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CARROLS RESTAURANT GROUP, INC.

Form 10-K

March 07, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 30, 2018

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

16-1287774

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

968 James Street, Syracuse, New York

13203

(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

Common Stock, par value \$.01 per share The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

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

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As of February 26, 2019 Carrols Restaurant Group, Inc. had 37,003,873 shares of its common stock, \$.01 par value, outstanding. The aggregate market value of the common stock held by non-affiliates as of July 1, 2018 of Carrols Restaurant Group, Inc. was \$505,346,703.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I—FINANCIAL INFORMATION

PART I

Throughout this Annual Report on Form 10-K we refer to Carrols Restaurant Group, Inc. as “Carrols Restaurant Group” and, together with its consolidated subsidiary, as “we”, “our” and “us” unless otherwise indicated or the context otherwise requires. Any reference to “Carrols” refers to our wholly-owned subsidiary, Carrols Corporation, a Delaware corporation, and its consolidated subsidiary, unless otherwise indicated or the context otherwise requires. Any reference to “Carrols LLC” refers to Carrols’ direct subsidiary, Carrols LLC, a Delaware limited liability company, unless otherwise indicated or the context otherwise requires.

We use a 52 or 53 week fiscal year ending on the Sunday closest to December 31. Our fiscal years ended December 28, 2014, January 1, 2017, December 31, 2017, and December 30, 2018 each contained 52 weeks. Our fiscal year ended January 3, 2016 contained 53 weeks.

In this Annual Report on Form 10-K, we refer to information, forecasts and statistics regarding the restaurant industry and to information, forecasts and statistics from Nation’s Restaurant News, the U.S. Census Bureau and the U.S. Department of Agriculture. Any reference to BKC in this Annual Report on Form 10-K refers to Burger King Worldwide, Inc. and its wholly-owned subsidiaries, including Burger King Corporation, and its parent company Restaurant Brands International, Inc., which is sometimes referred to as “RBI.” Unless otherwise indicated, information regarding BKC in this Annual Report on Form 10-K has been made publicly available by BKC.

This 2018 Annual Report on Form 10-K contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. Words such as “may”, “might”, “will”, “should”, “anticipate”, “believe”, “expect”, “intend”, “estimate”, “hope”, “plan” or similar expressions are intended to identify forward-looking statements. In addition, expressions of our strategies, intentions or plans are also forward-looking statements. These statements reflect management’s best judgment based on current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. Actual results could differ materially from those stated or implied in these forward-looking statements as a result of a number of factors, included but not limited to, the factors discussed in Item 1A-Risk Factors. We believe important factors that could cause actual results to differ materially from our expectations include the following, in addition to other risks and uncertainties discussed herein:

- Effectiveness of the Burger King® advertising programs and the overall success of the Burger King® brand;

- Increases in food costs and other commodity costs;

- Competitive conditions, including pricing pressures, couponing, aggressive marketing and the potential impact of competitors’ new unit openings on sales of our restaurants;

- Our ability to integrate any restaurants we acquire;

- Regulatory factors;

- Environmental conditions and regulations;

- General economic conditions, particularly in the retail sector;

- Weather conditions;

- Fuel prices;

- Significant disruptions in service or supply by any of our suppliers or distributors;

- Changes in consumer perception of dietary health and food safety;

- Labor and employment benefit costs, including the effects of minimum wage increases, healthcare reform and changes in the Fair Labor Standards Act;

- The outcome of pending or future legal claims or proceedings;
 - Our ability to manage our growth and successfully implement our business strategy;
 - Our inability to service our indebtedness;
 - Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;
 - The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties;
- Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if our products cause injury, ingredient disclosure and labeling laws and regulations, reports of cases of food borne illnesses such as "mad cow" disease, and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as negative publicity regarding food quality, illness, injury or other health concerns; and
- Other factors discussed under Item 1A - "Risk Factors" and elsewhere herein.

ITEM 1. BUSINESS

Overview

Our Company

We are one of the largest restaurant companies in the United States and have been operating restaurants for more than 55 years. We are the largest Burger King® franchisee in the United States, based on number of restaurants, and have operated Burger King restaurants since 1976. As of December 30, 2018, we owned and operated 849 Burger King restaurants located in 18 Northeastern, Midwestern and Southeastern states. Burger King restaurants feature the popular flame-broiled Whopper® sandwich, as well as a variety of hamburgers, chicken and other specialty sandwiches, french fries, salads, breakfast items, snacks, soft drinks and other offerings. We believe that our size, seasoned management team, extensive operating infrastructure, experience and proven operating disciplines differentiate us from many of our competitors as well as many other Burger King operators.

According to BKC, as of December 31, 2018 there were a total of 17,796 Burger King restaurants, of which almost all were franchised and 7,330 were located in the United States. Burger King is the second largest quick service hamburger restaurant chain in the world (as measured by number of restaurants) and we believe that the Burger King brand is one of the world's most recognized consumer brands. Burger King restaurants have a distinctive image and are generally located in high-traffic areas throughout the United States. Burger King restaurants are designed to appeal to a broad spectrum of consumers, with multiple day-part meal segments targeted to different groups of consumers. We believe that the competitive attributes of Burger King restaurants include significant brand recognition, convenience of location, quality, speed of service and price.

Our Burger King restaurants are typically open seven days per week and generally have operating hours ranging from 6:00 am to midnight on Sunday to Wednesday and to 2:00 am on Thursday to Saturday.

Our existing restaurants consist of one of several building types with various seating capacities. Our typical freestanding restaurant contains approximately 2,600 square feet with seating capacity for 60 to 70 customers, has drive-thru service windows and has adjacent parking areas. As of December 30, 2018, almost all of our restaurants were freestanding. We operate our restaurants under franchise agreements with BKC.

Our acquisition of 278 Burger King restaurants on May 30, 2012 from BKC, which we refer to as the "2012 acquisition", included BKC's assignment to us of its right of first refusal on franchise restaurant transfers in 20 states as follows: Connecticut (except Hartford county), Delaware, Indiana, Kentucky, Maine, Maryland, Massachusetts (except for Middlesex, Norfolk and Suffolk counties), Michigan, New Hampshire, New Jersey, New York (except for Bronx, Kings, Nassau, New York, Queens, Richmond, Suffolk and Westchester counties), North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington DC and West Virginia (the "ROFR") pursuant to an operating agreement with BKC dated May 30, 2012, and which was amended on January 26, 2015 and December 17, 2015, which we refer to as the "amended operating agreement". In addition, pursuant to the amended operating agreement, BKC granted us, on a non-exclusive basis, franchise pre-approval to acquire restaurants from Burger King franchisees in the 20 states covered by the ROFR until we operate 1,000 Burger King restaurants. Newly

constructed or acquired restaurants beyond 1,000 or acquisitions in states not subject to the ROFR would be subject to BKC's customary approval process.

During 2018, we acquired a total of 44 restaurants from other franchisees in four separate transactions. During 2017, we acquired a total of 64 restaurants in three separate transactions and in 2016, we acquired 56 restaurants in seven separate transactions.

For the fiscal year ended December 30, 2018, our restaurants generated total revenues of \$1,179.3 million and our comparable restaurant sales increased 3.8%. Our average annual restaurant sales for all restaurants were approximately \$1.45 million per restaurant.

On February 20, 2019, we announced that we entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") dated as of February 19, 2019 to acquire 166 Burger King® and 55 Popeyes® restaurants from Cambridge Franchise Holdings, LLC ("Cambridge Holdings"). Cambridge Holdings will receive approximately 7.36 million shares of our common stock, and at closing will own approximately 16.6% of our outstanding common shares. Cambridge Holdings will also receive shares of 9% PIK Series C Convertible Preferred Stock that will be convertible into approximately 7.45 million shares of our common stock at \$13.50 per share. The conversion of the preferred stock received by Cambridge Holdings will be subject to a vote of our stockholders which will occur at our 2019 Annual Meeting of Stockholders, and will automatically convert into common stock upon stockholder approval of such conversion. All shares issued to Cambridge Holdings are subject to a two year restriction on sale or transfer subject to certain limited exceptions. As part of the transaction, Cambridge Holdings will have the right to designate up to two director nominees and two Cambridge Holdings executives will join the Company's Board of Directors upon completion of the merger.

We expect to refinance the existing debt assumed as part of the transaction, along with our existing debt, through a new senior secured credit facility providing for term loan and revolving credit borrowings under a fully committed financing. The closing of the merger with Cambridge Holdings is not, however, conditioned on financing.

We have entered into an Area Development and Remodeling Agreement (the "Area Development Agreement") with BKC which will be subject to the closing of the transactions contemplated by the Merger Agreement and have a term commencing on the date of the closing of the Merger Agreement and ending on September 30, 2024. Pursuant to the Area Development Agreement, which will supersede the amended operating agreement, BKC will grant us franchise pre-approval and assign to us its right of first refusal on franchise restaurant transfers in 16 states until the date that we have acquired more than an aggregate of 500 Burger King Restaurants. We will pay BKC \$3.0 million in equal quarterly installment payments in 2019. We also will agree to open, build and operate 200 new Burger King restaurants and will agree to remodel or upgrade 748 Burger King restaurants to BKC's Burger King of Tomorrow restaurant image. The Area Development agreement includes a contribution by BKC of \$10 million to \$12 million for upgrades to approximately 50 to 60 Burger King restaurants in 2019 and 2020 where BKC is the landlord on the lease.

For a complete discussion of the Merger Agreement, committed debt financing and Area Development Agreement see "Item 1. Business - Recent Developments."

Our Competitive Strengths

We believe we have the following competitive strengths:

Largest Burger King Franchisee in the United States. We are the largest Burger King franchisee in the United States based on number of restaurants, and are well positioned to leverage the scale and marketing of one of the most recognized brands in the restaurant industry. We believe the geographic dispersion of our restaurants provides us with stability and enhanced growth opportunities in many of the markets in which we operate. We also believe that our large number of restaurants increases our ability to effectively manage the awareness of the Burger King brand in certain markets through our ability to influence local advertising and promotional activities.

Operational Expertise. We have been operating Burger King restaurants since 1976 and have developed sophisticated information and operating systems that enable us to measure and monitor key metrics for operational performance, sales and profitability that may not be available to other restaurant operators. Our focus on leveraging our operational

expertise, infrastructure and systems allows us to optimize the performance of our restaurants and restaurants that we may acquire or open. Our size and history with the Burger King brand enable us to effectively track operating metrics and leverage best practices across our organization. We believe that our experienced management team, operating culture, effective operating systems and infrastructure enable us to operate more efficiently than many other Burger King operators, resulting in higher restaurant margins and improved overall financial results.

Consistent Operating History and Financial Strength. We believe that the quality and sophistication of our restaurant operations have helped drive our strong restaurant level performance. Comparable restaurant sales for our restaurants have generally outperformed the Burger King system. Our strong restaurant level operations coupled with our financial management capabilities have resulted in consistent and stable cash flows. We have demonstrated our ability to prudently manage our capital structure and financial leverage through a variety of economic cycles. We believe that our cash flow from operations, cash balances and the availability of revolving credit borrowings under our amended senior credit facility (and, in the event the Mergers and Financing, as defined below, are consummated, our New Senior Credit Facilities, as defined below) are sufficient to fund our ongoing operations and capital expenditures.

Distinct Brand with Global Recognition, Innovative Marketing and New Product Development. As a Burger King franchisee, we benefit from, and rely on, BKC's extensive marketing, advertising and product development capabilities to drive sales and generate increased restaurant traffic. Over the years, BKC has launched innovative and creative multimedia advertising campaigns and products that highlight the relevance of the Burger King brand. BKC has also introduced promotions that leverage both value and premium menu offerings as well as providing a platform for new premium sandwich offerings. We believe these campaigns continue to positively impact the brand today as BKC focuses on a well-balanced promotional mix and remains committed to focusing on impactful new product launches and limited time offers, both of which continue to show positive trends. BKC is also aggressively working with franchisees throughout the system to encourage the renovation and remodeling of restaurants to BKC's current image, which we believe will continue to increase customer traffic and restaurant sales.

Strategic Relationship with Burger King Corporation and RBI. We believe that the structure of the 2012 acquisition strengthened our well-established relationship with BKC and RBI and has further aligned our common interests to grow our business. We intend to continue to expand by making acquisitions, including acquisitions resulting from the exercise of the ROFR as well as other negotiated acquisitions under our pre-approval rights. The consideration to BKC associated with the 2012 acquisition included a preferred stock equity interest in Carrols Restaurant Group, which is convertible into approximately 20.3% of our outstanding shares of common stock. Since the 2012 acquisition, two of BKC's or RBI's senior executives have served on our Board of Directors. Jose Cil, Chief Executive Officer of Restaurant Brands International Inc., and Matthew Dunnigan, Chief Financial Officer of Restaurant Brands International Inc., the indirect parent company of BKC, currently serve on our board of directors. Our restaurants represented approximately 11.6% of the Burger King locations in the United States as of December 30, 2018. We believe that the combination of our rights under the amended operating agreement (and the Area Development Agreement should such agreement become effective), BKC's equity interest and its board level representation will continue to reinforce the alignment of our common interests with BKC for the long term.

Multiple Growth Levers. We believe our historical track record of acquiring and integrating restaurants and our commitment to remodel, upgrade and open new restaurants provides multiple avenues to grow our business. With more than 55 years of restaurant operating experience, we have successfully grown our business through acquisitions. We have experienced increases in comparable restaurant sales, increased restaurant-level profitability and improved operating metrics at the restaurants we have acquired in the last five years. In addition, we have remodeled a total of 560 restaurants to BKC's 20/20 restaurant image as of December 30, 2018 which we believe has improved our guests' overall experience and increased customer traffic. At December 30, 2018, 681 of our restaurants had the BKC 20/20 image, which includes restaurants converted prior to our acquisition.

Experienced Management Team with a Proven Track Record. We believe that our senior management team's extensive experience in the restaurant industry and its long and successful history of developing, acquiring, integrating and operating quick-service restaurants provide us with a competitive advantage. Our management team has a successful history of integrating acquired restaurants, and over the past 20 years, we have significantly increased the number of

Burger King restaurants we own and operate, largely through acquisitions. Our operations are overseen by our Chief Executive Officer, Dan Accordino, who has over 45 years of Burger King and quick-service restaurant experience, a Divisional VP, and ten Regional Directors that have an average of 24 years of Burger King restaurant experience. Our 124 district managers that have an average tenure of over 16 years in the Burger King system support the Regional Directors. Our operations management is further supported by our infrastructure of financial, information systems, real estate, human resources and legal professionals.

Our Business Strategies

Our primary business strategies are as follows:

Selectively Acquire and Develop Additional Burger King Restaurants. As of December 30, 2018, we operated 849 Burger King restaurants, making us the largest Burger King franchisees in the United States. We acquired the ROFR in the 2012 acquisition and were granted certain pre-approval rights to acquire additional franchised restaurants and to develop new restaurants. Due to the number of restaurants and franchisees in the Burger King system and our historical success in acquiring and integrating restaurants, we believe that there is considerable opportunity for future growth. There are more than 2,000 Burger King restaurants we do not own in states in which we have the ROFR and pre-approval rights. Furthermore, we believe there are additional Burger King restaurants in states not subject to the ROFR that could be attractive acquisition candidates, subject to BKC's customary approval. We believe that the assignment of the ROFR and the pre-approval to acquire and develop additional restaurants provide us with the opportunity to significantly expand our ownership of Burger King restaurants in the future. While we may evaluate and discuss potential acquisitions of additional restaurants from time to time, we currently have no understandings, commitments or agreements with respect to any material acquisitions, other than the Merger Agreement with Cambridge Holdings. We may be required to obtain additional financing to fund future acquisitions. There can be no assurance that we will be able to obtain additional financing, if necessary, on acceptable terms or at all.

Under the new Area Development Agreement which is subject to and effective upon the closing of the Mergers, BKC will assign to Carrols LLC the ADA ROFR in the ADA DMAs until the date that Carrols LLC has acquired an aggregate of 500 Burger King restaurants. In addition, pursuant to the Area Development Agreement, BKC will grant Carrols LLC franchise pre-approval to build new Burger King restaurants or acquire Burger King restaurants from Burger King franchisees in the ADA DMAs until the date that Carrols LLC acquires, in the aggregate, more than 500 Burger King restaurants.

