

CARROLS CORP
Form 10-Q
November 04, 2009
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 September 27, 2009

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

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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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	(Do not check if a smaller reporting company) <input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Carrols Corporation			
Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	(Do not check if a smaller reporting company) <input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 October 30, 2009, Carrols Restaurant Group, Inc. had 21,594,145 shares of its common stock, \$.01 par value, outstanding. As of October 30, 2009, 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 SEPTEMBER 27, 2009

	Page
PART I	
<u>FINANCIAL INFORMATION</u>	
Item 1	
Carrols Restaurant Group, Inc. and Subsidiary - Consolidated Financial Statements (unaudited):	
<u>Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Carrols Corporation and Subsidiaries - Consolidated Financial Statements (unaudited):	
<u>Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u>	17
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008</u>	18
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u>	19
<u>Notes to Consolidated Financial Statements</u>	20
Item 2	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 4	
<u>Controls and Procedures</u>	55
PART II	
<u>OTHER INFORMATION</u>	
Item 1	
<u>Legal Proceedings</u>	55
Item 1A	
<u>Risk Factors</u>	55
Item 2	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
Item 3	
<u>Default Upon Senior Securities</u>	55
Item 4	
<u>Submission of Matters to a Vote of Security Holders</u>	55
Item 5	
<u>Other Information</u>	55
Item 6	
<u>Exhibits</u>	55

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)**

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,306	\$ 3,399
Trade and other receivables	5,293	5,622
Inventories	5,467	5,588
Prepaid rent	2,983	2,998
Prepaid expenses and other current assets	4,751	6,738
Deferred income taxes	4,873	4,890
Total current assets	26,673	29,235
Property and equipment, net	197,081	195,376
Franchise rights, net (Note 4)	74,518	76,870
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	578	675
Franchise agreements, at cost less accumulated amortization of \$5,715 and \$5,729, respectively	5,900	5,826
Deferred income taxes	5,415	6,697
Other assets	9,228	10,585
Total assets	\$ 444,327	\$ 450,198
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 15,081	\$ 12,093
Accounts payable	17,332	18,789
Accrued interest	3,232	7,742
Accrued payroll, related taxes and benefits	19,943	15,431
Accrued income taxes payable	3,001	2,099
Accrued real estate taxes	4,979	3,803
Other liabilities	11,494	10,848
Total current liabilities	75,062	70,805
Long-term debt, net of current portion (Note 5)	265,232	289,202
Lease financing obligations (Note 9)	10,865	14,859
Deferred income - sale-leaseback of real estate	42,802	43,447
Accrued postretirement benefits (Note 8)	1,494	1,697
Other liabilities (Note 7)	21,670	21,729
Total liabilities	417,125	441,739
Commitments and contingencies (Note 11)		
Stockholders' equity:		

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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 - 21,594,145 and 21,592,462 shares, respectively	216	216
Additional paid-in capital	1,403	348
Retained earnings	23,760	6,072
Accumulated other comprehensive income (Note 13)	1,964	1,964
Treasury stock, at cost	(141)	(141)
Total stockholders' equity	27,202	8,459
Total liabilities and stockholders' equity	\$ 444,327	\$ 450,198

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008****(In thousands of dollars, except share and per share amounts)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues:				
Restaurant sales	\$ 200,802	\$ 208,698	\$ 605,326	\$ 614,422
Franchise royalty revenues and fees	364	366	1,117	1,077
Total revenues	201,166	209,064	606,443	615,499
Costs and expenses:				
Cost of sales	57,662	63,558	175,284	185,130
Restaurant wages and related expenses (including stock-based compensation expense of \$51, \$57, \$156 and \$171, respectively)	59,109	59,786	176,896	179,090
Restaurant rent expense	12,383	11,714	37,217	34,765
Other restaurant operating expenses	29,841	32,433	88,541	93,326
Advertising expense	7,974	7,826	23,552	24,874
General and administrative (including stock-based compensation expense of \$296, \$438, \$899 and \$1,290, respectively)	12,766	12,893	38,682	39,605
Depreciation and amortization	8,080	8,124	23,833	24,223
Impairment and other lease charges (Note 3)	46	53	400	155
Other income (Note 14)	(220)		(799)	(119)
Total costs and expenses	187,641	196,387	563,606	581,049
Income from operations	13,525	12,677	42,837	34,450
Interest expense	4,834	6,861	14,908	21,418
Gain on extinguishment of debt (Note 5)				(180)
Income before income taxes	8,691	5,816	27,929	13,212
Provision for income taxes (Note 6)	3,094	2,136	10,241	4,829
Net income	\$ 5,597	\$ 3,680	\$ 17,688	\$ 8,383
Basic net income per share (Note 12)	\$ 0.26	\$ 0.17	\$ 0.82	\$ 0.39
Diluted net income per share (Note 12)	\$ 0.26	\$ 0.17	\$ 0.81	\$ 0.39
Basic weighted average common shares outstanding (Note 12)	21,593,927	21,573,485	21,592,974	21,572,241
Diluted weighted average common shares outstanding (Note 12)	21,844,946	21,576,176	21,740,957	21,575,280

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****NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008****(In thousands of dollars)****(Unaudited)**

	2009	2008
Cash flows provided from operating activities:		
Net income	\$ 17,688	\$ 8,383
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss on disposals of property and equipment	15	102
Stock-based compensation expense	1,055	1,461
Impairment and other lease charges	400	155
Depreciation and amortization	23,833	24,223
Amortization of deferred financing costs	732	890
Amortization of unearned purchase discounts	(1,616)	(1,616)
Amortization of deferred gains from sale-leaseback transactions	(2,363)	(1,582)
Gain on settlements of lease financing obligations	(76)	(48)
Accretion of interest on lease financing obligations	33	180
Deferred income taxes	1,299	(58)
Accrued income taxes	902	2,748
Gain on extinguishment of debt		(180)
Changes in other operating assets and liabilities	5,039	(5,501)
Net cash provided from operating activities	46,941	29,157
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(7,887)	(26,464)
Restaurant remodeling	(10,073)	(9,622)
Other restaurant capital expenditures	(8,367)	(6,903)
Corporate and restaurant information systems	(3,624)	(5,835)
Total capital expenditures	(29,951)	(48,824)
Properties purchased for sale-leaseback	(1,260)	
Proceeds from sale-leaseback transactions	5,454	6,788
Proceeds from sales of other properties	819	119
Net cash used for investing activities	(24,938)	(41,917)
Cash flows provided from (used for) financing activities:		
Borrowings on revolving credit facility	77,700	109,600
Repayments on revolving credit facility	(92,600)	(92,400)
Scheduled principal payments on term loans	(6,000)	(1,500)
Principal payments on capital leases	(82)	(119)
Proceeds from lease financing obligations	835	
Settlement of lease financing obligations	(1,945)	(5,500)
Financing costs associated with issuance of lease financing obligations	(4)	
Repurchase of senior subordinated notes		(1,820)

