

CARROLS RESTAURANT GROUP, INC.

Form 10-Q

August 10, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2007

OR

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

Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

968 James Street

Syracuse, New York
(Address of principal executive office)

16-1287774
(I.R.S. Employer
Identification No.)

13203
(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: Common Stock, Carrols Restaurant Group, Inc., par value \$.01 per share	Name on each exchange on which registered: The NASDAQ Global Market
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Securities registered pursuant to Section 12(g) of the Act: None

Commission File Number: 0-25629

CARROLS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-0958146 (I.R.S. Employer Identification Number)
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968 James Street
Syracuse, New York
(Address of principal executive offices)

13203
(Zip Code)

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

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

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

Carrols Corporation meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with reduced disclosure format pursuant to General Instruction H(2) of Form 10-Q.

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

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

Large accelerated filers Accelerated filers Non-accelerated filers

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

As of August 3, 2007, Carrols Restaurant Group, Inc. had 21,550,827 shares of its common stock, \$.01 par value outstanding. As of August 3, 2007, all outstanding equity securities of Carrols Corporation, which consisted of 10 shares of its common stock, were owned by Carrols Restaurant Group, Inc.

Table of Contents

CARROLS RESTAURANT GROUP, INC.

FORM 10-Q

QUARTER ENDED JUNE 30, 2007

	Page
PART I <u>FINANCIAL INFORMATION</u>	
Item 1 <u>Carrols Restaurant Group, Inc. and Subsidiary - Consolidated Financial Statements (unaudited):</u>	
<u>Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2007 and 2006</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months ended June 30, 2007 and 2006</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Carrols Corporation and Subsidiaries - Consolidated Financial Statements (unaudited):</u>	
<u>Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006</u>	18
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2007 and 2006</u>	19
<u>Consolidated Statements of Cash Flows for the Six Months ended June 30, 2007 and 2006</u>	20
<u>Notes to Consolidated Financial Statements</u>	21
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	55
Item 4 <u>Controls and Procedures</u>	56
PART II <u>OTHER INFORMATION</u>	
Item 1 <u>Legal Proceedings</u>	56
Item 1A <u>Risk Factors</u>	56
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
Item 3 <u>Default Upon Senior Securities</u>	56
Item 4 <u>Submission of Matters to a Vote of Security Holders</u>	56
Item 5 <u>Other Information</u>	57
Item 6 <u>Exhibits</u>	57

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

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,524	\$ 3,939
Trade and other receivables	4,373	5,364
Inventories	4,596	4,677
Prepaid rent	3,650	4,130
Prepaid expenses and other current assets	6,413	5,367
Refundable income taxes		2,806
Deferred income taxes	4,539	4,539
Total current assets	26,095	30,822
Property and equipment, net	196,302	182,742
Franchise rights, net (Note 4)	81,660	83,268
Goodwill (Note 4)	124,934	124,934
Intangible assets, net (Note 4)	1,031	1,175
Franchise agreements, at cost less accumulated amortization of \$5,524 and \$5,431, respectively	5,733	5,793
Deferred income taxes	11,345	11,136
Other assets	11,852	12,989
Total assets	\$ 458,952	\$ 452,859
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 1,681	\$ 2,477
Accounts payable	20,956	17,860
Accrued interest	7,528	7,861
Accrued payroll, related taxes and benefits	16,414	18,445
Accrued income taxes payable	1,152	
Accrued real estate taxes	3,352	4,102
Other liabilities	10,806	10,623
Total current liabilities	61,889	61,368
Long-term debt, net of current portion (Note 5)	299,711	297,432
Lease financing obligations (Note 9)	54,258	58,571
Deferred income sale-leaseback of real estate	30,595	31,391
Accrued postretirement benefits (Note 8)	6,754	6,370
Other liabilities (Note 7)	24,149	23,494

