income taxes	(1,482)	430 (4)	(1,052)
Net income (loss)	$ (1,865)	$ 644	$ (1,221)

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FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED PRO FORMA STATEMENT OF OPERATIONS

(1) Reflects the increase in rent expense resulting from the qualification for sale-leaseback treatment of leases, previously accounted for as financing leases in our consolidated financial statements appearing elsewhere in this prospectus, which will result from either the termination of Carrols guarantee of our lease payments upon the completion of the spin-off or, with respect to the leases in which guarantees remain or where Carrols is the primary lessee on a limited number of our restaurant leases, the elimination of certain conditions upon the completion of the spin-off that resulted in the treatment as financing leases under ASC 840-40. Such leases have previously been accounted for as financing leases in our standalone consolidated financial statements appearing elsewhere in this prospectus because the Carrols guarantees are considered guarantees from a related party, a form of continuing involvement under ASC 840-40. Upon the spin-off, any remaining guarantees will no longer disqualify these transactions for sale-leaseback accounting due to the elimination, in accordance with ASC 840-40, of the related party relationship with Carrols. The following table summarizes the components of total incremental rent expense for the respective periods:

(Dollars in thousands)	Three months ended March 31, 2011	Year ended December 31, 2011	Three months ended March 31, 2012
Increase in rent expense for treatment as operating leases	$ 2,641	$ 10,566	$ 2,641
Amortization of deferred gains resulting from qualification for sale-leaseback treatment	(610)	(2,446)	(610)
	$ 2,031	$ 8,120	$ 2,031

(2) Reflects the reduction in depreciation expense of $0.5 million, $2.1 million and $0.5 million for the three months ended March 31, 2011 the year ended December 31, 2011, and the three months ended March 31, 2012, respectively, resulting from the removal of $83.2 million of property as of January 1, 2011, due to the qualification for sale-leaseback treatment of leases previously accounted for as financing leases in our standalone consolidated financial statements as discussed in footnote 1 above.

(3) Reflects the increase in interest expense $0.2 million for the three months ended March 31, 2011 and the reduction in interest expense of $3.4 million and $2.6 million for the year ended December 31, 2011 and the three months ended March 31, 2012, respectively. The following table summarizes the components of total incremental interest expense for the respective periods:

	Three months ended March 31, 2011	Year ended December 31, 2011	Three months ended March 31, 2012
Interest on outstanding notes and senior credit facility	$ 4,438	$ 10,765	$
Amortization of deferred financing fees associated with outstanding notes	379	898	
Reversal of previously allocated interest on amounts due to parent	(1,997)	(4,715)	
Reversal of previously recorded interest on lease financing obligations	(2,592)	(10,364)	(2,587)
	$ 228	$ (3,416)	$ (2,587)

(4) The income tax benefit related to the pre-tax effects of pro forma adjustments is based an incremental tax rate of 40%.

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

Introduction

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. The overview provides our perspective on the individual sections of MD&A, which include the following:

Company Overview a general description of our business and our key financial measures.

Recent and Future Events Affecting Our Results of Operations a description of recent events that affect, and future events that may affect, our results of operations.

Executive Summary an executive review of our financial results for the three months ended March 31, 2012 and for the year ended December 31, 2011.

Results of Operations an analysis of our results of operations for the three months ended March 31, 2012 and 2011 and for the years ended December 31, 2011, 2010 and 2009 including a review of the material items and known trends and uncertainties.

Liquidity and Capital Resources an analysis of historical information regarding our sources of cash and capital expenditures, the existence and timing of commitments and contingencies, changes in capital resources and a discussion of cash flow items affecting liquidity.

Application of Critical Accounting Policies an overview of accounting policies requiring critical judgments and estimates.

Effects of New Accounting Standards a discussion of new accounting standards and any implications related to our financial statements.

Company Overview

We own and operate two quick-casual restaurant brands, Pollo Tropical® and Taco Cabana® which we acquired in 1998 and 2000, respectively. Our Pollo Tropical restaurants offer a wide selection of tropical and Caribbean inspired food, while our Taco Cabana restaurants offer a wide selection of fresh Tex-Mex and traditional Mexican food. Our differentiated brands are positioned within the quick-casual restaurant segment, which combines the convenience and value of quick-service restaurants with the menu variety, use of fresh ingredients, food quality, decor and service more typical of casual dining restaurants. As of April 1, 2012, our company-owned restaurants included 86 Pollo Tropical restaurants and 157 Taco Cabana restaurants.

We franchise our Pollo Tropical restaurants and as of April 1, 2012, we had 33 franchised restaurants located in Puerto Rico, Ecuador, Honduras, Trinidad, the Bahamas, Venezuela, Costa Rica and on college campuses in Florida. We also have agreements for the future development of franchised Pollo Tropical restaurants in Panama, Tobago, Aruba, Curacao, Bonaire and Guatemala. Although we are not actively franchising our Taco Cabana restaurants, we had five Taco Cabana franchised restaurants at April 1, 2012, located in the United States.

The following is an overview of the key financial measures discussed in our results of operations:

Restaurant sales consist of food and beverage sales, net of discounts, at our company-owned and operated restaurants. Restaurant sales are influenced by menu price increases, new restaurant openings, closures of restaurants and changes in comparable restaurant sales. 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. For purposes of calculating the changes in comparable restaurant sales for 2009, a 53-week year, we have excluded restaurant sales for the extra week of 2009.

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 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.

Restaurant rent expense includes base rent and contingent rent on our leases characterized as operating leases, reduced by the amortization of gains on sale-leaseback transactions.

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.

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

General and administrative expenses are comprised primarily of (1) salaries and expenses associated with the development and support of our 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) allocated costs based on our pro-rata share of Carrols expenses for executive management, administrative support services and stock-based compensation expense. The allocated costs may not be indicative of the actual expenses that would have been or could be incurred by us if we operated as a standalone company during the periods presented.

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, other income and expense and gains and losses on the extinguishment of debt. 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.

Depreciation and amortization expense primarily includes the depreciation of fixed assets, including equipment, owned buildings and leasehold improvements utilized in our restaurants and the depreciation of assets under lease financing obligations.

Impairment and other lease charges are determined through our assessment of the recoverability of property and equipment and intangible assets by determining whether the carrying value of these assets can be recovered over their respective remaining lives through undiscounted future operating cash flows. A potential impairment charge is evaluated whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Lease charges are recorded for our obligations under the related leases for closed locations net of estimated sublease recoveries.

Interest expense, subsequent to August 5, 2011 consists of interest expense associated with our $200 million of notes, borrowings under our senior secured credit facility, the amortization of deferred financing costs, imputed interest expense on leases entered into in connection with sale-leaseback transactions which are accounted for as lease financing obligations and any gains and losses from the settlement of lease financing obligations. Prior to August 5, 2011, interest expense included an allocation of interest expense due to Carrols, based on amounts due to Carrols in each respective period.

Recent and Future Events Affecting our Results of Operations

Spin-off of Fiesta Restaurant Group

On April 16, 2012, the board of directors of Carrols Restaurant Group approved the spin-off of us, which through our subsidiaries, owns and operates the Pollo Tropical and Taco Cabana restaurant brands. Carrols Restaurant Group will continue to own and operate its franchised Burger King restaurants through its subsidiaries Carrols and Carrols LLC.

In connection with the spin-off, on April 24, 2012, Carrols Restaurant Group and Carrols entered into several agreements with us that govern 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 filed with the SEC a Registration Statement on Form 10 (Registration No. 001-35373), which includes as an exhibit thereto an information statement which describes the spin-off. This Registration Statement on Form 10, which registered our common stock under the Exchange Act, was declared effective by the SEC on April 25, 2012.

On May 7, 2012, Carrols Restaurant Group completed the spin-off 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 stockholder of Carrols Restaurant Group s common stock of record on April 26, 2012 (the record date for such dividend) received one share of our common stock for every one share of Carrols Restaurant Group common stock held on the record date. As a result of the spin-off, we are now an independent company whose common stock is traded on The NASDAQ Global Select Market under the symbol FRGI. Carrols Restaurant Group s common stock continues to trade on The NASDAQ Global Market under the symbol TAST.

Refinancing of Outstanding Indebtedness

On August 5, 2011, we and Carrols LLC each entered into new and independent financing arrangements, the proceeds from which were used to distribute funds to Carrols to enable Carrols to repay its existing indebtedness, as well as to pay all related fees and expenses. In the first quarter of 2012, Carrols transferred to us $2.5 million of excess cash proceeds from the financings.

On August 5, 2011 we sold $200 million of outstanding notes and entered into a $25 million senior secured revolving credit facility which was undrawn at closing. Effective with the issuance of the outstanding notes, amounts due to Carrols at August 5, 2011 were repaid and, since the spin-off, we have been independently funding our operations including payment to Carrols for our pro-rata share for executive management and administrative support provided by Carrols to us.

In connection with the sale of $200 million of the outstanding notes, we and certain of our subsidiaries entered into a registration rights agreement dated as of August 5, 2011, with Wells Fargo Securities, LLC and Jefferies & Company, Inc. In general, the registration rights agreement provides that we and certain of our subsidiaries agreed to file, and cause to become effective, a registration statement with the SEC in which we offer the holders of the outstanding notes the opportunity to exchange such notes for newly issued notes that have terms which are identical to the outstanding notes that are registered under the Securities Act. Under the registration rights agreement, we are required to file a registration statement for the exchange notes with the SEC within 270 days of August 5, 2011 and will be required to consummate the exchange of the outstanding notes for exchange notes within 360 days of August 5, 2011.

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. In our consolidated financial statements, ASC 840-40 Sale-Leaseback Transactions , requires us to classify these leases as lease financing transactions because the guarantee from a related party constitutes continuing involvement and causes the sale to not qualify for sale-leaseback accounting. Under the financing method, the assets remain on our balance sheet and continue to be depreciated and the proceeds we received from these transactions are recorded as a lease financing obligation. Rental payments under these leases are recorded as payments of imputed interest and deemed principal on the underlying financing obligations, rather than rent expense. Lease financing obligations associated with these transactions were $114.2 million at March 31, 2012.

Such leases qualified for sale-leaseback accounting upon the spin-off from Carrols Restaurant Group on May 7, 2012 due to the cure or elimination of certain provisions that previously precluded sale-leaseback accounting (the treatment of such leases as operating leases) in our consolidated financial statements. This was primarily due to guarantees from Carrols, our parent company, prior to spin-off which were considered guarantees from a related party. For the three months ended March 31, 2012, on a pro forma basis if such events occurred as of January 1, 2011 our restaurant rent expense would have been higher by $2.0 million and totaled $6.0 million, depreciation and amortization expense would have been $0.5 million lower and totaled $4.3 million and interest expense would have $2.6 million lower and totaled $5.4 million. Lease financing obligations would have been reduced by $114.2 million and assets subject to lease financing obligations would have been reduced by $80.6 million at March 31, 2012. See Unaudited Condensed Consolidated Pro Forma Financial Information.

Future Restaurant Closures

We evaluate the performance of our restaurants on an ongoing basis including an assessment of the current and future operating results of the restaurant and the cost of any necessary future capital improvements. We may elect to close restaurants based on such evaluation. In 2011 we closed two underperforming Pollo Tropical restaurants and one underperforming Taco Cabana restaurant. On March 27, 2012, we closed our five Pollo Tropical restaurants located in New Jersey, after an evaluation of the performance of the individual restaurants, the New Jersey market in general, and our other development alternatives, which resulted in our decision to not pursue any further expansion in this market. As a result of the closing of these Pollo Tropical restaurants, we recorded additional impairment and other lease charges in the first quarter of 2012 of $5.9 million. These charges include asset impairment charges of $4.1 million and other lease charges of $1.7 million, for the accrual of lease liabilities, net of estimated sublease recoveries. In the first quarter of 2012 we also closed one Taco Cabana restaurant at the end of its lease term. We do not anticipate any material impairment charges due to the closure of this Taco Cabana restaurant. We also do not anticipate any additional restaurant closures in 2012.

We do not believe that the future impact on our consolidated results of operations from other restaurant closures will be material, although there can be no assurance in this regard. Our determination of whether to close restaurants in the future is subject to further evaluation and may change.

Executive Summary Consolidated Operating Performance for the Three Months Ended March 31, 2012

Total revenues increased 9.1% in the first quarter of 2012 to $126.1 million. Comparable restaurant sales in the first quarter of 2012 increased 9.4% at our Pollo Tropical restaurants and increased 6.1% at our Taco Cabana restaurants. The comparable restaurant sales increases at Pollo Tropical were primarily a result of higher customer traffic although average check also increased in the first quarter of 2012. The comparable sales increase at our Taco Cabana restaurants was due both to higher customer traffic and an increase in average check.

Restaurant operating margins in the first quarter of 2012 were negatively impacted by higher food commodity costs at each of our restaurant brands as cost of sales, as a percentage of consolidated restaurant sales, increased to 32.5% from 31.5%. These increases were partially offset by menu price increases taken in the last twelve months at each of our brands. As a percentage of total restaurant sales, restaurant wages and related expenses decreased to 26.9% in the first quarter of 2012 from 27.4% in the first quarter of 2011 due to the effect

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of higher sales volumes on fixed labor costs at each of our restaurant brands. Advertising expense decreased to 3.4% in the first quarter of 2012 from 3.6% in the first quarter of 2011 primarily from higher sales from promotional activities at Pollo Tropical. Operating results were also favorably impacted by lower utility costs which, as a percentage of total restaurant sales, decreased to 2.9% in the first quarter of 2012 from 3.3% in the first quarter of 2011.

General and administrative expenses increased to $11.1 million in the first quarter of 2012 from $8.9 million in the first quarter of 2011 due in part to higher stock-based compensation expense and other costs of $1.1 million related to the conversion of Carrols Restaurant Group s outstanding stock options into either shares of Carrols Restaurant Group s common stock or restricted common 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. General and administrative expenses in the first quarter of 2012 also included $0.6 million of legal and other costs incurred in connection with the spin-off and higher administrative bonus accruals of $0.4 million.

Impairment and other lease charges in the first quarter of 2012 were $6.9 million compared to $0.3 million in the first quarter of 2011 and were due to the closure of our five Pollo Tropical restaurants in New Jersey and impairment charges for two Taco Cabana restaurants.

Total interest expense increased $3.1 million to $8.0 million in the first quarter of 2012 due to our refinancing activities in the third quarter of 2011 which included the issuance of the Notes.

Our effective income tax rate in the first quarter of 2012, including discrete tax items, increased to 42.6% from 38.7% in the first quarter of 2011 due primarily to the elimination of Work Opportunity Tax Credits in 2012. If these credits were to be reenacted for 2012 our effective tax rate would be adjusted in the period of reenactment.

As a result of the above, our net loss was $1.9 million in the first quarter of 2012 compared to net income of $3.6 million in the first quarter of 2011.

Executive Summary Consolidated Operating Performance for the Year Ended December 31, 2011

Total revenues increased 8.2% to $475.0 million from $439.1 million in 2010. Comparable restaurant sales increased 9.9% at our Pollo Tropical restaurants and increased 3.7% at our Taco Cabana restaurants. The comparable restaurant sales increase at our Pollo Tropical restaurants was due to higher customer traffic and, to a lesser extent, an increase in average check. The comparable restaurant sales increase at our Taco Cabana restaurants was driven by an increase in average check.