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Net cash provided from (used for) financing activities	(22,096)	8,261
Net decrease in cash and cash equivalents	(93)	(4,499)
Cash and cash equivalents, beginning of period	3,399	7,396
Cash and cash equivalents, end of period	\$ 3,306	\$ 2,897
Supplemental disclosures:		
Interest paid on long-term debt	\$ 17,803	\$ 20,984
Interest paid on lease financing obligations	\$ 926	\$ 3,578
Accruals for capital expenditures	\$ 318	\$ 810
Income taxes paid, net	\$ 8,040	\$ 2,141
Capital lease obligations incurred	\$	\$ 158
Non-cash reduction of assets under lease financing obligations due to lease amendments	\$ 2,074	\$ 298
Non-cash reduction of lease financing obligations due to lease amendments	\$ 2,833	\$ 880

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-(Continued)

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

1. Basis of Presentation

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). 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.

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.

Business Description. At September 30, 2009 the Company operated, as franchisee, 314 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At September 30, 2009, the Company also owned and operated 91 Pollo Tropical restaurants, of which 85 were located in Florida, four were in New Jersey and one each in New York and Connecticut, and franchised a total of 27 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in the Bahamas and three on college campuses in Florida. At September 30, 2009, the Company owned and operated 155 Taco Cabana restaurants located primarily in Texas and franchised a total of four Taco Cabana restaurants, two in New Mexico, one in Texas and one in Georgia.

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 December 28, 2008 and December 30, 2007 will be referred to as the fiscal years ended December 31, 2008 and 2007, respectively. Similarly, all references herein to the three and nine months ended September 27, 2009 and September 28, 2008 will be referred to as the three and nine months ended September 30, 2009 and September 30, 2008, respectively. The years ended December 31, 2008 and 2007 each contained 52 weeks and the three and nine months ended September 30, 2009 and 2008 each contained thirteen and thirty-nine weeks, respectively.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three and nine months ended September 30, 2009 and 2008 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 nine months ended September 30, 2009 and 2008 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, 2008 contained in the Company's 2008 Annual Report on Form 10-K. The December 31, 2008 balance sheet data is derived from those audited financial statements.

Fair Value of Financial Instruments. 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 September 30, 2009 and December 31, 2008 were approximately \$165.0 million and \$111.4 million, respectively.

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Revolving and Term Loan Facilities. Rates and terms under Carrols' senior credit facility are significantly favorable to debt with similar terms and maturities that could be potentially obtainable, if at all, at September 30, 2009. Given the lack of comparative information regarding such debt it is not practicable to estimate the fair value of our existing borrowings under our senior credit facility at September 30, 2009.

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

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)

amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include: accrued occupancy costs, insurance liabilities, legal obligations, income taxes, evaluation for impairment of goodwill, long-lived assets and Burger King franchise rights, lease accounting matters and stock-based compensation. Actual results could differ from those estimates.

Subsequent Events. The Company evaluated for subsequent events through November 4, 2009, the issuance date of the Company's financial statements. No subsequent events requiring disclosure were noted.

2. Stock-Based Compensation

As of September 30, 2009, the total non-vested stock-based compensation expense relating to the options and restricted shares was approximately \$3.0 million and the Company expects to record an additional \$0.4 million as compensation expense in 2009. At September 30, 2009, the remaining weighted average vesting period for stock options and restricted shares was 3.3 years and 1.6 years, respectively.

Stock Options

A summary of all option activity for the nine months ended September 30, 2009 was as follows:

		2006 Plan		
	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands) (1)
Options outstanding at January 1, 2009	1,710,764	\$ 12.17	5.3	\$
Granted	544,000	2.77		
Forfeited	(90,113)	10.75		
Options outstanding at September 30, 2009	2,164,651	\$ 9.86	5.0	\$ 2,809
Vested or expected to vest at September 30, 2009	2,129,625	\$ 9.89	5.0	\$ 2,741
Options exercisable at September 30, 2009	779,628	\$ 12.85	4.5	\$

- (1) The aggregate intrinsic value was calculated using the difference between the market price of the Company's common stock at September 30, 2009 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 September 30, 2009.

3. Impairment 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 for each restaurant is compared to the carrying value of that restaurant's long-lived assets. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value in addition to any lease liabilities to be incurred for non-operating restaurants.

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 its segments were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Burger King	\$ 31	\$ 43	\$ 59	\$ 135
Pollo Tropical		5	284	5
Taco Cabana	15	5	57	15
	\$ 46	\$ 53	\$ 400	\$ 155

During the nine months ended September 30, 2009, the Company closed one Pollo Tropical restaurant property in Florida whose fixed assets were impaired in the fourth quarter of 2008, and recorded a charge of \$0.3 million which principally consisted of future minimum lease payments and related ancillary costs from the date of the closure to the end of the remaining lease term, net of any estimated cost recoveries from subletting the property.

4. Goodwill and Franchise Rights

Goodwill. Goodwill is reviewed for impairment annually, or more frequently when events and circumstances indicate that the carrying amounts may be impaired. 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. In performing its goodwill impairment test, the Company compares the net book values of its reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, the Company employs a combination of a discounted cash flow analysis and a market-based approach. The results of the discounted cash flow analyses are corroborated with other value indicators where available, such as comparable company earnings multiples and research analyst estimates. No impairment losses have been recognized as a result of these tests. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Balance, September 30, 2009	\$ 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 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 future cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. There were no impairment charges recorded against franchise rights for the three and nine months ended September 30, 2009 and 2008.

Amortization expense related to Burger King franchise rights was \$784 and \$799 for the three months ended September 30, 2009 and 2008, respectively. Amortization expense related to Burger King franchise rights was \$2,352 and \$2,399 for the nine months ended September 30, 2009 and 2008, respectively. The Company estimates the amortization expense for the year ending December 31, 2009 and for each of the five succeeding years to be \$3,197.