Improve Profitability of Restaurants We Acquire by Leveraging Our Existing Infrastructure and Best-Practices. For acquired restaurants, we believe we can realize benefits from economies of scale, including leveraging our existing infrastructure across a larger number of restaurants. Additionally, we believe that our skilled management team, sophisticated information technology, operating systems and training and development programs support our ability to enhance operating efficiencies at restaurants we may acquire. We have demonstrated our ability to increase the profitability of acquired restaurants and we believe, over time, that we will improve profitability and operational efficiency at the restaurants we have and may acquire.

Increase Restaurant Sales and Customer Traffic. BKC has identified and implemented a number of strategies to increase brand awareness, increase market share, improve overall operations and drive sales. These strategies are central to our strategic objectives to deliver profitable growth.

Products. The strength of the BKC menu has been built on a distinct flame-grilled cooking platform to make better tasting hamburgers. We believe that BKC intends to continue to optimize the menu by focusing on core products, such as the flagship Whopper® sandwich, while maintaining a balance between value promotions and premium limited time offerings to drive sales and traffic. Recent product innovation has included a multi-tier balanced marketing approach with value and premium offerings, pairing value promotions, such as the \$1.00 10-piece chicken nugget promotion with premium limited time Burger offerings, such as the Sourdough King sandwiches and Crispy Chicken. Promotional initiatives in 2018 included the 2 for \$6 Mix and Match and 2 for \$10 Meal Deal featuring the Whopper and Crispy Chicken sandwich. There have also been a number of enhancements to food preparation procedures to improve the quality of BKC's existing products. These new menu platforms and quality improvements form the backbone of BKC's strategy to appeal to a broader consumer base and to increase restaurant sales.

Image. We believe that re-imaged restaurants increase curb appeal and result in increased restaurant sales. BKC's current restaurant image features a fresh, sleek, eye-catching design which incorporates easy-to-navigate digital menu boards in the dining room, streamlined merchandising at the drive-thru and flat screen televisions in the dining area. We believe that restaurant remodeling has improved our guests' dining experience and increased customer traffic. As of December 30, 2018 a total of 681 of our restaurants had the BKC 20/20 restaurant image, which includes restaurants re-imaged prior to our acquisition. We believe the customer experience will be further enhanced from the upgrades to the Burger King of Tomorrow image that include a double drive-thru (where applicable), certain modifications to the exterior image and the installation of exterior digital menu boards as well as remodels that include the exterior design elements and an interior that creates a warm and welcoming restaurant designed to bring the outdoors inside.

Advertising and Promotion. We believe that we will continue to benefit from BKC's advertising support of its menu items, product enhancement and re-imaging initiatives. BKC has established a data driven marketing process which has focused on driving restaurant sales and traffic, while targeting a broad consumer base with inclusive messaging. This strategy uses multiple touch points to advertise our products, including digital advertising, social media and on-line video in addition to traditional television advertising. BKC has a food-centric marketing strategy which focuses consumers on the food offerings, the core asset, and balances value promotions and premium limited time offerings to drive profitable restaurant sales and traffic.

Operations. We believe that improving restaurant operations and enhancing the customer experience are key components to increasing the profitability of our restaurants. We believe we will benefit from BKC's ongoing initiatives to improve food quality, simplify restaurant level execution and monitor operational performance, all of which are designed to improve the customer experience and increase customer traffic.

Strategically Remodel to Elevate Brand Profile and Increase Profit Potential. In 2019, we plan to remodel 20 to 25 locations to BKC's current image standard, including rebuilding 3 to 5 restaurants and to upgrade 60 to 70 restaurants from BKC 20/20 restaurant image to the Burger King of Tomorrow image, with a contribution from BKC of approximately \$7.0 million to \$8.0 million under the Area Development Agreement, should it become effective, for restaurants whereby BKC is landlord on the lease. We also plan to construct 15 to 20 new restaurants (including relocations of 3 to 4 existing restaurants). We believe there are opportunities to increase profitability by remodeling additional restaurants including restaurants that we have acquired or may acquire in the future.

Restaurant Economics

Selected restaurant operating data for our restaurants is as follows:

	Year Ended			
	January 1, 2017	December 31, 2017	December 30, 2018	
Average annual sales per restaurant (1)	\$1,311,516	\$1,387,850	\$1,449,047	
Average sales transaction	\$6.85	\$7.15	\$7.37	
Drive-through sales as a percentage of total sales	67.0	% 67.9	% 68.4	%
Day-part sales percentages:				
Breakfast	13.8	% 13.7	% 13.5	%
Lunch	32.4	% 32.3	% 31.9	%
Dinner	20.4	% 20.6	% 20.9	%
Afternoon and late night	33.4	% 33.4	% 33.6	%

(1) Average annual sales per restaurant are derived by dividing restaurant sales by the average number of restaurants operating during the period on a 52-week basis.

Restaurant Capital Costs

The initial cost of the franchise fee, equipment, seating, signage and other interior costs of a standard new Burger King restaurant currently is approximately \$450,000 (which excludes the cost of the land, building and site improvements). In the markets in which we operate, the cost of land generally ranges from \$500,000 to \$900,000 and the cost of building and site improvements generally ranges from \$850,000 to \$1,025,000.

With respect to development of freestanding restaurants, if we acquire the land to construct the building, we typically seek to thereafter enter into an arrangement to sell and leaseback the land and building under a long-term lease. Historically, we have been able to acquire and finance many of our locations under such leasing arrangements. Where we are unable to purchase the underlying land, we enter into a long-term lease for the land followed by construction of the building using cash generated from our operations or with borrowings under our senior credit facility. The cost of securing real estate and developing and equipping new restaurants can vary significantly and depends on a number of factors, including the local economic conditions and the characteristics of a particular site. Accordingly, the cost of opening new restaurants in the future may differ substantially from the historical cost of restaurants previously opened and the estimated costs above.

BKC's current image restaurant design draws inspiration from its signature flame-grilled cooking process and incorporates a variety of innovative elements to a backdrop that evokes the warm and welcoming look of the outdoors including corrugated metal, brick, wood and concrete. The cost of remodeling a restaurant to the BKC current image varies depending upon the age and condition of the restaurant and the amount of new equipment needed and can range from \$250,000 to \$650,000 per restaurant with a cost of approximately \$650,000 per restaurant in 2018 and an average cost of \$500,000 over the past three years. The total cost of a remodel has increased over time due to construction cost increases and the replacement of certain kitchen equipment at the time of the remodel which is incremental to the cost to upgrade to the BKC current image design. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent and Future Events Affecting our Results of Operations".

Site Selection

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

Seasonality

Our business is moderately seasonal due to regional weather conditions. Due to the location of our restaurants, sales are generally higher during the summer months than during the winter months.

Restaurant Locations

The following table details the locations of our 849 Burger King restaurants as of December 30, 2018:

State	Total Restaurants
Georgia	2
Illinois	18
Indiana	88
Kentucky	36
Maine	15
Maryland	17
Massachusetts	1
Michigan	56
New Jersey	10
New York	128
North Carolina	152
Ohio	118
Pennsylvania	62
South Carolina	40
Tennessee	31
Vermont	5
Virginia	66
West Virginia	4
Total	849

Operations

Management Structure

We conduct substantially all of our executive management, finance, marketing and operations support functions from our corporate headquarters in Syracuse, New York. Carrols Restaurant Group is led by our Chief Executive Officer and President, Daniel T. Accordino, who has over 45 years of Burger King and quick-service restaurant experience at our company.

Operations for our restaurants are overseen by one Division VP and ten Regional Directors that have an average of over 24 years of Burger King restaurant experience. Our 124 district managers support the Regional Directors in the management of our restaurants.

A district manager is responsible for the direct oversight of the day-to-day operations of an average of approximately seven to eight restaurants. Typically, district managers have previously served as restaurant managers at one of our restaurants. Regional directors, district managers and restaurant managers are compensated with a fixed salary plus an incentive bonus based upon the performance of the restaurants under their supervision, and for our regional directors and district managers, the combined performance of all of our restaurants. Typically, our restaurants are staffed with hourly employees who are supervised by a salaried general manager and one to three assistant managers.

Training

We maintain a comprehensive training and development program for all of our personnel and provide both classroom and in-restaurant training for our salaried and hourly personnel. The program emphasizes system-wide operating procedures, food preparation methods, food safety and customer service standards. BKC's training and development programs are also available to us as a franchisee through web access in all of our restaurants.

Management Information Systems

Our sophisticated management information systems provide us the ability to efficiently and effectively manage our restaurants and to ensure consistent application of operating controls at our restaurants. Our size affords us the ability to maintain an in-house staff of information technology and restaurant systems professionals dedicated to

continuously enhancing our systems. In addition, these capabilities allow us to quickly integrate restaurants that we acquire and achieve greater economies of scale and operating efficiencies.

We typically replace the POS systems at restaurants we acquire shortly after acquisition and implement our POS, labor and inventory management systems. Our restaurants employ touch-screen POS systems that are designed to facilitate accuracy and speed of order taking. These systems are user-friendly, require limited cashier training and improve speed-of-service through the use of conversational order-taking techniques. The POS systems are integrated with PC-based applications at the restaurant and hosted systems at our corporate office that are designed to facilitate financial and management control of our restaurant operations.

Our restaurant systems provide daily tracking and reporting of traffic counts, menu item sales, labor and food data including costs and inventories, and other key operating metrics for each restaurant. We communicate electronically with our restaurants on a continuous basis via a high-speed data network, which enables us to collect this information for use in our corporate management systems in near real-time. Our corporate headquarters manages systems that support all of our accounting, operating and reporting systems. We also operate a 24-hour, seven-day help desk at our corporate headquarters that enables us to provide systems and operational support to our restaurant operations as required. Among other things, our restaurant information systems provide us with the ability to:

- monitor labor utilization and sales trends on a real-time basis at each restaurant, enabling the restaurant manager to effectively manage to our established labor standards on a timely basis;
- reduce inventory shrinkage using restaurant-level inventory management systems and daily reporting of inventory variances;
- analyze sales and product mix data to help restaurant managers forecast production levels throughout the day;
- monitor day-part drive-thru speed of service at each of our restaurants;
- allow the restaurant manager to produce day-part labor schedules based on the restaurant's historical sales patterns;
- systematically communicate human resource and payroll data to our administrative offices for efficient centralized management of labor costs and payroll processing;
- employ centralized control over pricing, menu and inventory management activities at the restaurant utilizing the remote management capabilities of our systems;
- take advantage of electronic commerce including our ability to place orders with suppliers and to integrate detailed invoice, receiving and product data with our inventory and accounting systems;
- provide analyses, reporting and tools to enable all levels of management to review a wide-range of financial, product mix and operational data; and
- systematically analyze and report on detailed transactional data to help detect and identify potential theft.

Critical information from our systems is available in near real-time to our restaurant managers, who are expected to react quickly to trends or situations in their restaurant. Our district managers also receive near real-time information for their respective restaurants and have access to key operating data on a remote basis using our corporate intranet-based reporting. Management personnel at all levels, from the restaurant manager through senior management, utilize and monitor key restaurant performance indicators that are also included in our restaurant-level incentive bonus plans.

Burger King Franchise Agreements

Each of our Burger King restaurants operates under a separate franchise agreement with BKC. Our franchise agreements with BKC generally require, among other things, that all restaurants comply with specified design criteria and operate in a prescribed manner, including utilization of the standard Burger King menu. In addition, our Burger King franchise agreements generally require that our restaurants conform to BKC's current image and may provide for updating our restaurants during the tenth year of the agreements to conform to such current image, which may require significant expenditures. We expect these update expenditures in 2019 to range from \$100,000 to \$300,000 per restaurant.

These franchise agreements with BKC generally provide for an initial term of 20 years and currently have an initial franchise fee of \$50,000. In the event that we terminate any franchise agreement and close the related BKC

restaurant prior to the expiration of its term, we generally are required to pay BKC an amount based on the net present value of the royalty stream that would have been realized by BKC had such franchise agreement not been terminated. Any franchise agreement, including renewals, can be extended at our discretion for an additional 20-year term, with BKC's approval, provided that, among other things, the restaurant meets the current Burger King operating and image standards and that we are not in default under the terms of the franchise agreement. The franchise agreement fee for subsequent renewals is currently \$50,000. BKC may terminate any of the franchise agreements if an act of default is committed by us under these agreements and such default is not cured. Defaults under the franchise agreements include, among other things, our failure to operate such Burger King restaurant in accordance with the operating standards and specifications established by BKC (including failure to use equipment, uniforms or decor approved by BKC), our failure to sell products approved or designated by BKC, our failure to pay royalties or advertising and sales promotion contributions as required, our unauthorized sale, transfer or assignment of such franchise agreement or the related restaurant, certain events of bankruptcy or insolvency with respect to us, conduct by us or our employees that has a harmful effect on the Burger King restaurant system, conviction of us or our executive officers for certain indictable offenses, our failure to maintain a responsible credit rating or our acquisition of an interest in any other hamburger restaurant business. At December 30, 2018, we were not in default under any of our franchise agreements with BKC.

In order to obtain a successor franchise agreement with BKC, a franchisee is typically required to make capital improvements to the restaurant to bring it up to BKC's current image standards. The cost of these improvements may vary widely depending upon the magnitude of the required changes and the degree to which we have made interim improvements to the restaurant. At December 30, 2018, we had 33 franchise agreements due to expire in 2019, 55 franchise agreements due to expire in 2020 and 12 franchise agreements due to expire in 2021. In recent years, the historical costs of improving our Burger King restaurants in connection with franchise renewals generally have ranged from \$250,000 to \$650,000 per restaurant. The average cost of our remodels in 2018 was approximately \$650,000 per restaurant. The cost of remodels can vary depending upon the age and condition of the restaurant and the amount of new equipment needed. The cost of capital improvements made in connection with future franchise agreement renewals may differ substantially from past franchise renewals depending on the current image requirements established from time to time by BKC.

We believe that we will be able to satisfy BKC's normal franchise agreement renewal criteria. Accordingly, we believe that renewal franchise agreements will be granted on a timely basis by BKC at the expiration of our existing franchise agreements. Historically, BKC has granted all of our requests for successor franchise agreements. However, there can be no assurance that BKC will grant these requests in the future.

We evaluate the performance of our Burger King restaurants on an ongoing basis. With respect to franchise renewals, such evaluation depends on many factors, including our assessment of the anticipated future operating results of the subject restaurants and the cost of required capital improvements that we would need to commit for such restaurants. If we determine that a Burger King restaurant is under-performing, or that we do not anticipate an adequate return on the capital investment required to renew the franchise agreement, we may elect to close such restaurant. We may also relocate (offset) a restaurant within its trade area and build a new Burger King restaurant as part of the franchise renewal process. In 2018, we closed 10 restaurants, including one offset location. We currently expect to close between 8 to 12 restaurants in 2019, excluding any relocations of existing restaurants. Our determination to close these restaurants is subject to further evaluation and may change. We may also elect to close additional restaurants in the future.

In addition to the initial franchise fee, we generally pay BKC a monthly royalty. The royalty rate for new restaurants and for successor franchise agreements is 4.5% of sales. Royalty payments for restaurants acquired from other franchisees are based on the terms of existing franchise agreements being acquired, and may be less than 4.5%. The royalty rate was increased from 3.5% to 4.5% of sales in 2000, and generally for restaurants that were in existence in 2000, becomes effective upon the renewal of the franchise agreement. Burger King royalties, as a percentage of restaurant sales, were 4.3% in both 2018 and 2017 and 4.2% in 2016. We anticipate our Burger King royalties, as a percentage of restaurant sales, will be 4.3% in 2019 as a result of the terms outlined above. Under the Area Development Agreement, should it become effective, newly constructed units will receive a 1% royalty rate

reduction a four year period and certain remodeled restaurants, excluding upgrades, will receive a 0.75% royalty rate reduction for a five year period.

