

CARROLS CORP  
Form 10-Q  
August 12, 2011  
Table of Contents

**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 July 3, 2011

OR

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

Commission File Number: 001-33174

**CARROLS RESTAURANT GROUP, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**16-1287774**  
(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**

**Commission File Number: 001-06553**

## **CARROLS CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**16-0958146**  
(I.R.S. Employer  
Identification Number)

**968 James Street**

**Syracuse, New York**  
(Address of principal executive offices)

**13203**  
(Zip Code)

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

Carrols Corporation meets the conditions set forth in General Instruction H(1) and is therefore filing this form with reduced disclosure format pursuant to General Instruction H(2).

Indicate by check mark whether either of the registrants (1) have 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 were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrants have 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

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that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Carrols Restaurant Group, Inc.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Carrols Corporation

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether either of the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 4, 2011, Carrols Restaurant Group, Inc. had 22,086,503 shares of its common stock, \$.01 par value, outstanding. As of August 4, 2011, all outstanding equity securities of Carrols Corporation, which consisted of 10 shares of its common stock, were owned by Carrols Restaurant Group, Inc.

**Table of Contents**

**CARROLS RESTAURANT GROUP, INC. AND CARROLS CORPORATION**

**FORM 10-Q**

**QUARTER ENDED JULY 3, 2011**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |             |
| Item 1   |             |
| <u>Carrols Restaurant Group, Inc. and Subsidiary - Consolidated Financial Statements (unaudited):</u>  |             |
| <u>Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010</u>                           | 3           |
| <u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010</u> | 4           |
| <u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010</u>           | 5           |
| <u>Notes to Consolidated Financial Statements</u>  | 6           |
| <u>Carrols Corporation and Subsidiaries - Consolidated Financial Statements (unaudited):</u>           |             |
| <u>Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010</u>                           | 20          |
| <u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010</u> | 21          |
| <u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010</u>           | 22          |
| <u>Notes to Consolidated Financial Statements</u>  | 23          |
| Item 2   | 45          |
| Item 3   | 59          |
| Item 4   | 60          |
| <b><u>PART II OTHER INFORMATION</u></b>  |             |
| Item 1   | 60          |
| Item 1A  | 60          |
| Item 2   | 72          |
| Item 3   | 72          |
| Item 4   | 73          |
| Item 5   | 73          |
| Item 6   | 73          |

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS****(In thousands of dollars, except share and per share amounts)****(Unaudited)**

|   | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|--------------------------|------------------------------|
| <b>ASSETS</b>   |                          |                              |
| Current assets:   |                          |                              |
| Cash and cash equivalents   | \$ 7,437                 | \$ 3,144                     |
| Trade and other receivables   | 7,177                    | 5,213                        |
| Inventories   | 5,213                    | 5,203                        |
| Prepaid rent  | 4,074                    | 4,018                        |
| Prepaid expenses and other current assets   | 5,928                    | 5,349                        |
| Refundable income taxes   | 418                      | 869                          |
| Deferred income taxes   | 4,609                    | 4,609                        |
| Total current assets  | 34,856                   | 28,405                       |
| Property and equipment, net   | 186,685                  | 186,850                      |
| Franchise rights, net (Note 4)  | 68,834                   | 70,432                       |
| Goodwill (Note 4)   | 124,934                  | 124,934                      |
| Intangible assets, net  | 360                      | 419                          |
| Franchise agreements, at cost less accumulated amortization of \$6,346 and \$6,102 respectively | 5,457                    | 5,629                        |
| Deferred income taxes   |                          | 1,949                        |
| Other assets  | 8,215                    | 7,684                        |
| Total assets  | \$ 429,341               | \$ 426,302                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                          |                              |
| Current liabilities:  |                          |                              |
| Current portion of long-term debt (Note 5)  | \$ 4,927                 | \$ 15,538                    |
| Accounts payable  | 13,251                   | 13,944                       |
| Accrued interest  | 6,828                    | 6,853                        |
| Accrued payroll, related taxes and benefits   | 19,235                   | 19,504                       |
| Accrued real estate taxes   | 4,543                    | 4,778                        |
| Other liabilities   | 9,464                    | 7,434                        |
| Total current liabilities   | 58,248                   | 68,051                       |
| Long-term debt, net of current portion (Note 5)   | 241,457                  | 237,914                      |
| Lease financing obligations (Note 9)  | 11,799                   | 10,061                       |
| Deferred income sale-leaseback of real estate   | 39,192                   | 40,472                       |
| Accrued postretirement benefits (Note 8)  | 1,709                    | 1,845                        |
| Deferred income taxes   | 1,057                    |                              |
| Other liabilities (Note 7)  | 21,635                   | 23,052                       |
| Total liabilities   | 375,097                  | 381,395                      |
| Commitments and contingencies (Note 11)   |                          |                              |

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Stockholders' equity:

|  |               |               |
|--|---------------|---------------|
| Preferred stock, par value \$.01; authorized 20,000,000 shares, issued and outstanding - none  |               |               |
| Voting common stock, par value \$.01; authorized 100,000,000 shares, issued and outstanding - 22,075,409 and 21,678,203 shares, respectively | 216           | 216           |
| Additional paid-in capital   | 5,057         | 3,474         |
| Retained earnings  | 47,577        | 39,823        |
| Accumulated other comprehensive income (Note 13)   | 1,535         | 1,535         |
| Treasury stock, at cost  | (141)         | (141)         |
| <b>Total stockholders' equity</b>  | <b>54,244</b> | <b>44,907</b> |
| <br>   |               |               |
| Total liabilities and stockholders' equity   | \$ 429,341    | \$ 426,302    |