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 September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Collateralized:		
Senior Credit Facility-Revolver credit facility	\$ 3,100	\$ 18,000
Senior Credit Facility-Term loan A facility	111,000	117,000
Unsecured:		
9% Senior Subordinated Notes	165,000	165,000
Capital leases	1,213	1,295
	280,313	301,295
Less: current portion	(15,081)	(12,093)
	\$ 265,232	\$ 289,202

Senior Credit Facility. On March 9, 2007, Carrols terminated and replaced its prior senior credit facility with a new senior credit facility with a syndicate of lenders. Carrols senior credit facility initially totaled approximately \$185 million, consisting of \$120 million principal amount of term loan A borrowings maturing on March 8, 2013 (or earlier on March 31, 2012 if the 9% Senior Subordinated Notes due 2013 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 senior credit facility bear 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 September 27, 2009 the LIBOR margin percentage was 1.0%.

At September 27, 2009, outstanding term loan borrowings under the senior credit facility were \$111.0 million with the remaining balance due and payable as follows:

- 1) seven quarterly installments of \$3.0 million beginning on September 30, 2009;
- 2) four quarterly installments of \$4.5 million beginning on June 30, 2011; and
- 3) four quarterly installments of \$18.0 million beginning on June 30, 2012.

After reserving \$14.3 million for letters of credit guaranteed by the facility, \$47.6 million was available for borrowings under the revolving credit facility at September 27, 2009.

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Under the senior credit facility, Carrols is also required to make mandatory prepayments of principal on its term loan borrowings (a) annually in an initial amount equal to 50% of Excess Cash Flow depending upon Carrols' Total Leverage Ratio (as such terms are defined in the 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. The senior credit facility contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the senior credit facility if there is a default in the payment of any principal of or interest on any indebtedness of Carrols having an outstanding principal amount of at least \$2.5 million (excluding lease financing obligations but which would include the Indenture governing the Notes, as defined below) or any event or condition which results in the acceleration of such indebtedness prior to its stated maturity.

In general, Carrols' obligations under the senior credit facility are guaranteed by the Company and all of Carrols' material subsidiaries and are collateralized by a pledge of Carrols' common stock and the stock of each of Carrols' material subsidiaries. The senior credit facility contains 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 is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the senior credit facility). Carrols was in compliance with the covenants under its senior credit facility as of September 30, 2009.

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)

Senior Subordinated Notes. On December 15, 2004, Carrols issued \$180 million of 9% Senior Subordinated Notes due 2013 (the Notes). At both September 30, 2009 and December 31, 2008, \$165.0 million principal amount of the senior subordinated notes were outstanding. During 2008, Carrols repurchased and retired \$15.0 million principal amount of the Notes in open market transactions for \$10.4 million resulting in a gain on extinguishment of debt of \$4.4 million, net of a \$0.3 million write-off of deferred financing costs. Of these repurchases in 2008, \$2.0 million was repurchased in the three months ended September 30, 2008 which resulted in a gain on extinguishment of debt of \$0.2 million.

Restrictive covenants under the Notes include 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. The Indenture governing the Notes contains customary default provisions as provided therein, 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 indebtedness of Carrols having an outstanding principal amount of \$20 million or more (which would include the senior credit facility) if such default results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. Carrols was in compliance with the restrictive covenants in the Indenture governing the Notes as of September 30, 2009.

6. Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2009 and 2008 was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Current	\$ 2,562	\$ 2,443	\$ 8,942	\$ 4,887
Deferred	532	(307)	1,299	(58)
	\$ 3,094	\$ 2,136	\$ 10,241	\$ 4,829

The provision for income taxes for the three and nine months ended September 30, 2009 was derived using an estimated effective annual income tax rate for 2009 of 37.3%, which excludes any discrete tax adjustments. Discrete tax adjustments reduced the provision for income taxes by \$130 and \$187 in the three and nine months ended September 30, 2009, respectively.

The provision for income taxes for the three and nine months ended September 30, 2008 was derived using an estimated effective annual income tax rate for 2008 of 37.2%, which excludes any discrete tax adjustments. Discrete tax adjustments increased the provision for income taxes by \$15 for the three months ended September 30, 2008 and reduced the provision for income taxes by \$97 for the nine months ended September 30, 2008.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2009 and 2008, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions.

The tax years 2006-2008 remain open to examination by the major taxing jurisdictions to which the Company is subject. It is not possible to reasonably estimate any possible change in the unrecognized tax benefits within the next twelve months due to the uncertainties regarding the timing of any examinations.

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 September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Accrued occupancy costs	\$ 11,282	\$ 10,949
Accrued workers compensation costs	3,675	4,312
Deferred compensation	3,127	3,244
Other	3,586	3,224
	\$ 21,670	\$ 21,729

8. Postretirement Benefits

The Company provides postretirement medical and life insurance 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 benefit income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	\$ 6	\$ 7	\$ 21	\$ 21
Interest cost	30	27	84	80
Amortization of net gains and losses	27	22	69	65
Amortization of prior service credit	(93)	(90)	(265)	(269)
Net periodic postretirement benefit income	\$ (30)	\$ (34)	\$ (91)	\$ (103)

During the three and nine months ended September 30, 2009, the Company made contributions of \$52 and \$124 to its postretirement plan and expects to make additional contributions during 2009.

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

During the nine months ended September 30, 2009, the Company settled \$1.9 million of lease financing obligations which included a purchase from a lessor of one restaurant property previously subject to a lease financing obligation for \$1.1 million and the settlement of the lease

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financing obligation recorded in the second quarter of 2009 for \$0.8 million. The Company also modified provisions in two of its restaurant leases previously accounted for as lease financing obligations which allowed the respective sale transactions to qualify for sale-leaseback accounting and resulted in a reduction of lease financing obligations of \$2.8 million. As a result of these transactions in 2009, lease financing obligations were reduced \$4.0 million, assets under lease financing obligations were reduced by \$2.1 million and deferred gains on qualified sale-leaseback transactions of \$0.7 million were recorded.

In the nine months ended September 30, 2008, the Company purchased from the lessor six restaurant properties for \$5.5 million that were previously accounted for as lease financing obligations.