We also generally contribute 4% of restaurant sales from our Burger King restaurants to fund BKC's national and regional advertising. Under the Area Development Agreement, should it becomes effective, newly constructed

units will receive a 3% advertising contribution deduction for four years and on certain remodeled restaurants, excluding upgrades, will receive a 0.75% advertising contribution reduction for a five year period. BKC engages in substantial national and regional advertising and promotional activities and other efforts to maintain and enhance the Burger King brand. From time to time we supplement BKC's marketing with our own local advertising and promotional campaigns. See “- Advertising, Products and Promotion” below.

Our franchise agreements with BKC do not give us exclusive rights to operate Burger King restaurants in any defined territory. Although we believe that BKC generally seeks to ensure that newly granted franchises do not materially adversely affect the operations of existing Burger King restaurants, we cannot assure you that franchises granted by BKC to third parties will not adversely affect any Burger King restaurants that we operate.

Except as permitted by the amended operating agreement, we are required to obtain BKC's consent before we acquire existing Burger King restaurants from other franchisees or develop new Burger King restaurants. BKC also has the right of first refusal to purchase any Burger King restaurant that is being offered for sale by a franchisee. However, pursuant to the operating agreement, BKC assigned the ROFR to us in 20 states and granted us franchise pre-approval to build new restaurants or acquire restaurants from franchisees until the date that we operate 1,000 restaurants.

Historically, BKC has approved substantially all of our acquisitions of restaurants from other franchisees.

Advertising, Products and Promotion

BKC's marketing strategy is characterized by its HAVE IT YOUR WAY® service, TASTE IS KING® tag line, flame grilling, generous portions and competitive prices. Burger King restaurants feature flame-grilled hamburgers, the most popular of which is the Whopper® sandwich, a large, flame-grilled hamburger garnished with mayonnaise, lettuce, onions, pickles and tomatoes. The basic menu of all Burger King restaurants also includes a variety of hamburgers, chicken and other specialty sandwiches, french fries, soft drinks, salads, breakfast items, snacks, and other offerings.

BKC and its franchisees have historically spent between 4% and 5% of their respective sales on marketing, advertising and promotion to sustain high brand awareness. BKC's marketing initiatives are designed to reach a diverse consumer base and BKC has continued to introduce a number of new and enhanced products to broaden menu offerings and drive customer traffic in all day parts.

We are generally required to contribute 4% of restaurant sales to an advertising fund utilized by BKC for its advertising, promotional programs and public relations activities. BKC's advertising programs consist of national campaigns supplemented by local advertising. BKC's advertising campaigns are generally carried on television, radio and in circulated print media (national and regional newspapers and magazines). As a percentage of our restaurant sales advertising expense was 4.1% in 2018, 4.1% in 2017 and 4.4% in 2016. For 2019 we expect advertising expense to range between 4.0% and 4.2% of restaurant sales.

The efficiency and quality of advertising and promotional programs can significantly affect the quick-service restaurant businesses. We believe that one of the major advantages of being a Burger King franchisee is the value of the extensive national and regional advertising and promotional programs conducted by BKC. In addition to the benefits derived from BKC's advertising spending, we sometimes supplement BKC's advertising and promotional activities with our own local advertising and promotions, including the purchase of additional television, radio and print advertising. The concentration of our Burger King restaurants in many of our markets permits us to leverage advertising in those markets. We also utilize promotional programs, such as combination value meals and discounted prices, targeted to our customers, in order to create a flexible and directed marketing program.

Suppliers

We are a member of a national purchasing cooperative, Restaurant Services, Inc., which we refer to as "RSI", created for the Burger King system. RSI is a non-profit independent purchasing cooperative that is responsible for sourcing our products and related supplies and managing relationships with approved distributors for the Burger King system. We use our purchasing power to negotiate directly with certain other vendors, to obtain favorable pricing and terms for supplying our restaurants. For our restaurants, we are required to purchase all of our foodstuffs, paper goods and packaging materials from BKC-approved suppliers at prices negotiated by RSI. We currently utilize mostly three distributors, Maines Paper & Food Service, Inc., McLane Company Inc., and Reinhart Food Service L.L.C., to supply our restaurants with the majority of our foodstuffs and, as of December 30, 2018, such distributors supplied 40%, 32% and 28%, respectively, of our restaurants. We may purchase non-food items, such as kitchen utensils, equipment

maintenance tools and other supplies, from any suitable source so long as such items meet BKC product uniformity

standards. All BKC-approved distributors are required to purchase foodstuffs and supplies from BKC-approved manufacturers and purveyors. BKC is responsible for monitoring quality control and supervision of these manufacturers and conducts regular visits to observe the preparation of foodstuffs, and to perform various tests to ensure that only quality foodstuffs are sold to its approved suppliers. In addition, BKC coordinates and supervises audits of approved suppliers and distributors to determine continuing product specification compliance and to ensure that manufacturing plant and distribution center standards are met. Although we believe that we have alternative sources of supply available to our restaurants, in the event any distributor or supplier for our restaurants was unable to service us, this could lead to a disruption of service or supply at our restaurants until a new distributor or supplier is engaged, which could have an adverse effect on our business.

Quality Assurance

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

We operate in accordance with quality assurance and health standards mandated by federal, state and local governmental laws and regulations. These standards include food preparation rules regarding, among other things, minimum cooking times and temperatures, maximum time standards for holding prepared food, food handling guidelines and cleanliness. To maintain these standards, under BKC's oversight third-party firms conduct unscheduled inspections and follow-up inspections of our restaurants and report their findings to us. In addition, restaurant managers conduct internal inspections for taste, quality, cleanliness and food safety on a regular basis.

Trademarks

As a franchisee of Burger King, we also have contractual rights to use certain BKC-owned trademarks, service marks and other intellectual property relating to the Burger King concept. We have no proprietary intellectual property other than the Carrols logo and trademark.

Government Regulation

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

We are subject to the federal Fair Labor Standards Act and various other federal and state laws governing such matters as the handling, preparation and sale of food and beverages; the provision of nutritional information on menu boards; minimum wage requirements; unemployment compensation; overtime; and other working conditions and citizenship requirements.

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

The Patient Protection and Affordable Care Act (the “Act”) required businesses employing fifty or more full-time equivalent employees to offer health care benefits to those full-time employees or be subject to an annual penalty. Those benefits must be provided under a health care plan which provides a certain minimum scope of health care services. The Act also limits the portion of the cost of the benefits which we can require employees to pay. Based on our enrollment history to date, approximately 12% of our approximately 2,500 eligible hourly employees have opted for coverage under our medical plan.

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

Industry and Competition

The Restaurant Market. Restaurant sales historically have closely tracked several macroeconomic indicators and we believe that “away-from-home” food consumption will increase due to these trends in recent years. Historically, unemployment has been inversely related to restaurant sales and, as the unemployment rate decreases and disposable income increases, restaurant sales have increased. According to the U.S. Department of Agriculture, through July 2018 food away from home dollars exceeded at-home dining, with 50.9% of nominal food dollars spent on food away from home and with total expenditures increasing 4.2% from the same period in 2017.

Quick-Service Restaurants. We operate in the hamburger category of the quick-service restaurant segment of the restaurant industry. Quick-service restaurants are distinguished by high speed of service and efficiency, convenience, limited menu and service, and value pricing. According to Nation's Restaurant News, 2017 U.S. foodservice sales for the Top 200 restaurant chains increased 3.0% from 2016 to \$291.6 billion. Of this amount, the hamburger category represented \$83.1 billion, or 28.5%, making it the largest category of the quick-service segment.

The restaurant industry is highly competitive with respect to price, service, location and food quality. In each of our markets, our restaurants compete with a large number of national and regional restaurant chains, as well as locally owned restaurants, offering low and medium-priced fare. We also compete with operators outside the restaurant industry such as convenience stores, delicatessens and prepared food counters in supermarkets, grocery stores, cafeterias and other purveyors offering moderately priced and quickly prepared foods. Our competitors may also employ marketing strategies such as frequent use of price discounting, frequent promotions and emphasis on value menus.

We believe that:

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

are the most important competitive factors in the quick-service restaurant segment and that our restaurants effectively compete in each category. We believe our largest competitors are McDonald's and Wendy's.

Employees

As of December 30, 2018, we employed approximately 24,500 persons of which approximately 160 were administrative personnel and approximately 24,340 were restaurant operations personnel. None of our employees are unionized or covered by collective bargaining agreements. We believe that our overall relations with our employees are good.

Recent Developments

Series B Convertible Preferred Stock

On November 30, 2018, Carrols Restaurant Group entered into a Preferred Stock Exchange Agreement (the “Exchange Agreement”) with BKC. Pursuant to the terms of the Exchange Agreement, BKC exchanged (the “Exchange”) 100 shares (the “Series A Shares”) of the Series A Convertible Preferred Stock, par value \$0.01 per share (the “Series A Preferred Stock”) of Carrols Restaurant Group held by BKC for 100 shares (the “Series B Shares”) of Carrols Restaurant Group's Series B Convertible Preferred Stock, par value \$0.01 per share (the “Series B Preferred Stock”) newly issued by Carrols Restaurant Group. The powers, preferences and rights of the Series B Shares are substantially similar to those of the Series A Shares (including, without limitation, that the Series B Shares are convertible into the same number of shares of Carrols Restaurant Group's common stock on an as-converted basis as the Series A Shares), except that the Series B Shares may be transferred by BKC to certain other entities that are both affiliates of BKC and either RBI or Restaurant Brands International Limited Partnership (“RBI LP”), each an indirect parent of BKC (such affiliates of BKC and RBI or RBI LP, the “RBI Investors”), without the termination of the Rights (as defined below) that were previously granted solely to BKC pursuant to the Certificate of Designations of the Series A Preferred Stock (the “Series A Certificate of Designations”).

On November 30, 2018, in connection with the Exchange, Carrols Restaurant Group (i) upon issuance of 100 shares of Series B Preferred Stock to BKC pursuant to a Certificate of Designation of Series B Preferred Stock, dated as of November 30, 2018 (the “Series B Certificate of Designations”) and (ii) upon receipt of the 100 Series A Shares, which constituted all of the shares of Series A Preferred Stock outstanding, retired the Series A Preferred Stock by filing a Certificate of Retirement of Series A Convertible Preferred Stock of Carrols Restaurant Group (the “Certificate of Retirement”) with the Secretary of State of Delaware as part of Carrols Restaurant Group's Certificate of Incorporation, in accordance with the General Corporation Law of the State of Delaware (the “DGCL”). The Certificate of Retirement permanently retires the Series A Preferred Stock and eliminates all references to the Series A Preferred Stock from Carrols Restaurant Group's Certificate of Incorporation.

Each of the Series B Shares is convertible into 94,145.80 shares of Carrols Restaurant Group's common stock, par value \$0.01 per share (“Carrols Restaurant Group Common Stock”), or an aggregate of 9,414,580 shares of Carrols Restaurant Group Common Stock constituting approximately 20.3% of the outstanding shares of Carrols Restaurant Group Common Stock (the “Series B Conversion Shares”) on an as-converted basis after giving effect to the issuance of the Series B Preferred Stock (which is the exact same number of shares of Carrols Restaurant Group Common Stock that the Series A Shares were convertible into).

The Series B Certificate of Designation provides that the RBI Investors will have certain rights (collectively, the “Rights”) including approval rights, so long as they collectively own greater than 10% of the outstanding shares of Carrols Restaurant Group Common Stock (on an as-converted basis) with regards to, among other things: (a) modifying Carrols Restaurant Group's organizational documents; (b) amending the size of Carrols Restaurant Group's Board of Directors; (c) authorizing or consummating any liquidation event (as defined in the Series B Certificate of Designations), except as permitted pursuant to the amended operating agreement; (d) engaging in any business other than the acquisition and operation of Burger King restaurants, except following a bankruptcy filing, reorganization or insolvency proceeding by or against BKC or RBI, which filing has not been dismissed within 60 days; and (g) issuing, in any single transaction or series of related transactions, shares of Carrols Restaurant Group Common Stock in an amount exceeding 35% of the total number of shares of Carrols Restaurant Group Common Stock outstanding immediately prior to the time of such issuance. The Series B Preferred Stock votes with the Carrols Restaurant Group Common Stock on an as-converted basis and will provide for the right of the RBI Investors to elect two members of Carrols Restaurant Group's Board of Directors as Class B members until the date on which the number of shares of Carrols Restaurant Group Common Stock into which the outstanding shares of Series B Preferred Stock held by the

RBI Investors are then convertible constitutes less than 14.5% of the total number of outstanding shares of Carrols Restaurant Group Common Stock (the “BKC Director Step-Down Date”). From the BKC Director Step-Down Date to the date on which the number of shares of Carrols Restaurant Group Common Stock into which the outstanding shares of Series B Preferred Stock held by the RBI Investors are then convertible constitute less than 10% of the total number of outstanding shares of Carrols

Restaurant Group Common Stock, the RBI Investors will have the right to elect one member to Carrols Restaurant Group's Board of Directors as a Class B member. The Series B Preferred Stock will rank senior to Carrols Restaurant Group Common Stock with respect to rights on liquidation, winding-up and dissolution of Carrols Restaurant Group. The Series B Preferred Stock will receive dividends and amounts upon a liquidation event (as defined in the Series B Certificate of Designations) on an as converted basis.

The Exchange Agreement also provides that the Series B Conversion Shares are to be included as "Registrable Securities," as defined in the Registration Rights Agreement (the "BKC Registration Rights Agreement"), dated May 30, 2012, by and between the Company and BKC, and which provides for certain registration rights for the shares of Carrols Restaurant Group's Common Stock.

The Merger Agreement

On February 19, 2019, Carrols Restaurant Group, Carrols Holdco Inc. ("NewCRG"), a wholly owned subsidiary of Carrols Restaurant Group, GRC MergerSub Inc., a wholly owned subsidiary of NewCRG, and GRC MergerSub LLC, a wholly owned subsidiary of NewCRG ("Carrols CFP Merger Sub") entered into an Agreement and Plan of Merger with Cambridge Franchise Partners, LLC ("CFP"), Cambridge Holdings, a wholly owned subsidiary of CFP, and New CFH, LLC, a wholly owned subsidiary of Cambridge Holdings ("New CFH"), pursuant to which Carrols Restaurant Group has agreed to purchase the business of the subsidiaries of Cambridge Holdings, which includes 166 Burger King® restaurants, 55 Popeyes® restaurants, six convenience stores and certain real property through (i) a merger of Carrols Merger Sub and Carrols Restaurant Group with Carrols Restaurant Group as the surviving entity which will result in Carrols Restaurant Group becoming a wholly-owned subsidiary of NewCRG (the "Holding Company Reorganization") and (ii) the merger of Carrols CFP Merger Sub and New CFH with New CFH as the surviving entity (the "Cambridge Merger" and, together with the Holding Company Reorganization, the "Mergers"), in consideration of shares of common stock, par value \$0.01 per share of NewCRG ("NewCRG Common Stock") equal to 19.9% of the outstanding shares of NewCRG Common Stock calculated immediately prior to the issuance of NewCRG Common Stock to Cambridge Holdings (the "NewCRG Investor Shares") and 10,000 shares of Series C Convertible Preferred Stock, par value \$0.01 per share, of NewCRG (the "NewCRG Series C Preferred Stock"). The consummation of the Cambridge Merger is subject to certain conditions, including, among other things (a) the expiration or termination of all waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder ("HSR Approval"), (b) the effectiveness of the Registration Statement (as defined below) relating to the Holding Company Reorganization, (c) approval for listing on the NASDAQ Stock Market LLC ("NASDAQ") of the shares of NewCRG Common Stock and shares of NewCRG Common Stock that may be issuable upon conversion of the NewCRG Series C Preferred Stock, subject to official notice of issuance, (d) the receipt of third party consents, and (e) other customary closing conditions. The Merger Agreement may be terminated, among other things, (i) by mutual consent of Carrols Restaurant Group and Cambridge Holdings, (ii) by Carrols Restaurant Group or Cambridge Holdings upon a breach of a representation and warranty in the Merger Agreement by the other which has not been cured or (iii) if the closing of the transaction has not occurred on or prior to June 15, 2019. The Merger Agreement contains certain representations and warranties and covenants as specified therein, including such provisions as are customary for a transaction of this nature.