Restaurant operating margins were negatively impacted in 2011 by higher food costs at each of our restaurant brands as cost of sales, as a percentage of total restaurant sales, increased 1.4% to 32.3% compared to 2010. Commodity cost increases were partially offset by menu price increases taken later in 2010 and in 2011. As a percentage of total restaurant sales, restaurant wages and related expenses decreased to 27.3% in 2011 from 28.0% in 2010 due primarily to the effect of higher sales volumes on fixed labor costs. Operating margins were also favorably impacted by lower utility costs which, as a percentage of total restaurant sales, decreased to 3.5% in 2011 from 3.9% in 2010, and the effect of higher sales volumes on fixed operating costs including rent.

General and administrative expenses increased to $37.5 million from $32.9 million in 2010 due primarily to higher administrative bonus accruals, higher stock-based compensation expense and our allocated portion of the costs and related expenses incurred by Carrols in connection with our spin-off.

Total interest expense increased $4.1 million to $24.0 million in 2011 due to our refinancing activities in the third quarter which included our issuance of the outstanding notes.

Our effective income tax rate decreased to 32.7% in 2011 from 34.8% in 2010 due primarily to an increase in employment related tax credits in 2011.

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As a result of the above, net income in 2011 increased to $9.5 million compared to $7.0 million in 2010.

Results of Operations

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

The following table sets forth, for the three months ended March 31, 2012 and 2011, selected operating results as a percentage of consolidated restaurant sales:

	Three Months Ended March 31, 2012	2011
Restaurant sales:		
Pollo Tropical	45.7%	45.1%
Taco Cabana	54.3%	54.9%
Total restaurant sales	100.0%	100.0%
Costs and expenses:		
Cost of sales	32.5%	31.5%
Restaurant wages and related expenses	26.9%	27.4%
Restaurant rent expense	3.2%	3.5%
Other restaurant operating expenses	12.6%	12.8%
Advertising expense	3.4%	3.6%
General and administrative expenses	8.8%	7.7%

Since the beginning of the first quarter of 2011 through the end of the first quarter of 2012, we have opened two new Pollo Tropical restaurants and four new Taco Cabana restaurants. During the same period we closed seven Pollo Tropical restaurants and two Taco Cabana restaurants.

Total restaurant sales increased 9.0% to $125.6 million in the first quarter of 2012 from $115.3 million in the first quarter of 2011. Pollo Tropical restaurant sales in the first quarter of 2012 increased 10.4% to $57.3 million due primarily to an increase in comparable restaurant sales of 9.4% due primarily to a 6.7% increase in customer traffic and a 2.4% increase in average check, compared to the first quarter of 2011. In addition, two restaurants opened since the beginning of the first quarter of 2011 contributed $1.3 million in additional restaurant sales in the first quarter. The effect of menu price increases taken at our Pollo Tropical restaurants in the last twelve months was approximately 3.8%.

Taco Cabana restaurant sales in the first quarter of 2012 increased 7.8% to $68.2 million due primarily to an increase in comparable restaurant sales of 6.1% in the first quarter of 2012 resulting from a 3.9% increase in average check due primarily from menu price increases and a 2.3% increase in customer traffic. The effect of menu price increases taken in the last twelve months was approximately 3.6%. In addition, we opened four restaurants since the beginning of the first quarter of 2011 which contributed $1.7 million in additional restaurant sales in the first quarter of 2012.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales increased to 33.4% in the first quarter of 2012 from 33.0% in the first quarter of 2011 due primarily to higher commodity prices (1.0%), including chicken (0.4%) and increased costs related to new menu offerings, partially offset by the effect of menu price increases. Pollo Tropical restaurant wages and related expenses decreased to 23.2% in the first quarter of 2012 from 23.7% in the first quarter of 2011 due primarily to the effect of higher sales volumes on fixed labor costs (0.7%) partially offset by higher medical insurance claims. Pollo Tropical other restaurant operating expenses were 12.2% in both the first quarter of 2012 and 2011 as the effect of lower utility costs (0.3%) was offset by higher repairs and maintenance expense. Pollo Tropical advertising expense decreased to 2.2% in the first quarter of 2012 from

2.5% in the first quarter of 2011 due to higher sales volumes from promotional activities. For all of 2012 we anticipate advertising expense to be range between 2.8% to 3.0% of Pollo Tropical restaurant sales.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 31.7% in the first quarter of 2012 from 30.3% in the first quarter of 2011 due primarily to higher commodity prices (2.4%) including beef fajita meat (1.2%) partially offset by the effect of menu price increases taken in the last twelve months. Taco Cabana restaurant wages and related expenses decreased to 30.1% in the first quarter of 2012 from 30.5% in the first quarter of 2011 due primarily to the effect of higher sales volumes on fixed labor costs. Taco Cabana other restaurant operating expenses decreased to 13.0% in the first quarter of 2012 from 13.3% in the first quarter of 2011 due primarily to lower utility costs (0.4%) partially offset by higher repair and maintenance expenses (0.2%). Taco Cabana advertising expense was 4.4% in both the first quarter of 2012 and the first quarter of 2011. For all of 2012 we anticipate advertising expense to range between 4.0% to 4.2% of Taco Cabana restaurant sales.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 3.2% in the first quarter of 2012 from 3.5% in the first quarter of 2011 due primarily to the effect of restaurant sales increases at both our restaurant brands on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased to $11.1 million in the first quarter of 2012 from $8.9 million in the first quarter of 2011 and, as a percentage of total restaurant sales, increased to 8.8% compared to 7.7% in the first quarter of 2011, due in part to higher stock-based compensation expense and other costs of $1.1 million related to the conversion of Carrols Restaurant Group s outstanding stock options into either shares of Carrols Restaurant Group s common stock or restricted common 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. General and administrative expenses in the first quarter of 2012 also included $0.6 million of legal and other costs incurred in connection with the spin-off and higher administrative bonus accruals of $0.4 million.

Adjusted Segment EBITDA. Due to the factors above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to $11.2 million in the first quarter of 2012 from $9.9 million in the first quarter of 2011. Adjusted Segment EBITDA for our Taco Cabana restaurants decreased to $6.2 million in the first quarter of 2012 from $6.3 million in the first quarter of 2011. General and administrative expenses for each segment includes general and administrative expenses related directly to the segment as well as allocated expenses associated with administrative support for executive management, information systems and certain accounting, legal and other administrative functions.

Depreciation and Amortization. Depreciation and amortization expense was $4.8 million in both the three months ended March 31, 2012 and 2011.

Impairment and Other Lease Charges. Impairment and other lease charges of $6.9 million in the first quarter of 2012 consisted of asset impairment charges of $4.1 million and lease charges of $1.8 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. Impairment and other lease charges were $0.3 million in the first quarter of 2011 which included $0.2 million in lease charges for a Pollo Tropical restaurant that was closed in the first quarter of 2011 and whose assets were previously impaired in 2010.

Interest Expense. Consolidated interest expense increased $3.1 million to $8.0 million in the first quarter of 2012 due to our refinancing activities in the third quarter of 2011 which included the issuance of the Notes. The weighted average interest rate on our long-term debt, excluding lease financing obligations, was 8.9% in the first quarter of 2012. Interest expense on lease financing obligations was $3.0 million in the first quarter of 2012 and $2.8 million in the first quarter of 2011.

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Provision (Benefit) for Income Taxes. The benefit for income taxes for the first quarter of 2012 was derived using an estimated effective annual income tax rate for 2011 of 42.6%, which excluded discrete tax adjustments. Discrete tax adjustments increased the benefit for income taxes by $56,000 in the first quarter of 2012. The provision for income taxes for the first quarter of 2011 was derived using an estimated effective annual income tax rate for 2011 of 38.7%. Discrete tax adjustments decreased the provision for income taxes by $11,000 in the first quarter of 2011.

Net Income (Loss). As a result of the foregoing, we had a net loss of $1.9 million in the first quarter of 2012 compared to net income of $3.6 million in the first quarter of 2011.

Fiscal 2011 (52 weeks) Compared to Fiscal 2010 (52 weeks)

The following table sets forth, for the years ended December 31, 2011, 2010 and 2009, selected operating results as a percentage of consolidated restaurant sales:

	Year Ended December 31,		
	2011	**2010**	**2009**
Restaurant sales:			
Pollo Tropical	44.0%	42.5%	41.0%
Taco Cabana	56.0%	57.5%	59.0%
Total restaurant sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales	32.3%	30.9%	30.7%
Restaurant wages and related expenses	27.3%	28.0%	27.9%
Restaurant rent expense	3.6%	3.8%	4.1%
Other restaurant operating expenses	13.1%	13.7%	14.0%
Advertising expense	3.4%	3.5%	3.5%
General and administrative expenses	7.9%	7.5%	7.5%

In 2011, we opened two new Pollo Tropical restaurants and four new Taco Cabana restaurants. During the same period we closed two Pollo Tropical restaurants and one Taco Cabana restaurant.

Restaurant Sales. Total restaurant sales in 2011 increased 8.2% to $473.2 million from $437.5 million in 2010.

Pollo Tropical restaurant sales increased 11.9% to $208.1 million due primarily to an increase in comparable restaurant sales of 9.9% resulting from an increase in customer traffic of approximately 8.0% and a 1.9% increase in average check. The effect of menu price increases in 2011 was 1.5%. In addition, four restaurants opened since the beginning of 2010 contributed $5.9 million in additional sales in 2011.

Taco Cabana restaurant sales increased 5.4% to $265.1 million due primarily to a 3.7% increase in comparable restaurant sales resulting from an increase in average check of 4.4% compared to 2010. The effect of menu price increases in 2011 was 2.9%. In addition, five restaurants opened since the beginning of 2010 contributed $5.6 million in additional sales in 2011.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales increased to 33.4% in 2011 from 32.3% in 2010 due primarily to higher commodity prices (1.4%) including chicken (0.8%), and fuel surcharges, partially offset by favorable menu item sales mix shifts and the effect of menu price increases. Pollo Tropical restaurant wages and related expenses decreased to 23.6% in 2011 from 24.7% in 2010 due primarily to the effect of higher sales volumes on fixed labor costs and by lower workers compensation claim costs (0.5%). Pollo Tropical other restaurant operating expenses decreased to 12.5% in 2011 from 13.0% in 2010 due primarily to lower real estate taxes (0.3%), lower utility costs and the effect of higher sales volumes on other fixed operating costs. Pollo Tropical advertising expense was 2.8% in both 2011 and 2010.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 31.4% in 2011 from 29.9% in 2010 due primarily to higher commodity prices (2.1%) including beef fajita price increases (0.9%), partially offset by the effect of menu price increases taken since the beginning of 2010. Taco Cabana restaurant wages and related expenses decreased to 30.2% in 2011 from 30.5% in 2010 due primarily to the effect of higher sales volumes on fixed labor costs and lower medical claim costs (0.3%). Taco Cabana other restaurant operating expenses decreased to 13.5% in 2011 from 14.3% in 2010 due primarily to lower utility costs (0.4%), the reduction of operating supply costs and the effect of higher sales volumes on other fixed operating costs. Taco Cabana advertising expense decreased slightly to 4.0% in 2011 from 4.1% in 2010.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 3.6% in 2011 from 3.8% in 2010 due primarily to the effect of sales increases at our restaurants on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased $4.6 million in 2011 to $37.5 million and, as a percentage of total 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. General and administrative expenses included total allocated Carrols corporate expenses for executive management, information systems and certain accounting, legal and other administrative functions of $11.0 million and $9.1 million for 2011 and 2010, respectively, including costs and related expenses of $0.9 million incurred in connection with our planned spin-off.

Adjusted Segment EBITDA. As a result of the factors 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 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. 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. Total interest expense increased $4.1 million to $24.0 million in 2011 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.

Provision for Income Taxes. 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.

Net Income. As a result of the foregoing, net income was $9.5 million in 2011 compared to $7.0 million in 2010.

Fiscal 2010 (52 Weeks) Compared to Fiscal 2009 (53 weeks)

In 2010 we opened two new Pollo Tropical restaurants and one new Taco Cabana restaurant. In 2010 we also closed two Pollo Tropical restaurants and two Taco Cabana restaurants. The 2010 fiscal year contained 52 weeks compared to 53 weeks in 2009. The effect of the additional week in 2009 resulted in additional restaurant sales of $7.2 million, operating income of approximately $1.7 million and net income of approximately $1.1 million.

Restaurant Sales. Total restaurant sales increased in 2010 to $437.5 million from $430.5 million in 2009, which included $7.2 million of additional restaurant sales from the additional week in 2009. On a comparable 52 week basis, restaurant sales increased 3.4%.

Pollo Tropical restaurant sales were $186.0 million and increased $9.5 million in 2010, net of a $2.9 million decrease from one less week than in 2009. On a comparable 52 week basis, Pollo Tropical restaurant sales increased 7.2% due to an increase in comparable restaurant sales of 7.4% attributable to higher customer traffic. There were no menu price increases in 2010. The average check in 2010 at our Pollo Tropical restaurants decreased 3.0% which reflected the effect of menu mix changes and product promotions.

Taco Cabana restaurant sales were $251.5 million and decreased $2.5 million in 2010, including a $4.3 million decrease from one less week in 2009. On a comparable 52 week basis, Taco Cabana restaurant sales increased 0.7% due primarily to an increase in comparable restaurant sales in 2010 of 0.3% attributable to higher customer traffic. The effect of menu price increases taken in 2010 was approximately 1.2% in 2010 although our average check at our Taco Cabana restaurants decreased 0.9% in 2010 compared to 2009 reflecting the effect of menu mix changes and product promotions.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales decreased to 32.3% in 2010 from 33.0% in 2009 due primarily to lower commodity prices (0.3%), including lower rice and chicken prices, and higher margins on new menu items compared to the prior year, partially offset by higher promotional discounting. Pollo Tropical restaurant wages and related expenses decreased to 24.7% in 2010 from 24.9% in 2009 due primarily to the effect of higher sales volumes on fixed labor costs partially offset by higher workers compensation claim costs (0.2%). Pollo Tropical other restaurant operating expenses decreased to 13.0% in 2010 from 13.8% in 2009 due primarily to lower utility costs (0.8%) and the effect of higher sales volumes on fixed operating costs, partially offset by higher repair and maintenance expenses associated with upgrading our restaurants (0.2%). Pollo Tropical advertising expense increased to 2.8% in 2010 from 2.7% in 2009 due to higher media spending in 2010.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 29.9% in 2010 from 29.0% in 2009 due primarily to lower margins on menu item promotions in 2010 (0.5%) and higher commodity prices, including cheese and produce, (0.5%), partially offset by the effect of menu price increases in 2010. Taco Cabana restaurant wages and related expenses increased to 30.5% in 2010 from 30.0% in 2009 due primarily to the effect of wage rate increases on relatively flat sales volumes and higher workers compensation and medical claim costs (0.3%). Taco Cabana other restaurant operating expenses increased to 14.3% in 2010 from 14.2% in 2009 as higher repair and maintenance and other related costs to upgrade our restaurants were partially offset by lower utility costs (0.2%). Taco Cabana advertising expense increased slightly to 4.1% in 2010 from 4.0% in 2009.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 3.8% in 2010 from 4.1% in 2009 due primarily to the effect of sales increases at our Pollo Tropical restaurants on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased $0.7 million in 2010 to $32.9 million and, as a percentage of total restaurant sales, were 7.5% in both 2010 and 2009. The increase in 2010 was due to higher salary costs of $1.0 million. General and administrative expenses include total allocated Carrols corporate expenses for executive management, information systems, stock-based compensation expense and certain accounting, legal and other administrative functions of $10.1 million and $10.4 million for the years ended December 31, 2010 and 2009, respectively.