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Total liabilities	477,356	478,626
Commitments and contingencies (Note 12)		
Stockholders' deficit:		
Preferred stock, par value \$.01; authorized 20,000,000 shares, issued and outstanding none		
Voting common stock, par value \$.01; authorized 100,000,000 shares, issued and outstanding 21,550,827 shares at both dates		
	216	216
Additional paid-in capital	(2,420)	(3,108)
Accumulated deficit	(15,058)	(21,733)
Accumulated other comprehensive loss	(1,001)	(1,001)
Treasury stock, at cost	(141)	(141)
Total stockholders' deficit	(18,404)	(25,767)
Total liabilities and stockholders' deficit	\$ 458,952	\$ 452,859

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

Table of Contents**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006****(In thousands of dollars, except share and per share amounts)****(Unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Restaurant sales	\$ 200,117	\$ 190,252	\$ 387,983	\$ 372,465
Franchise royalty revenues and fees	332	329	669	659
Total revenues	200,449	190,581	388,652	373,124
Costs and expenses:				
Cost of sales	57,639	53,386	110,196	105,299
Restaurant wages and related expenses (including stock-based compensation expense of \$39, \$0, \$76 and \$0, respectively)	58,562	55,298	114,510	108,960
Restaurant rent expense	10,907	9,159	21,586	18,179
Other restaurant operating expenses	28,270	27,441	55,954	53,889
Advertising expense	8,449	7,248	16,984	14,160
General and administrative (including stock-based compensation expense of \$315, \$0, \$633 and \$0, respectively)	13,305	11,977	26,451	24,351
Depreciation and amortization	7,887	8,463	15,578	16,780
Impairment losses (Note 3)	69	20	69	244
Other income (Note 10)			(347)	
Total operating expenses	185,088	172,992	360,981	341,862
Income from operations	15,361	17,589	27,671	31,262
Interest expense	7,601	13,011	15,957	24,400
Loss on extinguishment of debt (Note 5)			1,485	
Income before income taxes	7,760	4,578	10,229	6,862
Provision for income taxes (Note 6)	2,662	1,489	3,554	2,248
Net income	\$ 5,098	\$ 3,089	\$ 6,675	\$ 4,614
Basic and diluted net income per share (Note 13)	\$ 0.24	\$ 0.19	\$ 0.31	\$ 0.29
Basic weighted average common shares outstanding (Note 13)	21,550,827	15,892,018	21,550,827	15,894,900
Diluted weighted average common shares outstanding (Note 13)	21,565,208	15,892,018	21,561,795	15,894,900

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

Table of Contents**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2007 AND 2006****(In thousands of dollars)****(Unaudited)**

	2007	2006
Cash flows provided from operating activities:		
Net income	\$ 6,675	\$ 4,614
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss on disposals of property and equipment	109	
Stock-based compensation expense	709	
Depreciation and amortization	15,578	16,780
Amortization of deferred financing costs	638	742
Amortization of unearned purchase discounts	(1,078)	(1,077)
Amortization of deferred gains from sale-leaseback transactions	(969)	(338)
Impairment losses	69	244
Gain on settlements of lease financing obligations	(163)	(308)
Accretion of interest on lease financing obligations	262	153
Deferred income taxes	(210)	(1,349)
Loss on extinguishment of debt	1,485	
Changes in other operating assets and liabilities	6,482	3,073
Net cash provided from operating activities	29,587	22,534
Cash flows provided from (used for) investing activities:		
Capital expenditures:		
New restaurant development	(18,720)	(12,066)
Restaurant remodeling	(3,244)	(3,345)
Other restaurant capital expenditures	(4,270)	(3,709)
Corporate and restaurant information systems	(1,493)	(1,002)
Total capital expenditures	(27,727)	(20,122)
Properties purchased for sale-leaseback	(2,461)	(1,655)
Deposit on properties purchased for sale-leaseback		(1,616)
Proceeds from sale-leaseback transactions	2,473	26,118
Proceeds from sales of other properties	979	
Net cash provided from (used for) investing activities	(26,736)	2,725
Cash flows used for financing activities:		
Repayment of term loans under prior credit facility	(118,400)	
Borrowings on revolving credit facility	11,600	
Repayments on revolving credit facility	(11,600)	
Proceeds from new senior credit facility	120,000	
Scheduled principal payments on term loans		(1,100)
Principal pre-payments on term loans		(17,000)
Principal payments on capital leases	(205)	(208)
Expenses from initial public offering	(21)	