NewCRG Series C Convertible Preferred Stock

In connection with the closing of the Cambridge Merger, NewCRG will issue to Cambridge Holdings, 10,000 shares of NewCRG Series C Preferred Stock pursuant to a Certificate of Designations (the "Series C Certificate of Designations") which will be filed with the Delaware Secretary of State immediately prior to the completion of the Mergers. The New CRG Series C Preferred Stock shall (i) accrue a dividend (the "Dividend") of 9% per annum (accrued on a daily basis) that will be payable by increasing the Stated Value (as defined in the Series C Certificate of Designations) per share of NewCRG Series C Preferred Stock every six months from the date of issuance (a "Dividend

Payment Date”), provided that if the NewCRG Series C Preferred Stock is converted into NewCRG Common Stock prior to a Dividend Payment Date, any accrued and unpaid dividend since the date of the prior Dividend Payment Date shall be forfeited upon conversion, (ii) be subject to certain restrictions limiting the conversion of NewCRG Series C Preferred Stock and the issuance of shares of NewCRG Common Stock upon conversion (the “Issuance Restriction”), as further

described below, (iii) be initially (on the Effective Time, as defined in the Merger Agreement) convertible into a number of shares of NewCRG Common Stock equal to the quotient of (1) the difference of (A) the Equity Consideration Amount and (B) the product of (x) the number of NewCRG Investor Shares and (y) 13.5 and (2) 13.5, subject to adjustment pursuant to certain anti-dilution provisions set forth in the Certificate of Designations and (iii) be automatically convertible into shares of NewCRG Common Stock upon Stockholder Approval (as defined below). The “Equity Consideration Amount” means the difference of (a) \$200,000,000 and (b) the amount, if any, by which Net Debt (as defined in the Merger Agreement) exceeds \$115,000,000. Pursuant to the Merger Agreement, the removal of the Issuance Restriction will be subject to obtaining the approval of NewCRG’s stockholders at its next annual meeting of stockholders to be held after the closing of the transaction or at subsequent meetings of stockholders, if necessary, until the approval of NewCRG’s stockholders is obtained (the “Stockholder Approval”). The NewCRG Series C Preferred Stock will rank senior to the NewCRG Common Stock and NewCRG’s Series B Convertible Preferred Stock with respect to (i) any voluntary or involuntary liquidation, dissolution or winding-up of NewCRG, (ii) the consummation of a merger or consolidation in which the stockholders of NewCRG prior to such transaction own less than a majority of the voting securities of (a) the entity surviving or resulting from such transaction or (b) if the surviving or resulting entity is a wholly owned subsidiary of another corporation or entity immediately following such transaction, the parent corporation or entity of such surviving or resulting entity, or (iii) the sale, distribution or other disposition of all or substantially all of NewCRG’s assets (on a consolidated basis). In addition, the NewCRG Series C Preferred Stock will receive dividends on an as converted basis without regard to the Issuance Restriction. The prior consent of holders of at least a majority of the shares of NewCRG Series C Preferred Stock then outstanding is required to, among other things, (i) (A) authorize, create, designate, establish or issue an increased number of shares of NewCRG Series C Preferred Stock or any other class or series of capital stock ranking senior to or on parity with the NewCRG Series C Preferred Stock as to dividends or upon liquidation or (B) reclassifying any shares of NewCRG Common Stock into shares of capital stock having preference or priority as to dividends or upon liquidation senior to or on parity with such preference or priority of the NewCRG Series C Preferred Stock, (ii) amend the Series C Certificate of Designations or (iii) amend NewCRG’s organizational documents in a manner adverse to the rights, powers or preferences of the NewCRG Series C Preferred Stock or holders of NewCRG Series C Preferred Stock in their capacity as such.

Holding Company Reorganization

Pursuant to the Merger Agreement, immediately prior to the completion of the Cambridge Merger, Carrols Restaurant Group will implement the Holding Company Reorganization, which will result in NewCRG owning all of the capital stock of Carrols Restaurant Group. NewCRG will initially be a direct, wholly owned subsidiary of Carrols Restaurant Group. Pursuant to the Holding Company Reorganization, Carrols Merger Sub, a newly formed entity and a direct, wholly owned subsidiary of NewCRG and an indirect, wholly owned subsidiary of Carrols Restaurant Group, will merge with and into Carrols Restaurant Group, with Carrols Restaurant Group surviving as a direct, wholly owned subsidiary of NewCRG. Each share of Carrols Restaurant Group Common Stock issued and outstanding immediately prior to the Holding Company Reorganization will automatically be exchanged into an equivalent corresponding share of NewCRG Common Stock, having the same designations, rights, powers and preferences and the qualifications, limitations and restrictions as the corresponding share of Carrols Restaurant Group Common Stock being converted. Each share of Carrols Restaurant Group Series B Preferred Stock issued and outstanding immediately prior to the Holding Company Reorganization will automatically be exchanged into an equivalent corresponding share of NewCRG Series B Convertible Preferred Stock, par value \$0.01 per share, having the same designations, rights, powers and preferences and the qualifications, limitations and restrictions as the corresponding share of Carrols Restaurant Group Series B Preferred Stock being converted. Accordingly, upon consummation of the Holding Company Reorganization, Carrols Restaurant Group’s current stockholders will become stockholders of NewCRG.

The Holding Company Reorganization will be conducted pursuant to Section 251(g) of the DGCL, which provides for the formation of a holding company through a merger without a vote of the stockholders of the constituent

corporations. Effective upon the consummation of the Holding Company Reorganization, NewCRG will adopt an amended and restated certificate of incorporation and amended and restated bylaws that are identical to those of Carrols Restaurant Group immediately prior to the consummation of the Holding Company Reorganization, except for the change of the name of the corporation as permitted by Section 251(g). Furthermore, the conversion will occur

automatically without an exchange of stock certificates. Stock certificates previously representing shares of a class of Carrols Restaurant Group stock will represent the same number of shares of the corresponding class of NewCRG stock after the Holding Company Reorganization. Each person entered as the owner in a book entry that, immediately prior to the Holding Company Reorganization, represented any outstanding shares of Carrols Restaurant Group Common Stock shall be deemed to have received an equivalent number of shares of NewCRG Common Stock. Following the consummation of the Holding Company Reorganization, the name of NewCRG will be changed to “Carrols Restaurant Group, Inc.”, the name of Carrols Restaurant Group will be changed to “Carrols Holdco Inc.”, and shares of NewCRG Common Stock will continue to trade on the NASDAQ Global Market under the Carrols Restaurant Group's symbol “TAST”.

Upon consummation of the Holding Company Reorganization, the directors and officers of New CRG will be the same individuals who are the directors and officers of Carrols Restaurant Group immediately prior to the Holding Company Reorganization.

Area Development and Remodeling Agreement

Carrols LLC, Carrols, Carrols Restaurant Group and BKC have entered into the Area Development Agreement which will be subject to the closing of the transactions contemplated by the Merger Agreement, and effective and have a term commencing on, the date of the closing of the transactions contemplated by the Merger Agreement, and ending on September 30, 2024. Pursuant to the Area Development Agreement, BKC will assign to Carrols LLC its right of first refusal under its franchise agreements with its franchisees to purchase all of the assets of a Burger King restaurant or all or substantially all of the voting stock of the franchisee, whether direct or indirect, on the same terms proposed between such franchisee and a third party purchaser (the “ADA ROFR”), in 16 states, which include Arkansas, Indiana, Kentucky, Louisiana, Maine, Maryland, Michigan, Mississippi, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont and Virginia (subject to certain exceptions for certain limited geographic areas within certain states) (collectively, the “ADA DMAs”) until the date that Carrols LLC has acquired more than an aggregate of 500 Burger King Restaurants. The continued assignment of the ADA ROFR is subject to suspension or termination in the event of non-compliance by Carrols LLC with certain terms as set forth in the Area Development Agreement. In addition, pursuant to the Area Development Agreement, BKC will grant Carrols LLC franchise pre-approval (the “ADA Franchise Pre-Approval”) to build new Burger King restaurants or acquire Burger King restaurants from Burger King franchisees in the ADA DMAs until the date that Carrols LLC acquires, in the aggregate, more than 500 Burger King restaurants inside or outside of the ADA DMAs. The grant by BKC to Carrols LLC of ADA Franchise Pre-Approval to develop new Burger King restaurants in the ADA DMA's is a non-exclusive right, subject to customary BKC franchise, site and construction approval as specified in the Area Development Agreement. Carrols LLC will pay BKC \$3.0 million for the ADA ROFR payable in four equal installment payments in 2019.

Pursuant to the Area Development Agreement, Carrols LLC will agree to open, build and operate 200 new Burger King restaurants including 7 Burger King restaurants by September 30, 2019, 32 additional Burger King restaurants by September 30, 2020, 41 additional Burger King restaurants by September 30, 2021, 41 additional Burger King restaurants by September 30, 2022, 40 additional Burger King restaurants by September 30, 2023 and 39 additional Burger King restaurants by September 30, 2024, subject to and in accordance with the terms of the Area Development Agreement. In addition, Carrols LLC will agree to remodel or upgrade 748 Burger King restaurants to BKC's Burger King of Tomorrow restaurant image, including 90 Burger King restaurants by September 30, 2019, 130 additional Burger King restaurants by September 30, 2020, 118 additional Burger King restaurants by September 30, 2021, 131 additional Burger King restaurants by September 30, 2022, 138 additional Burger King restaurants by September 30, 2023 and 141 additional Burger King restaurants by September 30, 2024, subject to and in accordance with the terms of the Area Development Agreement and which will include a contribution by BKC of \$10 million to \$12 million for upgrades of approximately 50 to 60 Burger King restaurants in 2019 and 2020 where BKC is the landlord.

On October 1 of each year following the commencement date of the Area Development Agreement, Carrols LLC will pay BKC pre-paid franchise fees in the following amounts which will be applied to new Burger King restaurants opened and operated by Carrols LLC: (a) \$350,000 on the commencement date of the Area Development

Agreement, (b) \$1,600,000 on October 1, 2019, (c) \$2,050,000 on October 1, 2020, (d) \$2,050,000 on October 1, 2021, (e) \$2,000,000 on October 1, 2022 and (f) \$1,950,000 on October 1, 2023.

The Area Development Agreement when effective, will supersede the amended operating agreement.

Commitment Letter

In connection with Carrols Restaurant Group's entry into the Merger Agreement, Carrols Restaurant Group entered into an amended and restated commitment letter (the "Commitment Letter") with Wells Fargo Bank, National Association ("Wells Fargo Bank"), Wells Fargo Securities, LLC ("Wells Fargo Securities"), Coöperatieve Rabobank U.A., New York Branch ("Rabobank"), Manufacturers and Traders Trust Company ("M&T Bank") and SunTrust Bank ("SunTrust Bank" and together with Wells Fargo Bank, Rabobank and M&T Bank, the "Lenders") and SunTrust Robinson Humphrey, Inc. ("STRH"), pursuant to which the Lenders committed to provide \$500.0 million in debt financing (the "Financing") to NewCRG. Wells Fargo Bank will act as the sole administrative agent. Wells Fargo Securities, Rabobank, M&T Bank and STRH will act as joint bookrunners and joint lead arrangers (the "Joint Lead Arrangers").

Pursuant to which and subject to the satisfaction or waiver of the conditions set forth in the Commitment Letter, the Lenders have committed to provide to NewCRG, substantially contemporaneously with the consummation of the Mergers, senior secured credit facilities in an aggregate principal amount of \$500.0 million, consisting of (i) a term loan B facility in an aggregate principal amount of \$400.0 million (the "Term Loan B Facility") and (ii) a revolving credit facility (including a sub-facility for standby letters of credit) in an aggregate principal amount of \$100.0 million (the "New Revolving Credit Facility" and, together with the Term Loan B Facility, the "New Senior Credit Facilities"), all on the terms set forth in the Commitment Letter.

The proceeds of the Term Loan B Facility will be used to refinance the existing indebtedness of (i) Carrols Restaurant Group and (ii) New CFH and its subsidiaries, in each case, to the extent provided in the Commitment Letter (collectively, the "Refinancing") and the payment of fees and expenses in connection with the transactions contemplated by the Merger Agreement and the Commitment Letter (the "Transactions"). The proceeds of the New Revolving Credit Facility will be used to finance (i) the Refinancing, (ii) the payment of fees and expenses incurred in connection with the Transactions and (iii) ongoing working capital and for other general corporate purposes of NewCRG and its subsidiaries, including permitted acquisitions and required expenditures under development agreements.

The Joint Lead Arrangers intend to secure commitments for the New Senior Credit Facilities from a syndicate of banks, financial institutions and other entities identified by Wells Fargo Securities in consultation with NewCRG. Notwithstanding the foregoing, the successful syndication of the New Senior Credit Facilities does not constitute a condition precedent to the funding thereof.

Borrowings under the New Senior Credit Facilities will bear interest, at NewCRG's election, at a rate per annum equal to (i) the Base Rate (as defined in the Commitment Letter) plus 2.75% or (b) LIBOR (as defined in the Commitment Letter) plus 3.75%. The Financing also will be subject to certain fees, including arrangement fees, upfront fees, agent fees, unused commitment fees and mandatory prepayment premiums.

All borrowings under the Term Loan B Facility will be made in a single drawing on the closing date of the Mergers. Repayments and prepayments of the Term Loan B Facility may not be re-borrowed. Regularly scheduled principal payments will be required on the Term Loan B Facility, as set forth in the Commitment Letter. The Term Loan B Facility will amortize in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount of the Term Loan B Facility with the remainder due on the Term Loan B Facility maturity date. The Term Loan B Facility will mature five years after the closing date, while the New Revolving Credit Facility will

mature seven years after the closing date.

As contemplated by the Commitment Letter, loans under the New Senior Credit Facilities may be prepaid and unused commitments under the New Revolving Credit Facility may be reduced at any time, in whole or in part, at the

option of the NewCRG, upon notice and in minimum principal amounts and in multiples to be agreed upon, without premium or penalty (except as set forth in the Commitment Letter). Any optional prepayment of the Term Loan B Facility or any incremental term loan facility will be applied as directed by NewCRG.

The Commitment Letter provides that subject to certain customary exceptions, exclusions, limitations and thresholds to be set forth in the definitive documentation related to the New Senior Credit Facilities, (a) the New Senior Credit Facilities will be guaranteed by each existing and subsequently acquired or formed direct and indirect material domestic restricted subsidiary of NewCRG (each a “New Senior Credit Facilities Guarantor” and together with NewCRG, the “New Senior Credit Facilities Credit Parties”), and (b) the obligations of the New Senior Credit Facilities Credit Parties under the New Senior Credit Facilities will be secured by first priority security interests in and liens on substantially all of the assets of the New Senior Credit Facilities Credit Parties.

Once funded, the New Senior Credit Facilities documentation will contain affirmative and negative covenants customarily applicable to senior secured credit facilities, including the requirement that the NewCRG and its subsidiaries maintain a maximum Total Net Leverage Ratio (as defined in the Commitment Letter) (such requirement, the “Financial Covenant”). The Commitment Letter provides that the Financial Covenant shall be solely for the benefit of the lenders under the New Revolving Credit Facility such that a breach of the Financial Covenant will not constitute an event of default for purposes of the Term Loan B Facility (or any other facility, other than the New Revolving Credit Facility), and the lenders under the Term Loan B Facility or any other facility (other than the New Revolving Credit Facility) will not be permitted to exercise any remedies with respect to an uncured breach of the Financial Covenant until the date, if any, on which the commitments under the New Revolving Credit Facility have been terminated or the loans thereunder have been accelerated as a result of such breach.