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

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010****(In thousands of dollars, except share and per share amounts)****(Unaudited)**

|   | Three months ended June 30, |                   | Six months ended June 30, |                   |
|---|-----------------------------|-------------------|---------------------------|-------------------|
|   | 2011                        | 2010              | 2011                      | 2010              |
| <b>Revenues:</b>  |                             |                   |                           |                   |
| Restaurant sales  | \$ 209,343                  | \$ 204,141        | \$ 406,216                | \$ 398,808        |
| Franchise royalty revenues and fees   | 501                         | 335               | 866                       | 812               |
| <b>Total revenues</b>   | <b>209,844</b>              | <b>204,476</b>    | <b>407,082</b>            | <b>399,620</b>    |
| <b>Costs and expenses:</b>  |                             |                   |                           |                   |
| Cost of sales   | 66,172                      | 62,969            | 126,487                   | 122,167           |
| Restaurant wages and related expenses (including stock-based compensation expense of \$10, \$14, \$20 and \$28, respectively) | 60,232                      | 59,611            | 118,800                   | 118,745           |
| Restaurant rent expense   | 12,208                      | 12,232            | 24,262                    | 24,588            |
| Other restaurant operating expenses   | 29,039                      | 29,105            | 56,963                    | 57,337            |
| Advertising expense   | 7,472                       | 7,758             | 14,975                    | 14,604            |
| General and administrative (including stock-based compensation expense of \$713, \$402, \$1,378 and \$781, respectively)      | 13,749                      | 12,677            | 27,605                    | 25,174            |
| Depreciation and amortization   | 8,389                       | 8,113             | 16,497                    | 16,235            |
| Impairment and other lease charges (Note 3)   | 975                         | 3,631             | 2,055                     | 3,901             |
| Other income (Note 14)  | (342)                       |                   | (448)                     |                   |
| <b>Total operating expenses</b>   | <b>197,894</b>              | <b>196,096</b>    | <b>387,196</b>            | <b>382,751</b>    |
| <b>Income from operations</b>   | <b>11,950</b>               | <b>8,380</b>      | <b>19,886</b>             | <b>16,869</b>     |
| Interest expense  | 4,579                       | 4,708             | 9,192                     | 9,451             |
| <b>Income before income taxes</b>   | <b>7,371</b>                | <b>3,672</b>      | <b>10,694</b>             | <b>7,418</b>      |
| Provision for income taxes (Note 6)   | 1,863                       | 1,237             | 2,940                     | 2,669             |
| <b>Net income</b>   | <b>\$ 5,508</b>             | <b>\$ 2,435</b>   | <b>\$ 7,754</b>           | <b>\$ 4,749</b>   |
| <b>Basic net income per share (Note 12)</b>   | <b>\$ 0.25</b>              | <b>\$ 0.11</b>    | <b>\$ 0.36</b>            | <b>\$ 0.22</b>    |
| <b>Diluted net income per share (Note 12)</b>   | <b>\$ 0.25</b>              | <b>\$ 0.11</b>    | <b>\$ 0.35</b>            | <b>\$ 0.22</b>    |
| <b>Basic weighted average common shares outstanding (Note 12)</b>   | <b>21,663,181</b>           | <b>21,618,962</b> | <b>21,652,950</b>         | <b>21,616,325</b> |
| <b>Diluted weighted average common shares outstanding (Note 12)</b>   | <b>22,160,514</b>           | <b>21,844,162</b> | <b>22,114,134</b>         | <b>21,840,881</b> |

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

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2011 AND 2010****(In thousands of dollars)****(Unaudited)**

|   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Cash flows provided from operating activities:                                      |             |             |
| Net income  | \$ 7,754    | \$ 4,749    |
| Adjustments to reconcile net income to net cash provided from operating activities: |             |             |
| Loss (gain) on disposals of property and equipment                                  | (97)        | 220         |
| Stock-based compensation expense  | 1,398       | 809         |
| Impairment and other lease charges  | 2,055       | 3,901       |
| Depreciation and amortization   | 16,497      | 16,235      |
| Amortization of deferred financing costs  | 466         | 477         |
| Amortization of deferred gains from sale-leaseback transactions                     | (1,682)     | (1,674)     |
| Accretion of interest on lease financing obligations                                | 2           | 30          |
| Deferred income taxes   | 3,006       | 82          |
| Refundable income taxes   | 451         | 576         |
| Changes in other operating assets and liabilities                                   | (4,537)     | (7,268)     |
| Net cash provided from operating activities   | 25,313      | 18,137      |
| Cash flows used for investing activities:   |             |             |
| Capital expenditures:   |             |             |
| New restaurant development  | (8,696)     | (5,910)     |
| Restaurant remodeling   | (5,738)     | (4,955)     |
| Other restaurant capital expenditures   | (4,401)     | (4,590)     |
| Corporate and restaurant information systems  | (1,836)     | (710)       |
| Total capital expenditures  | (20,671)    | (16,165)    |
| Properties purchased for sale-leaseback   |             | (2,486)     |
| Proceeds from sale-leaseback transactions   | 5,012       | 4,109       |
| Proceeds from sales of other properties   | 572         |             |
| Net cash used for investing activities  | (15,087)    | (14,542)    |
| Cash flows used for financing activities:   |             |             |
| Borrowings on revolving credit facility   | 32,700      | 71,700      |
| Repayments on revolving credit facility   | (32,700)    | (69,200)    |
| Principal pre-payments on term loans  |             | (1,023)     |
| Scheduled principal payments on term loans  | (7,036)     | (5,942)     |
| Principal payments on capital leases  | (32)        | (44)        |
| Proceeds from lease financing obligations   | 1,736       |             |
| Financing costs associated with issuance of lease financing obligations             | (89)        |             |
| Deferred financing fees   | (697)       |             |
| Proceeds from stock option exercises  | 185         | 28          |
| Net cash used for financing activities  | (5,933)     | (4,481)     |



