

CARROLS RESTAURANT GROUP, INC.

Form 10-Q

November 05, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 28, 2008

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 13203
(Address of principal executive office) (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 16-0958146
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

968 James Street
Syracuse, New York 13203
(Address of principal executive offices) (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 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
(Do not check if a smaller reporting company)

Carrols Corporation

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Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

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 November 1, 2008, Carrols Restaurant Group, Inc. had 21,573,775 shares of its common stock, \$.01 par value, outstanding. As of November 1, 2008, all outstanding equity securities of Carrols Corporation, which consisted of 10 shares of its common stock, were owned by Carrols Restaurant Group, Inc.

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CARROLS RESTAURANT GROUP, INC. AND CARROLS CORPORATION

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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, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,897	\$ 7,396
Trade and other receivables	5,811	4,734
Inventories	5,225	5,339
Prepaid rent	2,936	2,803
Prepaid expenses and other current assets	6,928	6,172
Deferred income taxes	4,922	4,802
Total current assets	28,719	31,246
Property and equipment, net	222,211	200,325
Franchise rights, net (Note 4)	77,670	80,052
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	709	887
Franchise agreements, at cost less accumulated amortization of \$5,757 and \$5,646, respectively	5,824	5,548
Deferred income taxes	10,505	10,559
Other assets	11,533	12,007
Total assets	\$ 482,105	\$ 465,558
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 7,614	\$ 3,129
Accounts payable	20,371	20,054
Accrued interest	3,902	8,148
Accrued payroll, related taxes and benefits	15,416	18,669
Accrued income taxes payable	3,681	933
Accrued real estate taxes	4,418	3,312
Other liabilities	12,808	10,113
Total current liabilities	68,210	64,358
Long-term debt, net of current portion (Note 5)	307,408	298,154
Lease financing obligations (Note 9)	46,495	52,689
Deferred income sale-leaseback of real estate	32,551	31,348
Accrued postretirement benefits (Note 8)	2,804	3,022
Other liabilities (Note 7)	21,620	22,822
Total liabilities	479,088	472,393
Commitments and contingencies (Note 12)		
Stockholders' equity (deficit):		

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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 - 21,573,775 and 21,571,565 shares, respectively	216	216
Additional paid-in capital	(130)	(1,591)
Retained earnings (accumulated deficit)	1,703	(6,680)
Accumulated other comprehensive income	1,369	1,361
Treasury stock, at cost	(141)	(141)
Total stockholders' equity (deficit)	3,017	(6,835)
Total liabilities and stockholders' equity (deficit)	\$ 482,105	\$ 465,558

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, 2008 AND 2007****(In thousands of dollars, except share and per share amounts)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues:				
Restaurant sales	\$ 208,698	\$ 203,181	\$ 614,422	\$ 591,164
Franchise royalty revenues and fees	366	328	1,077	997
Total revenues	209,064	203,509	615,499	592,161
Costs and expenses:				
Cost of sales	63,558	58,595	185,130	168,264
Restaurant wages and related expenses (including stock-based compensation expense of \$57, \$45, \$171 and \$121, respectively)	59,786	59,519	179,090	174,029
Restaurant rent expense	11,714	11,101	34,765	32,687
Other restaurant operating expenses	32,433	30,547	93,326	87,028
Advertising expense	7,826	7,458	24,874	24,442
General and administrative (including stock-based compensation expense of \$438, \$314, \$1,290 and \$947, respectively)	12,893	12,327	39,605	38,778
Depreciation and amortization	8,124	8,107	24,223	23,685
Impairment losses (Note 3)	53	1,810	155	1,879
Other income (Note 10)		(303)	(119)	(650)
Total operating expenses	196,387	189,161	581,049	550,142
Income from operations	12,677	14,348	34,450	42,019
Interest expense	6,861	7,690	21,418	23,647
Loss (gain) on extinguishment of debt (Note 5)			(180)	1,485
Income before income taxes	5,816	6,658	13,212	16,887
Provision for income taxes (Note 6)	2,136	1,795	4,829	5,349
Net income	\$ 3,680	\$ 4,863	\$ 8,383	\$ 11,538
Basic and diluted net income per share (Note 13)	\$ 0.17	\$ 0.23	\$ 0.39	\$ 0.54
Basic weighted average common shares outstanding (Note 13)	21,573,485	21,550,827	21,572,241	21,550,827
Diluted weighted average common shares outstanding (Note 13)	21,576,176	21,555,020	21,575,280	21,559,524

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

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	2008	2007
Cash flows provided from operating activities:		
Net income	\$ 8,383	\$ 11,538
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss (gain) on disposals of property and equipment	102	(57)
Stock-based compensation expense	1,461	1,068
Depreciation and amortization	24,223	23,685
Amortization of deferred financing costs	890	940
Amortization of unearned purchase discounts	(1,616)	(1,616)
Amortization of deferred gains from sale-leaseback transactions	(1,582)	(1,460)
Impairment losses	155	1,879
Gain on settlements of lease financing obligations	(48)	(163)
Accretion of interest on lease financing obligations	180	397
Deferred income taxes	(58)	(319)
Accrued income taxes	2,748	331
Loss (gain) on extinguishment of debt	(180)	1,485
Changes in other operating assets and liabilities	(5,501)	3,656
Net cash provided from operating activities	29,157	41,364
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(26,464)	(26,241)
Restaurant remodeling	(9,622)	(5,850)
Other restaurant capital expenditures	(6,903)	(6,825)
Corporate and restaurant information systems	(5,835)	(1,840)
Total capital expenditures	(48,824)	(40,756)
Properties purchased for sale-leaseback		(2,461)
Proceeds from sale-leaseback transactions	6,788	7,036
Proceeds from sales of other properties	119	