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Financing costs associated with issuance of debt	(1,228)	(4)
Settlement of lease financing obligations	(4,412)	(14,225)
Net cash used for financing activities	(4,266)	(32,537)
Net decrease in cash and cash equivalents	(1,415)	(7,278)
Cash and cash equivalents, beginning of period	3,939	9,331
Cash and cash equivalents, end of period	\$ 2,524	\$ 2,053

Supplemental disclosures:

Interest paid on long-term debt	\$ 12,912	\$ 15,051
Interest paid on lease financing obligations	\$ 2,476	\$ 7,353
Increase in accruals for capital expenditures	\$ 196	\$ 205
Income taxes paid (refunded), net	\$ (195)	\$ 1,049
Non-cash reduction of assets under lease financing obligations due to lease amendments	\$	\$ 13,582
Non-cash reduction of lease financing obligations due to lease amendments	\$	\$ 22,744

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

Table of Contents

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

Basis of Consolidation. The unaudited consolidated financial statements presented herein include the accounts of Carrols Restaurant Group, Inc. (Carrols Restaurant Group or the Company) and its wholly-owned subsidiary Carrols Corporation (Carrols). Carrols Restaurant Group is a holding company and conducts all of its operations through Carrols and its wholly-owned subsidiaries. Unless the context otherwise requires, Carrols Restaurant Group, Carrols and the direct and indirect subsidiaries of Carrols are collectively referred to as the Company. All intercompany transactions have been eliminated in consolidation.

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

Business Description. At June 30, 2007 the Company operated, as franchisee, 326 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At June 30, 2007, the Company also owned and operated 80 Pollo Tropical restaurants of which 77 were located in Florida and three were located in the New York City metropolitan area, two of which were located in northern New Jersey and one of which was located in Brooklyn, New York and franchised a total of 27 Pollo Tropical restaurants, consisting of 23 in Puerto Rico, two in Ecuador and two on college campuses in Florida. At June 30, 2007, the Company owned and operated 142 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico and one in Georgia.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended December 31, 2006 and January 1, 2006 will be referred to as the fiscal years ended December 31, 2006 and 2005, respectively. Similarly, all references herein to the three and six months ended July 1, 2007 and July 2, 2006 will be referred to as the three and six months ended June 30, 2007 and June 30, 2006, respectively. The years ended December 31, 2006 and 2005 each contained 52 weeks and the three and six months ended June 30, 2007 and 2006 contained 13 and 26 weeks, respectively.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2007 and 2006 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and six months ended June 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2006 contained in the Company's 2006 Annual Report on Form 10-K. The December 31, 2006 balance sheet data is derived from those audited financial statements.

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include: accrued occupancy costs, insurance liabilities, legal obligations, income taxes, evaluation for impairment of goodwill, long-lived assets and Burger King franchise rights, lease accounting matters and stock-based compensation. Actual results could differ from those estimates.

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

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

2. Stock-Based Compensation

The Company adopted an incentive stock plan in 2006 (the 2006 Plan) under which incentive stock options, non-qualified stock options and restricted shares may be granted to employees and non-employee directors. During the three months ended June 30, 2007, there were an aggregate of 1,000 restricted shares granted to certain employees and an aggregate of 10,500 incentive stock options granted to three non-employee directors under the 2006 Plan. In December 2006, the Company granted incentive stock options, non-qualified stock options and restricted shares under the 2006 Plan. The stock options granted to employees generally vest 20% per year and expire seven years from the date of grant. Restricted shares granted to employees generally vest 33% per year for three years and restricted shares granted to non-employee directors generally vest at 20% per year.

Stock-based compensation related to these grants was \$0.4 million and \$0.7 million in the three and six months ended June 30, 2007, respectively and the income tax benefit recognized in the consolidated statement of operations for stock-based compensation was \$0.1 million and \$0.2 million for the three and six months ended June 30, 2007, respectively. There were no stock options issued or stock-based compensation expense recorded in the three or six months ended June 30, 2006.