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|  |          |          |
|--|----------|----------|
| Net increase (decrease) in cash and cash equivalents | 4,293    | (886)    |
| Cash and cash equivalents, beginning of period       | 3,144    | 4,402    |
| Cash and cash equivalents, end of period             | \$ 7,437 | \$ 3,516 |
| Supplemental disclosures:                            |          |          |
| Interest paid on long-term debt                      | \$ 8,250 | \$ 8,484 |
| Interest paid on lease financing obligations         | \$ 500   | \$ 457   |
| Accruals for capital expenditures                    | \$ 674   | \$ 641   |
| Income tax (refunds) payments, net                   | \$ (515) | \$ 1,982 |
| Capital lease obligations incurred                   | \$       | \$ 123   |

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

**Table of Contents**

**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of dollars except share and per share amounts)**

**1. Basis of Presentation**

*Business Description.* At July 3, 2011 the Company operated, as franchisee, 303 restaurants under the trade name **Burger King** in 12 Northeastern, Midwestern and Southeastern states. At July 3, 2011, the Company also owned and operated 90 Pollo Tropical restaurants, of which 85 were located in Florida and five were located in New Jersey, and franchised a total of 30 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in Honduras, one in the Bahamas, one in Trinidad, one in Venezuela and three on college campuses in Florida. At July 3, 2011 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 unaudited consolidated financial statements presented herein include the accounts of Carrols Restaurant Group, Inc. ( **Carrols Restaurant Group** or the **Company** ) and its wholly-owned subsidiary Carrols Corporation ( **Carrols** ). In April 2011, Fiesta Restaurant Group, Inc. ( **Fiesta Restaurant Group** ), a wholly owned subsidiary of Carrols Corporation, was incorporated. In May 2011, Carrols contributed all of the outstanding capital stock of Pollo Operations, Inc. and Pollo Franchise Inc. (collectively **Pollo Tropical** ) and Taco Cabana Inc. and subsidiaries (collectively **Taco Cabana** ) to Fiesta Restaurant Group in exchange for all of the outstanding capital stock of Fiesta Restaurant Group. Any reference to **Carrols LLC** refers to Carrols' wholly-owned subsidiary, Carrols LLC, a Delaware limited liability company. Carrols Restaurant Group is a holding company and conducts all of its operations through Carrols and its wholly-owned subsidiaries. Unless the context otherwise requires, Carrols Restaurant Group, Carrols and the direct and indirect subsidiaries of Carrols are collectively referred to as the **Company**. All intercompany transactions have been eliminated in consolidation.

On February 24, 2011, the Company announced its intention to split its business into two separate, publicly-traded companies through the tax-free spin-off of Fiesta Restaurant Group to its stockholders. If the spin-off is consummated, Fiesta Restaurant Group will continue to own and operate the Pollo Tropical and Taco Cabana businesses and the Company, Carrols and Carrols LLC will continue to own and operate its franchised Burger King restaurants. In the spin-off, it is anticipated that all shares of Fiesta Restaurant Group common stock, which are currently held by Carrols, will be distributed in the form of a pro rata dividend to the stockholders of Carrols Restaurant Group.

The difference between the consolidated financial statements of Carrols Restaurant Group and Carrols is primarily due to additional rent expense of approximately \$6 per year for Carrols Restaurant Group and the composition of stockholders' equity.

*Fiscal Year.* The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended January 2, 2011 and January 3, 2010 will be referred to as the fiscal years ended December 31, 2010 and 2009, respectively. Similarly, all references herein to the three and six months ended July 3, 2011 and July 4, 2010 will be referred to as the three and six months ended June 30, 2011 and June 30, 2010, respectively. The fiscal year ended December 31, 2010 contained 52 weeks and the fiscal year ended December 31, 2009 contained 53 weeks. The three and six months ended June 30, 2011 and 2010 each contained thirteen and twenty-six weeks, respectively.

*Basis of Presentation.* The accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2011 and 2010 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010 contained in the Company's 2010 Annual Report on Form 10-K. The December 31, 2010 balance sheet data is derived from those audited financial statements.

**Table of Contents**

**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

**(in thousands of dollars except share and per share amounts)**

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

*Current Assets and Liabilities.* The carrying value of cash and cash equivalents and accrued liabilities approximates fair value because of the short maturity of those instruments.

*Senior Subordinated Notes.* The fair values of outstanding senior subordinated notes are based on quoted market prices. The fair values at both June 30, 2011 and December 31, 2010 were approximately \$165.4 million.

*Revolving and Term Loan Facilities.* Rates and terms under Carrols' senior credit facility are favorable to debt with similar terms and maturities that could be obtained, if at all, at June 30, 2011. Given the lack of comparative information regarding such debt, including the lack of trading in Carrols' Term A debt, it is not practicable to estimate the fair value of our existing borrowings under Carrols' senior credit facility at June 30, 2011.

*Use of Estimates.* The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include: accrued occupancy costs, insurance liabilities, income taxes, evaluation for impairment of goodwill, long-lived assets and Burger King franchise rights and lease accounting matters. Actual results could differ from those estimates.

*Subsequent Events.* The Company evaluated for subsequent events through the issuance date of the Company's financial statements. See Note 16 to the consolidated financial statements.

**2. Stock-Based Compensation**

On January 15, 2011, the Company granted in the aggregate 360,200 non-vested restricted shares of its common stock to certain employees. In general, these shares vest 25% per year and will be expensed over their 4 year vesting period. Included in the non-vested restricted share grant were 200,000 shares granted to our Chief Executive Officer, of which 100,000 shares will be expensed over a one year period ending January 15, 2012 and 100,000 shares will be expensed through December of 2013.

Stock-based compensation expense for the three and six months ended June 30, 2011 was \$0.7 million and \$1.4 million, respectively. As of June 30, 2011, the total non-vested stock-based compensation expense relating to the options and non-vested shares was approximately \$4.0 million and the Company expects to record an additional \$1.4 million as compensation expense in 2011. At June 30, 2011, the remaining weighted average vesting period for stock options and non-vested shares was 2.6 years and 3.3 years, respectively.