In late 2008, the Company also amended or modified certain lease provisions and terminated certain purchase options for certain restaurant leases previously accounted for as lease financing obligations. The changes permitted 24 leases to qualify as operating leases and the related sale-leaseback transactions to be recorded as sales, which removed all of the respective assets under lease financing obligations and related liabilities from the Company's consolidated balance sheet. The gains from these sales were generally deferred and are being amortized as an adjustment to rent expense over the remaining term of the underlying leases.

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)

Interest expense associated with lease financing obligations, including settlement gains and losses, for the three months ended September 30, 2009 and 2008 was \$0.3 million and \$1.1 million, respectively, and for the nine months ended September 30, 2009 and 2008 was \$0.9 million and \$3.8 million, respectively.

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. The Company's Burger King restaurants are all located in the United States, primarily in the Northeast, Southeast and Midwest. Pollo Tropical is a quick-casual restaurant chain featuring grilled marinated chicken and authentic made from scratch side dishes. Pollo Tropical's restaurants are primarily located in south and central Florida. Taco Cabana is a quick-casual restaurant chain featuring fresh Mexican style food, including flame-grilled beef and chicken fajitas, quesadillas and other Tex-Mex dishes. Taco Cabana's restaurants are primarily located in Texas.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies. The following table includes 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. 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, other income 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)

Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
September 30, 2009:					
Total revenues	\$ 44,021	\$ 63,013	\$ 94,132	\$	\$ 201,166
Cost of sales	14,379	18,074	25,209		57,662
Restaurant wages and related expenses	10,689	19,030	29,339	51	59,109
General and administrative expenses (1)	2,771	2,877	6,822	296	12,766
Depreciation and amortization	2,014	2,249	3,407	410	8,080
Segment EBITDA	6,294	6,662	8,822		
Capital expenditures, including acquisitions	697	2,924	8,475	547	12,643
September 30, 2008:					
Total revenues	\$ 43,389	\$ 64,132	\$ 101,543	\$	\$ 209,064
Cost of sales	14,312	19,646	29,600		63,558
Restaurant wages and related expenses	10,662	18,357	30,710	57	59,786
General and administrative expenses (1)	2,996	3,036	6,423	438	12,893
Depreciation and amortization	2,032	2,261	3,492	339	8,124
Segment EBITDA	5,222	7,308	8,819		
Capital expenditures, including acquisitions	3,656	7,320	5,369	3,250	19,595
Nine Months Ended					
September 30, 2009:					
Total revenues	\$ 132,737	\$ 189,543	\$ 284,163	\$	\$ 606,443
Cost of sales	43,585	54,960	76,739		175,284
Restaurant wages and related expenses	32,553	56,029	88,158	156	176,896
General and administrative expenses (1)	7,572	8,729	21,482	899	38,682
Depreciation and amortization	5,936	6,708	10,056	1,133	23,833
Segment EBITDA	19,526	22,906	24,894		
Capital expenditures, including acquisitions	1,901	9,503	14,923	3,624	29,951
September 30, 2008:					
Total revenues	\$ 133,125	\$ 187,825	\$ 294,549	\$	\$ 615,499
Cost of sales	43,965	58,022	83,143		185,130
Restaurant wages and related expenses	32,861	54,601	91,457	171	179,090
General and administrative expenses (1)	8,324	9,048	20,943	1,290	39,605
Depreciation and amortization	5,948	6,423	10,741	1,111	24,223
Segment EBITDA	17,959	19,679	22,532		
Capital expenditures, including acquisitions	15,064	16,360	11,565	5,835	48,824
Identifiable Assets:					
At September 30, 2009	\$ 56,344	\$ 66,812	\$ 148,454	\$ 172,717	\$ 444,327
At December 31, 2008	64,550	67,093	143,152	175,403	450,198

- (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 all three of the Company's segments including executive management, information systems and certain accounting, legal and other administrative functions.

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)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Segment EBITDA:				
Pollo Tropical	\$ 6,294	\$ 5,222	\$ 19,526	\$ 17,959
Taco Cabana	6,662	7,308	22,906	19,679
Burger King	8,822	8,819	24,894	22,532
Subtotal	21,778	21,349	67,326	60,170
Less:				
Depreciation and amortization	8,080	8,124	23,833	24,223
Impairment and other lease charges	46	53	400	155
Interest expense	4,834	6,861	14,908	21,418
Provision for income taxes	3,094	2,136	10,241	4,829
Stock-based compensation expense	347	495	1,055	1,461
Gain on extinguishment of debt				(180)
Other income	(220)		(799)	(119)
Net income	\$ 5,597	\$ 3,680	\$ 17,688	\$ 8,383

11. Commitments and Contingencies

On November 16, 1998, the Equal Employment Opportunity Commission (EEOC) filed suit in the United States District Court for the Northern District of New York (the Court), under Title VII of the Civil Rights Act of 1964, as amended, against Carrols. The complaint alleged that Carrols engaged in a pattern and practice of unlawful discrimination, harassment and retaliation against former and current female employees. The EEOC identified approximately 450 individuals (which were subsequently increased to 511 individuals) that it believed represented the class of claimants and was seeking monetary and injunctive relief from Carrols. On April 20, 2005, the Court issued a decision and order granting Carrols Motion for Summary Judgment that Carrols filed in January 2004. Subject to possible appeal by the EEOC, the case is dismissed; however the Court noted that it was not ruling on the claims, if any, that individual employees might have against Carrols. On February 27, 2006, Carrols filed a motion for summary judgment to dismiss all but between four and 17 of the individual claims. On July 10, 2006, in its response to that motion, the EEOC asserted that, notwithstanding the Court s dismissal of the case as a class action, the EEOC may still maintain some kind of collective action on behalf of these claimants. Oral argument before the Court was held on October 4, 2006 and the Company is awaiting the Court s decision on Carrols summary judgment motion. The Company does not believe that any individual claim, if any, would have a material adverse impact on its consolidated financial statements. Although the Company believes that the EEOC s continued class litigation argument is without merit, it is not possible to predict the outcome of the pending motion.

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

12. Net Income per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding plus the dilutive effect of outstanding stock options using the treasury stock method.

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The computation of diluted net income per share excludes options to purchase 1,036,992 shares of common stock in each of the three and nine months ended September 30, 2009 and options to purchase 1,104,505 in each of the three and nine months ended September 30, 2008 because the exercise price of these options was greater than the average market price of the common shares in the periods and therefore, they were antidilutive. In addition, options to purchase 31,508 shares of common stock are excluded from the computation of diluted net income per share in each of the three and nine months ended September 30, 2009 and options to purchase 51,098 of common stock are excluded from the computation of diluted net income per share in each of the three and nine months ended September 30, 2008 as they were antidilutive under the treasury stock method.