Adjusted Segment EBITDA. As a result of the factors set forth above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to $30.1 million in 2010 from $25.3 million in 2009. Adjusted Segment EBITDA for our Taco Cabana restaurants decreased to $27.3 million from $30.5 million in 2009.

Depreciation and Amortization. Depreciation and amortization expense decreased to $19.1 million from $19.7 million in 2009 due primarily to lower depreciation associated with our Taco Cabana restaurants.

Impairment and Other Lease Charges. Impairment and other lease charges were $6.6 million in 2010 compared to $2.3 million in 2009. Impairment and other lease charges in 2010 related to our Pollo Tropical restaurants were $4.7 million in 2010 and included $3.2 million for three underperforming Pollo Tropical restaurants, $0.7 million to reduce the fair market value of a previously impaired Pollo Tropical restaurant and $0.7 million in additional lease charges for non-operating Pollo Tropical properties. Impairment and other lease charges in 2010 related to our Taco Cabana restaurants were $1.9 million in 2010 and included $1.1 million for an underperforming Taco Cabana restaurant, $0.3 million to reduce the fair market value of a previously impaired Taco Cabana restaurant and $0.5 million in additional lease charges for non-operating Taco Cabana restaurant properties.

Interest Expense. Total interest expense decreased $0.5 million to $19.9 million in 2010 from $20.4 million in 2009 due to a reduction in our total outstanding indebtedness, including amounts due to Carrols, since the beginning of 2009. Interest expense on lease financing obligations increased to $10.9 million in 2010 compared to $10.6 million in 2009.

Provision for Income Taxes. The effective tax rate for 2010 decreased to 34.8% from 37.6% in 2009 due in part to higher Work Opportunity Tax Credits in 2010 and the effect of this increase on lower consolidated pretax income in 2010 compared to 2009.

Net Income. As a result of the foregoing, net income was $7.0 million in 2010 compared to $8.4 million in 2009.

Liquidity and Capital Resources

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

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

Since 2009, our spending on new restaurant development was limited in order to utilize our free cash flow to reduce Carrols outstanding indebtedness and financial leverage as well as reduce our amounts due to Carrols, prior to our financing in August 2011. We have continued to moderate new restaurant growth in 2011.

On August 5, 2011, we and Carrols LLC each entered into new and independent financing arrangements, the proceeds from which were used to distribute funds to Carrols to enable Carrols to repay its existing indebtedness, as well as to pay accrued interest and all related fees and expenses. On August 5, 2011 we sold $200 million of notes and entered into a $25 million senior secured revolving credit facility which was undrawn at closing. Excess cash generated from the financings was approximately $9.5 million, including the disbursement of funds prior to the spin-off to Fiesta Restaurant Group and Carrols LLC. In January 2012, Carrols disbursed $2.5 million of the excess cash from the financings to us and the balance to Carrols LLC.

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 borrowing under our revolving 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 used for operating activities for the first quarter of 2012 was $0.4 million compared to net cash provided from operating activities for the three months ended March 31, 2011 of $6.2 million. This decrease of $6.6 million, compared to the first quarter of 2011, was due primarily to an increase in the components of net working capital of $7.2 million and an increase in deferred income tax assets of $1.8 million partially offset by an increase in net income, adjusted for non-cash items including depreciation and amortization, impairment and other lease charges and stock-based compensation expense. Net cash provided from operating activities for the years ended December 31, 2011, 2010 and 2009 was $43.2 million, $32.5 million and $33.2 million, respectively. Net cash provided by operating activities in 2011 increased $10.6 million compared to 2010 due primarily to an increase in cash of $10.6 million from changes in the components of net working capital, including deferred income taxes. Net cash provided by operating activities in 2010 decreased $0.7 million compared to 2009 due primarily to a decrease in cash of $3.5 million from changes in the components of net working capital, including deferred tax assets.

Investing activities. Net cash used for investing activities for the three months ended March 31, 2012 and 2011 was $10.6 million and $3.3 million, respectively, and for the years ended December 31, 2011, 2010 and 2009 was $15.1 million, $21.4 million and $17.3 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 including expenditures in 2009 for new point-of-sale systems for all of our Pollo Tropical restaurants.

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

	Pollo Tropical	Taco Cabana	Other	Consolidated
Three Months Ended March 31, 2012				
New restaurant development	$ 3,701	$ 1,664	$	$ 5,365
Restaurant remodeling		1,273		1,273
Other restaurant capital expenditures (1)	824	868		1,692
Corporate and restaurant information systems	25	95	93	213
Total capital expenditures	$ 4,550	$ 3,900	$ 93	$ 8,543
Number of new restaurant openings				
Three months ended March 31, 2011:				
New restaurant development	$ 98	$ 2,445	$	$ 2,543
Restaurant remodeling	748	769		1,517
Other restaurant capital expenditures (1)	346	627		973
Corporate and restaurant information systems			92	92
Total capital expenditures	$ 1,192	$ 3,841	$ 92	$ 5,125
Number of new restaurant openings		1		1
Year Ended December 31, 2011:				
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 31, 2010:				
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 December 31, 2009:				
New restaurant development	$ 660	$ 7,129	$	$ 7,789
Restaurant remodeling	510	1,534		2,044
Other restaurant capital expenditures (1)	1,117	2,453		3,570
Corporate and restaurant information systems	2,663	61		2,724
Total capital expenditures	$ 4,950	$ 11,177	$	$ 16,127
Number of new restaurant openings	1	4		5

(1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the three months ended March 31, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009, these restaurant repair and maintenance expenses were approximately $3.2 million, $2.7 million, $10.7 million, $9.5 million and $8.9 million, respectively.

For 2012 we anticipate that total capital expenditures will range from $42 million to $46 million, although the actual amount of capital expenditures may differ from these estimates. Capital expenditures for 2012 are expected to include approximately $25 million to $28 million for the development of new restaurants and purchase of related real estate for the opening of ten to twelve new restaurants. Capital expenditures in 2012 also are expected to include expenditures of approximately $16 million to $17 million for the ongoing reinvestment in our restaurant concepts for remodeling costs and capital maintenance expenditures and approximately $1 million of other expenditures.

Investing activities also include sale-leaseback transactions related to our restaurant properties, the net proceeds from which were $1.9 million in the first quarter of 2011, $7.8 million in 2011 and $3.4 million in 2010. There were no sale-leaseback transactions in the first quarter of 2012. In 2009 we also sold one non-operating property for net proceeds of $0.6 million. The net proceeds from these sales prior to August 5, 2011 were used to reduce borrowings under Carrols prior senior credit facility. In the first quarter of 2012, and the years ended December 31, 2010 and 2009 we had expenditures related to the purchase of restaurant properties to be sold in future sale-leaseback transactions of $2.1 million, $1.3 million and $1.7 million, respectively.

Financing activities. Net cash provided by financing activities for the three months ended March 31, 2012 was $2.1 million from the transfer by Carrols to us of $2.5 million of excess cash proceeds from the 2011 financings. Net cash used for financing activities for the years ended December 31, 2011, 2010 and 2009 was $17.0 million, $12.4 million and $14.6 million, respectively. As a result of our issuance of the notes and the administrative services provided to us from Carrols in 2011, we made payments to Carrols of $139.0 million in 2011 and a dividend payment to Carrols of $75.5 million in the third quarter of 2011. In 2011 we deferred $7.5 million of financing costs pertaining to our financing transactions discussed above. In the first quarter of 2012, we made payments to Carrols of $0.4 million.

During the second quarter of 2011, we entered into a sale-leaseback transaction for a restaurant property that did not qualify for sale-leaseback accounting and the net proceeds of $1.7 million were recorded as a lease financing obligation. During the third quarter of 2011 the condition that precluded sale-leaseback accounting was cured. In 2010 and 2009 we also had proceeds from lease financing obligations of $5.9 million and $4.6 million, respectively.

Net cash used for financing activities for the years ended December 31, 2010 and 2009 also included net repayments of indebtedness to Carrols of $18.0 million and $19.0 million, respectively.

Indebtedness. At April 1, 2012, we had total long-term debt outstanding (including current portion) of $324.2 million consisting of $200.0 million of notes, $123.2 million of lease financing obligations and $1.0 million of capital lease obligations.

New Senior Secured Revolving Credit Facility. On August 5, 2011 we entered into a new first lien senior secured revolving credit facility providing for aggregate revolving credit borrowings of up to $25.0 million (including $10.0 million available for letters of credit). Our revolving credit facility also provides for incremental increases of up to $5.0 million, in the aggregate, to the revolving credit borrowings available under the facility, and matures on February 5, 2016. Borrowings under the facility bear interest at a per annum rate, at our option, of either (all terms as defined in the revolving credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on our Adjusted Leverage Ratio (with a margin of 2.5% at April 1, 2012), or

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on our Adjusted Leverage Ratio (with a margin of 3.5% at April 1, 2012).

Our obligations under the revolving 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 those of our material subsidiaries (including a pledge of all of the capital stock and equity interests of our material subsidiaries).

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The revolving 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 revolving credit facility requires us to meet certain financial ratios, including a Fixed Charge Coverage Ratio and Adjusted Leverage Ratio (all as defined under the revolving credit facility).

Our senior secured 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 January 1, 2012, we were in compliance with the covenants under our revolving credit facility. After reserving $9.4 million for letters of credit guaranteed by the facility, $15.6 million was available for borrowing at April 1, 2012.

Notes. On August 5, 2011, we issued $200.0 million of notes pursuant to an indenture dated as of August 5, 2011 governing such notes. The notes mature and are payable on August 15, 2016. Interest is payable semi-annually on February 15 and August 15 with the first interest payment due on February 15, 2012. The notes are guaranteed by all of our material subsidiaries and are secured by second-priority liens on substantially all of our material subsidiaries assets (including a pledge of all of the capital stock and equity interests of our material subsidiaries).

The 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 notes at a redemption price of 100% of the principal amount of each 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 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 indenture governing the 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 its material subsidiaries and enter into mergers, consolidations or sales of all or substantially all of our or our material subsidiaries assets. These covenants are subject to certain exceptions and qualifications including, without limitation, permitting the spin-off.

The indenture governing the notes contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under the notes and the indenture if there is a default under any of our indebtedness 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 April 1, 2012 with the restrictive covenants of the indenture governing the notes.

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Contractual Obligations

The following table summarizes our contractual obligations and commitments as of March 31, 2012 (in thousands):

		Payments due by period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
Long-term debt obligations, including interest (1)	$ 279,875	$ 17,750	$ 35,500	$ 226,625	$
Capital lease obligations, including interest (2)	1,678	141	268	1,153	116
Operating lease obligations (3)	199,023	18,135	34,910	32,232	113,746
Lease financing obligations, including interest (4)	245,085	10,997	22,137	22,858	189,093
Total contractual obligations	$ 725,661	$ 47,023	$ 92,815	$ 282,868	$ 302,955

(1) Our long-term debt at April 1, 2012, included $200.0 million of outstanding notes. Total interest payments on our outstanding notes of $79.7 million for all years presented are included at the coupon rate of 8.875%.
(2) Includes total interest of $0.7 million for all years presented.
(3) Represents the aggregate minimum lease payments under operating leases. Many of our leases also require contingent rent based on a percentage of sales in addition to the minimum base rent and require expenses incidental to the use of the property, all of which have been excluded from this table.
(4) Includes total interest of $121.8 million for all years presented.

We have not included in the contractual obligations table payments we may make for workers compensation, general liability and employee healthcare claims for which we pay all claims, subject to annual stop-loss limitations both for individual claims and claims in the aggregate. The majority of our recorded liabilities related to self-insured employee health and insurance plans represent estimated reserves for incurred claims that have yet to be filed or settled.

Long-Term Debt Obligations. Refer to Note 8 of our Consolidated Financial Statements for details of our long-term debt.

Capital Lease and Operating Lease Obligations. Refer to Note 6 of our Consolidated Financial Statements for details of our capital lease and operating lease obligations.

Lease Financing Obligations. Refer to Note 9 of our Consolidated Financial Statements for details of our lease financing obligations.

Off-Balance Sheet Arrangements

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

Inflation

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

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Application of Critical Accounting Policies

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

Sales recognition at our company-owned and operated restaurants is straightforward as customers pay for products at the time of sale and inventory turns over very quickly. Payments to vendors for products sold in the restaurants are generally settled within 30 days. The earnings reporting process is covered by our system of internal controls and generally does not require significant management estimates and judgments. However, critical accounting estimates and judgments, as noted below, are inherent in the assessment and recording of accrued occupancy costs, insurance liabilities, income taxes, the valuation of goodwill and intangible assets for impairment, assessing impairment of long-lived assets and lease accounting matters. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions.

Accrued occupancy costs. We make estimates of accrued occupancy costs pertaining to closed restaurant locations on an ongoing basis. These estimates require assessment and continuous evaluation of a number of factors such as the remaining contractual period under our lease obligations, the amount of sublease income we are able to realize on a particular property and estimates of other costs such as property taxes. Differences between actual future events and prior estimates could result in adjustments to these accrued costs. Total accrued occupancy costs pertaining to closed restaurant locations was $3.8 million at April 1, 2012.

Insurance liabilities. We are insured for workers compensation, general liability and medical insurance claims under policies where we pay all claims, subject to annual stop-loss limitations both for individual claims and claims in the aggregate. At April 1, 2012, we had $3.8 million accrued for these insurance claims. We record insurance liabilities based on historical and industry trends, which are continually monitored, and adjust accruals as warranted by changing circumstances. Since there are estimates and assumptions inherent in recording these insurance liabilities, including the ability to estimate the future development of incurred claims based on historical trends or the severity of the claims, differences between actual future events and prior estimates and assumptions could result in adjustments to these liabilities.

Evaluation of Goodwill. We must evaluate our recorded goodwill for impairment on an ongoing basis. We have elected to conduct our annual impairment review of goodwill assets at December 31. Our review at January 1, 2012 indicated there was no impairment as of that date. In reviewing goodwill for impairment, we compare the net book values of our reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, we employ a combination of a discounted cash flow analysis and a market-based approach. Assumptions include our anticipated growth rates and the weighted average cost of capital. The results of these analyses are corroborated with other value indicators where available, such as comparable company earnings multiples. This annual evaluation of goodwill requires us to make estimates and assumptions to determine the fair value of our reporting units including projections regarding future operating results and market values. We had two reporting units with goodwill balances as of our most recent measurement date. The fair value exceeded the carrying value of our respective reporting units by almost 70% for our Pollo Tropical restaurants and more than 50% for our Taco Cabana restaurants. These estimates may differ from actual future events and if these estimates or related projections change in the future, we may be required to record impairment charges for these assets.