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

(in thousands of dollars except share and per share amounts)

**Stock Options**

A summary of all option activity for the six months ended June 30, 2011 was as follows:

|   |                      | 2006 Plan                             |   |                                     |
|---|----------------------|---------------------------------------|---|-------------------------------------|
|   | Number of<br>Options | Weighted<br>Average<br>Exercise Price | Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value (1) |
| Options outstanding at January 1, 2011      | 2,588,017            | \$ 9.17                               | 4.2   | \$ 2,948                            |
| Granted                                     |                      |                                       |   |                                     |
| Exercised                                   | (31,286)             | 5.44                                  |   |                                     |
| Forfeited                                   | (31,825)             | 9.46                                  |   |                                     |
| Options outstanding at June 30, 2011        | 2,524,906            | 9.21                                  | 3.7   | 7,391                               |
| Vested or expected to vest at June 30, 2011 | 2,504,748            | 9.23                                  | 3.7   | 7,300                               |
| Options exercisable at June 30, 2011        | 1,607,914            | 10.75                                 | 3.2   | 3,220                               |

- (1) The aggregate intrinsic value was calculated using the difference between the market price of the Company's common stock at July 3, 2011 of \$10.64 and the grant price for only those awards that had a grant price that was less than the market price of the Company's common stock at July 3, 2011.

A summary of all non-vested stock activity for the six months ended June 30, 2011 was as follows:

|                              | Shares   | Weighted<br>Average<br>Grant Date<br>Price |
|------------------------------|----------|--|
| Nonvested at January 1, 2011 | 45,701   | \$ 6.16                                    |
| Granted                      | 368,534  | 7.68                                       |
| Vested                       | (11,939) | 6.32                                       |
| Forfeited                    | (2,850)  | 6.62                                       |
| Nonvested at June 30, 2011   | 399,446  | 7.56                                       |

**3. Impairment of Long-Lived Assets and Other Lease Charges**

The Company reviews its long-lived assets, principally property and equipment, for impairment at the restaurant level. If an indicator of impairment exists for any of its assets, an estimate of the undiscounted future cash flows over the life of the primary asset for each restaurant is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines

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the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. For closed restaurant locations, the Company reviews the future minimum lease payments and related ancillary costs from the date of the restaurant closure to the end of the remaining lease term and records a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries.

The Company determined the fair value of restaurant equipment, for those restaurants reviewed for impairment, based on current economic conditions and the Company's history of using these assets in the operation of its business. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. The Level 3 assets measured at fair value associated with impairment charges recorded during the six months ended June 30, 2011 totaled \$48.

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

(in thousands of dollars except share and per share amounts)

Impairment and other lease charges recorded on long-lived assets for the Company's segments were as follows:

|                | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|----------------|--------------------------------|----------|------------------------------|----------|
|                | 2011                           | 2010     | 2011                         | 2010     |
| Burger King    | \$ 155                         | \$ 259   | \$ 971                       | \$ 281   |
| Pollo Tropical | 364                            | 1,931    | 636                          | 1,983    |
| Taco Cabana    | 456                            | 1,441    | 448                          | 1,637    |
|                | \$ 975                         | \$ 3,631 | \$ 2,055                     | \$ 3,901 |

During the three months ended June 30, 2011, the Company recorded impairment and lease charges of \$1.0 million which consisted primarily of \$0.1 million for an underperforming Burger King restaurant, \$0.4 million in lease charges for two previously closed Pollo Tropical restaurants, \$0.3 million of lease charges for a Taco Cabana restaurant that was closed in the second quarter of 2011, and \$0.2 million in lease charges for two previously closed Taco Cabana restaurants.

During the three months ended June 30, 2010, the Company recorded impairment and other lease charges of \$3.6 million which included \$1.4 million for an underperforming Pollo Tropical restaurant and \$0.3 million to reduce the fair market value of a previously impaired Pollo Tropical restaurant. The Company also closed one Pollo Tropical restaurant in the second quarter of 2010 whose fixed assets were impaired in 2009, and recorded lease charges of \$0.2 million which principally consisted of future minimum lease payments and related ancillary costs from the date of the restaurant closure to the end of the remaining lease term, net of any estimated cost recoveries from subletting the property. In addition, the Company recorded charges of \$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 \$0.3 million associated with three underperforming Burger King restaurants.

**4. Goodwill and Franchise Rights**

*Goodwill.* The Company is required to review goodwill for impairment annually, or more frequently, when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of goodwill is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values.

There have been no changes in goodwill or goodwill impairment losses during the six months ended June 30, 2011 or the years ended December 31, 2010 and 2009. Goodwill balances are summarized below:

|                        | Pollo<br>Tropical | Taco<br>Cabana | Burger<br>King | Total      |
|------------------------|-------------------|----------------|----------------|------------|
| Balance, June 30, 2011 | \$ 56,307         | \$ 67,177      | \$ 1,450       | \$ 124,934 |

*Burger King Franchise Rights.* Amounts allocated to franchise rights for each Burger King acquisition are amortized using the straight-line method over the average remaining term of the acquired franchise agreements plus one twenty-year renewal period.

The Company assesses the potential impairment of Burger King franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted cash flows from the

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acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. No impairment charges were recorded related to the Company's Burger King franchise rights for the three and six months ended June 30, 2011 and 2010.

Amortization expense related to Burger King franchise rights was \$799 and \$798 for the three months ended June 30, 2011 and 2010, respectively, and \$1,598 for both the six months ended June 30, 2011 and 2010. The Company estimates the amortization expense for the year ending December 31, 2011 and for each of the five succeeding years to be \$3,194.