The obligation of the Lenders to provide the Financing is subject to a number of conditions, including, among others, (i) the consummation of the Mergers substantially contemporaneously with the initial funding of the New Senior Credit Facilities, (ii) the accuracy of certain representations and warranties in the Merger Agreement, as well as certain other specified representations of NewCRG that are customary for a loan facility of this type, (iii) execution and delivery of definitive documentation consistent with the Commitment Letter with respect to the New Senior Credit Facilities, (iv) delivery of certain customary closing documents (including, among others, a customary solvency certificate), specified items of collateral and certain financial statements, all as more fully described in the Commitment Letter, (v) payment of applicable fees and expenses, (vi) receipt of one or more customary confidential information memoranda to be used for syndication of the New Senior Credit Facilities and the expiration of a 15 business day period following delivery of such Confidential information memorandum, and (vii) that there has been no Material Adverse Effect (as defined in the Merger Agreement) since the date of the Merger Agreement.

Registration Rights and Stockholders' Agreement

Simultaneously with the closing of the Mergers, NewCRG and Cambridge Holdings will enter into a Registration Rights and Stockholders' Agreement (the “Registration Rights and Stockholders' Agreement”) pursuant to which NewCRG will agree to file one shelf registration statement on Form S-3 covering the resale of at least 30% of the NewCRG Investor Shares, the shares of NewCRG Common Stock issuable upon conversion of the NewCRG Series C Preferred Stock (the “Conversion Common Stock”) and any shares of NewCRG Common Stock issued or issuable to Cambridge Holdings with respect to the NewCRG Common Stock and the Conversion Common Stock by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger consolidation or other reorganization (collectively, the “Registrable Shares”) upon written request of Cambridge Holdings at any time after the BKC Registration Rights Agreement (and subject to certain rights of certain persons, including members of current and former management of Carrols Restaurant Group that have piggyback registration rights). Except as otherwise provided, the Registration Rights and Stockholders' Agreement requires NewCRG to pay for all costs and expenses, other than underwriting discounts, commissions and underwriters' counsel fees, incurred in connection with

the registration of the NewCRG Common Stock, stock transfer taxes and the expenses of Cambridge Holdings' legal counsel in connection with the sale of the Registrable Shares, provided that NewCRG will pay the reasonable fees and expenses of one counsel for Cambridge Holdings up to \$50,000 in the aggregate for any registration thereunder, subject

to the limitations set forth therein. NewCRG will also agree to indemnify Cambridge Holdings against certain liabilities, including liabilities under the Securities Act.

For the period that is two years after the date of the Registration Rights and Stockholders' Agreement, Cambridge Holdings may not, without the approval of a majority of the directors of NewCRG other than the Cambridge Directors (as defined below), directly or indirectly transfer any shares of NewCRG Series C Preferred Stock (or any securities convertible into or exercisable or exchangeable for any such shares), NewCRG Investor Shares (or any securities convertible into or exercisable or exchangeable for any such shares), or Conversion Common Stock (or any securities convertible into or exercisable or exchangeable for any shares) held by Cambridge Holdings provided that such transfer restriction will not apply to (i) any transfer of Cambridge Holdings Shares or Conversion Common Stock yielding up to \$6.0 million in gross aggregate proceeds, and (ii) transfers to certain identified affiliates of Cambridge Holdings (such affiliates, "Permitted Affiliates").

Until the date that Cambridge Holdings and the Permitted Affiliates hold shares of NewCRG Common Stock and Conversion Common Stock constituting less than 14.5% of the total number of outstanding shares of NewCRG Common Stock (the "Cambridge Director Step-Down Date"), Cambridge Holdings has the right to nominate two individuals as director nominees of NewCRG, which shall initially be Matthew Perelman and Alex Sloane, and the board of directors of NewCRG (the "NewCRG Board") will take all necessary action to support the election and appointment of such director nominees as directors of the NewCRG Board (each such director, a "Cambridge Director"). From the Cambridge Director Step-Down Date to the date that Cambridge Holdings and the Permitted Affiliates hold shares of NewCRG Common Stock and Conversion Common Stock constituting less than 10% of the total number of outstanding shares of NewCRG Common Stock (the "Cambridge Director Cessation Date"), Cambridge Holdings has the right to nominate one individual as a director nominee of NewCRG and NewCRG and the NewCRG Board will take all necessary action to support the election and appointment of such director nominee as a director of the NewCRG Board. Until the Cambridge Director Cessation Date, NewCRG and the NewCRG Board will act to ensure that the number of Cambridge Directors serving on each committee of the NewCRG Board is, to the extent possible proportional to the number of Cambridge Directors serving on the NewCRG Board and that at least one Cambridge Director serves on each of the Compensation Committee, the Finance Committee and the Nominating and Corporate Governance Committee of the NewCRG Board at all times, provided that such Cambridge Directors meet the requirements to serve on such committee under the rules and regulations of NASDAQ, the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Until the Cambridge Director Cessation Date, at each annual or special meeting of the NewCRG stockholders at which any person is subject to election or re-election as a member of the NewCRG Board, Cambridge Holdings has agreed to cause to be present for quorum purposes all shares of NewCRG Investor Common Stock and Conversion Common Stock that Cambridge Holdings and its Permitted Affiliates have the right to vote as of the record date for such meeting of the NewCRG stockholders, and vote or cause to be voted all such shares of NewCRG Investor Common Stock and Conversion Common Stock in favor of the election of all of the director nominees recommended for election by the NewCRG Board, and against the removal of any such director (unless proposed by NewCRG).

Voting Agreements

On February 19, 2019, CFP entered into Voting Agreements with each of Daniel T. Accordino, the Chief Executive Officer, President and a director of Carrols Restaurant Group, Paul R. Flanders, the Vice President, Chief Financial Officer and Treasurer of Carrols Restaurant Group, Richard G. Cross, the Vice President, Real Estate of Carrols Restaurant Group and William E. Myers, the Vice President, General Counsel and Secretary of Carrols Restaurant Group, pursuant to which the Messrs. Accordino, Flanders, Cross and Myers will agree to vote their respective shares of NewCRG Common Stock that they will hold after giving effect to the Holding Company Reorganization, in favor of a proposal at the next annual meeting of NewCRG stockholders to be held following the closing of the transaction

and any subsequent meeting of NewCRG stockholders, if necessary, to remove the Issuance Restriction. The Voting Agreements will terminate upon the earlier of (a) the date the removal of the Issuance Restriction is approved by the NewCRG stockholders, (b) the date the Merger Agreement is terminated in accordance with its terms and (c) the date of any amendment to the Merger Agreement or any change to or modification of the Series C

Certificate of Designations, in each case which change is materially adverse to Carrols Restaurant Group, Mr. Accordino, Mr. Flanders, Mr. Cross or Mr. Myers, as applicable.

Availability of Information

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the "SEC"). The SEC also maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

We make available at no cost through our internet website at www.carrols.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as well as other reports relating to us that are filed or furnished to the SEC, as soon as reasonably practicable after electronically filing or furnishing such material with the SEC. The reference to our website address and the SEC website address do not constitute incorporation by reference of the information contained on the website and should not be considered part of this document.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, as well as other information and data included in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, consolidated financial condition or results of operations.

Risks Related to Our Business

Intense competition in the restaurant industry could make it more difficult to profitably expand our business and could also have a negative impact on our operating results if customers favor our competitors or we are forced to change our pricing and other marketing strategies.

The restaurant industry is highly competitive. In each of our markets, our restaurants compete with a large number of national and regional restaurant chains, as well as locally owned restaurants, offering low and medium-priced fare. We also compete with convenience stores, delicatessens and prepared food counters in grocery stores, supermarkets, cafeterias and other purveyors of moderately priced and quickly prepared food. We believe our largest competitors are McDonald's and Wendy's restaurants.

Due to competitive conditions, we, as well as certain of the other major quick-service restaurant chains, have offered select food items and combination meals at discounted prices. These pricing and marketing strategies have had, and in the future may have, a negative impact on our sales and earnings.

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

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

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

We are highly dependent on the Burger King system and our ability to renew our franchise agreements with BKC. The failure to renew our franchise agreements or Burger King's failure to compete effectively would materially adversely affect our results of operations.

Due to the nature of franchising and our agreements with BKC, our success is, to a large extent, directly related to the success of the Burger King system including its financial condition, advertising programs, new products, overall quality of operations and the successful and consistent operation of Burger King restaurants owned by other franchisees. We cannot assure you that Burger King will be able to compete effectively with other restaurants. As a result, any failure of Burger King to compete effectively would likely have a material adverse effect on our operating results.

Under each of our franchise agreements with BKC, we are required to comply with operational programs established by BKC. For example, our franchise agreements with BKC require that our restaurants comply with specified design criteria. In addition, BKC generally has the right to require us during the tenth year of a franchise

agreement to remodel our restaurants to conform to the then-current image of Burger King, which may require the expenditure of considerable funds. In addition we may not be able to avoid adopting menu price discount promotions or permanent menu price decreases instituted by BKC that may be unprofitable.

Our franchise agreements typically have a 20-year term after which BKC's consent is required to receive a successor franchise agreement. Our franchise agreements with BKC that are set to expire over the next three years are as follows: 33 in 2019, 55 in 2020 and 12 in 2021.

We cannot assure you that BKC will grant each of our future requests for successor franchise agreements, and any failure of BKC to renew our franchise agreements could adversely affect our operating results. In addition, as a condition of approval of a successor franchise agreement, BKC may require us to make capital improvements to particular restaurants to bring them up to Burger King current image standards, which may require us to incur substantial costs.

In addition, our franchise agreements with BKC do not give us exclusive rights to operate Burger King restaurants in any defined territory. Although we believe that BKC generally seeks to ensure that newly granted franchises do not materially adversely affect the operations of existing restaurants, we cannot assure you that franchises granted by BKC to third parties will not adversely affect any restaurants that we operate.

Additionally, as a franchisee, we have no control over the Burger King brand. If BKC does not adequately protect the Burger King brand and other intellectual property, our competitive position and operating results could be harmed. Our strategy includes pursuing acquisitions of additional Burger King restaurants and we may not find Burger King restaurants that are suitable acquisition candidates or successfully operate or integrate any Burger King restaurants we may acquire.

As part of our strategy, we intend to pursue the acquisition of additional Burger King restaurants. Pursuant to the operating agreement between BKC and Carrols LLC, dated as of May 30, 2012, as amended on January 26, 2015 and December 17, 2015, BKC assigned to us its ROFR under its franchise agreements with its franchisees to purchase all of the assets of a restaurant or all or substantially all of the voting stock of the franchisee, whether direct or indirect, on the same terms proposed between such franchisee and a third party purchaser in 20 states as follows: Connecticut (except Hartford county), Delaware, Indiana, Kentucky, Maine, Maryland, Massachusetts (except for Middlesex, Norfolk and Suffolk counties), Michigan, New Hampshire, New Jersey, New York (except for Bronx, Kings, Nassau, New York, Queens, Richmond, Suffolk and Westchester counties), North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington DC, and West Virginia. In addition, pursuant to the operating agreement, BKC granted us, on a non-exclusive basis, franchise pre-approval to, among other things, acquire restaurants from Burger King franchisees in the 20 states above until we operate 1,000 Burger King restaurants. As part of the franchise pre-approval, BKC granted us pre-approval for acquisitions of restaurants from franchisees in the 20 states above subject to and in accordance with the terms of the operating agreement. Under the new Area Development Agreement which is subject to and effective upon the closing of the Mergers, BKC will assign to Carrols LLC the ADA ROFR in the ADA DMAs until the date that Carrols LLC has acquired more than an aggregate of 500 Burger King restaurants. In addition, pursuant to the Area Development Agreement, BKC will grant Carrols LLC franchise pre-approval to build new Burger King restaurants or acquire Burger King restaurants from Burger King franchisees in the ADA DMAs until the date that Carrols LLC acquires, in the aggregate, more than 500 Burger King restaurants inside or outside of the ADA DMAs. Although we believe that opportunities for future acquisitions may be available from time to time, competition for acquisition candidates may exist or increase in the future. Consequently, there may be fewer acquisition opportunities available to us at an attractive acquisition price. There can be no assurance that we will be able to identify, acquire, manage or successfully integrate additional restaurants without substantial costs, delays or operational or financial problems. In the event we are able to acquire additional restaurants, the integration and operation of the acquired restaurants may place significant demands on our management, which could adversely affect our ability to manage our existing restaurants. We may be required to obtain additional financing to fund future acquisitions. There can be no assurance that we will be able to obtain additional financing, if necessary, on acceptable terms or at all. Both our senior credit facility and the indenture governing the \$275.0 million of 8% Senior Secured Second Lien Notes due 2022 (the "Notes") contain restrictive covenants that may prevent us from incurring additional debt to acquire additional Burger King restaurants.

We may experience difficulties in integrating restaurants acquired by us into our existing business.

The acquisition of a significant number of restaurants will involve the integration of those acquired restaurants with our existing business. The difficulties of integration include:

- coordinating and consolidating geographically separated systems and facilities;
- integrating the management and personnel of the acquired restaurants, maintaining employee morale and retaining key employees;
- implementing our management information systems; and
- implementing operational procedures and disciplines to control costs and increase profitability.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of our business and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the acquisition of restaurants and integration of acquired restaurants' operations could have an adverse effect on our business, results of operations and financial condition.

Achieving the anticipated benefits of the acquisition of additional restaurants will depend in part upon whether we can integrate any acquired restaurants in an efficient and effective manner. We may not accomplish this integration process smoothly or successfully. If management is unable to successfully integrate acquired restaurants, the anticipated benefits of the acquisition may not be realized.

In our evaluation of our recent and potential acquisitions, assumptions are made as to our ability to increase sales as well as improve restaurant-level profitability particularly in the areas of food, labor and cash controls as well as other operating expenses. If we are not able to make such improvements in these operational areas as planned, the acquired restaurants' targeted profitability levels will be affected which could cause an adverse effect on our overall financial results and financial condition.

We could be adversely affected by food-borne illnesses, as well as widespread negative publicity regarding food quality, illness, injury or other health concerns.

Negative publicity about food quality, illness, injury or other health concerns (including health implications of obesity) or similar issues stemming from one restaurant or a number of restaurants could materially adversely affect us, regardless of whether they pertain to our own restaurants, other Burger King restaurants, or to restaurants owned or operated by other companies. For example, health concerns about the consumption of beef, chicken or eggs or by specific events such as the outbreak of "mad cow" disease could lead to changes in consumer preferences, reduce consumption of our products and adversely affect our financial performance. These events could also reduce available supply or significantly raise the price of beef, chicken or eggs.

In addition, we cannot guarantee that our operational controls and employee training will be effective in preventing food-borne illnesses, food tampering and other food safety issues that may affect our restaurants. Food-borne illness or food tampering incidents could be caused by customers, employees or food suppliers and transporters and, therefore, could be outside of our control. Any publicity relating to health concerns or the perceived or specific outbreaks of food-borne illnesses, food tampering or other food safety issues attributed to one or more of our restaurants, could result in a significant decrease in guest traffic in all of our restaurants and could have a material adverse effect on our results of operations. In addition, similar publicity or occurrences with respect to other restaurants or restaurant chains could also decrease our guest traffic and have a similar material adverse effect on our business.

We may incur significant liability or reputational harm if claims are brought against us or the Burger King brand. We may be subject to complaints, regulatory proceedings or litigation from guests or other persons alleging food-related illness, injuries suffered in our premises or other food quality, health or operational concerns, including environmental claims. In addition, in recent years a number of restaurant companies have been subject to lawsuits, including class action lawsuits, alleging, among other things, violations of federal and state law regarding workplace and employment matters, discrimination, harassment, wrongful termination and wage, rest break, meal break and overtime compensation issues and, in the case of quick-service restaurants, alleging that they have failed to disclose the health risks associated with high fat or high sodium foods and that their marketing practices have encouraged obesity. We may also be subject to litigation or other actions initiated by governmental authorities or our employees, among others, based upon these and other matters. Adverse publicity resulting from such allegations or occurrences or alleged discrimination or other operating issues stemming from one or a number of our locations could adversely

affect our business, regardless of whether the allegations are true, or whether we are ultimately held liable. Any cases filed against us could materially adversely affect us if we lose such cases and have to pay substantial damages or if we settle such cases. In addition, any such cases may materially and adversely affect our operations by increasing our litigation costs and diverting our attention and resources to address such actions. In addition, if a claim is successful, our insurance coverage may not cover or be adequate to cover all liabilities or losses and we may not be able to continue to maintain such insurance, or to obtain comparable insurance at a reasonable cost, if at all. If we suffer losses, liabilities or loss of income in excess of our insurance coverage or if our insurance does not cover such loss, liability or loss of income, there could be a material adverse effect on our results of operations.

