

Fiesta Restaurant Group, Inc.
Form 10-Q
May 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

For the quarterly period ended April 1, 2012

OR

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

Commission File Number: 001-35373

FIESTA RESTAURANT GROUP, INC.

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(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

90-0712224
(I.R.S. Employer
Identification No.)

968 James Street

Syracuse, New York
(Address of principal executive office)

13203
(Zip Code)

Registrant's telephone number, including area code: (315) 424-0513

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if smaller reporting company)

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

As of May 8, 2012, Fiesta Restaurant Group, Inc. had 23,161,822 shares of its common stock, \$.01 par value, outstanding.

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CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED APRIL 1, 2012

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Table of Contents**FIESTA RESTAURANT GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands of dollars, except per share amounts)****(unaudited)**

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	\$ 4,727	\$ 13,670
Trade receivables	6,154	4,842
Inventories	2,127	2,264
Prepaid rent	2,346	2,397
Prepaid expenses and other current assets	2,854	2,660
Deferred income taxes	1,853	1,776
Total current assets	20,061	27,609
Property and equipment, net	196,359	195,122
Goodwill (Note 2)	123,484	123,484
Intangible assets, net	272	301
Deferred income taxes	13,664	11,659
Deferred financing costs, net	6,578	6,908
Other assets	4,370	5,083
Total assets	\$ 364,788	\$ 370,166
LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt (Note 6)	\$ 60	\$ 59
Due to parent company (Note 5)	1,330	1,511
Accounts payable	7,856	7,515
Accrued interest	2,325	7,152
Accrued payroll, related taxes and benefits	9,861	12,154
Accrued real estate taxes	1,902	3,197
Other liabilities	5,704	5,085
Total current liabilities	29,038	36,673
Long-term debt, net of current portion (Note 6)	200,933	200,949
Lease financing obligations (Note 7)	123,232	123,019
Deferred income sale-leaseback of real estate	3,985	4,055
Other liabilities (Note 4)	10,766	10,142
Total liabilities	367,954	374,838
Commitments and contingencies (Note 10)		
Stockholder s equity (deficit):		
Common stock, par value \$.01; authorized 100,000,000 shares, issued 23,161,822 shares and outstanding 22,727,422 shares	227	227
Additional paid-in capital	6,716	3,345
Retained earnings (deficit) (Note 5)	(10,109)	(8,244)
Total stockholder s equity (deficit)	(3,166)	(4,672)

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Total liabilities and stockholder's equity (deficit)	\$ 364,788	\$ 370,166
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The accompanying notes are an integral part of these consolidated unaudited financial statements.

Table of Contents**FIESTA RESTAURANT GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****THREE MONTHS ENDED MARCH 31, 2012 AND 2011****(In thousands of dollars, except per share amounts)****(Unaudited)**

	Three months ended March 31	
	2012	2011
Revenues:		
Restaurant sales	\$ 125,566	\$ 115,251
Franchise royalty revenues and fees	576	365
Total revenues	126,142	115,616
Costs and expenses:		
Cost of sales	40,784	36,344
Restaurant wages and related expenses (including stock-based compensation expense of \$4 and \$5, respectively)	33,825	31,633
Restaurant rent expense	3,967	4,060
Other restaurant operating expenses	15,829	14,743
Advertising expense	4,295	4,119
General and administrative (including stock-based compensation expense of \$1,046 and \$411, respectively)	11,080	8,921
Depreciation and amortization	4,840	4,797
Impairment and other lease charges (Note 3)	6,900	264
Total operating expenses	121,520	104,881
Income from operations	4,622	10,735
Interest expense	7,969	4,845
Income (loss) before income taxes	(3,347)	5,890
Provision (benefit) for income taxes (Note 8)	(1,482)	2,276
Net income (loss)	\$ (1,865)	\$ 3,614
Basic and diluted net income (loss) per share	\$ (0.08)	\$ 0.16
Basic and diluted weighted average common shares outstanding	23,161,822	23,161,822

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

Table of Contents**FIESTA RESTAURANT GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****THREE MONTHS ENDED MARCH 31, 2012 AND 2011****(In thousands of dollars)****(Unaudited)**