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued****(in thousands of dollars except share and per share amounts)****5. Long-term Debt**

Long-term debt at June 30, 2011 and December 31, 2010 consisted of the following:

|  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| Collateralized:                                  |                  |                      |
| Senior Credit Facility-Revolving credit facility | \$               | \$                   |
| Senior Credit Facility-Term loan A facility      | 80,214           | 87,250               |
| Unsecured:                                       |                  |                      |
| 9% Senior Subordinated Notes                     | 165,000          | 165,000              |
| Capital leases                                   | 1,170            | 1,202                |
|  | 246,384          | 253,452              |
| Less: current portion                            | (4,927)          | (15,538)             |
|  | \$ 241,457       | \$ 237,914           |

On August 5, 2011 Carrols LLC and Fiesta Restaurant Group each entered into a new and independent secured credit facility. The new Carrols LLC secured credit facility provides for aggregate term loan borrowings of \$65.0 million and a revolving credit facility that provides for aggregate borrowings of up to \$20.0 million. The new Fiesta Restaurant Group secured credit facility consists of a revolving credit facility that provides for aggregate borrowings of up to \$25.0 million. Also on August 5, 2011, Fiesta Restaurant Group issued \$200.0 million of 8.875% Senior Secured Second Lien Notes due 2016 (the "Fiesta Notes"). Carrols LLC used net proceeds from the term loan borrowings of \$65.0 million under the Carrols LLC secured credit facility and Fiesta Restaurant Group used net proceeds from the sale of the Fiesta Notes to distribute funds to Carrols to enable Carrols to (i) repay all outstanding indebtedness under Carrols prior senior credit facility, (ii) repurchase its outstanding 9% Senior Subordinated Notes due 2013 (the "Carrols Notes") pursuant to a cash tender offer and related consent solicitation and to pay the related tender premium and (iii) pay related fees and expenses. On August 5, 2011 there were no outstanding revolving credit borrowings under the new Carrols LLC secured credit facility or the new Fiesta Restaurant Group secured credit facility.

In connection with these transactions, on July 22, 2011 Carrols commenced a tender offer and consent solicitation for all of its outstanding Carrols Notes. On August 5, 2011, \$118.4 million were accepted for payment and paid by Carrols. Carrols LLC distributed to Carrols net proceeds from the term loan borrowings of \$65.0 million under the Carrols LLC secured credit facility and Fiesta Restaurant Group distributed to Carrols net proceeds from the sale of the \$200.0 million Fiesta Notes to enable Carrols to redeem the balance of its outstanding Carrols Notes not tendered in the tender offer, which will expire on August 18, 2011, unless terminated or extended. As of August 5, 2011, \$46.6 million of the Carrols Notes had not yet been tendered.

In accordance with ASC 470, the Company has classified as current, at June 30, 2011, the principal payment requirements for the next twelve months of the new borrowings discussed above. This resulted in a reclassification of \$24.7 million of debt from short-term to long-term.

*New Secured Credit Facilities.* On August 5, 2011 Fiesta Restaurant Group entered into a new first lien revolving credit facility providing for aggregate borrowings of up to \$25.0 million (including \$10.0 million available for letters of credit). The new Fiesta Restaurant Group 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 Fiesta Restaurant Group secured credit facility, and matures on February 5, 2016. Borrowings under the Fiesta Restaurant Group secured credit facility bear interest at a per annum rate, at Fiesta Restaurant Group's option, of either (all terms as defined in the Fiesta Restaurant secured credit facility):



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1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 2.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group secured credit facility), or

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 3.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group secured credit facility).

**Table of Contents**

**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

**(in thousands of dollars except share and per share amounts)**

Fiesta Restaurant Group's obligations under the Fiesta Restaurant Group secured credit facility are guaranteed by Fiesta Restaurant Group's material subsidiaries and secured by a first priority lien on substantially all of the assets of Fiesta Restaurant Group and its material subsidiaries, as guarantors, (including a pledge of all of the capital stock and equity interests of its material subsidiaries).

The Fiesta Restaurant Group secured senior credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under these facilities if there is a default under any indebtedness of Fiesta Restaurant Group 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.

On August 5, 2011 Carrols LLC entered into a new secured credit facility, which provides for \$65.0 million aggregate principal amount of term loan borrowings and a revolving credit facility which provides for aggregate borrowings of up to \$20.0 million (including \$10.0 million available for letters of credit) both maturing on August 5, 2016. The Carrols LLC secured credit facility also provides for incremental borrowing increases of up to \$25 million, in the aggregate, to the revolving credit facility and term loan borrowings available under the Carrols LLC secured credit facility. Borrowings under the term loan and revolving credit borrowings under the Carrols LLC secured credit facility bear interest at a per annum rate, at Carrols LLC's option, of either (all terms as defined in the Carrols LLC secured credit facility):

- 1) the Alternate Base Rate plus the applicable margin of 2.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 2.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC secured credit facility), or
- 2) the LIBOR Rate plus the applicable margin of 3.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 3.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC secured credit facility).

Under the Carrols LLC secured credit facility, Carrols LLC will be required to make mandatory prepayments of revolving credit facility borrowings and principal on term loan borrowings (i) annually in an amount equal to 50% to 100% of Excess Cash Flow (as defined in the Carrols LLC secured credit facility) based on Carrols LLC's Adjusted Leverage Ratio and (ii) in the event of dispositions of assets, debt issuances and insurance and condemnation proceeds (all subject to certain exceptions).

The term loan borrowings under the new Carrols LLC secured credit facility are payable in consecutive quarterly principal payments of \$1.625 million beginning on the last day of the fourth quarter of 2011 through the first quarter of 2016 with the remaining outstanding principal amount of \$30.75 million due on the maturity date of August 5, 2016.

Carrols LLC's obligations under the Carrols LLC secured credit facility are secured by a first priority lien on substantially all of the assets of Carrols LLC and by a pledge by Carrols of all of the outstanding equity interests of Carrols LLC.

The Carrols LLC secured senior credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under these facilities if there is a default under any indebtedness of Carrols LLC 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.