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Impairment of Long-lived Assets. We assess the potential impairment of long-lived assets, principally property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell the related assets and market conditions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets.

Lease Accounting. Judgments made by management for our lease obligations include the length of the lease term, which includes the determination of renewal options that are reasonably assured. The lease term can affect the classification of a lease as capital or operating for accounting purposes, the term over which related leasehold improvements for each restaurant are amortized, and any rent holidays and/or changes in rental amounts for recognizing rent expense over the term of the lease. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

We also must evaluate sales of our restaurants which occur in sale-leaseback transactions to determine the proper accounting for the proceeds of such sales either as a sale or a financing. This evaluation requires certain judgments in determining whether or not clauses in the lease or any related agreements constitute continuing involvement. For those sale-leasebacks that are accounted for as financing transactions, we must estimate our incremental borrowing rate, or another rate in cases where the incremental borrowing rate is not appropriate to utilize, for purposes of determining interest expense and the resulting amortization of the lease financing obligation. Changes in the determination of the incremental borrowing rates or other rates utilized in connection with the accounting for lease financing transactions could have a significant effect on the interest expense and underlying balance of the lease financing obligations.

Effects of New Accounting Standards

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance on testing goodwill for impairment. The guidance provides entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We are evaluating the impact of this guidance on our annual testing for goodwill impairment in 2012.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk. We are exposed to market risk associated with fluctuations in interest rates, primarily limited to our revolving credit facility, which is currently undrawn. Borrowings under the revolving credit facility bear interest at a per annum rate, at our option, of either (all terms as defined in the revolving credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on our Adjusted Leverage Ratio (with a margin of 2.50% at April 1, 2012), or

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on our Adjusted Leverage Ratio (with a margin of 3.50% at April 1, 2012).

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

BUSINESS

Overview

Our Company

We own and operate two quick-casual restaurant brands, Pollo Tropical and Taco Cabana. Our Pollo Tropical restaurants offer a wide selection of tropical and Caribbean inspired food, while our Taco Cabana restaurants offer a wide selection of fresh Tex-Mex and traditional Mexican food. Our brands are differentiated and positioned within the value oriented quick-casual restaurant segment, which combines the convenience of quick-service restaurants with the menu variety, use of fresh ingredients, food quality and service more typical of casual dining restaurants. As of April 1, 2012, we owned and operated a total of 243 restaurants located in five states, which included 86 Pollo Tropical and 157 Taco Cabana restaurants. We are franchising our Pollo Tropical restaurants primarily internationally, and as of April 1, 2012, we had 33 franchised Pollo Tropical restaurants located in Puerto Rico, Ecuador, Honduras, Trinidad, Venezuela, the Bahamas, Costa Rica, and on college campuses in Florida. We also have agreements for the future development of franchised Pollo Tropical restaurants in Panama, Tobago, Aruba, Curacao and Bonaire. Although we are not actively franchising our Taco Cabana restaurants, as of April 1, 2012, we had five Taco Cabana franchised restaurants located in the United States.

On May 7, 2012, each holder of record on April 26, 2012 of Carrols Restaurant Group common stock received one share of our common stock for every one share of Carrols Restaurant Group common stock held.

Until the completion of the spin-off on May 7, 2012, we were an indirect wholly-owned subsidiary of Carrols Restaurant Group. Carrols Restaurant Group, through its wholly-owned subsidiaries Carrols and Carrols LLC, is the largest Burger King franchisee, based on number of restaurants. The common stock of Carrols Restaurant Group is listed on The NASDAQ Global Market under the symbol TAST. We have been an independent publicly traded company since the completion of the spin-off on May 7, 2012, and our common stock is listed on The NASDAQ Global Select Market under the symbol FRGI. Carrols Restaurant Group does not hold any direct or indirect ownership interest in us.

For the fiscal year ended December 31, 2011 and the three months ended March 31, 2012 we generated consolidated revenues of $475.0 million and $126.1 million, respectively. Comparable restaurant sales for 2011 and the three months ended March 31, 2012 increased 9.9% and 9.4%, respectively, for Pollo Tropical and 3.7% and 6.1%, respectively, for Taco Cabana.

Our Brands. Our restaurants operate in the quick-casual restaurant segment, combining the convenience and value of quick-service restaurants with the menu variety, use of fresh ingredients and food quality more typical of casual dining restaurants. Our company-owned Pollo Tropical and Taco Cabana restaurants generated average annual sales per restaurant of approximately $2,287,000 and $1,690,000 for the fiscal year ended December 31, 2011, respectively, which we believe are among the highest in the quick-casual and quick-service segments based on industry data from Technomic.

Pollo Tropical: Our Pollo Tropical restaurants offer tropical and Caribbean inspired menu items, featuring grilled chicken marinated in our proprietary blend of tropical fruit juices and spices. Our diverse menu also includes a line of TropiChops® (a casserole bowl of grilled chicken, pork or vegetables served on top of white rice and beans topped with freshly made salsa), a variety of chicken sandwiches, wraps, salads, roast pork, 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, corn and tossed and Caesar salads. We also offer uniquely Hispanic desserts, such as flan and tres leches. Most menu items are made fresh daily in each of our Pollo Tropical restaurants, which feature open display cooking on large, open flame grills that enable our customers to observe the fresh preparation of our food. Our Pollo Tropical restaurants feature our signature dining areas, designated to create an airy, inviting and tropical atmosphere. Additionally our Pollo Tropical restaurants provide our guests the option of take-out, as well as the convenience of drive-thru windows.

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Pollo Tropical opened its first restaurant in 1988 in Miami, Florida. Carrols acquired the Pollo Tropical brand in 1998. As of April 1, 2012, we owned and operated a total of 86 Pollo Tropical restaurants, of which 85 were located in Florida and one was located in Georgia. For the year ended December 31, 2011, the average sales transaction at our company-owned Pollo Tropical restaurants was $9.56 reflecting, in part, strong dinner and late night traffic, with dinner and late night sales representing the largest day-part at 53.3%. We are franchising our Pollo Tropical restaurants primarily internationally, and as of April 1, 2012, we had 33 franchised Pollo Tropical restaurants located in Puerto Rico, Ecuador, Honduras, Trinidad, Venezuela, the Bahamas, Costa Rica and on college campuses in Florida. We also have agreements for the future development of franchised Pollo Tropical restaurants in Panama, Tobago, Aruba, Curacao and Bonaire. For the year ended December 31, 2011 and the three months ended March 31, 2012, our Pollo Tropical brand generated total revenues of $209.5 million and $57.8 million, respectively, and Adjusted Segment EBITDA of $35.6 million and $11.2 million, respectively.

Our Pollo Tropical restaurants typically feature high ceilings, large windows, tropical plants, light colored woods, decorative tiles, a visually distinctive exterior entrance tower, lush landscaping and other signature architectural features, all designed to create an airy, inviting and tropical atmosphere. We design our restaurants to conveniently serve a high volume of customer traffic while retaining an inviting, casual atmosphere.

Our Pollo Tropical restaurants are generally open for lunch, dinner and late night orders seven days per week from 11:00 am to midnight and offer sit-down dining, counter take-out and drive-thru service. Our menu offers a variety of portion sizes to accommodate a single customer, family or large group. Pollo Tropical restaurants also offer catering, with special prices and portions to serve parties in excess of 25 people.

In 2010, Pollo Tropical completed the enhancement of twelve locations in the Florida west coast, Orlando and Northeast markets. The enhanced positioning provides customers an elevated quick-casual experience in order to better position the brand for successful and sustainable growth in the future. In addition to restaurant remodeling, enhancements included table service, hand held menus, Wi-Fi, new menu items, serving wine and beer at certain locations and the addition of real plates and silverware. We expect future openings outside of Southeast Florida to have these enhancements. Prior to 2011, we had upgraded a total of twelve Pollo Tropical restaurants. Although we continue to reinvest in our core markets through remodeling certain locations to maintain a competitive image, we did not upgrade any of our existing Pollo Tropical restaurants in 2011 and we do not anticipate any upgrades to our existing Pollo Tropical restaurants in 2012. The cost of the restaurant enhancements for our Pollo Tropical restaurants has generally ranged between $150,000 to $200,000.

Our Pollo Tropical restaurants typically provide seating for 80 to 100 customers and have drive-thru windows. As of April 1, 2012, substantially all of our company-owned Pollo Tropical restaurants were freestanding buildings. Our typical freestanding Pollo Tropical restaurant ranges from 2,800 to 3,200 square feet.

Taco Cabana: Our Taco Cabana restaurants serve fresh Tex-Mex and traditional 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 a Cabana bowl, traditional Mexican and American breakfasts and other Tex-Mex dishes. Our Taco Cabana restaurants also offer a variety of beverage choices, including frozen margaritas and beer. Most of the menu items offered at Taco Cabana are prepared at each restaurant from fresh beef, chicken and produce delivered by suppliers. Our Taco Cabana restaurants feature interior, semi-enclosed and patio dining areas, which provide a vibrant decor and relaxing atmosphere. Additionally, our Taco Cabana restaurants provide our guests the option of take-out, as well as the convenience of drive-thru windows.

Taco Cabana pioneered the Mexican patio café concept with its first restaurant in San Antonio, Texas in 1978. Carrols acquired the Taco Cabana brand in 2000. As of April 1, 2012, we owned and operated 157 Taco Cabana restaurants located in Texas, Oklahoma and New Mexico, of which 151 were located in Texas.

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A majority of our Taco Cabana restaurants are open 24 hours a day, generating customer traffic and restaurant sales balanced across multiple day-parts with dinner sales representing the largest day-part at 26.0% for the year ended December 31, 2011. For the year ended December 31, 2011, the average sales transaction at our company-owned Taco Cabana restaurants was $8.14. Although we are not actively franchising our Taco Cabana restaurants, we had five franchised Taco Cabana restaurants as of April 1, 2012. For the fiscal year ended December 31, 2011 and the three months ended March 31, 2012, our Taco Cabana brand generated total revenues of $265.4 million and $68.3 million, respectively, and Adjusted Segment EBITDA of $26.8 million and $6.2 million, respectively.

Our typical freestanding Taco Cabana restaurants average approximately 3,200 square feet (exclusive of the exterior dining area) and provide seating for approximately 80 customers, with additional outside patio seating for approximately 50 customers. As of April 1, 2012, substantially all of our company-owned Taco Cabana restaurants were freestanding buildings. Taco Cabana restaurants are distinctive in appearance, conveying a Mexican theme and use of bright colors permitting easy identification by passing motorists. In 2010 we began initiatives to enhance the Taco Cabana concept in certain existing markets to provide customers an elevated quick-casual experience and better position the brand for successful and sustainable growth. In addition to restaurant remodeling, enhancements included free table service, hand held menus, Wi-Fi and new menu items. As of April 1, 2012, we had upgraded a total of 55 Taco Cabana restaurants in Texas which included 34 locations in the Dallas market, 18 in the Austin market, and one location each in College Station, Corpus Christi and Temple. During 2012, as a continuation of our brand positioning efforts, we plan to upgrade a total of 25-30 Taco Cabana restaurants including the remaining restaurants in our Austin market, 10-15 restaurants in our San Antonio market and 10-15 restaurants in our Houston market. The cost of the restaurant enhancements for our Taco Cabana restaurants has been and is expected to be approximately $200,000 to $300,000 per restaurant.

Taco Cabana s interior restaurant design features open display cooking that enables customers to observe fajitas cooking on a grill, a machine making fresh flour tortillas and the preparation of other food items. Upon entry, the customer places an order selected from an overhead menu board, proceeds down a service line to where the order is picked up, and then passes a salsa bar en route to the dining area. The distinctive salsa bar offers Taco Cabana customers freshly-prepared Tex-Mex ingredients such as salsa de fuego (made with charred peppers and tomatoes), pico de gallo and salsa (all made from scratch throughout the day at each restaurant), as well as cilantro, pickled jalapeno slices, crisp chopped onions and fresh sliced limes. Depending on the season, time of day and personal preference, our customers can choose to dine in the restaurant s brightly colored and festive interior dining area or in either the semi-enclosed or outdoor patio areas.

A majority of our Taco Cabana restaurants are open 24 hours a day, although hours of operation are continually evaluated on a market and individual restaurant basis.

The Restaurant Industry

According to Technomic, in 2010 total restaurant industry revenues in the United States were $361.1 billion. Sales in the overall U.S. restaurant industry as reported by Technomic have increased from $257.8 billion in 2000 to $361.1 billion in 2010. The growth of sales in the overall U.S. restaurant industry from 2000 through 2010 may not be indicative of future growth and there can be no assurance that sales in the overall U.S. restaurant industry will grow in the future. In 2010, 48% of food dollars were spent on food away from home and demand continues to outpace at-home dining, with food away from home projected to surpass at-home dining in 2015 according to the U.S. Department of Agriculture.

Quick-Casual Restaurants

We operate in the quick-casual restaurant segment in which the convenience of quick-service restaurants is combined with the menu variety, use of fresh ingredients and food quality more typical of casual dining. We believe that the quick-casual restaurant segment is one of the fastest growing segments of the restaurant industry.

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According to Technomic, 2010 sales growth as compared to 2009 for quick-casual chains in the Technomic Top 500 restaurant chains was 5.7% as compared to 1.8% for the overall Top 500 restaurant chains.

Quick-casual restaurants are primarily distinguished by the following characteristics:

Quick-service or self-service format. Meals are purchased prior to receiving food. In some cases, payment may be made at a separate station from where the order was placed. Also, servers may bring orders to customers tables.

Higher check averages than quick-service restaurants. Technomic reports that the average check at quick-casual restaurants in 2010 was generally higher than the average check at quick-service restaurants.

Food prepared to order. Customization of orders and open display cooking is common.

Fresh ingredients. Many concepts use the word fresh in concept positioning and feature descriptive menus highlighting the use of fresh ingredients.

Broader range of menu offerings. Typically greater variety and diversity of menu offerings relative to quick-service restaurants.

Enhanced décor and services. Generally offer a more upscale dining atmosphere than quick-service restaurants and enhanced features such as silverware and plates.

We believe that our brands are positioned to benefit from growing consumer demand for quick-casual restaurants because of food quality, value, differentiation of flavors and the increasing acceptance of ethnic foods. In addition, we believe our recent initiatives to enhance our Pollo Tropical and Taco Cabana restaurants in certain existing markets to provide customers an elevated quick-casual experience will better position our brands for successful and sustainable growth in new markets. We also believe that our brands will benefit from two significant demographic factors: the expected long-term population growth rates in regions in which our restaurants are currently located and the expected rate of growth of the Hispanic population in the United States, both as projected by the U.S. Census Bureau in 2010.

We believe that the quick-casual restaurant segment meets consumers desire for a convenient, reasonably priced restaurant experience. In addition, we believe that the consumers need for meals prepared outside of the home, including takeout, has increased significantly over historical levels as a result of the number of dual income households and single parent families.