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)

The following table is a reconciliation of the income and share amounts used in the calculation of basic net income per share and diluted net income per share:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Basic net income per share:				
Net income	\$ 5,597	\$ 3,680	\$ 17,688	\$ 8,383
Weighted average common shares outstanding	21,593,927	21,573,485	21,592,974	21,572,241
Basic net income per share	\$ 0.26	\$ 0.17	\$ 0.82	\$ 0.39
Diluted net income per share:				
Net income for diluted net income per share	\$ 5,597	\$ 3,680	\$ 17,688	\$ 8,383
Shares used in computed basic net income per share	21,593,927	21,573,485	21,592,974	21,572,241
Dilutive effect of restricted shares and stock options	251,019	2,691	147,983	3,039
Shares used in computed diluted net income per share	21,844,946	21,576,176	21,740,957	21,575,280
Diluted net income per share	\$ 0.26	\$ 0.17	\$ 0.81	\$ 0.39

13. Comprehensive Income

The items that currently impact the Company's other comprehensive income are changes in postretirement benefit obligations, net of tax.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net income	\$ 5,597	\$ 3,680	\$ 17,688	\$ 8,383
Change in postretirement benefit obligation, net of tax				8
Comprehensive income	\$ 5,597	\$ 3,680	\$ 17,688	\$ 8,391

14. Other Income

During the three months ended September 30, 2009, the Company recorded a gain of \$0.2 million related to the sale of a non-operating property. During the nine months ended September 30, 2009, the Company also recorded a gain of \$0.6 million related to an insurance recovery for damages to Taco Cabana restaurants during Hurricane Ike. The Company recorded a gain of \$0.1 million in the nine months ended September 30, 2008 related to the sale of a Taco Cabana property.

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)

15. Recent Accounting Developments

In June 2009, the FASB approved ASU 2009-01, the FASB Accounting Standards Codification (the ASC) as the single source of authoritative nongovernmental generally accepted accounting principles (GAAP). All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and other related literature, excluding guidance from the Securities and Exchange Commission (SEC), have been superseded by the ASC. All other non-grandfathered, non-SEC accounting literature not included in the ASC has become nonauthoritative. The ASC did not change GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized online database. The ASC is effective for interim or annual periods ending after September 15, 2009, and impacts the Company's financial statements as all future references to authoritative accounting literature will be referenced in accordance with the ASC. There have been no changes to the content of the Company's financial statements or disclosures as a result of implementing the ASC during the quarter ended September 30, 2009.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). This statement is a revision to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The statement is effective on January 1, 2010 for companies reporting on a calendar year basis. The Company is currently evaluating the impact of SFAS No. 167 on its financial statements.

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures (Topic 820)*. The purpose of this ASU is to clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses either the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets. This guidance is effective upon issuance. This ASU had no impact on the Company's financial statements.

Table of Contents**ITEM 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****CARROLS CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands of dollars except share and per share amounts)****(Unaudited)**

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,306	\$ 3,399
Trade and other receivables	5,293	5,622
Inventories	5,467	5,588
Prepaid rent	2,983	2,998
Prepaid expenses and other current assets	4,751	6,738
Deferred income taxes	4,873	4,890
Total current assets	26,673	29,235
Property and equipment, net	197,081	195,376
Franchise rights, net (Note 4)	74,518	76,870
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	578	675
Franchise agreements, at cost less accumulated amortization of \$5,715 and \$5,729, respectively	5,900	5,826
Deferred income taxes	5,415	6,697
Other assets	9,228	10,585
Total assets	\$ 444,327	\$ 450,198
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 15,081	\$ 12,093
Accounts payable	17,332	18,789
Accrued interest	3,232	7,742
Accrued payroll, related taxes and benefits	19,943	15,431
Accrued income taxes	3,001	2,099
Accrued real estate taxes	4,979	3,803
Other liabilities	11,494	10,848
Total current liabilities	75,062	70,805
Long-term debt, net of current portion (Note 5)	265,232	289,202
Lease financing obligations (Note 9)	10,865	14,859
Deferred income sale-leaseback of real estate	42,802	43,447
Accrued postretirement benefits (Note 8)	1,494	1,697
Other liabilities (Note 7)	21,621	21,685
Total liabilities	417,076	441,695
Commitments and contingencies (Note 11)		
Stockholder s equity:		
Common stock, par value \$1; authorized 1,000 shares, issued and outstanding 10 shares		
Additional paid-in capital	(6,090)	(7,145)

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Retained earnings	31,377	13,684
Accumulated other comprehensive income (Note 12)	1,964	1,964
Total stockholder's equity	27,251	8,503
Total liabilities and stockholder's equity	\$ 444,327	\$ 450,198

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

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008****(In thousands of dollars)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues:				
Restaurant sales	\$ 200,802	\$ 208,698	\$ 605,326	\$ 614,422
Franchise royalty revenues and fees	364	366	1,117	1,077
Total revenues	201,166	209,064	606,443	615,499
Costs and expenses:				
Cost of sales	57,662	63,558	175,284	185,130
Restaurant wages and related expenses (including stock-based compensation expense of \$51, \$57, \$156 and \$171, respectively)	59,109	59,786	176,896	179,090
Restaurant rent expense	12,383	11,714	37,217	34,765
Other restaurant operating expenses	29,841	32,433	88,541	93,326
Advertising expense	7,974	7,826	23,552	24,874
General and administrative (including stock-based compensation expense of \$296, \$438, \$899 and \$1,290, respectively)	12,764	12,891	38,677	39,600
Depreciation and amortization	8,080	8,124	23,833	24,223
Impairment and other lease charges (Note 3)	46	53	400	155
Other income (Note 13)	(220)		(799)	(119)
Total costs and expenses	187,639	196,385	563,601	581,044
Income from operations	13,527	12,679	42,842	34,455
Interest expense	4,834	6,861	14,908	21,418
Gain on extinguishment of debt (Note 5)				(180)
Income before income taxes	8,693	5,818	27,934	13,217
Provision for income taxes (Note 6)	3,094	2,136	10,241	4,829
Net income	\$ 5,599	\$ 3,682	\$ 17,693	\$ 8,388