*Fiesta Restaurant Group Senior Secured Second Lien Notes.* On August 5, 2011, Fiesta Restaurant Group issued \$200.0 million of 8.875% Senior Secured Second Lien Notes due 2016 pursuant to an indenture dated as of August 5, 2011 governing such notes. The Fiesta Notes mature on August 15, 2016 and the entire principal amount of the Fiesta Notes is payable of such maturity date. Interest is payable semi-annually on February 15 and August 15 with the first interest payment due on February 15, 2012. The Fiesta Notes are secured by second-priority liens on substantially all of Fiesta Restaurant Group's and its material subsidiaries assets.

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The Fiesta Notes are redeemable at the option of Fiesta Restaurant Group 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, Fiesta Restaurant Group may redeem some or all of the Fiesta Notes at a redemption price of 100% of the principal

**Table of Contents**

**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

**(in thousands of dollars except share and per share amounts)**

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, Fiesta Restaurant Group may redeem up to 35% of the Fiesta Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 108.875% of the principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

The indenture governing the Fiesta Notes includes certain covenants, including limitations and restrictions on Fiesta Restaurant Group and its 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 Fiesta Restaurant Group's or its material subsidiaries' assets. These covenants are subject to certain exceptions and qualifications including, without limitation, permitting the spin-off transaction discussed in Note 1.

The indenture governing the Fiesta Notes contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under these notes and the indenture if there is a default under any indebtedness of Fiesta Restaurant Group 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.

*Carrols Senior Credit Facility.* Carrols' prior senior credit facility totaled \$185 million, originally consisting of \$120 million principal amount of term loan A borrowings maturing on March 9, 2013 (or earlier on September 30, 2012 if the Carrols Notes are not refinanced by June 30, 2012) and a \$65.0 million revolving credit facility (including a sub limit of up to \$25.0 million for letters of credit and up to \$5.0 million for swingline loans), maturing on March 8, 2012.

The term loan and revolving credit borrowings under the prior senior credit facility bore interest at a per annum rate, at Carrols' option, of either:

- 1) the applicable margin percentage ranging from 0% to 0.25% based on Carrols' senior leverage ratio (as defined in the senior credit facility) plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or
- 2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on Carrols' senior leverage ratio. At June 30, 2011 the LIBOR margin percentage was 1.0%.

At July 3, 2011, outstanding borrowings under Term loan A of the prior senior credit facility were \$80.2 million with the remaining balance due and payable as follows:

- 1) three quarterly installments of approximately \$4.2 million beginning on September 30, 2011; and
- 2) four quarterly installments of approximately \$16.9 million beginning on June 30, 2012.

Under the prior senior credit facility, Carrols was required to make mandatory prepayments of principal on term loan A facility borrowings (a) annually in an amount up to 50% of Excess Cash Flow depending upon Carrols' Total Leverage Ratio (as such terms are defined in the prior senior credit facility), (b) in the event of certain dispositions of assets (all subject to certain exceptions) and insurance proceeds, in an amount equal to 100% of the net proceeds received by Carrols therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt. For the year ended December 31, 2010, there was not a required prepayment based on the Excess Cash Flow for 2010, as defined. For the year ended December 31, 2009, Carrols was required to make a principal prepayment of approximately \$1.0 million in the first quarter of 2010.

The prior senior credit facility contained certain covenants, including, without limitation, those limiting Carrols' ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of its business, engage in transactions with related parties, make certain investments or pay dividends. In addition, Carrols was required to meet certain financial ratios, including fixed charge coverage, senior leverage,

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and total leverage ratios (all as defined under the senior credit facility). Carrols was in compliance with the covenants under its prior senior credit facility as of July 3, 2011.

After reserving \$13.5 million for letters of credit guaranteed by the facility, \$51.5 million was available for borrowings under the prior revolving credit facility at July 3, 2011.

*Carrols Senior Subordinated Notes.* On December 15, 2004, Carrols issued \$180 million of 9% Senior Subordinated Notes due 2013 that bear interest at a rate of 9% payable semi-annually on January 15 and July 15 and mature on January 15, 2013. At both July 3, 2011 and January 2, 2011, \$165.0 million principal amount of the Carrols Notes were outstanding.

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued****(in thousands of dollars except share and per share amounts)**

Restrictive covenants under the Carrols Notes included limitations with respect to the Carrols ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. Carrols was in compliance as of July 3, 2011 with the restrictive covenants in the indenture governing the Carrols Notes.

On July 22, 2011, Carrols commenced an offer to purchase for cash any and all of the \$165 million outstanding principal amount of the Carrols Notes and solicited consents to effect certain proposed amendments to the indenture governing the Carrols Notes. The tender offer will expire on August 18, 2011, unless terminated or extended. Holders who validly tendered the Carrols Notes on or before August 4, 2011 received total consideration of \$1,003.75 for each \$1,000 principal amount of such notes accepted for purchase. Total consideration included a consent payment of \$30.00 per \$1,000 principal amount, which was payable only to holders who tendered their Notes and validly delivered their consents prior to the expiration of the consent solicitation at 5:00 p.m. on August 4, 2011. On August 5, 2011, \$118.4 million principal amount of the Carrols Notes that were validly tendered were accepted for payment and paid by Carrols. Holders who validly tender the Carrols Notes after 5:00 p.m. on August 4, 2011, but before August 18, 2011, will receive \$973.75 for each \$1,000 principal amount of such notes accepted for purchase. Accrued and unpaid interest, up to, but not including, the applicable settlement date, will be paid in cash on all validly tendered and accepted Carrols Notes.

The amendments to the indenture governing the Carrols Notes, among other things, eliminated a significant portion of the restrictive covenants in the indenture governing the Carrols Notes and eliminated certain events of default. The elimination (or, in certain cases, amendment) of these restrictive covenants and other provisions permit Carrols and its subsidiaries to, among other things, incur indebtedness, pay dividends or make other restricted payments, incur liens or make investments, in each case which otherwise may not have been permitted pursuant to the indenture governing the Carrols Notes. The amendments to the indenture governing the Carrols Notes are binding upon the holders of the Carrols Notes not tendered into the tender offer.