Restaurant Economics

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

	Year Ended December 31,		
	2009 (1)	2010 (1)	2011 (1)
Pollo Tropical:			
Average annual sales per company-owned restaurant (in thousands)	$ 1,911	$ 2,056	$ 2,287
Average sales transaction	$ 9.67	$ 9.38	$ 9.56
Drive-through sales as a percentage of total sales	43.2%	44.4%	44.8%
Day-part sales percentages:			
Lunch	46.6%	46.5%	46.7%
Dinner and late night	53.4%	53.5%	53.3%
Taco Cabana:			
Average annual sales per company-owned restaurant (in thousands)	$ 1,607	$ 1,616	$ 1,690
Average sales transaction	$ 7.87	$ 7.80	$ 8.14
Drive-through sales as a percentage of total sales	51.5%	51.9%	52.0%
Day-part sales percentages:			
Breakfast	17.2%	17.4%	17.5%
Lunch	23.3%	23.1%	22.9%
Dinner	25.7%	25.8%	26.0%
Late night (9 pm to midnight)	13.0%	13.0%	13.1%
Afternoon (2 pm to 5 pm)	12.0%	12.0%	12.1%
Overnight (midnight to 6 am)	8.8%	8.7%	8.4%

(1) 2010 and 2011 were each a 52-week fiscal year and 2009 was a 53-week fiscal year. Average annual sales for company owned or operated restaurants are derived by dividing restaurant sales for such year for the applicable segment by the average number of restaurants for the applicable segment for such year. For comparative purposes, the calculation of average annual sales per company-owned restaurant is based on a 52-week year. For purposes of calculating average annual sales per company-owned restaurant for 2009, we have excluded restaurant sales for the extra week in 2009.

Restaurant Capital Costs

The initial cost of equipment, seating, signage and other interior costs of a typical new free-standing Pollo Tropical restaurant currently is approximately $600,000 (excluding the cost of the land, building and site improvements). Generally, in our core Florida markets, the cost of land currently ranges from $900,000 to $1,100,000 and the cost of building and site improvements currently range from $950,000 to $1,250,000. In any other potential markets, we believe our new Pollo Tropical restaurants will have a cost for building and site improvements ranging from $1,050,000 to $1,350,000 (excluding the cost of land for those locations that we do not lease).

The initial cost of equipment, seating, signage and other interior costs of a typical new Taco Cabana restaurant currently is approximately $525,000 (excluding the cost of the land, building and site improvements). Generally, in our Texas markets, the cost of land currently ranges from $800,000 to $1,100,000 and the cost of building and site improvements currently ranges from $900,000 to $1,000,000.

With respect to development of freestanding restaurants, we generally seek to acquire the land to construct the building, and thereafter enter into an arrangement to sell and leaseback the land and building under a long-term lease. Historically, we have been able to acquire and finance many of our locations under such leasing arrangements. Where we are unable to purchase the underlying land, we enter into a long-term lease for the land and fund the construction of the building from cash generated from our operations or with borrowings under our revolving credit facility rather than through long-term leasing arrangements.

The cost of developing and equipping new restaurants can vary significantly and depends on a number of factors, including the local economic conditions and the characteristics of a particular site. Accordingly, the cost of opening new restaurants in the future, including Pollo Tropical restaurants in new markets, may differ substantially from, and may be significantly higher than, both the historical cost of restaurants previously opened and the estimated costs above.

Seasonality

Our business is moderately seasonal due to regional weather conditions. Sales from our Pollo Tropical restaurants (primarily located in south and central Florida) are generally higher during the winter months than during the summer months. Sales from our Taco Cabana restaurants (located in Texas, Oklahoma and New Mexico) are generally higher during the summer months than during the winter months. Accordingly, we believe this seasonal impact is not material to our business as a whole because of the offsetting seasonality of our concepts.

Restaurant Locations

As of April 1, 2012, we owned and operated 86 Pollo Tropical restaurants, of which 85 were located in Florida and one was located in Georgia. In addition we franchised 33 Pollo Tropical restaurants as of April 1, 2012, comprised of 21 in Puerto Rico, two in Ecuador, one in Honduras, one in the Bahamas, one in Trinidad, two in Venezuela, two in Costa Rica and three on college campuses in Florida.

As of April 1, 2012, we owned and operated 157 Taco Cabana restaurants and franchised five Taco Cabana restaurants located in the following states:

	Owned	Franchised	Total
Texas	151	2	153
Oklahoma	4		4
New Mexico	2	2	4
Georgia		1	1
Total	157	5	162

Operations

Management Structure

We conduct substantially all of our finance, marketing and operations support functions from our Pollo Tropical division headquarters in Miami, Florida, and our Taco Cabana division headquarters in San Antonio, Texas, and our executive management and corporate support functions from our corporate support center in Syracuse, New York. Our management team is led by Tim Taft, who serves as our Chief Executive Officer and President. Mr. Taft was hired in August 2011 and succeeded Alan Vituli as our Chief Executive Officer. Joseph A. Zirkman, formerly the Vice President, General Counsel and Secretary of Carrols Restaurant Group and Fiesta Restaurant Group, remains as the Vice President, General Counsel and Secretary of Fiesta Restaurant Group. Paul R. Flanders, the Vice President, Chief Financial Officer and Treasurer of Carrols Restaurant Group, and Timothy J. LaLonde, the Vice President and Controller of Carrols Restaurant Group provide services to Fiesta Restaurant Group as may be required pursuant to the transition services agreement. Mr. Flanders has served as our interim Chief Financial Officer since the spin-off and will continue to serve in such capacity until such time as we hire a permanent Chief Financial Officer. Our Executive Vice Presidents of Pollo Tropical and Taco Cabana have been with us and Carrols for over 30 years and in their current positions since 2003 and 2002, respectively, with us and Carrols. These two executives currently report to our Chief Executive Officer and President. Each brand Executive Vice President is supported by a Chief Marketing Officer and a number of divisional executives with responsibility for operations, marketing, product development, purchasing, real estate and finance.

The management structure for Pollo Tropical consists of an Executive Vice President, who has over 40 years of experience in the restaurant industry, and two Regional Directors supported by eleven district managers. The management structure of Taco Cabana consists of an Executive Vice President, who has over 38 years of restaurant industry experience, two Regional Vice Presidents, a Regional Director and 23 district managers. For each of our concepts, a district manager is responsible for the direct oversight of the day-to-day operations of an average of approximately seven restaurants. Typically, district managers have previously served as restaurant managers at one of our restaurants. Regional directors, district managers and restaurant managers are compensated with a fixed salary plus an incentive bonus based upon the performance of the restaurants under their supervision. Typically, our restaurants are staffed with hourly employees who are typically supervised by a salaried manager and two or three salaried assistant managers.

Training

We maintain a comprehensive training and development program for all of our personnel and provide both classroom and in-restaurant training for our salaried and hourly personnel. The program emphasizes system-wide operating procedures, food preparation methods and customer service standards for each of the concepts.

Management Information Systems

Previously, our corporate management and restaurant level information systems, personnel and support were provided to us by Carrols pursuant to a management services agreement between us and Carrols. In connection with the spin-off, Carrols Restaurant Group and Carrols continues to provide all corporate level management information system services to us, for a fee, with respect to our Pollo Tropical and Taco Cabana businesses for a limited period of time pursuant to a transition services agreement to help ensure an orderly transition following the spin-off by providing us with sufficient time to develop our own management information system infrastructure. See Certain Relationships and Related Party Transactions.

Carrols and our sophisticated management information systems provide us the ability to efficiently and effectively manage our restaurants and to ensure consistent application of operating controls at our restaurants. Historically Carrols size has afforded it the ability to maintain an in-house staff of information technology and restaurant systems professionals dedicated to continuously enhancing Carrols and our systems. In addition, these capabilities allow it to integrate newly developed or acquired restaurants and achieve greater economies of scale and operating efficiencies.

In 2008, we enhanced and upgraded our restaurant technology with the installation of new POS systems at our Taco Cabana restaurants and in 2009 we installed similar systems in our Pollo Tropical restaurants. These touch-screen point-of-sale (POS) systems are designed to facilitate accuracy and speed of order taking, are user-friendly, require limited cashier training and improve speed-of-service through the use of conversational order-taking techniques. The POS systems are integrated with PC-based applications at the restaurant that are designed to facilitate financial and management control of our restaurant operations.

These restaurant systems provide daily tracking and reporting of traffic counts, menu item sales, labor and food data including costs, and other key operating information for each restaurant. Carrols currently communicates and, after the spin-off, will continue to communicate electronically with our restaurants on a continuous basis, which enables it to collect this information for use by us or on our behalf in our corporate management systems in real-time. Carrols corporate and divisional administrative headquarters house web-based systems that support most of our accounting, operating and reporting systems. Carrols also currently operates a 24-hour, seven-day help desk at its corporate headquarters that enables it to provide systems and operational support to our restaurant operations as required. Among other things, these restaurant information systems provide us with the ability to:

- monitor labor utilization and sales trends on a real-time basis at each restaurant, enabling the restaurant manager to effectively manage our established labor standards on a timely basis;

- reduce inventory shrinkage using restaurant-level inventory management and centralized standard costing systems;

- analyze sales and product mix data to help restaurant managers forecast production levels;

- monitor day-part drive-thru speed of service at each of the restaurants;

- systematically communicate human resource and payroll data to Carrols for efficient centralized management of labor costs and payroll processing;

- employ centralized control over price, menu and inventory management activities at the restaurant utilizing the remote management capabilities of our systems;

- take advantage of electronic commerce including the ability to place orders with suppliers and to integrate detailed invoice, receiving and product data with our inventory and Carrols accounting systems; and

- provide analyses, reporting and tools to enable all levels of management to review a wide-range of financial, product mix and operational data.

Critical information from such systems is available in near real-time to our restaurant managers, who are expected to react quickly to trends or situations in their restaurant. Our district managers also receive near real-time information from all restaurants under their control and have computer access to key operating data on a remote basis via Carrols corporate intranet. Management personnel at all levels, from the restaurant manager through senior management, utilize key restaurant performance indicators to manage our business.

Site Selection

We believe that the location of our restaurants is a critical component of each restaurant s success. We evaluate potential new sites on many critical criteria including accessibility, visibility, costs, surrounding traffic patterns, competition and demographic characteristics. Our senior management determines the acceptability of all acquisition prospects and new sites, based upon analyses prepared by our real estate, financial and operations professionals.

Franchise Operations

As of April 1, 2012, we had eight franchisees operating a total of 33 Pollo Tropical restaurants, 21 of which were located in Puerto Rico, two in Ecuador, one in Honduras, one in Trinidad, one in the Bahamas, two in Venezuela, two in Costa Rica and three located on college campuses in Florida. As of April 1, 2012, we had three franchisees operating a total of five Taco Cabana restaurants.

We have also entered into development agreements for the development of up to five franchised restaurants in Panama, the development of up to four restaurants in Aruba, Curacao and Bonaire and the development of five restaurants in Guatemala. Each of these agreements provide for the development of additional restaurants in these markets, provided such franchisees maintain compliance under their respective development agreements. We believe that there are significant opportunities to expand Pollo Tropical restaurants outside of the United States and we are seeking to franchise or license the brand in additional foreign markets. Any such expansion would ideally take the form of a franchising or licensing arrangement with one or more experienced restaurant companies. Since restaurant development in foreign jurisdictions requires certain local knowledge and expertise that we do not necessarily possess, we utilize franchising 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. In addition to certain minimum financial requirements, the criteria for our franchisees includes individuals or entities that have multi-unit hospitality industry experience and have demonstrated local commercial real estate development experience. We believe that there are a number of foreign markets with the requisite population, demographic and income characteristics to support this

expansion, as well as consumers with a proclivity to eat foods similar to those offered by Pollo Tropical. 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.

Our development agreements generally provide for franchisees to commit to developing a specified number of restaurants within a certain geographic area within a specified time frame. The development agreements generally require franchisees to pay upon signing a portion of the franchise fees for each restaurant to be developed, with the balance of the fees due upon opening of each restaurant. All of our current franchisees pay a royalty based on restaurant sales and are required to operate their restaurants under the terms of our franchise agreement which dictate compliance with certain methods, standards and specifications developed by us, including those related to menu items, recipes, food preparation, materials, supplies, services, fixtures, furnishings, decor and signs. The franchisees have discretion to determine the prices to be charged to customers. In addition, all franchisees are required to purchase substantially all food, ingredients, supplies and materials from suppliers approved by us.

Advertising and Promotion

We believe Pollo Tropical and Taco Cabana are among the most highly recognized quick-casual restaurant brands in their respective markets of Florida and Texas. Pollo Tropical and Taco Cabana utilize an integrated, multi-level marketing approach that includes periodic chain-wide promotions, direct mail, in-store promotions, local store marketing and other strategies, including the use of radio and television advertising in their markets. Combination value meals are also utilized as well as limited time offer menu item promotions. Pollo Tropical and Taco Cabana advertise in both English and Spanish language media. As a percentage of Pollo Tropical restaurant sales, Pollo Tropical s advertising expenditures were 2.8% in both 2011 and 2010 and 2.7% in 2009. As a percentage of Taco Cabana restaurant sales, Taco Cabana s advertising expenditures were 4.0% in 2011, 4.1% in 2010 and 4.0% in 2009.

Product Development

Pollo Tropical and Taco Cabana each have separate product research and development functions. These capabilities enable us to continually refine our menu offerings and develop new products for introduction in our restaurants. These functions include:

- fully equipped test kitchens;
- professional culinary and quality assurance team members;
- consumer research and product testing protocols;
- uniform and detailed product specification formats; and
- product development committees that integrate marketing, operations, financial analysis and procurement.

Pollo Tropical s test kitchen is located in a separate leased facility near the brand headquarters in Miami. The facility includes cooking equipment that mirrors the capability of a Pollo Tropical restaurant and a tasting area. Permanent staff positions include a Vice President of R&D, a Senior Manager of R&D and two R&D managers.

Taco Cabana s test kitchen is located near our San Antonio division headquarters in leased commercial space. The facility includes cooking equipment that mirrors the capability of a Taco Cabana restaurant and a tasting area. Permanent staff positions include a Corporate Chef and two staff assistants.

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Suppliers and Distributors

For our Pollo Tropical and Taco Cabana restaurants, we have negotiated directly with local and national suppliers for the purchase of food and beverage products and supplies to ensure consistent quality and freshness and to obtain competitive prices. Food and supplies for both brands are ordered from approved suppliers and are shipped via distributors to the restaurants. Both brands are responsible for monitoring quality control and supervision of these suppliers and conduct inspections to observe the preparation and quality of products purchased.

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. Also for our Pollo Tropical restaurants, Kelly Food Service is our primary distributor for chicken under an agreement that expires on December 31, 2012. We also currently rely on two suppliers under agreements that expire on December 31, 2012 as our suppliers of chicken for our Pollo Tropical restaurants. Although we believe that alternative sources of chicken are available to us, if both suppliers were unable to service us, this could lead to a material disruption of service or supply until a new supplier is engaged, which could have a material adverse effect on our business.