Changes in consumer taste could negatively impact our business.

We obtain a significant portion of our revenues from the sale of hamburgers and various types of sandwiches. If consumer preferences for these types of foods change, it could have a material adverse effect on our operating results. The quick-service restaurant segment is characterized by the frequent introduction of new products, often supported by substantial promotional campaigns, and is subject to changing consumer preferences, tastes, and eating and purchasing habits. Our success depends on BKC's ability to anticipate and respond to changing consumer preferences, tastes and dining and purchasing habits, as well as other factors affecting the restaurant industry, including new market entrants and demographic changes. BKC may be forced to make changes to our menu items in order to respond to changes in consumer tastes or dining patterns, and we may lose customers who do not prefer the new menu items. In recent years, numerous companies in the quick-service restaurant segments have introduced products positioned to capitalize on the growing consumer preference for food products that are, or are perceived to be, promoting good health, nutritious, low in calories and low in fat content. If BKC does not continually develop and successfully introduce new menu offerings that appeal to changing consumer preferences or if the Burger King system does not timely capitalize on new products, our operating results could suffer. In addition, any significant event that adversely affects consumption of our products, such as cost, changing tastes or health concerns, could adversely affect our financial performance.

If a significant disruption in service or supply by any of our suppliers or distributors were to occur, it could create disruptions in the operations of our restaurants, which could have a material adverse effect on our business.

Our financial performance depends on our continuing ability to offer fresh, quality food at competitive prices. If a significant disruption in service or supply by our suppliers or distributors were to occur, it could create disruptions in the operations of our restaurants, which could have a material adverse effect on us.

We are a member of a national purchasing cooperative, Restaurant Services, Inc., which serves as the purchasing agent for approved distributors to the Burger King system. We are required to purchase all of our food products, paper goods and packaging materials from BKC-approved suppliers. We currently utilize mostly three distributors for our restaurants, Maines Paper & Food Service, Inc., McLane Company Inc., and Reinhart Food Service L.L.C., to supply our restaurants in various geographical areas. As of December 30, 2018, such distributors supplied 40%, 32%, and 28%, respectively of our restaurants. Although we believe that we have alternative sources of supply, in the event any distributors or suppliers are unable to service us, this could lead to a disruption of service or supply until a new distributor or supplier is engaged, which could have an adverse effect on our business.

If labor costs increase, we may not be able to make a corresponding increase in our prices and our operating results may be adversely affected.

Wage rates for a number of our employees are either at or slightly above the federal and or state minimum wage rates. As federal and/or state minimum wage rates increase, we may need to increase not only the wage rates of our minimum wage employees but also the wages paid to the employees at wage rates which are above the minimum wage, which will increase our costs. The extent to which we are not able to raise our prices to compensate for increases in wage rates, including increases in state unemployment insurance costs or other costs including mandated health insurance, could have a material adverse effect on our operating results. In addition, even if minimum wage rates do not increase, we may still be required to raise wage rates in order to compete for an adequate supply of labor for our restaurants.

Higher labor costs due to statutory and regulatory changes could have a material adverse effect on our business and financial results.

We are subject to the federal labor laws, including the Fair Labor Standards Act, as well as various state and local laws governing such matters as minimum wages, labor relations, workplace safety, citizenship requirements and other working conditions for employees. Federal, state and local laws may also require us to provide paid and unpaid leave, healthcare, or other benefits to our employees. Changes in the law, or penalties associated with any failure on our part to comply with legal requirements, could increase our labor costs or result in additional expense.

During 2018, certain workers were able to take up to eight weeks (increasing in New York and other areas to twelve weeks in 2021) of employer-provided paid leave for childbirth, care for a seriously ill family member or needs related to a family member's military deployment. These additional expenses may cause us to raise our prices. In certain geographic areas which cannot absorb such increases, this could have a material adverse effect on our business, financial condition; results of operations and/or cash flows. We provide unpaid leave for employees for covered family and medical reasons, including childbirth, to the extent required by the Family and Medical Leave Act of 1993, as amended, and applicable state laws. To the extent we need to hire additional employees or pay overtime for such employees on leave, this would be an added expense which could adversely affect our results of operations.

Increases in income tax rates or changes in income tax laws could adversely affect our business, financial condition or results of operations.

Increases in income tax rates in the United States or other changes in income tax laws in any particular jurisdiction could reduce our after-tax income from such jurisdiction and could adversely affect our business, financial condition or results of operations. The United States recently made changes to existing tax laws in the Tax Cuts and Jobs Act (the "Act") which was signed into law on December 22, 2017. Among its many provisions, the Act reduced the U.S. Federal corporate income tax rate from 35% to 21% and imposed limitations on the deductibility of interest and certain other corporate deductions. Additional changes in the U.S. tax regime, including changes in how existing tax laws are interpreted or enforced, could adversely affect our business, financial condition or results of operations.

The efficiency and quality of our competitors' advertising and promotional programs and the extent and cost of our advertising could have a material adverse effect on our results of operations and financial condition.

The success of our restaurants depends in part upon the effectiveness of the advertising campaigns and promotions by BKC. If our competitors increase spending on advertising and promotion, or the cost of television or radio advertising increases, or BKC's or our advertising and promotions are less effective than our competitors', there could be a material adverse effect on our results of operations and financial condition.

Our business is regional and we therefore face risks related to reliance on certain markets as well as risks for other unforeseen events.

At December 30, 2018, 18% of our restaurants were located in North Carolina, 15% were located in New York, and 31% were located in Indiana, Ohio and Michigan. Therefore, the economic conditions, state and local government regulations, weather conditions or other conditions affecting New York, Indiana, Ohio, Michigan, and North Carolina and other unforeseen events, including terrorism and other national conflicts may have a material impact on the success of our restaurants in those locations.

Many of our restaurants are located in regions that may be susceptible to severe weather conditions such as harsh winter weather and hurricanes. As a result, adverse weather conditions in any of these areas could damage these restaurants, result in fewer guest visits to these restaurants and otherwise have a material adverse impact on our business.

We cannot assure you that the current locations of our restaurants will continue to be economically viable or that additional locations will be acquired at reasonable costs.

The location of our restaurants has significant influence on their success. We cannot assure you that current locations will continue to be economically viable or that additional locations can be acquired at reasonable costs. In addition, the economic environment where restaurants are located could decline in the future, which could result in reduced sales for those locations. We cannot assure you that new sites will be profitable or as profitable as existing sites. Economic downturns may adversely impact consumer spending patterns.

The U.S. economy has in the past experienced significant slowdown and volatility due to uncertainties related to availability of credit, difficulties in the banking and financial services sectors, softness in the housing market, diminished market liquidity, falling consumer confidence and high unemployment rates. Our business is dependent to a significant extent on national, regional and local economic conditions, particularly those that affect our guests that frequently patronize our restaurants. In particular, where our customers' disposable income is reduced (such as by job losses, credit constraints and higher housing, tax, energy, interest or other costs) or where the perceived wealth of customers has decreased (because of circumstances such as lower residential real estate values, increased foreclosure rates, increased tax rates or other economic disruptions), our restaurants have in the past experienced, and may in the future experience, lower sales and customer traffic as customers choose lower-cost alternatives or other alternatives to dining out. The resulting decrease in our customer traffic or average sales per transaction has had an adverse effect in the past, and could in the future have a material adverse effect, on our business.

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

Our success depends to a large extent upon the continued services of our senior management who have substantial experience in the restaurant industry. We believe that it could be difficult to replace our senior management with individuals having comparable experience. Consequently, the loss of the services of members of our senior management could have a material adverse effect on our business, financial condition or results of operations.

Government regulation could adversely affect our financial condition and results of operations.

We are subject to extensive laws and regulations relating to the development and operation of restaurants, including regulations relating to the following:

- zoning;

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

- the preparation and sale of food;

- employer/employee relationships, including minimum wage requirements, overtime, mandatory paid and unpaid leave, working and safety conditions, and citizenship requirements;

- health care; and

- federal and state laws that prohibit discrimination and laws regulating design and operation of, and access to, facilities, such as the Americans With Disabilities Act of 1990.

In the event that legislation having a negative impact on our business is adopted, it could have a material adverse impact on us. For example, substantial increases in the minimum wage or state or Federal unemployment taxes could adversely affect our financial condition and results of operations. Local zoning or building codes or regulations can cause substantial delays in our ability to build and open new restaurants. Any failure to obtain and maintain required licenses, permits and approvals could also adversely affect our operating results.

Federal, state and local environmental regulations relating to the use, storage, discharge, emission and disposal of hazardous materials could expose us to liabilities, which could adversely affect our results of operations.

We are subject to a variety of federal, state and local environmental regulations relating to the use, storage, discharge, emission and disposal of hazardous substances or other regulated materials, release of pollutants into the air, soil and water, and the remediation of contaminated sites.

Failure to comply with environmental laws could result in the imposition of fines or penalties, restrictions on operations by governmental agencies or courts of law, as well as investigatory or remedial liabilities and claims for alleged personal injury or damages to property or natural resources. Some environmental laws impose strict, and under some circumstances joint and several, liability for costs of investigation and remediation of contaminated sites on current and prior owners or operators of the sites, as well as those entities that send regulated materials to the sites. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. Therefore, our costs of complying with current and future environmental, health and safety laws could adversely affect our results of operations.

We are subject to all of the risks associated with leasing property subject to long-term non-cancelable leases. The leases for our restaurant locations (except for certain acquired restaurants which have an underlying lease term of less than 20 years) generally have initial terms of 20 years, and typically provide for renewal options in five year increments as well as for rent escalations. Generally, our leases are "net" leases, which require us to pay all of the costs of insurance, taxes, maintenance and utilities. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. We generally cannot cancel our leases. If an existing or future restaurant is not profitable, and we decide to close it, we may nonetheless be obligated to perform our monetary obligations under the applicable lease including, among other things, paying all amounts due for the balance of the lease term. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or any terms at all, which could cause us to close restaurants in desirable locations.

An increase in food costs could adversely affect our operating results.

Our profitability and operating margins are dependent in part on our ability to anticipate and react to changes in food costs. Changes in the price or availability of certain food products could affect our ability to offer broad menu and price offerings to guests and could materially adversely affect our profitability and reputation. The type, variety, quality and price of beef, chicken, produce and cheese can be subject to change and to factors beyond our control, including weather, governmental regulation, availability and seasonality, each of which may affect our food costs or cause a disruption in our supply. Our food distributors or suppliers may also be affected by higher costs to produce and transport commodities used in our restaurants, higher minimum wage and benefit costs and other expenses that they pass through to their customers, which could result in higher costs for goods and services supplied to us. Although RSI is able to contract for certain food commodities for periods up to one year, the pricing and availability of some commodities used in our operations are not locked in for periods of longer than one week or at all. We do not currently use financial instruments to hedge our risk to market fluctuations in the price of beef, produce and other food products. We may not be able to anticipate and react to changing food costs through menu price adjustments in the future, which could negatively impact our results of operations.

Security breaches of confidential guest information in connection with our electronic processing of credit and debit card transactions may adversely affect our business.

A significant amount of our restaurant sales are by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and debit card information of their customers was compromised. We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our guests' credit or debit card information. Any such claim or proceeding, or any adverse publicity resulting from these allegations, may have a material adverse effect on us and our restaurants. We depend on information technology and any material failure of that technology could impair our ability to efficiently operate our business.

We rely on information systems across our operations, including, for example, point-of-sale processing in our restaurants, procurement and payment to significant suppliers, collection of cash, and payment of other financial obligations and various other processes and procedures. Our ability to efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrading or transitioning to replacement systems or a breach in security of these systems could cause delays in customer service and reduce efficiency in our operations. Significant capital investments might be required to remediate any problems.

Carrols is currently a guarantor under 27 Fiesta Restaurant Group, Inc. ("Fiesta") restaurant property leases and the primary lessee on five Fiesta restaurant property leases, and any default under such property leases by Fiesta may result in substantial liabilities to us.

Fiesta, a former wholly-owned subsidiary of the Company, was spun-off in 2012 to the Company's stockholders. Carrols currently is a guarantor under 27 Fiesta restaurant property leases, of which all except for one are still operating as of December 30, 2018. The Separation and Distribution Agreement, which we refer to as the "separation agreement", dated as of April 24, 2012 and entered into in connection with the spin-off among Carrols, Fiesta and us provides that the parties will cooperate and use their commercially reasonable efforts to obtain the release of such guarantees. Unless

and until any such guarantees are released, Fiesta agrees to indemnify Carrols for any losses or liabilities or expenses that it may incur arising from or in connection with any such lease guarantees.

Carrols is currently a primary lessee of five Fiesta restaurants which it subleases to Fiesta. The separation agreement provides that the parties will cooperate and use their commercially reasonable efforts to cause Fiesta or a subsidiary of Fiesta to enter into a new master lease or individual leases with the lessor with respect to the Fiesta restaurants where Carrols is currently a lessee. The separation agreement provides that until such new master lease or such individual leases are entered into, (i) Carrols will perform its obligations under the master lease for the five Fiesta restaurants where it is a lessee and (ii) the parties will cooperate and use their commercially reasonable efforts to enter into a non-disturbance agreement or similar agreement with the lessor which shall provide that Fiesta or one of its subsidiaries shall become the lessee under such master lease with respect to such Fiesta restaurants and perform Carrols' obligations under such master lease in the event of a breach or default by Carrols.

Such guarantees may never be released and a new master lease with respect to the five Fiesta properties where Carrols is the primary lessee may never be entered into by Fiesta. Any losses or liabilities that may arise in connection such guarantees or the master lease where Carrols is not able to receive indemnification from Fiesta may result in substantial liabilities to us and could have a material adverse effect on our business.

Risks Related to Our Common Stock

The market price of our common stock may be highly volatile or may decline regardless of our operating performance.

The trading price of our common stock may fluctuate substantially. The price of our common stock that will prevail in the market may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. The fluctuations could cause a loss of all or part of an investment in our common stock. Factors that could cause fluctuation in the trading price of our common stock may include, but are not limited to the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of companies generally or restaurant companies;
- actual or anticipated variations in the earnings or operating results of our company or our competitors;
- actual or anticipated changes in financial estimates by us or by any securities analysts who might cover our stock or the stock of other companies in our industry;
- market conditions or trends in our industry and the economy as a whole;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures and our ability to complete any such transaction;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- capital commitments;
- changes in accounting principles;
- additions or departures of key personnel;
- sales of our common stock, including sales of large blocks of our common stock or sales by our directors and officers; and
- events that affect BKC.

In addition, if the market for restaurant company stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry or related industries even if these events do not directly affect us.

In the past, following periods of volatility in the market price of a company's securities, class action securities litigation has often been brought against that company. Due to the potential volatility of our stock price, we may

therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

The concentrated ownership of our capital stock by insiders will likely limit our stockholders' ability to influence corporate matters.

Our executive officers, directors and BKC together beneficially own approximately 25.3% of our outstanding common stock as of February 26, 2019 (assuming conversion of the Series B Preferred Stock held by BKC and an affiliate of RBI). Due to the issuance of Series A Preferred Stock to BKC in connection with our 2012 acquisition and subsequent exchange for Series B Preferred Stock in 2018, BKC beneficially owns approximately 20.3% of our common stock as of February 26, 2019 (assuming conversion of the Series B Preferred Stock). Our executive officers and directors (excluding directors affiliated with RBI) together beneficially own approximately 6.3% of our common stock outstanding as of February 26, 2019 (excluding conversion of the Series B Preferred Stock). As a result, our executive officers, directors, BKC and an affiliate of RBI, if they act as a group, will be able to significantly influence matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions such as mergers and acquisitions. The directors will have the authority to make decisions affecting our capital structure, including the issuance of additional debt and the declaration of dividends. BKC and an affiliate of RBI may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. Corporate action might be taken even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of us that other stockholders may view as beneficial, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately depress the market price of our common stock. We do not expect to pay any cash dividends for the foreseeable future, and the indenture governing the Notes and the senior credit facility limit our ability to pay dividends to our stockholders.