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

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008****(In thousands of dollars)****(Unaudited)**

	2009	2008
Cash flows provided from operating activities:		
Net income	\$ 17,693	\$ 8,388
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss on disposals of property and equipment	15	102
Stock-based compensation expense	1,055	1,461
Impairment and other lease charges	400	155
Depreciation and amortization	23,833	24,223
Amortization of deferred financing costs	732	890
Amortization of unearned purchase discounts	(1,616)	(1,616)
Amortization of deferred gains from sale-leaseback transactions	(2,363)	(1,582)
Gain on settlements of lease financing obligations	(76)	(48)
Accretion of interest on lease financing obligations	33	180
Deferred income taxes	1,299	(58)
Accrued income taxes	902	2,748
Gain on extinguishment of debt		(180)
Changes in other operating assets and liabilities	5,034	(5,506)
Net cash provided from operating activities	46,941	29,157
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(7,887)	(26,464)
Restaurant remodeling	(10,073)	(9,622)
Other restaurant capital expenditures	(8,367)	(6,903)
Corporate and restaurant information systems	(3,624)	(5,835)
Total capital expenditures	(29,951)	(48,824)
Properties purchased for sale-leaseback	(1,260)	
Proceeds from sale-leaseback transactions	5,454	6,788
Proceeds from sales of other properties	819	119
Net cash used for investing activities	(24,938)	(41,917)
Cash flows provided from (used for) financing activities:		
Borrowings on revolving credit facility	77,700	109,600
Repayments on revolving credit facility	(92,600)	(92,400)
Scheduled principal payments on term loans	(6,000)	(1,500)
Principal payments on capital leases	(82)	(119)
Proceeds from lease financing obligations	835	
Settlement of lease financing obligations	(1,945)	(5,500)
Financing costs associated with issuance of lease financing obligations	(4)	
Repurchase of senior subordinated notes		(1,820)

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Net cash provided from (used for) financing activities	(22,096)	8,261
Net decrease in cash and cash equivalents	(93)	(4,499)
Cash and cash equivalents, beginning of period	3,399	7,396
Cash and cash equivalents, end of period	\$ 3,306	\$ 2,897
Supplemental disclosures:		
Interest paid on long-term debt	\$ 17,803	\$ 20,984
Interest paid on lease financing obligations	\$ 926	\$ 3,578
Accruals for capital expenditures	\$ 318	\$ 810
Income taxes paid, net	\$ 8,040	\$ 2,141
Capital lease obligations incurred	\$	\$ 158
Non-cash reduction of assets under lease financing obligations due to lease amendments	\$ 2,074	\$ 298
Non-cash reduction of lease financing obligations due to lease amendments	\$ 2,833	\$ 880

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

Table of Contents

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

Basis of Consolidation. The unaudited consolidated financial statements presented herein include the accounts of Carrols Corporation and its subsidiaries (the Company). The Company is a wholly-owned subsidiary of Carrols Restaurant Group, Inc. (Carrols Restaurant Group or the Parent Company). All intercompany transactions have been eliminated in consolidation.

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

Business Description. At September 30, 2009 the Company operated, as franchisee, 314 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At September 30, 2009, the Company also owned and operated 91 Pollo Tropical restaurants, of which 85 were located in Florida, four were in New Jersey and one each in New York and Connecticut, and franchised a total of 27 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in the Bahamas and three on college campuses in Florida. At September 30, 2009, the Company owned and operated 155 Taco Cabana restaurants located primarily in Texas and franchised a total of four Taco Cabana restaurants, two in New Mexico, one in Texas and one in Georgia.

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 December 28, 2008 and December 30, 2007 will be referred to as the fiscal years ended December 31, 2008 and 2007, respectively. Similarly, all references herein to the three and nine months ended September 27, 2009 and September 28, 2008 will be referred to as the three and nine months ended September 30, 2009 and September 30, 2008, respectively. The years ended December 31, 2008 and 2007 each contained 52 weeks and the three and nine months ended September 30, 2009 and 2008 each contained thirteen and thirty-nine weeks, respectively.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three and nine months ended September 30, 2009 and 2008 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 nine months ended September 30, 2009 and 2008 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, 2008 contained in the Company's 2008 Annual Report on Form 10-K. The December 31, 2008 balance sheet data is derived from those audited financial statements.

Fair Value of Financial Instruments. 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 September 30, 2009 and December 31, 2008 were approximately \$165.0 million and \$111.4 million, respectively.

Revolving and Term Loan Facilities. Rates and terms under Carrols' senior credit facility are significantly favorable to debt with similar terms and maturities that could be potentially obtainable, if at all, at September 30, 2009. Given the lack of comparative

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information regarding such debt it is not practicable to estimate the fair value of our existing borrowings under our senior credit facility at September 30, 2009.

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

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include: accrued occupancy costs, insurance liabilities, legal obligations, income taxes, evaluation for impairment of goodwill, long-lived assets and Burger King franchise rights, lease accounting matters and stock-based compensation. Actual results could differ from those estimates.

Earnings Per Share Presentation. Presentation of earnings per share is required for all entities that have issued common stock or potential common stock if those securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market. The Company's common stock is not publicly traded and therefore, earnings per share amounts are not presented.

Subsequent Events. The Company evaluated for subsequent events through November 4, 2009, the issuance date of the Company's financial statements. No subsequent events requiring disclosure were noted.

2. Stock-Based Compensation

As of September 30, 2009, the total non-vested stock-based compensation expense relating to the options and restricted shares was approximately \$3.0 million and the Company expects to record an additional \$0.4 million as compensation expense in 2009. At September 30, 2009 the remaining weighted average vesting period for stock options and restricted shares was 3.3 years and 1.6 years, respectively.

Stock Options

A summary of all option activity for the nine months ended September 30, 2009 was as follows:

		2006 Plan			
	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands) (1)	
Options outstanding at January 1, 2009	1,710,764	\$ 12.17	5.3	\$	
Granted	544,000	2.77			
Forfeited	(90,113)	10.75			
Options outstanding at September 30, 2009	2,164,651	\$ 9.86	5.0	\$	2,809
Vested or expected to vest at September 30, 2009	2,129,625	\$ 9.89	5.0	\$	2,741
Options exercisable at September 30, 2009	779,628	\$ 12.85	4.5	\$	

- (1) The aggregate intrinsic value was calculated using the difference between the market price of Carrols Restaurant Group's common stock at September 30, 2009 and the grant price for only those awards that had a grant price that was less than the market price of Carrols Restaurant Group's common stock at September 30, 2009.