For our Taco Cabana restaurants, SYGMA Network, Inc. (SYGMA) is our primary distributor of food and beverage products and supplies. SYGMA purchases, warehouses and distributes products for these restaurants under a distribution service agreement that expires June 30, 2014.

We rely heavily on these suppliers but, in general, if any supplier was unable to service us, we believe that we have alternative sources available to us to avoid any material disruption in service. With respect to our distributors for our Pollo Tropical and Taco Cabana restaurants, although we believe that alternative distributors are available to us, if any distributor was unable to service us, this could lead to a material disruption of service or supply until a new distributor is engaged, which could have a material adverse effect on our business.

Quality Assurance

At each of our two concepts, our operational focus is closely monitored to achieve a high level of customer satisfaction via speed of service, order accuracy and quality of service. Our senior management and restaurant management staffs are principally responsible for ensuring compliance with our operating policies. We have uniform operating standards and specifications relating to the quality, preparation and selection of menu items, maintenance and cleanliness of the premises and employee conduct. In order to maintain compliance with these operating standards and specifications, we distribute to our restaurant operations management team detailed reports measuring compliance with various customer service standards and objectives, including feedback obtained directly from our customers through instructions given to them at the point of sale. The customer feedback is monitored by an independent agency and us and consists of evaluations of speed of service, quality of service, quality of our menu items and other operational objectives including the cleanliness of our restaurants. We also have our own customer service representatives that handle customer inquiries and complaints.

We operate in accordance with quality assurance and health standards mandated by federal, state and local governmental laws and regulations. These standards include food preparation rules regarding, among other things, minimum cooking times and temperatures, maximum time standards for holding prepared food, food handling guidelines and cleanliness. To maintain these standards, we conduct unscheduled inspections of our restaurants. In addition, restaurant managers conduct internal inspections for taste, quality, cleanliness and food safety on a regular basis.

Trademarks

We believe that our names and logos for our brands are important to our operations. We have registered the principal Pollo Tropical and Taco Cabana logos and designs with the U.S. Patent and Trademark Office on the Principal Register as a service mark for our restaurant services. We also have secured or have applied for state

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and federal registrations of several other advertising or promotional marks, including variations of the Pollo Tropical and Taco Cabana principal marks, and have applied for or been granted registrations in foreign countries of the Pollo Tropical and Taco Cabana principal marks and several other marks. We intend to aggressively protect both Pollo Tropical and Taco Cabana trademarks by appropriate legal action whenever necessary. We also have secured or applied for registrations of the Pollo Tropical and Taco Cabana marks in numerous areas outside the U.S. where we are or intend to engage in franchising our brands. In certain foreign countries, we and Carrols have been involved in trademark opposition proceedings to defend our and Carrols rights to register certain trademarks. In that regard, we and Carrols have discovered that an individual unaffiliated with us and Carrols has registered, without our or Carrols knowledge, authorization or consent, a trademark in Spain and the European Community for a name and logo virtually identical to the Pollo Tropical name and logo. We and Carrols have initiated a cancellation action to declare such unauthorized trademark registration null and void. Although we and Carrols believe we and Carrols will be successful in the action, there can be no assurance in this regard.

Other than the Pollo Tropical and Taco Cabana trademarks and the logo and trademark of Fiesta Restaurant Group, we have no proprietary intellectual property.

Government Regulation

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

We are subject to the federal Fair Labor Standards Act and various other federal and state laws governing such matters as:

- minimum wage requirements;
- health care;
- unemployment compensation;
- overtime; and
- other working conditions and citizenship requirements.

A significant number of our food service personnel are paid at rates related to the federal, and where applicable, state minimum wage and, accordingly, increases in the minimum wage have increased and in the future will increase wage rates at our restaurants.

We are assessing the various provisions of the comprehensive federal health care reform law enacted in 2010, including the impact on our business of this new law as it becomes effective. There are no assurances that a combination of cost management and menu price increases can accommodate all of the potential increased costs associated with these regulations.

We are also subject to various federal, state and local environmental laws, rules and regulations. We believe that we conduct our operations in substantial compliance with applicable environmental laws and regulations. Our costs for compliance with environmental laws or regulations have not had a material adverse effect on our results of operations, cash flows or financial condition in the past.

Taco Cabana and Pollo Tropical are subject to alcoholic beverage control regulations that require state, county or municipal licenses or permits to sell alcoholic beverages at each location where they sell alcoholic beverages. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time.

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Licensing entities, authorized with law enforcement authority, may issue violations and conduct audits and investigations of the restaurant s records and procedures. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of our Taco Cabana restaurants and certain of our Pollo Tropical restaurants, including minimum age for consumption, certification requirements for employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. These regulations also prescribe certain required banking and accounting practices related to alcohol sales and purchasing.

Our Taco Cabana restaurants and certain of our Pollo Tropical restaurants are subject to state dram-shop laws. Dram-shop laws provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated or minor patron. We have specific insurance that covers claims arising under dram-shop laws. However, we cannot assure you that this insurance will be adequate to cover any claims that may be instituted against us.

With respect to the franchising of Pollo Tropical and Taco Cabana restaurants, we are subject to franchise and related regulations in the U.S. and certain foreign jurisdictions where we offer and sell franchises. These regulations include obligations to provide disclosure about our two concepts, the franchise agreements and the franchise system as well as other organizational and financial information relating to our two concepts. The regulations also include obligations to register certain franchise documents in the U.S. and foreign jurisdictions, and obligations to disclose the substantive relationship between the parties to the agreements.

Competition

The restaurant industry is highly competitive with respect to price, service, location and food quality. In each of our markets, our restaurants compete with 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 supermarkets, grocery stores, cafeterias and other purveyors of moderately priced and quickly prepared foods.

We believe that:

- product quality and taste;
- brand recognition;
- convenience of location;
- speed of service;
- menu variety;
- price; and
- ambiance

are the most important competitive factors in the quick-casual restaurant segment and that our two concepts effectively compete in that category.

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 quick-casual restaurants.

Taco Cabana s restaurants, although part of the quick-casual segment of the restaurant industry, compete in Texas, Oklahoma and New Mexico with quick-service restaurants, including those in the quick-service Mexican segment, other quick-casual restaurants and traditional casual dining Mexican restaurants. We believe that Taco

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Cabana s combination of freshly prepared food, distinctive ambiance and quality of service help to distinguish Taco Cabana restaurants from quick-service operators, while its price-value relationship enables it to compete favorably with more expensive casual dining Mexican restaurants.

Employees

As of April 1, 2012, we employed approximately 7,900 persons, of which approximately 200 were administrative personnel and approximately 7,700 were restaurant operations personnel. None of our employees are covered by collective bargaining agreements. We believe that overall relations with our employees are good.

Properties

As of April 1, 2012, we owned or leased the following restaurant properties:

	Owned	Leased (1)	Total (2)
Restaurants:			
Pollo Tropical	2	84	86
Taco Cabana	7	150	157
Total operating restaurants	9	234	243

(1) Includes 11 restaurants located in mall shopping centers and four in-line or storefront locations.
(2) Excludes restaurants operated by our Pollo Tropical and Taco Cabana franchisees. In addition, as of April 1, 2012, we had five restaurants under development, nine properties leased to third parties and thirteen properties available for sale or lease.

As of April 1, 2012, we leased 98% of our Pollo Tropical restaurants and 96% of our Taco Cabana restaurants. We typically enter into leases (including renewal options) ranging from 20 to 40 years. The average remaining term for all leases, including options, was approximately 24 years as of April 1, 2012. Generally, we have been able to renew leases, upon or prior to their expiration, at the prevailing market rates, although there can be no assurance that this will continue to occur.

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

In addition to the restaurant locations set forth under Business Restaurant Locations, Carrols owns a building with approximately 25,300 square feet at 968 James Street, Syracuse, New York, which houses our executive offices and certain of our administrative operations. We also lease approximately 13,500 square feet at 7300 North Kendall Drive, 8th Floor, Miami, Florida, which houses most of our administrative operations for our Pollo Tropical restaurants. In addition, we lease approximately 17,700 square feet of office space at 8918 Tesoro Drive, Suite 200, San Antonio, Texas, which houses most of our administrative operations for our Taco Cabana restaurants.

Legal Proceedings

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

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MANAGEMENT

Executive Officers

The persons identified in the following table constitute our executive officers. Mr. Flanders has served as our interim Chief Financial Officer since the completion of the spin-off on the distribution date and will continue to serve in such capacity until such time as we hire a permanent Chief Financial Officer.

Name	Age	Position(s)
Timothy P. Taft	53	Chief Executive Officer and President
Paul R. Flanders	55	Interim Chief Financial Officer
Joseph A. Zirkman	51	Vice President, General Counsel and Secretary
Michael A. Biviano	54	Executive Vice President Taco Cabana
James E. Tunnessen	56	Executive Vice President Pollo Tropical

Timothy P. Taft has been our Chief Executive Officer and President since August 2011. Mr. Taft was the Chief Executive Officer of Souper Salad, Inc., a Texas based soup and salad bar restaurant chain between 2008 and 2010. From 2005 to 2007, Mr. Taft was the Chief Executive Officer and President of Pizza Inn, Inc., a Texas based pizza restaurant chain. From 1994 to 2005, Mr. Taft held various officer and executive officer positions, including from 2001 to 2005 as President and Chief Operating Officer, of Whataburger, Inc., a Texas based hamburger restaurant chain with more than 700 locations in ten states.

Paul R. Flanders has been our Interim Chief Financial Officer since the distribution date. Mr. Flanders had been our Vice President, Chief Financial Officer and Treasurer from April 2011 until the distribution date. Mr. Flanders has also been Vice President, Chief Financial Officer and Treasurer of Carrols Restaurant Group since April 1997. Before joining Carrols Restaurant Group, he was Vice President-Corporate Controller of Fay s Incorporated, a retail chain, from 1989 to 1997, and Vice President-Corporate Controller for Computer Consoles, Inc., a computer systems manufacturer, from 1982 to 1989. Mr. Flanders was also associated with the accounting firm of Touche Ross & Co. from 1977 to 1982.

Joseph A. Zirkman has been our Vice President, General Counsel and Secretary since April 2011. Mr. Zirkman was Vice President and General Counsel of Carrols Restaurant Group from January 1993 until the distribution date. He was Secretary of Carrols Restaurant Group from February 1993 until the distribution date. Before joining us and Carrols Restaurant Group, Mr. Zirkman was an associate with the New York City law firm of Baer Marks & Upham beginning in 1986.

Michael A. Biviano has been Executive Vice President of Taco Cabana since January 2002. Mr. Biviano was an executive officer of Carrols Restaurant Group from 2002 until the distribution date. Prior to that, he was Vice President Regional Director of Operations for Carrols Restaurant Group s Burger King restaurants since 1989, having served as a district supervisor since 1983. Mr. Biviano has been an employee of us, Carrols Restaurant Group and Carrols since 1973.

James E. Tunnessen has been Executive Vice President of Pollo Tropical since August 2003. Mr. Tunnessen was an executive officer of Carrols Restaurant Group from 2003 until the distribution date. Prior to that he was Vice President Regional Director of Operations for Carrols Restaurant Group s Burger King restaurants since 1989, having served as a district supervisor from 1979. Mr. Tunnessen has been an employee of us, Carrols Restaurant Group and Carrols since 1971.

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Board of Directors

The persons identified in the following table constitute our board of directors.

Name	Age	Position
Jack A. Smith	76	Chairman of the Board of Directors
Brian P. Friedman	56	Director
Nicholas Daraviras	38	Director
Tim Taft	53	President, Chief Executive Officer and Director
Stephen P. Elker	60	Director
Stacey Rauch	54	Director

Jack A. Smith has served as the non-executive Chairman of the board of directors since February 27, 2012 and as a Director of Fiesta Restaurant Group since April 2011. Mr. Smith also served as a Director of Carrols Restaurant Group from 2006 until the distribution date. Mr. Smith is President of SMAT, Incorporated, a consulting company specializing in consumer services. Mr. Smith founded The Sports Authority, Inc., a national sporting goods chain, in 1987 where he served as Chief Executive Officer until September 1998 and as Chairman until April 1999. From 1982 until 1987, Mr. Smith served as Chief Operating Officer of Herman s Sporting Goods. Prior to Herman s, Mr. Smith served in executive management positions with other major retailers including Sears & Roebuck, Montgomery Ward, Jefferson Stores and Diana Shops. Mr. Smith also served on the board of directors of Darden Restaurants, Inc. and as the Chairman of the Darden Audit Committee from May 1995 through September 2009.

Mr. Smith, as a former senior executive of several major retail organizations, together with service on the boards of directors of several public companies, including Carrols Restaurant Group and Darden Restaurants, Inc., brings significant leadership, management, operational, financial and brand management experience to our board of directors.

Brian P. Friedman has served as a Director since April 2011. Mr. Friedman also served as a Director of Carrols Restaurant Group from July 2, 2009 until the distribution date. Mr. Friedman has been President of Jefferies Capital Partners and its predecessors since 1997. Mr. Friedman has also been a director and executive officer of Jefferies Group, Inc. since July 2005 and Chairman of the Executive Committee of Jefferies & Company, Inc. since 2002. Mr. Friedman was previously employed by Furman Selz LLC and its successors, including serving as Head of Investment Banking and a member of its Management and Operating Committees. Prior to his 17 years with Furman Selz and its successors, Mr. Friedman was an attorney with the law firm of Wachtell Lipton Rosen & Katz. Mr. Friedman serves on several boards of directors of private portfolio companies. Aside from the board of directors of Jefferies Group, Inc., Mr. Friedman also serves on the board of the general partner on one public portfolio company, K-Sea Transportation. Pursuant to a letter dated as of July 21, 2011, Mr. Friedman agreed to resign as a member of the board of directors of Carrols Restaurant Group effective on the distribution date. See Certain Relationships and Related Party Transactions.

Having an extensive career in both the legal and investment banking fields, Mr. Friedman brings to our board of directors significant experience related to the business and financial issues facing public corporations. In addition, through Mr. Friedman s service on the boards of a number of his firm s past and current portfolio companies, he combines significant executive experience with his knowledge of the strategic, financial and operational issues of retail companies.

Nicholas Daraviras has served as a Director since April 2011. Mr. Daraviras has also served as a Director of Carrols Restaurant Group since July 2, 2009. Mr. Daraviras is a Managing Director of Jefferies Capital Partners. Mr. Daraviras has been employed with Jefferies Capital Partners or its predecessors since 1996. Mr. Daraviras has served on the board of The Sheridan Group, Inc. since 2003 and on the board of Edgen Murray II, L.P., a global distributor of specialty steel products, or its predecessors since February 2005. He also serves on several boards of directors of private portfolio companies of Jefferies Capital Partners.

Mr. Daraviras brings significant experience with the strategic, financial and operational issues of retail companies in connection with his service on the boards of a number of his firm s past and current portfolio companies.

For a biography of Mr. Taft, please see Executive Officers.

With over 30 years of experience in the restaurant and hospitality industry, Mr. Taft brings to our board of directors significant leadership, management, operational, financial and brand management experience.