We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. The absence of a dividend on our common stock may increase the volatility of the market price of our common stock or make it more likely that the market price of our common stock will decrease in the event of adverse economic conditions or adverse developments affecting our company. Additionally, the indenture governing the Notes and our senior credit facility limit, and our new Senior Credit Facilities if entered into in connection with the Mergers will limit, and the debt instruments that we may enter into in the future may limit our ability to pay dividends to our stockholders.

If securities analysts do not publish research or reports about our business or if they downgrade our stock, the price of our stock could decline.

The trading market for our common stock will rely in part on the research and reports that industry or financial analysts publish about us or our business. We cannot assure you that these analysts will publish research or reports about us or that any analysts that do so will not discontinue publishing research or reports about us in the future. If one or more analysts who cover us downgrade our stock, our stock price could decline rapidly. If analysts do not publish reports about us or if one or more analysts cease coverage of our stock, we could lose visibility in the market, which in turn could cause our stock price to decline.

Provisions in our restated certificate of incorporation and amended and restated bylaws, as amended, or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Delaware corporate law and our restated certificate of incorporation and amended and restated bylaws, as amended, contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

require that special meetings of our stockholders be called only by our board of directors or certain of our officers, thus prohibiting our stockholders from calling special meetings;

- deny holders of our common stock cumulative voting rights in the election of directors, meaning that stockholders owning a majority of our outstanding shares of common stock will be able to elect all of our directors;
- authorize the issuance of “blank check” preferred stock that our board could issue to dilute the voting and economic rights of our common stock and to discourage a takeover attempt;
- provide that approval of our board of directors or a supermajority of stockholders is necessary to make, alter or repeal our amended and restated bylaws and that approval of a supermajority of stockholders is necessary to amend, alter or change certain provisions of our restated certificate of incorporation;
- establish advance notice requirements for stockholder nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- divide our board into three classes of directors, with each class serving a staggered 3-year term, which generally increases the difficulty of replacing a majority of the directors;
- provide that directors only may be removed for cause by a majority of the board or by a supermajority of our stockholders; and
- require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing.

Risks Related to Our Indebtedness

Our substantial indebtedness could adversely affect our financial condition.

As of December 30, 2018, we had approximately \$280.1 million of total indebtedness outstanding consisting of \$275.0 million of Notes, \$1.2 million of lease financing obligations and \$3.9 million of capital leases and other debt. At December 30, 2018, we had \$61.4 million of borrowing availability under our senior credit facility (after reserving \$11.6 million for letters of credit issued under our senior credit facility, which included amounts for anticipated claims from our renewals of workers' compensation and other insurance policies), which would effectively rank senior to the Notes.

As a result of our substantial indebtedness, a significant portion of our operating cash flow will be required to make payments of interest and principal on our outstanding indebtedness, and we may not generate sufficient cash flow from operations, or have future borrowings available under our senior credit facility, to enable us to repay our indebtedness, including the Notes, or to fund other liquidity needs.

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

- make it more difficult for us to satisfy our obligations with respect to the Notes and our other debt;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and related interest, including indebtedness we may incur in the future, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- restrict our ability to acquire additional restaurants;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increase our cost of borrowing;
- place us at a competitive disadvantage compared to our competitors that may have less debt; and
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes.

We expect to use cash flow from operations, our cash balances and revolving credit borrowings under our senior credit facility to meet our current and future financial obligations, including funding our operations, debt service, possible future acquisitions and capital expenditures (including restaurant remodeling and new restaurant development). Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future, which could result in our being unable to repay indebtedness, or to

fund other liquidity needs. If we do not have sufficient liquidity, we may be forced to reduce or delay capital expenditures and restaurant acquisitions, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including our senior credit facility and the Notes, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness, including the agreements for our senior credit facility, may limit our ability to pursue any of these alternatives.

Despite current indebtedness levels and restrictive covenants, we may still be able to incur more debt or make certain restricted payments, which could further exacerbate the risks described above.

We and our subsidiaries may be able to incur additional debt in the future, including debt that may be secured on a first lien basis or pari passu with the Notes. Although our senior credit facility and the indenture governing the Notes contain restrictions on our ability to incur indebtedness, those restrictions are subject to a number of exceptions. In addition, if we are able to designate some of our restricted subsidiaries under the indenture governing the Notes as unrestricted subsidiaries, those unrestricted subsidiaries would be permitted to borrow beyond the limitations specified in the indenture governing the Notes and engage in other activities in which restricted subsidiaries may not engage. We could also consider investments in joint ventures or acquisitions, which may increase our indebtedness. Moreover, although our senior credit facility and the indenture governing the Notes contain restrictions on our ability to make restricted payments, including the declaration and payment of dividends, we are able to make such restricted payments under certain circumstances. Adding new debt to current debt levels or making restricted payments could intensify the related risks that we and our subsidiaries now face.

The agreements governing our debt agreements restrict our ability to engage in some business and financial transactions and contain certain other restrictive terms.

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

- incur additional debt;
- pay dividends and make other distributions on, redeem or repurchase, capital stock;
- make investments or other restricted payments;
- enter into transactions with affiliates;
- engage in sale and leaseback transactions;
- sell all, or substantially all, of our assets;
- create liens on assets to secure debt; or
- effect a consolidation or merger.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. In addition, our senior credit facility required us to maintain specified financial ratios and satisfy other financial tests. At December 30, 2018, we were in compliance with such covenants under our senior credit facility. Our ability to meet these financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet these tests.

A breach of any of these covenants or other provisions in our debt agreements could result in an event of default, which if not cured or waived, could result in such debt becoming immediately due and payable. This, in turn, could cause our other debt to become due and payable as a result of cross-acceleration provisions contained in the agreements governing such other debt. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt. In addition, in the event that the Notes become immediately due and payable, the holders of the Notes would not be entitled to receive any payment in respect of the Notes until all of our senior debt has been paid in full.

We may not have the funds necessary to satisfy all of our obligations under our senior credit facility, the Notes or other indebtedness in connection with certain change of control events.

Upon the occurrence of specific kinds of change of control events, the indenture governing the Notes requires us to make an offer to repurchase all outstanding Notes at 101% of the principal amount thereof, plus accrued and

unpaid interest (and additional interest, if any) to the date of repurchase. However, it is possible that we will not have sufficient funds, or the ability to raise sufficient funds, at the time of the change of control to make the required repurchase of the Notes. In addition, restrictions under our senior credit facility may not allow us to repurchase the Notes upon a change of control. If we could not refinance such debt or otherwise obtain a waiver from the holders of such debt, we would be prohibited from repurchasing the Notes, which would constitute an event of default under the indenture. Certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a “Change of Control” under the indenture.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 30, 2018, we owned 6 and leased 843 Burger King® restaurant properties including two restaurants located in mall shopping centers and 24 co-branded locations. In addition, we owned four and leased seven non-operating properties as of December 30, 2018, including four properties under construction that are expected to open as new restaurants in 2019.

We typically enter into leases (including renewal options) ranging from 20 to 40 years. The average remaining term for all leases, including options, was approximately 23.5 years at December 30, 2018. Generally, we have been able to renew leases, upon or prior to their expiration, at the prevailing market rates, although there can be no assurance that this will continue to occur.

Most of our Burger King® restaurant leases are coterminous with the related franchise agreements. We believe that we generally will be able to renew at commercially reasonable rates the leases whose terms expire prior to the expiration of that location's Burger King® franchise agreement, although there can be no assurance that this will occur.

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

In addition to the restaurant locations set forth under Item 1. “Business-Restaurant Locations”, we own a building with approximately 25,300 square feet at 968 James Street, Syracuse, New York, which houses our executive offices, most of our administrative operations for our Burger King® restaurants and one of our regional support offices. We also lease seven small regional offices that support the management of our Burger King® restaurants and two small administrative offices in Syracuse, NY that support administrative operations.

ITEM 3. LEGAL PROCEEDINGS

Litigation. We are involved in various litigation matters and claims that arise in the ordinary course of business. Based on our currently available information, we do not believe that the ultimate resolution of any of these matters will have a material adverse effect on our consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The NASDAQ Global Market under the symbol “TAST”. On February 26, 2019, there were 37,003,873 shares of our common stock outstanding held by 495 holders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of our common stock whose shares are held in the names of various securities brokers, dealers, and registered clearing agencies. The

closing price of our common stock on February 26, 2019 was \$11.13.

We did not pay any cash dividends during the fiscal years 2018 or 2017. We currently intend to continue to retain all available funds to fund the development and growth of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future. In addition, we are a holding company and conduct all of our operations through our direct and indirect subsidiaries. As a result, for us to pay dividends, we need to rely on dividends or distributions to us from Carrols and indirectly from subsidiaries of Carrols. The indenture governing the Notes and our senior credit facility limit, and debt instruments that we and our subsidiaries may enter into in the future may limit, our ability to pay dividends to our stockholders.

Stock Performance Graph

The following graph compares from December 31, 2013 the cumulative total stockholder return on our common stock relative to the cumulative total returns of The NASDAQ Composite Index and a peer group, The S&P SmallCap 600 Restaurants Index. We have elected to use the S&P SmallCap 600 Restaurant Index in compiling our stock performance graph because we believe the S&P SmallCap 600 Restaurant Index represents a comparison to competitors with similar market capitalization as us. The graph assumes an investment of \$100 in our common stock and each index on December 31, 2013.

* \$100 invested on 12/31/2013 in stock or index, including reinvestment of dividends.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Carrols Restaurant Group, Inc.	\$ 100.00	\$ 115.43	\$ 177.61	\$ 230.71	\$ 183.81	\$ 148.87
NASDAQ Composite	\$ 100.00	\$ 114.62	\$ 122.81	\$ 133.19	\$ 172.11	\$ 165.84
S&P SmallCap 600 Restaurants	\$ 100.00	\$ 117.34	\$ 105.44	\$ 112.22	\$ 107.66	\$ 117.68

ITEM 6. SELECTED FINANCIAL DATA

Our fiscal years ended December 28, 2014, January 1, 2017, December 31, 2017 and December 30, 2018 presented below each include 52 weeks. The fiscal year ended January 3, 2016 presented below includes 53 weeks.

The information in the following table should be read together with our audited consolidated financial statements and accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K.

In 2014, we acquired 123 restaurants from other franchisees in five separate transactions and in 2015, we acquired 55 restaurants from other franchisees in eight separate transactions. During 2016, we acquired 56 restaurants from other franchisees in seven separate transactions and in 2017 we acquired 64 restaurants from other franchisees in three separate transactions. During 2018, we acquired 44 restaurants in four separate transactions. Our consolidated financial information may not be indicative of our future performance.

	Year Ended				
	December 28, 2014	January 3, 2016	January 1, 2017	December 31, 2017	December 30, 2018
	(In thousands, except share and per share data)				
Statements of operations data:					
Restaurant sales	\$692,755	\$859,004	\$943,583	\$1,088,532	\$1,179,307
Costs and expenses:					
Cost of sales	209,664	240,322	250,112	304,593	326,308
Restaurant wages and related expenses	219,718	267,950	297,766	350,054	382,829
Restaurant rent expense	48,865	58,096	64,814	75,948	81,409
Other restaurant operating expenses	113,586	135,874	148,946	166,786	178,750
Advertising expense	27,961	32,242	41,299	44,677	48,340
General and administrative (1)(2)	40,001	50,515	54,956	60,348	66,587
Depreciation and amortization	36,923	39,845	47,295	54,159	58,468
Impairment and other lease charges	3,541	3,078	2,355	2,827	3,685
Other expense (income) (3)	47	(126)	338	(333)	(424)
Total operating expenses	700,306	827,796	907,881	1,059,059	1,145,952
Income (loss) from operations	(7,551)	31,208	35,702	29,473	33,355
Interest expense	18,801	18,569	18,315	21,710	23,638
Loss on extinguishment of debt	—	12,635	—	—	—
Gain on bargain purchase	—	—	—	—	(230)
Income (loss) before income taxes	(26,352)	4	17,387	7,763	9,947
Provision (benefit) for income taxes	11,765	—	(28,085)	604	(157)
Net income (loss)	\$(38,117)	\$4	\$45,472	\$7,159	\$10,104
Per share data:					
Basic and diluted net income (loss) per share:	\$(1.23)	\$0.00	\$1.01	\$0.16	\$0.22
Weighted average shares used in computing net income (loss) per share:					
Basic	30,885,275	34,958,847	35,178,329	35,416,531	35,715,372
Diluted	30,885,275	44,623,251	44,851,345	44,976,514	45,319,971

	Year Ended				
	December 28, 2014	January 3, 2016	January 1, 2017	December 31, 2017	December 30, 2018
(In thousands, except restaurant weekly sales data)					
Other financial data:					
Net cash provided by operating activities	\$14,707	\$70,702	\$62,288	\$72,783	\$80,769
Total capital expenditures	52,010	56,848	94,099	73,516	75,735
Net cash used for investing activities	68,003	103,429	96,221	108,105	106,894
Net cash provided by financing activities	66,215	33,780	13,661	62,732	727
Operating Data:					
Restaurants (at end of period)	674	705	753	807	849
Average number of restaurants	581.9	662.1	719.5	784.3	813.9
Average annual sales per restaurant (4)	1,190,505	1,274,372	1,311,516	1,387,850	1,449,047
Adjusted EBITDA (5)	36,008	76,737	89,505	91,408	102,341
Adjusted net income (loss) (5)	(10,408)	13,429	17,860	9,037	13,587
Restaurant-Level EBITDA (5)	72,961	124,520	140,646	146,474	161,671
Change in comparable restaurant sales (6)	0.6 %	7.4 %	2.3 %	5.2 %	3.8 %
Balance sheet data (at end of period):					
Total assets	\$364,573	\$427,256	\$490,155	\$581,514	\$600,251
Working capital	(13,554)	(26,259)	(39,231)	(19,514)	(47,461)
Debt:					
Senior and senior subordinated debt	150,000	200,000	213,500	275,000	275,000
Capital leases	8,694	8,006	7,039	5,681	3,941
Lease financing obligations	1,202	1,203	3,020	1,203	1,201
Total debt	\$159,896	\$209,209	\$223,559	\$281,884	\$280,142
Stockholders' equity	\$106,535	\$107,999	\$154,656	\$169,060	\$185,540

	Year Ended				
	December 28, 2014	January 3, 2016	January 1, 2017	December 31, 2017	December 30, 2018
(In thousands, except per share data)					

Reconciliation of EBITDA and Adjusted EBITDA

(5):					
Net income (loss)	\$(38,117)	\$4	\$45,472	\$7,159	\$10,104
Provision (benefit) for income taxes	11,765	—	(28,085)	604	(157)
Interest expense	18,801	18,569	18,315	21,710	23,638
Depreciation and amortization	36,923	39,845	47,295	54,159	58,468
EBITDA	29,372	58,418	82,997	83,632	92,053
Impairment and other lease charges	3,541	3,078	2,355	2,827	3,685
Acquisition costs (7)	1,915	1,168	1,853	1,793	1,445
Gain on partial condemnation and fires (3)	—	—	(1,603)	(362)	(424)
Litigation settlement (3)	—	—	1,850	—	—
Stock compensation expense	1,180	1,438	2,053	3,518	5,812
Gain on bargain purchase	—	—	—	—	(230)
Loss on extinguishment of debt	—	12,635	—	—	—
Adjusted EBITDA	\$36,008	\$76,737	\$89,505	\$91,408	\$102,341

Reconciliation of Restaurant-Level EBITDA

(5):					
Income (loss) from operations	\$(7,551)	\$31,208	\$35,702	\$29,473	\$33,355
Add:					

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General and administrative expenses	40,001	50,515	54,956	60,348	66,587
Depreciation and amortization	36,923	39,845	47,295	54,159	58,468
Impairment and other lease charges	3,541	3,078	2,355	2,827	3,685
Other expense (income), net (3)	47	(126)	338	(333)	(424)
Restaurant-Level EBITDA	\$72,961	\$124,520	\$140,646	\$146,474	\$161,671

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	Year Ended				
	December 28, 2014	January 3, 2016	January 1, 2017	December 31, 2017	December 30, 2018
Reconciliation of Adjusted net income (loss) (5):					
Net income (loss)	\$(38,117)	\$4	\$45,472	\$ 7,159	\$ 10,104
Add:					
Loss on extinguishment of debt	—	12,635	—	—	—
Impairment and other lease charges	3,541	3,078	2,355	2,827	3,685
Acquisition costs (7)	1,915	1,168	1,853	1,793	1,445
Gain on partial condemnation and fires (3)	—	—	(1,603)	(362)	(424)
Litigation settlement (3)	—	—	1,850	—	—
Income tax effect of above adjustments (8)	(2,073)	(6,415)	(1,693)	(1,618)	(993)
Adjustments to income tax benefit (9)	24,326	2,959	(30,374)	(762)	—
Adjusted net income (loss)	\$(10,408)	\$13,429	\$17,860	\$ 9,037	\$ 13,587
Adjusted diluted net income (loss) per share (10)	\$(0.34)	\$0.30	\$0.40	\$ 0.20	\$ 0.30

(1) Acquisition expenses of \$1.9 million, \$1.2 million, \$1.9 million, \$1.8 million and \$1.4 million were included in general and administrative expense for the years ended December 28, 2014, January 3, 2016, January 1, 2017, December 31, 2017 and December 30, 2018, respectively.