3. Impairment 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 for each restaurant is compared to the carrying value of

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that restaurant's long-lived assets. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value in addition to any lease liabilities to be incurred for non-operating restaurants.

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****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 its segments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Burger King	\$ 31	\$ 43	\$ 59	\$ 135
Pollo Tropical		5	284	5
Taco Cabana	15	5	57	15
	\$ 46	\$ 53	\$ 400	\$ 155

During the nine months ended September 30, 2009, the Company closed one Pollo Tropical restaurant property in Florida whose fixed assets were impaired in the fourth quarter of 2008, and recorded a charge of \$0.3 million which principally consisted of future minimum lease payments and related ancillary costs from the date of the closure to the end of the remaining lease term, net of any estimated cost recoveries from subletting the property.

4. Goodwill and Franchise Rights

Goodwill. Goodwill is reviewed for impairment annually, or more frequently when events and circumstances indicate that the carrying amounts may be impaired. 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. In performing its goodwill impairment test, the Company compares the net book values of its reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, the Company employs a combination of a discounted cash flow analysis and a market-based approach. The results of the discounted cash flow analyses are corroborated with other value indicators where available, such as comparable company earnings multiples and research analyst estimates. No impairment losses have been recognized as a result of these tests. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Balance, September 30, 2009	\$ 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 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 future cash flows from the 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. There were no impairment charges recorded against franchise rights for the three months and nine months ended September 30, 2009 and 2008.

Amortization expense related to Burger King franchise rights was \$784 and \$799 for the three months ended September 30, 2009 and 2008, respectively. Amortization expense related to Burger King franchise rights was \$2,352 and \$2,399 for the nine months ended September 30, 2009 and 2008, respectively. The estimated amortization expense for the year ending December 31, 2009 and for each of the five succeeding years is \$3,197.

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****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 September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Collateralized:		
Senior Credit Facility-Revolving credit facility	\$ 3,100	\$ 18,000
Senior Credit Facility-Term loan A facility	111,000	117,000
Unsecured:		
9% Senior Subordinated Notes	165,000	165,000
Capital leases	1,213	1,295
	280,313	301,295
Less: current portion	(15,081)	(12,093)
	\$ 265,232	\$ 289,202

Senior Credit Facility. On March 9, 2007, the Company terminated and replaced its prior senior credit facility with a new senior credit facility with a syndicate of lenders. The Company's credit facility totals approximately \$185 million, consisting of \$120 million principal amount of term loan A borrowings maturing on March 8, 2013 (or earlier on March 30, 2012 if the 9% Senior Subordinated Notes due 2013 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 senior credit facility bear interest at a per annum rate, at the Company's option, of either:

- 1) the applicable margin percentage ranging from 0% to 0.25% based on the Company's 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 the Company's senior leverage ratio. At September 27, 2009 the LIBOR margin percentage was 1.0%.

At September 27, 2009, outstanding term loan borrowings under the senior credit facility were \$111.0 million with the remaining balance due and payable as follows:

- 1) seven quarterly installments of \$3.0 million beginning on September 30, 2009;
- 2) four quarterly installments of \$4.5 million beginning on June 30, 2011; and
- 3) four quarterly installments of \$18.0 million beginning on June 30, 2012.

After reserving \$14.3 million for letters of credit guaranteed by the facility, \$47.6 million was available for borrowings under the revolving credit facility at September 27, 2009.

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Under the senior credit facility, the Company is also required to make mandatory prepayments of principal on its term loan borrowings (a) annually in an initial amount equal to 50% of Excess Cash Flow depending upon the Company's Total Leverage Ratio (as such terms are defined in the 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 the Company therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt. The senior credit facility contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the senior credit facility if there is a default in the payment of any principal or interest on any indebtedness of the Company having an outstanding principal amount of at least \$2.5 million (excluding lease financing obligations but which would include the Indenture governing the Notes, as defined below) or any event or condition which results in the acceleration of such indebtedness prior to its stated maturity.

In general, the Company's obligations under the senior credit facility are guaranteed by Carrols Restaurant Group and all of the Company's material subsidiaries and are collateralized by a pledge of the Company's common stock and the stock of each of the Company's material subsidiaries. The senior credit facility contains certain covenants, including, without limitation, those limiting the Company's 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, the Company is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the senior credit facility). The Company was in compliance with the covenants under its new senior credit facility as of September 30, 2009.

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(in thousands of dollars, except share and per share amounts)**

Senior Subordinated Notes. On December 15, 2004, the Company issued \$180 million of 9% Senior Subordinated Notes due 2013 (the Notes). At both September 30, 2009 and December 31, 2008, \$165.0 million principal amount of the senior subordinated notes were outstanding. During 2008, the Company repurchased and retired \$15.0 million principal amount of the Notes in open market transactions for \$10.4 million resulting in a gain on extinguishment of debt of \$4.4 million, net of a \$0.3 million write-off of deferred financing costs. Of these repurchases in 2008, \$2.0 million was repurchased in the three months ended September 30, 2008 which resulted in a gain on extinguishment of debt of \$0.2 million.

Restrictive covenants under the Notes include limitations with respect to the Company's ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. The Indenture governing the Notes contains customary default provisions as provided therein, 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 indebtedness of the Company having an outstanding principal amount of \$20 million or more (which would include the senior credit facility) if such default results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. The Company was in compliance with the restrictive covenants in the Indenture governing the Notes as of September 30, 2009.

6. Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2009 and 2008 was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Current	\$ 2,562	\$ 2,443	\$ 8,942	\$ 4,887
Deferred	532	(307)	1,299	(58)
	\$ 3,094	\$ 2,136	\$ 10,241	\$ 4,829

The provision for income taxes for the three and nine months ended September 30, 2009 was derived using an estimated effective annual income tax rate for 2009 of 37.3%, which excludes any discrete tax adjustments. Discrete tax adjustments reduced the provision for income taxes by \$130 and \$187 in the three and nine months ended September 30, 2009, respectively.