Stephen P. Elker has served as a Director of Fiesta Restaurant Group since the distribution date. Until July 2009, Mr. Elker spent over 36 years with KPMG LLP, the U.S. member firm of KPMG International, beginning in its Washington D.C. office, and then with offices in Rochester, New York and Orlando, Florida. In 1999, Mr. Elker was appointed as managing partner of the Orlando office and served as partner in charge of the Florida business tax practice from 2001 to July 2009. Mr. Elker is a certified public accountant and currently serves as an independent director and Chairman of the Audit Committee of Global Growth Trust, a public, non-traded real estate investment trust.

Mr. Elker, with over 36 years of experience with KPMG LLP, brings to our board of directors particular knowledge of accounting and tax practices that strengthens our board of directors collective knowledge, capabilities and experience.

Stacey Rauch has served as a Director of Fiesta Restaurant Group since June 8, 2012. Ms. Rauch is a Director Emeritus of McKinsey & Company from which she retired in September 2010. Ms. Rauch was a leader in McKinsey s Retail and Consumer Goods Practices, served as the head of the North American Retail and Apparel Practice, and acted as the Global Retail Practice Convener. A 24-year veteran of McKinsey, Ms. Rauch led engagements for a wide range of retailers, apparel wholesalers, and consumer goods manufacturers. Her areas of expertise include strategy, organization, marketing, merchandising, multi-channel management, global expansion, and retail store operations. Ms. Rauch was a co-founder of McKinsey s New Jersey office, and was the first woman at McKinsey appointed as an industry practice leader. Ms. Rauch is also a non-executive director of Ann, Inc., a women s specialty apparel retailer, where she sits on its nominating and corporate governance committee, Land Securities Group PLC, the UK s largest commercial property company, where she sits on its audit committee, and the Tops Holding Corporation, parent company of Tops Markets LLC, a US grocery retailer. Prior to joining McKinsey, Ms. Rauch spent 5 years in product management for the General Foods Corporation.

Ms. Rauch brings to our board of directors extensive marketing, merchandising, business strategy and international experience in the retail industry. During her 24-year tenure at McKinsey, she developed substantial expertise working with specialty retailers, wholesale apparel manufacturers and department stores, and also acquired extensive experience in other areas of the retail sector, including grocery retail, consumer packaged goods and big-box hard goods retail.

All directors other than Mr. Taft meet the NASDAQ listing standards for independence.

Family Relationships

There are no family relationships between any of our executive officers or directors.

Composition of the Board

Our board of directors currently consists of six members. Our common stock is listed on The NASDAQ Global Select Market and we are subject to the rules of The NASDAQ Stock Market. These rules require that a majority of our board of directors be independent. We currently have five independent members of our board of directors.

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Classified Board. Our amended and restated certificate of incorporation provides that our board of directors be divided into three classes of directors, with the classes as nearly equal in number as possible, each serving staggered three-year terms. As a result, approximately one third of our board of directors will be elected each year and the first election shall be held at the first annual meeting following the spin-off.

The terms of office of our board of directors are:

- Class I directors, whose initial term will expire at the annual meeting of stockholders to be held in 2013 and when their successors are duly elected and qualify;
- Class II directors, whose initial term will expire at the annual meeting of stockholders to be held in 2014 and when their successors are duly elected and qualify; and
- Class III directors, whose initial term will expire at the annual meeting of stockholders to be held in 2015 and when their successors are duly elected and qualify.

Our initial Class I directors are Mr. Taft and Ms. Rauch; our initial Class II directors are Messrs. Friedman and Elker; and our initial Class III directors are Messrs. Daraviras and Smith.

The classification of directors will have the effect of making it more difficult for stockholders to change the composition of our board. Our amended and restated certificate of incorporation and amended and restated bylaws provide that the number of directors shall consist of not less than three members, with the exact number to be fixed at the discretion of the board.

Committees of the Board of Directors

The standing committees of our board of directors consist of an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. Our board of directors may also establish from time to time any other committees that it deems necessary or advisable.

Audit Committee

Our Audit Committee consists of Messrs. Elker, Smith and Daraviras, with Mr. Elker serving as the Chairman of the Audit Committee. All of the members of the Audit Committee, except for Mr. Daraviras, satisfy the independence requirements of Rule 10A-3 of the Exchange Act and Rule 5605 of the NASDAQ listing standards. Mr. Daraviras does not satisfy the independence requirements of Rule 10A-3 of the Exchange Act and Rule 5605 of the NASDAQ listing standards because he is an employee of the Jefferies Capital Partners, whose affiliated funds are significant stockholders of Fiesta Restaurant Group. We are relying on the exemption from the independence requirements under Rule 10A-3 of the Exchange Act and the NASDAQ listing standards that allow us to have one member of our Audit Committee not be independent until one year from the date of the effectiveness of our registration statement under the Exchange Act, provided that a majority of the members of our Audit Committee meet the independence requirements within 90 days of such date. We do not believe that the reliance on this exemption materially adversely affects the ability of the Audit Committee to act independently and to satisfy the other requirements of Rule 10A-3 of the Exchange Act. Each prospective member of our Audit Committee is financially literate. In addition, Mr. Elker serves as our Audit Committee financial expert within the meaning of Item 407 of Regulation S-K of the Securities Act, and has the financial sophistication required under the NASDAQ listing standards. Our Audit Committee, among other things:

- reviews our annual and interim financial statements and report to be filed with the SEC;
- monitors our financial reporting process and internal control system;

appoints and replaces our independent outside auditors from time to time, determines their compensation and other terms of engagement and oversees their work;

- oversees the performance of our internal audit function;
- conducts a review of all related party transactions for potential conflicts of interest and approves all such related party transactions;
- establishes procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- oversees our compliance with legal, ethical and regulatory matters.

The Audit Committee has the sole and direct responsibility for appointing, evaluating and retaining our independent registered public accounting firm and for overseeing their work. All audit services to be provided to us and all permissible non-audit services, other than de minimis non-audit services, to be provided to us by our independent registered public accounting firm are approved in advance by our Audit Committee. The Audit Committee has adopted a formal written Audit Committee charter that complies with the requirements of the Exchange Act and the NASDAQ listing standards.

Compensation Committee

Our Compensation Committee consists of Ms. Rauch and Messrs. Friedman and Smith, with Ms. Rauch serving as the Chairman of the Compensation Committee. All of these members of our Compensation Committee are independent as defined under Rule 5605 of the NASDAQ listing standards. The purpose of our Compensation Committee is to discharge the responsibilities of our board of directors relating to compensation of our executive officers. Our Compensation Committee, among other things:

- provides oversight on the development and implementation of the compensation policies, strategies, plans and programs for our outside directors and disclosure relating to these matters; and
- reviews and approves the compensation of our Chief Executive Officer and the other executive officers of us and our subsidiaries.

The Compensation Committee may form one or more subcommittees, each of which will take such actions as shall be delegated by the Compensation Committee. The Compensation Committee has adopted a formal, written Compensation Committee charter that complies with SEC rules and regulations and the NASDAQ listing standards.

Corporate Governance and Nominating Committee

Our Corporate Governance and Nominating Committee consists of Ms. Rauch and Messrs. Smith, Friedman, Daraviras and Elker, with Mr. Smith serving as the Chairman of the Corporate Governance and Nominating Committee. All of these members are independent as defined under Rule 5605 of the NASDAQ listing standards. Our Corporate Governance and Nominating Committee, among other things:

- establishes criteria for board and committee membership and recommends to our board of directors proposed nominees for election to our board of directors and for membership on committees of our board of directors;
- makes recommendations regarding proposals submitted by our stockholders; and
- makes recommendations to our board of directors regarding corporate governance matters and practices.

The Corporate Governance and Nominating Committee has adopted a formal, written Corporate Governance and Nominating Committee charter that complies with SEC rules and regulations and the NASDAQ listing standards.

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Nominations For Our Board Of Directors

The Corporate Governance and Nominating Committee of our board of directors considers director candidates based upon a number of qualifications. The qualifications for consideration as a director nominee vary according to the particular area of expertise being sought as a complement to the existing composition of the Board. At a minimum, however, the Corporate Governance and Nominating Committee seeks candidates for director who possess:

- the highest personal and professional ethics, integrity and values;
- the ability to exercise sound judgment;
- the ability to make independent analytical inquiries;
- willingness and ability to devote adequate time, energy and resources to diligently perform Board and Board committee duties and responsibilities; and
- a commitment to representing the long-term interests of the stockholders.

In addition to such minimum qualifications, the Corporate Governance and Nominating Committee takes into account the following factors when considering a potential director candidate:

- whether the individual possesses specific industry expertise and familiarity with general issues affecting our business; and
- whether the person would qualify as an independent director under SEC and NASDAQ rules.

The Corporate Governance and Nominating Committee has not adopted a specific diversity policy with respect to identifying nominees for director. However, the Corporate Governance and Nominating Committee takes into account the importance of diversified Board membership in terms of the individuals involved and their various experiences and areas of expertise.

The Corporate Governance and Nominating Committee shall make every effort to ensure that the Board and its committees include at least the required number of independent directors, as that term is defined by applicable standards promulgated by NASDAQ and/or the SEC. Backgrounds giving rise to actual or perceived conflicts of interest are undesirable. In addition, prior to nominating an existing director for re-election to the Board, the Corporate Governance and Nominating Committee considers and reviews such existing director s Board and Committee attendance and performance, independence, experience, skills and the contributions that the existing director brings to the Board.

The Corporate Governance and Nominating Committee does not rely on third-party search firms to identify director candidates, but may employ such firms if so desired. The Corporate Governance and Nominating Committee relies upon, receives and reviews recommendations from a wide variety of contacts, including current executive officers, directors, community leaders, and stockholders as a source for potential director candidates. The Board retains complete independence in making nominations for election to the Board.

The Corporate Governance and Nominating Committee considers qualified director candidates recommended by stockholders in compliance with our procedures and subject to applicable inquiries. The Corporate Governance and Nominating Committee s evaluation of candidates recommended by stockholders does not differ materially from its evaluation of candidates recommended from other sources. Pursuant to our amended and restated bylaws, any stockholder may recommend nominees for director not less than 90 days nor more than 120 days in advance of the anniversary date of the immediately preceding annual meeting of stockholders, by writing to Joseph A. Zirkman, Vice President, General Counsel and Secretary, Fiesta Restaurant Group, Inc., 7300 North Kendall Drive, 8th Floor, Miami, Florida 33156, giving the name, Fiesta Restaurant Group stockholdings and contact information of the person making the nomination, the candidate s name, address and other contact information, any direct or indirect holdings of our securities by the nominee, any information required to be disclosed about directors under applicable securities laws and/or stock exchange requirements, information regarding related party transactions with us, the nominee and/or the stockholder submitting the nomination, and any actual or potential conflicts of interest, the nominee s biographical data, current public and private company affiliations, employment history and qualifications and status as independent under applicable securities laws and/or stock exchange requirements. All of these communications will be reviewed by our Secretary and forwarded to Jack A. Smith, the Chairman of the Corporate Governance and Nominating Committee, for further review and consideration in accordance with this policy. Any such stockholder recommendation should be accompanied by a written statement from the candidate of his or her consent to be named as a candidate and, if nominated and elected, to serve as a director.

Code of Ethics

We have adopted written codes of ethics applicable to our directors, officers and employees in accordance with the rules of the SEC and the NASDAQ listing standards. We have made our codes of ethics available free of charge on the investor relations section of our website. We will disclose on our website amendments to or waivers from our codes of ethics in accordance with all applicable laws and regulations.

Stockholder Communications With Our Board Of Directors

Any stockholder or other interested party who desires to communicate with our Chairman of our board of directors or any of the other members of our board of directors may do so by writing to: Board of Directors, c/o Jack A. Smith, Chairman of the Board of Directors, Fiesta Restaurant Group, Inc., 7300 North Kendall Drive, 8th Floor, Miami, Florida 33156. Communications may be addressed to the Chairman of the Board, an individual director, a Board committee, the non-management directors or the full Board. Communications will then be distributed to the appropriate directors unless the Chairman determines that the information submitted constitutes spam, pornographic material and/or communications offering to buy or sell products or services.

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EXECUTIVE COMPENSATION

Introduction

This section presents historical information concerning the compensation arrangements for our executive officers. Fiesta Restaurant Group was formed in April 2011 in contemplation of the spin-off to hold the subsidiaries engaged in the Pollo Tropical and Taco Cabana businesses. Historically, these businesses were conducted as part of Carrols Restaurant Group through various direct and indirect subsidiaries. In May 2011 all of such direct and indirect subsidiaries comprising Pollo Tropical and Taco Cabana became wholly-owned direct and indirect subsidiaries of Fiesta Restaurant Group. Our corporate management and restaurant level information systems, personnel and support historically have been, and after the spin-off continue to be provided to us (and Pollo Tropical and Taco Cabana) by Carrols and Carrols Restaurant Group. On May 7, 2012, the date of the completion of the spin-off, Carrols transferred to us certain corporate and administrative personnel (including certain executive management, information systems and legal personnel), including, without limitation Joseph A. Zirkman.

Tim Taft, has been our Chief Executive Officer and President since August 15, 2011. Mr. Flanders has served as our interim Chief Financial Officer since the spin-off and will continue to serve in such capacity until such time as we hire a permanent Chief Financial Officer. In addition, James E. Tunnessen and Michael A. Biviano serve as our Executive Vice President, Pollo Tropical and Executive Vice President, Taco Cabana, respectively.

Messrs. Tunnessen and Biviano were executive officers of Carrols Restaurant Group, but resigned from such position upon the completion of the spin-off and remained as executive officers of Fiesta Restaurant Group. Alan Vituli was our Chief Executive Officer until August 15, 2011 and was the Chairman of our board of directors and a director of Fiesta Restaurant Group until February 27, 2012. Daniel T. Accordino was our President and Chief Operating Officer until August 15, 2011.

We present historical financial information concerning the compensation of Messrs. Taft, Vituli, Accordino, Flanders, Tunnessen and Biviano for 2011, 2010 and 2009 for Carrols Restaurant Group. Historically, and until the spin-off, all of the compensation received by Messrs. Vituli, Accordino and Flanders had been paid by Carrols and after the spin-off, Mr. Accordino s and Mr. Flanders compensation continues to be paid by Carrols. This historical compensation may not be directly relevant to the compensation that Messrs. Taft, Tunnessen and Biviano will receive from us.

Pursuant to the terms of an offer letter (the Letter Agreement) between Carrols Restaurant Group and Mr. Taft entered into on July 19, 2011, Mr. Taft earns an annual base salary of $500,000 and will be eligible for annual merit increases beginning in 2013 based upon recommendations of Fiesta Restaurant Group s board of directors and compensation committee. Mr. Taft will also participate in Fiesta Restaurant Group s Executive Bonus Plan (the Fiesta Executive Bonus Plan) and will be eligible to receive a bonus of up to 100% of his base salary with 50% of such bonus based upon attainment of objectives to be established by Fiesta Restaurant Group s compensation committee and 50% of such bonus based upon increases in shareholder value (as defined in the Fiesta Executive Bonus Plan).