General and administrative expenses include stock-based compensation expense for the years ended December 28, 2014, January 3, 2016, January 1, 2017, December 31, 2017 and December 30, 2018 of \$1.2 million, \$1.4 million, \$2.1 million, \$3.5 million and \$5.8 million, respectively.

In fiscal 2018 and 2017, the Company recorded net gains of \$0.4 million and \$0.3 million, respectively, primarily related to insurance recoveries from fires at two restaurants. In fiscal 2016, the Company recorded gains of \$1.2 million related to property insurance recoveries from fires at two restaurants, a gain of \$0.5 million related to a settlement for a partial condemnation on one of its operating restaurant properties and expense of \$1.85 million related to a settlement of litigation.

(4) Average annual sales per restaurant are derived by dividing restaurant sales by the average number of restaurants operating during the period.

EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income (loss) are non-GAAP financial measures. EBITDA represents net income or loss before income taxes, interest expense and depreciation and amortization. Adjusted EBITDA represents EBITDA as adjusted to exclude impairment and other lease charges, acquisition costs, EEOC litigation and settlement costs, stock compensation expense, loss on extinguishment of debt and other income or expense. Restaurant-Level EBITDA represents income or loss from operations adjusted to exclude general and administrative expenses, depreciation and amortization, impairment and other lease charges, and other expense (income). Adjusted net income (loss) represents net income or loss as adjusted to exclude loss on extinguishment of debt, impairment and other lease charges, acquisition costs, gain on bargain purchase, the related income tax effect of these adjustments and the establishment or reversal of a valuation allowance on our net deferred income tax assets.

We are presenting Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income (loss) because we believe that they provide a more meaningful comparison than EBITDA and net income or loss of our core business operating results, as well as with those of other similar companies. Additionally, we present Restaurant-Level EBITDA because it excludes the impact of general and administrative expenses and other income or expense, which are not directly related to restaurant-level operations. Management believes that Adjusted EBITDA and Restaurant-Level EBITDA, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced.

However, EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income (loss) are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income or loss, income or loss from operations or cash flow from operating activities as indicators of operating performance or liquidity. Also, these measures may not be comparable to similarly titled captions of other companies. EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income (loss) have important limitations as analytical tools. These limitations include the following:

- EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;

EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect the interest expense or the cash requirements necessary to service principal or interest payments on our debt; Although depreciation and amortization are non-cash charges, the assets that we currently depreciate and amortize will likely have to be replaced in the future, and EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect the cash required to fund such replacements; and

- EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income (loss) do not reflect the effect of earnings or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges (such as impairment and other lease charges and acquisition and integration costs) have recurred and may reoccur.

(6) Restaurants are included in comparable restaurant sales after they have been open or owned for 12 months.

(6) Comparable restaurant sales are on a 53-week basis for the year ended January 3, 2016.

(7) Acquisition costs for the periods presented include primarily legal and professional fees incurred in connection with acquisitions.

The income tax effect related to all adjustments, other than the deferred income tax valuation allowance provision (8)(benefit), was calculated using an effective income tax rate of 22.2% in fiscal 2018 and 38% in all other years presented.

The benefit for income taxes in fiscal 2018 contains net discrete tax adjustments of \$0.1 million of income tax expense. The provision for income taxes in fiscal 2017 contains a \$0.8 million discrete tax benefit recorded in the fourth quarter to remeasure our net deferred taxes due to the lowering of the Federal income tax rate to 21% under the Tax Cuts and Jobs Act signed into law in the fourth quarter of 2017. The benefit for income taxes in 2016 reflects a \$30.4 million income tax benefit recorded in the fourth quarter of 2016 to reverse the previously recorded (9) valuation allowance on net deferred income tax assets as well as the full year deferred income tax provision of \$2.3 million which was recorded in the fourth quarter of 2016. For comparability, when presenting 2016 Adjusted net income, the provision (benefit) for income taxes for each respective period is adjusted as if such valuation allowance had been reversed prior to 2016. The adjustment for the year ended December 28, 2014 of \$24.3 million reflects the removal of the income tax provision recorded for the establishment of the valuation allowance on all our net deferred income tax assets.

(10) Adjusted diluted net income (loss) per share is calculated based on Adjusted net income (loss) and the dilutive weighted average common shares outstanding for each respective period.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our fiscal years consist of 52 or 53 weeks ending on the Sunday closest to December 31. The fiscal years ended December 30, 2018, December 31, 2017 and January 1, 2017 each contained 52 weeks.

Introduction

We are a holding company and conduct all of our operations through our direct and indirect subsidiaries, Carrols, Carrols LLC and Republic Foods, Inc., and have no assets other than the shares of capital stock of Carrols, our direct wholly-owned subsidiary. The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying consolidated financial statement footnotes appearing elsewhere in this Annual Report on Form 10-K. The overview provides our perspective on the individual sections of MD&A, which include the following:

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

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

Results of Operations—an analysis of our consolidated results of operations for the years ended December 30, 2018, December 31, 2017 and January 1, 2017 including a review of the material items and known trends and uncertainties.

Liquidity and Capital Resources—an analysis of our cash flows, including capital expenditures, changes in capital resources and known trends that may impact liquidity.

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

New accounting pronouncements — a discussion of new accounting pronouncements, dates of implementation, and the impact on our consolidated financial position or results of operations, if any.

Company Overview

We are one of the largest restaurant companies in the United States and have been operating restaurants for more than 55 years. We are the largest Burger King® franchisee in the United States, based on number of restaurants, and have operated Burger King restaurants since 1976. As of December 30, 2018, our restaurant operations consisted of 849 franchised Burger King restaurants in 18 states.

During the year ended December 30, 2018, we acquired 44 restaurants in four separate transactions which we refer to as the "2018 acquired restaurants". During the year ended December 31, 2017, we acquired 64 restaurants in three separate transactions, which we refer to as the "2017 acquired restaurants," and during the year ended January 1, 2017, we acquired 56 Burger King® restaurants in seven separate transactions.

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

Restaurant sales consist of food and beverage sales at our restaurants, net of discounts and excluding sales tax collected. Restaurant sales are influenced by changes in comparable restaurant sales, menu price increases, new restaurant development, acquisition of restaurants, and the closures of restaurants. Restaurants, including restaurants we acquire, are included in comparable restaurant sales after they have been open or owned for 12 months and immediately after they open from being remodeled. For comparative purposes, where applicable, the calculation of the changes in comparable restaurant sales is based either on a 53-week or 52-week year.

Cost of sales consists of food, paper and beverage costs including packaging costs, less purchase discounts. Cost of sales is generally influenced by changes in commodity costs, the mix of items sold and the level of promotional discounting and the effectiveness of our restaurant-level controls to manage food and paper costs.

Restaurant wages and related expenses include all restaurant management and hourly productive labor costs and related benefits, employer payroll taxes and restaurant-level bonuses. Payroll and related benefits are subject to inflation, including minimum wage increases and increased costs for health insurance, workers' compensation insurance and federal and state unemployment insurance.

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

Other restaurant operating expenses include all other restaurant-level operating costs, the major components of which are royalty expenses paid to BKC, utilities, repairs and maintenance, real estate taxes and credit card fees.

Advertising expense includes advertising payments to BKC based on a percentage of sales as required under our franchise and operating agreements and additional marketing and promotional expenses in certain of our markets. General and administrative expenses are comprised primarily of salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees, acquisition costs and stock-based compensation expense.

EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income. EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income are non-GAAP financial measures. EBITDA represents net income before income taxes, interest expense and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted to exclude impairment and other lease charges, acquisition costs, loss on extinguishment of debt, stock compensation expense and other income or expense. Restaurant-Level EBITDA represents income from operations adjusted to exclude general and administrative expenses, depreciation and amortization, impairment and other lease charges and other income or expense. Adjusted net income represents net income adjusted to exclude loss on extinguishment of debt, impairment and other lease charges, acquisition costs, other income and expense, the related income tax effect of these adjustments and the reversal in 2016 of a valuation allowance on all of our net deferred income tax assets. Adjusted net income

also presents the provision or benefit for income taxes as if there was no valuation allowance on our net deferred income tax assets during all periods presented.

We are presenting Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income because we believe that they provide a more meaningful comparison than EBITDA and net income of our core business operating results, as well as with those of other similar companies. Additionally, we present Restaurant-Level EBITDA because it excludes the impact of general and administrative expenses and other income or expense, which are not directly related to restaurant-level operations. Management believes that Adjusted EBITDA and Restaurant-Level EBITDA, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations on page 50, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced.

However, EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income, income from operations or cash flow from operating activities as indicators of operating performance or liquidity. Also, these measures may not be comparable to similarly titled captions of other companies. For the reconciliation between net income to EBITDA, Adjusted EBITDA and Adjusted net income and the reconciliation of income from operations to Restaurant-Level EBITDA, see page 50.

EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income have important limitations as analytical tools. These limitations include the following:

- EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;

- EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect the interest expense or the cash requirements necessary to service principal or interest payments on our debt;

Although depreciation and amortization are non-cash charges, the assets that we currently depreciate and amortize will likely have to be replaced in the future, and EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect the cash required to fund such replacements; and

EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income do not reflect the effect of earnings or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges (such as impairment and other lease charges and acquisition costs) have recurred and may reoccur.

Depreciation and amortization primarily includes the depreciation of fixed assets, including equipment, owned buildings and leasehold improvements utilized in our restaurants, the amortization of franchise rights from our acquisitions of Burger King® restaurants and the amortization of franchise fees paid to BKC.

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

Interest expense consists primarily of interest expense associated with our \$275.0 million of 8% Senior Secured Second Lien Notes due 2022 (the "8% Notes"), our prior 11.25% Senior Secured Second Lien Notes due 2018 (the "11.25% Notes"), amortization of deferred financing costs, amortization of bond premium and interest on revolving credit borrowings under our senior credit facility.

Recent and Future Events Affecting our Results of Operations

Burger King® Restaurant Acquisitions

From the beginning of 2016 through December 30, 2018, we have acquired 164 restaurants from other franchisees, in the following transactions (\$ in thousands):

Closing Date	Number of Restaurants	Purchase Price	Number of Fee-Owned Restaurants	Market Location
2016 Acquisitions:				
February 23, 2016	(1) 12	7,127		Scranton/Wilkes-Barre, Pennsylvania
May 25, 2016	6	12,080	5	Detroit, Michigan
July 14, 2016	(1) 4	5,445	3	Detroit, Michigan
August 23, 2016	7	8,755	6	Portland, Maine
October 4, 2016	3	1,623		Raleigh, North Carolina
November 15, 2016	17	7,251		Pittsburgh and Johnstown, Pennsylvania
December 1, 2016	7	5,807	1	Columbus, Ohio
	56	48,088	15	
2017 Acquisitions:				
February 28, 2017	43	20,366		Cincinnati, Ohio
June 5, 2017	(1) 17	16,355		Baltimore, Maryland and Washington, DC
November 28, 2017	4	1,202		Maine
	64	37,923	—	
2018 Acquisitions:				
February 13, 2018	1	—		New York
August 21, 2018	2	1,666		Detroit, Michigan
September 5, 2018	(1) 31	25,930		Western Virginia
October 2, 2018	10	10,506		South Carolina and Georgia
	44	38,102	—	
Total	164	\$124,113	15	

(1) Acquisitions resulting from the exercise of our ROFR.

All of the 2018 and 2017 acquired restaurants were leased properties. The 2016 acquired restaurants included 15 fee-owned properties, of which 14 were subsequently sold in sale-leaseback transactions in 2016 for net proceeds of \$19.1 million.

The pro forma impact on the results of operations for the 2018 acquired restaurants is included below. The pro forma results of operations are not necessarily indicative of the results that would have occurred had the acquisitions been consummated at the beginning of the periods presented, nor are they necessarily indicative of any future consolidated operating results. This pro forma financial information does not give effect to any anticipated synergies, operating efficiencies or cost savings or any transaction costs related to the 2018 acquired restaurants. The following table summarizes certain pro forma financial information related to our 2018 operating results:

	Year Ended December 30, 2018
Restaurant sales	\$ 1,217,891
Income from operations	\$ 38,128
Pro Forma Adjusted EBITDA	\$ 109,261
Capital Expenditures	

Under the operating agreement with BKC, beginning on January 1, 2016 and until we exceed operating 1,000 Burger King® restaurants, a minimum of 10% of our annual new restaurant growth (including acquisitions) must come from the development of new Burger King® restaurants (which includes restaurants we relocate within their market area). At December 30, 2018, we were in compliance with this commitment.

Without giving effect to the Mergers and the Financing being consummated, in 2019, we expect that capital expenditures before discretionary growth-related expenditures (i.e. new restaurant development and acquisitions) will be \$50 million to \$60 million, although the actual amount of capital expenditures may differ from these estimates. Capital expenditures in 2019 include remodeling 20 to 25 restaurants to the BKC current image standard and upgrading 60 to 70 restaurants currently at the BKC 20/20 restaurant image to the exterior requirements of the Burger King of Tomorrow image including, but not limited to, landscaping, double drive-thru (where applicable), and exterior digital menu boards. We expect to receive a contribution from BKC of approximately \$7.0 million to \$8.0 million toward the upgrades to restaurants in 2019 whereby BKC is landlord on the lease, should the Area Development Agreement become effective. In addition, capital expenditures include the construction of 15 to 20 new units, of which 3 to 4 restaurants may be relocated within their respective markets. We will review on an ongoing basis our future remodel and development plans in relation to our available capital resources and alternate investment opportunities.

Future Restaurant Closures

We evaluate the performance of our restaurants on an ongoing basis including an assessment of the current and future operating results of the restaurant in relation to its cash flow and future occupancy costs, and with regard to franchise agreement renewals, the cost of required capital improvements. We may elect to close restaurants based on these evaluations.

In 2018, excluding one restaurant relocated within its trade area, we closed nine restaurants. We currently anticipate closing 8 to 12 restaurants in 2019, excluding any restaurants being relocated within their trade area, at the end of their respective lease term.

Our determination of whether to close restaurants in the future is subject to further evaluation and may change. We may incur lease charges in the future from closures of underperforming restaurants prior to the expiration of their contractual lease term. We do not believe that the future impact on our results of operations due to restaurant closures will be material, although there can be no assurance in this regard.

Effect of Tax law changes

The Tax Cuts and Jobs Act of 2017, which we refer to as the "Act", was enacted on December 22, 2017. The Act made significant changes to the Federal tax code, including a reduction in the Federal income tax statutory rate from 35% to 21%. We recorded of a \$0.8 million discrete tax benefit in the fourth quarter of 2017 to remeasure our net deferred taxes due to the lowering of the Federal income tax statutory rate to 21%.