**6. Income Taxes**

The provision for income taxes for the three and six months ended June 30, 2011 and 2010 was comprised of the following:

|          | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|----------|--------------------------------|----------|------------------------------|----------|
|          | 2011                           | 2010     | 2011                         | 2010     |
| Current  | \$ (1,143)                     | \$ 1,135 | \$ (66)                      | \$ 2,587 |
| Deferred | 3,006                          | 102      | 3,006                        | 82       |
|          | \$ 1,863                       | \$ 1,237 | \$ 2,940                     | \$ 2,669 |

The provision for income taxes for the three and six months ended June 30, 2011 was derived using an estimated effective annual income tax rate for 2011 of 29.7%, which excludes any discrete tax adjustments. Discrete tax adjustments decreased the provision for income taxes by \$241 in both the three and six months ended June 30, 2011.

The provision for income taxes for the three and six months ended June 30, 2010 was derived using an estimated effective annual income tax rate for 2010 of 36.9%, which excludes any discrete tax adjustments. Discrete tax adjustments decreased the provision for income taxes by \$116 and \$70 in the three and six months ended June 30, 2010, respectively.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2011 and December 31, 2010, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions.

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The tax years 2007-2010 remain open to examination by the major taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to the uncertainties regarding the timing of any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

(in thousands of dollars except share and per share amounts)

**7. Other Liabilities, Long-Term**

Other liabilities, long-term, at June 30, 2011 and December 31, 2010 consisted of the following:

|                                     | June 30,<br>2011 | December 31,<br>2010 |
|-------------------------------------|------------------|----------------------|
| Accrued occupancy costs             | \$ 14,000        | \$ 13,250            |
| Accrued workers' compensation costs | 3,624            | 3,423                |
| Deferred compensation               | 840              | 2,937                |
| Other                               | 3,171            | 3,442                |
|                                     | \$ 21,635        | \$ 23,052            |

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

The following table presents the activity in the closed-store reserve included in accrued occupancy costs at June 30, 2011 and December 31, 2010:

|                                       | Six months ended<br>June 30, 2011 | Year ended<br>December 31, 2010 |
|---------------------------------------|-----------------------------------|---------------------------------|
| Balance, beginning of period          | \$ 1,665                          | \$ 862                          |
| Accruals for additional lease charges | 1,066                             | 1,279                           |
| Payments, net                         | (526)                             | (632)                           |
| Other adjustments                     | 66                                | 156                             |
| Balance, end of period                | \$ 2,271                          | \$ 1,665                        |

**8. Postretirement Benefits**

The Company provides postretirement medical benefits covering substantially all Burger King administrative and restaurant management salaried employees who retire or terminate after qualifying for such benefits. A December 31 measurement date is used for postretirement benefits.

The following summarizes the components of net periodic postretirement benefit income:

|              | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |       |
|--------------|--------------------------------|------|------------------------------|-------|
|              | 2011                           | 2010 | 2011                         | 2010  |
| Service cost | \$ 7                           | \$ 8 | \$ 14                        | \$ 16 |



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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Interest cost                              | 24      | 27      | 49      | 54      |
| Amortization of net gains and losses       | 24      | 24      | 49      | 48      |
| Amortization of prior service credit       | (90)    | (90)    | (180)   | (180)   |
| Net periodic postretirement benefit income | \$ (35) | \$ (31) | \$ (68) | \$ (62) |

During the six months ended June 30, 2011, the Company made contributions of \$86 to its postretirement plan and expects to make additional contributions during 2011. Contributions made by the Company to its postretirement plan for the year ended December 31, 2010 were \$156.

**9. Lease Financing Obligations**

The Company has previously entered into sale-leaseback transactions involving certain restaurant properties that did not qualify for sale-leaseback accounting and as a result were classified as financing transactions. Under the financing method, the assets remain on the consolidated balance sheet and proceeds received by the Company from these transactions are recorded as a financing liability.

**Table of Contents**

**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

**(in thousands of dollars except share and per share amounts)**

Payments under these leases are applied as payments of imputed interest and deemed principal on the underlying financing obligations.

During the second quarter of 2011, the Company 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.

Interest expense associated with lease financing obligations for the three months ended June 30, 2011 and 2010 was \$0.3 million and \$0.2 million, respectively, and was \$0.5 million for both the six months ended June 30, 2011 and 2010.

**10. Business Segment Information**

The Company is engaged in the quick-service and quick-casual restaurant industry, with three restaurant concepts: Burger King, operating as a franchisee, and Pollo Tropical and Taco Cabana, both Company-owned concepts. Pollo Tropical is a quick-casual restaurant brand offering a wide selection of tropical and Caribbean-inspired food, featuring grilled chicken marinated in a proprietary blend of tropical fruit juices and spices. Taco Cabana is a quick-casual restaurant brand offering a wide selection of fresh Tex-Mex and traditional Mexican food, including sizzling fajitas, quesadillas, enchiladas, burritos and other Tex-Mex dishes.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The following table includes Adjusted Segment EBITDA, which is the measure of segment profit or loss reported to the chief operating decision maker for purposes of allocating resources to the 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 losses and other lease charges, stock-based compensation expense, other income and expense and gains and losses on extinguishment of debt.

The Other column includes corporate related items not allocated to reportable segments, including stock-based compensation expense. Other identifiable assets consist primarily of cash, certain other assets, corporate property and equipment, including restaurant information systems expenditures, goodwill and deferred income taxes.