Pursuant to the Letter Agreement, on the one month anniversary of the date that the shares of Fiesta Restaurant Group common stock began trading publicly, Mr. Taft will receive a grant of restricted Fiesta Restaurant Group common stock with an aggregate value of $2 million based upon the average trading price of Fiesta Restaurant Group common stock for the first four weeks the shares of Fiesta Restaurant Group common stock commenced trading publicly. The restricted shares of Fiesta Restaurant Group common stock to be granted to Mr. Taft will vest over four years at the rate of 25% per annum beginning on the first anniversary of the date of grant and will be subject to provisions of the Fiesta Restaurant Group 2011 Stock Incentive Plan.

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The Letter Agreement also provides that in the event Mr. Taft is terminated without Cause (as defined in the Letter Agreement), he shall be entitled to receive a severance payment equal to his twelve months base salary and the prorated portion of his bonus payable, provided that a bonus would have been payable.

Mr. Taft s employment as our Chief Executive Officer and the Letter Agreement were approved by the compensation committee of the board of directors of Carrols Restaurant Group.

Messrs. Tunnessen and Biviano (and all other executive officers, including, without limitation, Messrs. Accordino and Flanders) hold certain equity-based long-term incentive awards that were granted to them by Carrols Restaurant Group. The treatment of these awards in the spin-off is described under Certain Relationships and Related Party Transactions Agreements with Carrols Restaurant Group Employee Matters Agreement Treatment of Carrols Restaurant Group Stock Based Awards.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis describes certain elements of the compensation arrangements for the named executive officers of Carrols Restaurant Group, and its compensation philosophy, particularly as they relate to Messrs. Tunnessen and Biviano. We believe that certain of the compensation arrangements and elements of compensation philosophy at Carrols Restaurant Group have relevance for understanding the initial compensation arrangements for our executive officers, because the compensation committee of the board of directors of Carrols Restaurant Group was responsible for determining the initial compensation of Messrs. Tunnessen and Biviano. In addition, we expect that certain elements of the compensation for our executive officers will be similar to the elements of the executive compensation at Carrols Restaurant Group.

We note, however, that following the spin-off, our board of directors established a compensation committee that will be responsible for Fiesta Restaurant Group s executive compensation. We anticipate that the compensation committee will review all aspects of the compensation of our executive officers, and the compensation philosophy of our compensation committee following the spin-off could differ from the historical compensation philosophy of Carrols Restaurant Group. Initially, the compensation committee will leave intact the arrangements with our executive officers described below. However, the committee could determine to make changes, either in the short- or long-term.

Overview

Carrols Restaurant Group s compensation committee (the CRG Compensation Committee) has responsibility for determining and approving the compensation programs for Carrols Restaurant Group s Chairman of the board of directors and Chief Executive Officer (the CEO), Alan Vituli (and our CEO until August 15, 2011 and the Chairman of our board of directors and a director of Fiesta Restaurant Group until February 27, 2012), Carrols Restaurant Group s President and Chief Operating Officer, Daniel T. Accordino (and our President and Chief Operating Officer until August 15, 2011), Carrols Restaurant Group s Vice President, Chief Financial Officer and Treasurer, Paul R. Flanders (our Vice President, Chief Financial Officer and Treasurer until the distribution date and our current interim Chief Financial Officer), Carrols Restaurant Group s Executive Vice President, Pollo Tropical, James E. Tunnessen (our current Executive Vice President, Pollo Tropical) and Carrols Restaurant Group s Executive Vice President, Taco Cabana, Michael A. Biviano (our current Executive Vice President, Taco Cabana) (collectively, the Named Executive Officers). As described below, the principal elements of Carrols Restaurant Group s compensation programs include base salary, annual bonus, long-term incentives including restricted stock and the ability to defer the receipt of current compensation. Carrols Restaurant Group s CEO recommends to the CRG Compensation Committee the base salary, annual bonus and long term compensation levels for the other Named Executive Officers.

Other than cash bonuses under Carrols Restaurant Group s Executive Bonus Plan (the Carrols Executive Bonus Plan), the compensation paid to or earned by the Named Executive Officers in the 2010 fiscal year was,

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for the most part, approved by the CRG Compensation Committee as part of a comprehensive compensation plan put in place in connection with Carrols Restaurant Group s December 2006 initial public offering of its common stock (the IPO). Towers Perrin, a nationally recognized, independent consulting firm, was retained prior to the IPO to conduct an analysis of major elements of Carrols Restaurant Group s executive compensation program, including an analysis of base compensation for Carrols Restaurant Group s CEO and other executive officers, including the Named Executive Officers, compared to relevant peer companies based on data available at that time. At the time of the IPO and during the immediately succeeding fiscal years, Carrols Restaurant Group believed that its executive compensation plans and amounts were comparable to those offered by other restaurant companies with which it competes for executive talent.

During the 2010 fiscal year, the CRG Compensation Committee retained Mercer to review its compensation policies, plans and amounts for the CEO and other executive officers, including the Named Executive Officers and make recommendations relating to the executive compensation program for 2011. Mercer worked exclusively for the CRG Compensation Committee and did not and does not perform any other work on behalf of management of Carrols Restaurant Group. Mercer s role with the CRG Compensation Committee was to provide independent advice. The CRG Compensation Committee did not delegate authority to Mercer or to other parties and does not delegate authority to other parties. The CRG Compensation Committee engaged Mercer to review current issues in executive compensation, review Carrols Restaurant Group s current executive compensation strategy, review Carrols Restaurant Group s current executive compensation program against the market and review stockholder value drivers and Carrols Restaurant Group s incentive plan structure against the market and Carrols Restaurant Group s current strategy. The scope of Mercer s engagement was to provide a market check and broad based third party survey to help the CRG Compensation Committee better understand the then current executive compensation practices. During the 2010 fiscal year, Mercer presented findings of an Executive Compensation Review (including Carrols Restaurant Group s top 10 salaried executives) and Contract Assessment (including the employment agreements of Messrs. Vituli and Accordino) and prepared and presented a summary of the key findings of the Executive Compensation Review and Contract Assessment and the implications for Carrols Restaurant Group s executive compensation strategy and programmatic outcomes. Mercer also identified potential items to refine in Carrols Restaurant Group s executive compensation program that the CRG Compensation Committee may want to consider. The CRG Compensation Committee reviewed and considered Mercer s report and recommendations and determined that such recommendations were not material as a whole in nature and in scope to warrant changes to Carrols Restaurant Group s executive compensation program for 2011. However, one of Mercer s recommendations was that Carrols Restaurant Group use a mix of stock options, restricted stock and/or performance shares for long term incentive executive compensation. The CRG Compensation Committee, based on its own review of Carrols Restaurant Group s long term incentive executive compensation and, to a lesser extent, on Mercer s recommendations, recommended to Carrols Restaurant Group and Carrols Restaurant Group s board of directors that Carrols Restaurant Group replace the use of stock option grants with restricted stock grants in connection with the long-term incentive component of its overall compensation plan beginning in 2011 as further described herein.

Objectives of Compensation Program

The primary objectives of Carrols Restaurant Group s executive compensation programs are to enable it to attract and retain executives with the requisite qualifications and experience to achieve its business objectives. Carrols Restaurant Group accomplishes this by utilizing compensation programs that encourage, recognize and reward individual performance and tie a portion of compensation to long-term company performance. Carrols Restaurant Group s programs were designed to permit flexibility in establishing compensation for each individual based upon job responsibilities, individual performance and its results. Carrols Restaurant Group s programs were also designed to provide incentives to improve short term performance, achieve long-term sustainable growth in earnings and align the interests of its executive team with its stockholders.

While the CRG Compensation Committee is primarily responsible for the overall oversight of Carrols Restaurant Group s executive compensation, the CEO, with the assistance of other members of management, provides recommendations with respect to compensation for the other executive officers.

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The CRG Compensation Committee believes that the CEO s input is valuable in determining the compensation of other executive officers given his day to day role in Carrols Restaurant Group and his responsibility in establishing and implementing Carrols Restaurant Group s strategic plans. Therefore, while the CRG Compensation Committee has been and will be primarily responsible for determining executive compensation, the CEO will continue to provide his input and recommendations to the CRG Compensation Committee with respect to compensation for the other executive officers.

Elements of Carrols Restaurant Group s Compensation Programs

Carrols Restaurant Group s executive compensation program has consisted of short-term compensation (salary and annual incentive bonus) and long-term compensation (stock options or, beginning in the 2011 fiscal year, restricted stock) to achieve its goal of improving earnings and achieving long term sustainable growth in revenues and earnings which it believes constitutes alignment with stockholders interests.

The Role of Stockholder Say-on-Pay Votes

Carrols Restaurant Group s Board of Directors, the CRG Compensation Committee, and management value the opinions of its stockholders. Carrols Restaurant Group provides its stockholders with the opportunity to cast an advisory vote to approve named executive officer compensation every three years, or Say-on-Pay. Although the advisory Say-On-Pay vote is non-binding, the CRG Compensation Committee has considered the outcome of the vote when making compensation decisions for Named Executive Officers. At Carrols Restaurant Group s annual meeting of stockholders held in June 2011, approximately 90.55% of the stockholders who voted on the Say-on-Pay proposal voted in favor of the proposal. The CRG Compensation Committee believes that this evidences Carrols Restaurant Group s stockholders support for its approach to executive compensation, which did not change during 2011 as a result of the stockholder vote. The CRG Compensation Committee will continue to consider the outcome of Carrols Restaurant Group s Say-on-Pay votes when making future compensation decisions for its Named Executive Officers.

Short-Term Compensation

Base Salary. The CRG Compensation Committee annually reviews and approves the base salaries of Carrols Restaurant Group s executive officers based upon recommendations from Carrols Restaurant Group s CEO. Increases are not preset and typically take into account the individual s performance, responsibilities of the position, potential to contribute to the long term objectives of the company, management skills, future potential and periodically from competitive data. Carrols Restaurant Group s executive compensation plan in place since the IPO was designed to compensate Carrols Restaurant Group s CEO and executive officers, including the Named Executive Officers, with modest annual increases in base salaries combined with the opportunity to earn up to approximately double the amount of base salary in annual cash incentive bonuses based on company and individual performance, in order to align the interests of Carrols Restaurant Group s CEO and Named Executive Officers with those of Carrols Restaurant Group s stockholders.

Factors considered in base salary planning included company performance, budgetary and cost containment issues, competitive market data (from time to time) and current salary levels, as appropriate. At the end of the year, the CEO evaluates each Named Executive Officer s performance and expected future contributions.

For the 2011 fiscal year, the base salaries of Carrols Restaurant Group s CEO until December 31, 2011 (and our CEO until August 15, 2011), Alan Vituli, and Carrols Restaurant Group s current Chief Executive Officer and President and former Chief Operating Officer (and our President and Chief Operating Officer until August 15, 2011), Daniel T. Accordino (President), were determined pursuant to employment agreements with each of Mr. Vituli and Mr. Accordino, which became effective when the registration statement on Form S-1 relating to the IPO was declared effective by the SEC in December 2006 (the Effective Time), which were amended and restated as of December 13, 2008 and which expired on December 31, 2011 as further described below. Under such employment agreements, the base salaries for Mr. Vituli and Mr. Accordino in the 2011 fiscal year were fixed at $692,896 and $543,697 per year, respectively, representing a 0% increase over the prior year for Mr. Vituli and a 2% increase over the prior year for Mr. Accordino. The employment agreements provided that the base salaries of Messrs. Vituli and Accordino may be increased annually at the sole discretion of the CRG Compensation Committee.

On November 1, 2011, upon approval by the CRG Compensation Committee, Carrols Restaurant Group and Mr. Vituli mutually agreed to not renew Mr. Vituli s employment agreement with Carrols Restaurant Group and Carrols. Mr. Vituli s employment agreement expired on December 31, 2011 according to its terms. Mr. Vituli and Carrols Restaurant Group agreed that Mr. Vituli would remain as its Chief Executive Officer through and including December 31, 2011, and on such date, Mr. Vituli retired as Chief Executive Officer of Carrols Restaurant Group. Mr. Accordino was appointed Chief Executive Officer of Carrols Restaurant Group effective January 1, 2012. In addition, Carrols Restaurant Group and Mr. Vituli agreed that Mr. Vituli would resign and retire as the Chairman of its board of directors, and would resign as a director of Carrols Restaurant Group upon Carrols Restaurant Group naming a successor to Mr. Vituli as the Chairman of its board of directors. Mr. Vituli retired as the Chairman of the board of directors of Carrols Restaurant Group and resigned as a director of Carrols Restaurant Group on January 16, 2012. Clayton E. Wilhite was appointed the non-executive Chairman of the board of directors of Carrols Restaurant Group on January 16, 2012. Carrols Restaurant Group and Mr. Vituli also agreed that, for a period commencing on January 16, 2012, the date that Mr. Vituli ceased to be a member of its board of directors, and ending on November 1, 2013, Mr. Vituli will have the right to attend and observe any meeting of the board of directors of Carrols Restaurant Group and Mr. Vituli will be reimbursed for his out-of-pocket expenses incurred in connection with attending such meetings in accordance with Carrols Restaurant Group s expense reimbursement policy for its directors then in effect.

On November 1, 2011, Carrols Restaurant Group and Mr. Accordino mutually agreed that Mr. Accordino would become Carrols Restaurant Group s President and Chief Executive Officer effective on January 1, 2012 (the Effective Date). Carrols Restaurant Group and Mr. Accordino also mutually agreed to not renew Mr. Accordino s employment agreement with Carrols Restaurant Group and Carrols. In addition, Mr. Accordino entered into a new employment agreement with Carrols Restaurant Group and Carrols LLC, which became effective on the Effective Date, on terms substantially similar to the prior employment agreement between Mr. Accordino and Carrols Restaurant Group and Carrols, and as described below. The terms of Mr. Accordino s new employment agreement were approved by the CRG Compensation Committee.

In the 2011 fiscal year, most of the executive officers of Carrols Restaurant Group, including the other Named Executive Officers, received a 2% increase in their respective base salaries over the levels established for the 2010 fiscal year.

Annual Incentive Bonus Payments. Annual cash bonuses have been an important component of Carrols Restaurant Group s compensation program for Carrols Restaurant Group s executive officers and the Carrols Executive Bonus Plan has been approved by the CRG Compensation Committee. The Carrols Executive Bonus Plan has been established annually by the CRG Compensation Committee and measures performance throughout Carrols Restaurant Group s fiscal year. Under the Carrols Executive Bonus Plan, annual incentive bonus payments are typically paid in March based on performance for the prior fiscal year.

Each of the Named Executive Officers has been eligible to receive a maximum annual incentive bonus ranging from 90% to 105% of base salary, depending on position. With respect to each of the Named Executive Officers other than James E. Tunnessen and Michael A. Biviano, the majority of the potential bonus payments have been tied to the level of increase in earnings per share (EPS) (as defined and measured under the Carrols Executive Bonus Plan) and provided for larger payments to the extent that those thresholds are exceeded. Half of the potential bonus payment for Mr. Tunnessen has been tied to the level of increase in s