The provision for income taxes for the three and nine months ended September 30, 2008 was derived using an estimated effective annual income tax rate for 2008 of 37.2%, which excludes any discrete tax adjustments. Discrete tax adjustments increased the provision for income taxes by \$15 for the three months ended September 30, 2008 and reduced the provision for income taxes by \$97 for the nine months ended September 30, 2008.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2009 and 2008, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions.

The tax years 2006-2008 remain open to examination by the major taxing jurisdictions to which the Company is subject. It is not possible to reasonably estimate any possible change in the unrecognized tax benefits within the next twelve months due to the uncertainties regarding the timing of any examinations.

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****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 September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Accrued occupancy costs	\$ 11,282	\$ 10,949
Accrued workers compensation costs	3,675	4,312
Deferred compensation	3,127	3,244
Other	3,537	3,180
	\$ 21,621	\$ 21,685

8. Postretirement Benefits

The Company provides postretirement medical and life insurance 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 benefit income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	\$ 6	\$ 7	\$ 21	\$ 21
Interest cost	30	27	84	80
Amortization of net gains and losses	27	22	69	65
Amortization of prior service credit	(93)	(90)	(265)	(269)
Net periodic postretirement benefit income	\$ (30)	\$ (34)	\$ (91)	\$ (103)

During the three and nine months ended September 30, 2009, the Company made contributions of \$52 and \$124 to its postretirement plan and expects to make additional contributions during 2009.

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

During the nine months ended September 30, 2009, the Company settled \$1.9 million of lease financing obligations which included a purchase from a lessor one of one restaurant property previously subject to a lease financing obligation for \$1.1 million and the settlement of the lease

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financing obligation recorded in the second quarter of 2009 for \$0.8 million. The Company also modified provisions in two of its restaurant leases previously accounted for as lease financing obligations which allowed the respective sale transactions to qualify for sale-leaseback accounting and resulted in a reduction of lease financing obligations of \$2.8 million. As a result of these transactions in the second quarter of 2009, lease financing obligations were reduced \$4.0 million, assets under lease financing obligations were reduced by \$2.1 million and deferred gains on qualified sale-leaseback transactions of \$0.7 million were recorded.

In the nine months ended September 30, 2008, the Company purchased from the lessor six restaurant properties for \$5.5 million that were previously accounted for as lease financing obligations.

In late 2008, the Company also amended or modified certain lease provisions and terminated certain purchase options, for certain restaurant leases previously accounted for as lease financing obligations. The changes permitted 24 leases to qualify as operating leases and the related sale-leaseback transactions to be recorded as sales, which removed all of the respective assets under lease financing obligations and related liabilities from the Company's consolidated balance sheet. The gains from these sales were generally deferred and are being amortized as an adjustment to rent expense over the remaining term of the underlying leases.

Table of Contents

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Interest expense associated with lease financing obligations, including settlement gains and losses, for the three months ended September 30, 2009 and 2008 was \$0.3 million and \$1.1 million, respectively, and for the nine months ended September 30, 2009 and 2008 was \$0.9 million and \$3.8 million, respectively.

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. The Company's Burger King restaurants are all located in the United States, primarily in the Northeast, Southeast and Midwest. Pollo Tropical is a quick-casual restaurant chain featuring grilled marinated chicken and Caribbean style made from scratch side dishes. Pollo Tropical's restaurants are primarily located in south and central Florida. Taco Cabana is a quick-casual restaurant chain featuring fresh Mexican style food, including flame-grilled beef and chicken fajitas, quesadillas and other Tex-Mex dishes. Taco Cabana's restaurants are primarily located in Texas.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies. The following table includes 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. Segment EBITDA is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment losses, 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 CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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

Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
September 30, 2009:					
Total revenues	\$ 44,021	\$ 63,013	\$ 94,132	\$	\$ 201,166
Cost of sales	14,379	18,074	25,209		57,662
Restaurant wages and related expenses	10,689	19,030	29,339	51	59,109
General and administrative expenses (1)	2,769	2,877	6,822	296	12,764
Depreciation and amortization	2,014	2,249	3,407	410	8,080
Segment EBITDA	6,296	6,662	8,822		
Capital expenditures, including acquisitions	697	2,924	8,475	547	12,643
September 30, 2008:					
Total revenues	\$ 43,389	\$ 64,132	\$ 101,543	\$	\$ 209,064
Cost of sales	14,312	19,646	29,600		63,558
Restaurant wages and related expenses	10,662	18,357	30,710	57	59,786
General and administrative expenses (1)	2,994	3,036	6,423	438	12,891
Depreciation and amortization	2,032	2,261	3,492	339	8,124
Segment EBITDA	5,224	7,308	8,819		
Capital expenditures, including acquisitions	3,656	7,320	5,369	3,250	19,595
Nine Months Ended					
September 30, 2009:					
Total revenues	\$ 132,737	\$ 189,543	\$ 284,163	\$	\$ 606,443
Cost of sales	43,585	54,960	76,739		175,284
Restaurant wages and related expenses	32,553	56,029	88,158	156	176,896
General and administrative expenses (1)	7,567	8,729	21,482	899	38,677
Depreciation and amortization	5,936	6,708	10,056	1,133	23,833
Segment EBITDA	19,531	22,906	24,894		
Capital expenditures, including acquisitions	1,901	9,503	14,923	3,624	29,951
September 30, 2008:					
Total revenues	\$ 133,125	\$ 187,825	\$ 294,549	\$	\$ 615,499
Cost of sales	43,965	58,022	83,143		185,130
Restaurant wages and related expenses	32,861	54,601	91,457	171	179,090
General and administrative expenses (1)	8,319	9,048	20,943	1,290	39,600
Depreciation and amortization	5,948	6,423	10,741	1,111	24,223
Segment EBITDA	17,964	19,679	22,532		
Capital expenditures, including acquisitions	15,064	16,360	11,565	5,835	48,824
Identifiable Assets:					
At September 30, 2009	\$ 56,344	\$ 66,812	\$ 148,454	\$ 172,717	\$ 444,327
At December 31, 2008	64,550	67,093	143,152	175,403	450,198

- (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 all of the Company's segments including executive management, information systems and certain accounting, legal and other administrative functions.

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(in thousands of dollars, except share and per share amounts)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Segment EBITDA:				
Pollo Tropical	\$ 6,296	\$ 5,224	\$ 19,531	\$ 17,964
Taco Cabana	6,662	7,308	22,906	19,679
Burger King	8,822	8,819	24,894	22,532
Subtotal	21,780	21,351	67,331	