	Three Months Ended March 31,	
	2012	2011
Cash flows provided from (used for) operating activities:		
Net income (loss)	\$ (1,865)	\$ 3,614
Adjustments to reconcile net income (loss) to net cash provided from (used for) operating activities:		
Loss on disposals of property and equipment	60	73
Stock-based compensation	871	416
Impairment and other lease charges	6,900	264
Depreciation and amortization	4,840	4,797
Amortization of deferred financing costs	385	61
Amortization of deferred gains from sale-leaseback transactions	(70)	(64)
Accretion of interest on lease financing obligations	213	10
Deferred income taxes	(2,081)	(293)
Changes in other operating assets and liabilities:	(9,875)	(2,683)
Net cash provided from (used for) operating activities	(622)	6,195
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(5,365)	(2,543)
Restaurant remodeling	(1,273)	(1,517)
Other restaurant capital expenditures	(1,692)	(973)
Corporate and restaurant information systems	(213)	(92)
Total capital expenditures	(8,543)	(5,125)
Properties purchased for sale-leaseback	(2,082)	
Proceeds from sale-leaseback transactions		1,861
Net cash used for investing activities	(10,625)	(3,264)
Cash flows provided by (used for) financing activities:		
Payments to parent company, net	(181)	(2,899)
Capital contribution from parent company	2,500	
Principal payments on capital leases	(15)	(14)
Net cash provided by (used for) financing activities	2,304	(2,913)
Net increase (decrease) in cash	(8,943)	18
Cash, beginning of period	13,670	2,583
Cash, end of period	\$ 4,727	\$ 2,601

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Supplemental disclosures:

Interest paid on long-term debt	\$ 9,407	\$
Interest paid on lease financing obligations	\$ 2,754	\$ 2,802
Accruals for capital expenditures	\$ 475	\$ 740

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

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FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars)

1. Basis of Presentation

Business Description. At April 1, 2012 the Company operated 86 Pollo Tropical restaurants, of which 85 were located in Florida and one was located in Georgia, and franchised a total of 33 Pollo Tropical restaurants, 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. At April 1, 2012, the Company also owned and operated 157 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico, two in Texas and one in Georgia.

Basis of Consolidation. The consolidated financial statements presented herein reflect the consolidated financial position, results of operations and cash flows of Fiesta Restaurant Group, Inc. (*Fiesta Restaurant Group*) and its wholly-owned subsidiaries Pollo Operations, Inc. and Pollo Franchise, Inc., (collectively *Pollo Tropical*) and Taco Cabana, Inc. and its subsidiaries, (collectively *Taco Cabana*). Fiesta Restaurant Group was incorporated in April 2011. In May 2011, Carrols Corporation (*Carrols* or *Parent Company*) contributed all of the outstanding capital stock of Pollo Tropical and Taco Cabana to Fiesta Restaurant Group in exchange for all of the outstanding capital stock of Fiesta Restaurant Group and Fiesta Restaurant Group became a wholly-owned subsidiary of Carrols. On May 7, 2012 all outstanding shares of Fiesta Restaurant Group common stock which were held by Carrols were distributed in the form of a pro rata dividend to the stockholders of Carrols Restaurant Group (as defined below). See Note 12 for additional information. Unless the context otherwise requires, Fiesta Restaurant Group and its subsidiaries, Pollo Tropical and Taco Cabana, are collectively referred to as the *Company* . Carrols is a wholly-owned subsidiary of Carrols Restaurant Group, Inc., a publicly traded company (*Carrols Restaurant Group*). The consolidated financial statements have been prepared as if the Company was in existence for all periods presented. All intercompany transactions have been eliminated in consolidation.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to fiscal year ended January 1, 2012 will be referred to as fiscal year ended December 31, 2011. Similarly, all references herein to the three months ended April 1, 2012 and April 3, 2011 will be referred to as the three months ended March 31, 2012 and March 31, 2011, respectively. The fiscal year ended December 31, 2011 contained 52 weeks. The three months ended March 31, 2012 and 2011 each contained thirteen weeks.

Allocations. Carrols provides administrative support to the Company for executive management, information systems and certain accounting, legal and other administrative functions. See Note 5 Due to parent company for a listing and amount of such transactions. For the three months ended March 31, 2012 and 2011, these costs were allocated to the Company based primarily on a pro-rata share of either the Company's revenues, number of restaurants or number of employees. The accompanying consolidated financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the results of operations or cash flows that would have resulted had these and other related-party transactions been consummated with unrelated parties or had the Company been a stand-alone company.

The unaudited consolidated financial statements for the three months ended March 31, 2011 also reflect interest expense allocated by Carrols to the Company. Effective with the refinancing discussed in Note 6, on August 5, 2011 the Company secured its own financing and interest allocations from Carrols ceased. Management believes that its allocations are reasonable and based on a systematic rational method; however, they are not necessarily indicative of the actual financial results of the Company, including such expenses that would have been incurred by the Company had it been operating as a separate, stand-alone entity for the periods presented. As a stand-alone entity, the Company expects to incur expenses that may not be comparable in future periods to what is presented for the historical periods presented in the consolidated financial statements. Consequently, the financial information herein may not reflect the financial position, results of op