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued**

(in thousands of dollars except share and per share amounts)

| <b>Three Months Ended</b>                    | <b>Pollo<br/>Tropical</b> | <b>Taco<br/>Cabana</b> | <b>Burger<br/>King</b> | <b>Other</b> | <b>Consolidated</b> |
|--|---------------------------|------------------------|------------------------|--------------|---------------------|
| <b>June 30, 2011:</b>                        |                           |                        |                        |              |                     |
| Total revenues                               | \$ 52,642                 | \$ 68,607              | \$ 88,595              | \$           | \$ 209,844          |
| Cost of sales                                | 17,413                    | 22,262                 | 26,497                 |              | 66,172              |
| Restaurant wages and related expenses        | 12,311                    | 20,453                 | 27,458                 | 10           | 60,232              |
| Restaurant rent expenses                     | 2,437                     | 4,079                  | 5,692                  |              | 12,208              |
| General and administrative expenses (1)      | 3,298                     | 2,893                  | 6,845                  | 713          | 13,749              |
| Depreciation and amortization                | 2,043                     | 2,274                  | 3,549                  | 523          | 8,389               |
| Adjusted Segment EBITDA                      | 9,581                     | 7,003                  | 5,111                  |              |                     |
| Capital expenditures, including acquisitions | 2,589                     | 3,975                  | 4,380                  | 1,291        | 12,235              |
| <b>June 30, 2010:</b>                        |                           |                        |                        |              |                     |
| Total revenues                               | \$ 46,813                 | \$ 64,207              | \$ 93,456              | \$           | \$ 204,476          |
| Cost of sales                                | 15,167                    | 19,150                 | 28,652                 |              | 62,969              |
| Restaurant wages and related expenses        | 11,235                    | 19,301                 | 29,061                 | 14           | 59,611              |
| Restaurant rent expenses                     | 2,425                     | 3,936                  | 5,871                  |              | 12,232              |
| General and administrative expenses (1)      | 2,859                     | 2,824                  | 6,592                  | 402          | 12,677              |
| Depreciation and amortization                | 1,942                     | 2,241                  | 3,478                  | 452          | 8,113               |
| Adjusted Segment EBITDA                      | 8,145                     | 6,873                  | 5,522                  |              |                     |
| Capital expenditures, including acquisitions | 3,024                     | 3,576                  | 3,467                  | 318          | 10,385              |
| <b>Six Months Ended</b>                      |                           |                        |                        |              |                     |
| <b>June 30, 2011:</b>                        |                           |                        |                        |              |                     |
| Total revenues                               | \$ 104,877                | \$ 131,988             | \$ 170,217             | \$           | \$ 407,082          |
| Cost of sales                                | 34,562                    | 41,457                 | 50,468                 |              | 126,487             |
| Restaurant wages and related expenses        | 24,604                    | 39,789                 | 54,387                 | 20           | 118,800             |
| Restaurant rent expenses                     | 4,750                     | 8,110                  | 11,402                 |              | 24,262              |
| General and administrative expenses (1)      | 6,081                     | 5,995                  | 14,151                 | 1,378        | 27,605              |
| Depreciation and amortization                | 3,958                     | 4,540                  | 6,995                  | 1,004        | 16,497              |
| Adjusted Segment EBITDA                      | 19,640                    | 13,496                 | 6,252                  |              |                     |
| Capital expenditures, including acquisitions | 3,781                     | 7,816                  | 7,238                  | 1,836        | 20,671              |
| <b>June 30, 2010:</b>                        |                           |                        |                        |              |                     |
| Total revenues                               | \$ 92,306                 | \$ 126,239             | \$ 181,075             | \$           | \$ 399,620          |
| Cost of sales                                | 29,860                    | 37,705                 | 54,602                 |              | 122,167             |
| Restaurant wages and related expenses        | 22,824                    | 38,651                 | 57,242                 | 28           | 118,745             |
| Restaurant rent expenses                     | 4,886                     | 7,835                  | 11,867                 |              | 24,588              |
| General and administrative expenses (1)      | 5,667                     | 5,594                  | 13,132                 | 781          | 25,174              |
| Depreciation and amortization                | 3,872                     | 4,518                  | 6,950                  | 895          | 16,235              |
| Adjusted Segment EBITDA                      | 14,872                    | 13,634                 | 9,308                  |              |                     |
| Capital expenditures, including acquisitions | 3,825                     | 4,866                  | 6,764                  | 710          | 16,165              |
| <b>Identifiable Assets:</b>                  |                           |                        |                        |              |                     |
| At June 30, 2011                             | \$ 50,755                 | \$ 61,937              | \$ 141,659             | \$ 174,990   | \$ 429,341          |
| At December 31, 2010                         | 51,125                    | 63,061                 | 142,922                | 169,194      | 426,302             |

- (1) For the Pollo Tropical and Taco Cabana segments, such amounts include general and administrative expenses related directly to each segment. For the Burger King segment, such amounts include general and administrative expenses related directly to the Burger King segment as well as expenses associated with administrative support to the Company's Pollo Tropical and Taco Cabana segments for

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executive management, information systems and certain accounting, legal and other

**Table of Contents****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued****(in thousands of dollars except share and per share amounts)**

administrative functions. For the three and six months ended June 30, 2011, the administrative support expenses included in the Burger King segment provided to Pollo Tropical were \$1.2 million and \$2.6 million, respectively, and the administrative support expenses provided to Taco Cabana were \$1.4 million and \$3.3 million respectively. For the three and six months ended June 30, 2010, these administrative support expenses were \$1.1 million and \$2.2 million, respectively, for Pollo Tropical and \$1.4 million and \$2.8 million, respectively, for Taco Cabana.

A reconciliation of Adjusted Segment EBITDA to consolidated net income is as follows:

|                          | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--------------------------|---------------------------|-------------|-------------------------|-------------|
|                          | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                          | <b>2011</b>               | <b>2010</b> | <b>2011</b>             | <b>2010</b> |
| Adjusted Segment EBITDA: |                           |             |                         |             |
| Pollo Tropical           | \$ 9,581                  | \$ 8,145    | \$ 19,640               | \$ 14,872   |
| Taco Cabana              | 7,003                     | 6,873       | 13,496                  | 13,634      |
| Burger King              |                           |             |                         |             |