As of June 30, 2007, the total non-vested stock-based compensation expense relating to the stock options and restricted stock was approximately \$4.7 million and the Company expects to record an additional \$0.8 million as compensation expense for the remainder of 2007. The remaining weighted average vesting period for the stock options is 3.89 years and for the restricted shares is approximately 3.09 years at June 30, 2007.

Stock Options

A summary of all option activity for the six months ended June 30, 2007 was as follows:

		2006 Plan		Aggregate
		Weighted	Average	Intrinsic
		Average	Remaining	Value
	Number of	Exercise Price	Contractual	(in thousands) (1)
	Options		Life	
Options outstanding at January 1, 2007	1,241,750	\$ 14.30		
Options granted	10,500	15.81		
Options exercised				
Options forfeited	(18,500)	14.30		
Options outstanding at June 30, 2007	1,233,750	\$ 14.31	6.51	\$ 1,377
Expected to vest at June 30, 2007	1,217,441	\$ 14.31	6.51	\$ 1,357
Options exercisable at June 30, 2007		\$		\$

(1) The aggregate intrinsic value was calculated using the difference between the market price of the Company's common stock at June 30 and the grant price for only those awards that have a grant price that is less than the market price of the Company's common stock at June 30.

Restricted Shares

The restricted stock activity for the six months ended June 30, 2007 was as follows:

	Weighted	
	Average	
	Grant Date	
	Shares	Fair Value
Nonvested at January 1, 2007	75,800	\$ 13.00
Shares granted	1,000	\$ 16.00
Shares vested	(200)	\$ 13.00
Shares forfeited	(3,500)	\$ 13.00
Nonvested at June 30, 2007	73,100	\$ 13.04

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

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

The fair value of restricted shares granted is determined based on the Company's closing stock price on the date of grant.

3. Impairment of Long-Lived Assets

The Company reviews its long-lived assets, principally property and equipment, for impairment at the restaurant level. If an indicator of impairment exists for any of its assets, an estimate of undiscounted future cash flows from the related long-lived assets is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value.

For the three and six months ended June 30, 2007 and 2006, the Company recorded impairment losses on long-lived assets for its segments as follows:

	Six Months Ended			
	Three Months Ended		June 30,	
	June 30, 2007	2006	2007	2006
Burger King	\$ 14	\$ 20	\$ 14	\$ 224
Taco Cabana	55	20	55	20
	\$ 69	\$ 20	\$ 69	\$ 244

4. Goodwill, Franchise Rights and Intangible Assets

Goodwill. Goodwill is reviewed for impairment annually, or more frequently when events and circumstances indicate that the carrying amounts may be impaired. The Company performs its annual impairment assessment as of December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Goodwill at June 30, 2007 and December 31, 2006	\$ 56,307	\$ 67,177	\$ 1,450	\$ 124,934

Burger King Franchise Rights. Amounts allocated to franchise rights for each Burger King acquisition are amortized using the straight-line method over the average remaining term of the acquired franchise agreements at January 1, 2002 plus one twenty-year renewal period. The Company assesses the potential impairment of franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted future cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. There were no impairment charges against franchise rights for the three and six months ended June 30, 2007 and 2006.

Amortization expense related to Burger King franchise rights was \$804 and \$873 for the three months ended June 30, 2007 and 2006, respectively. Amortization expense related to Burger King franchise rights was \$1,608 for in each of the six months ended June 30, 2007 and 2006. The estimated amortization expense for the year ending December 31, 2007 and for each of the five succeeding years is \$3,216.

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

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

Intangible Assets. The Company acquired four Taco Cabana restaurants from a franchisee in 2005. Under Emerging Issues Task Force Issue No. 04-1, Accounting for Preexisting Relationships between the Parties to a Business Combination (EITF 04-1), certain reacquired rights, including the right to the acquirer's trade name, are required to be recognized as intangible assets apart from goodwill. The Company allocated \$1.6 million of the purchase price to this intangible asset. The Company recorded amortization expense relating to the intangible asset of approximately \$71 and \$72 for the three months ended June 30, 2007 and 2006, respectively. Amortization for each of the six months ended June 30, 2007 and 2006 was \$144. The Company expects the annual amortization expense for the year ending December 31, 2007 and for each of five years ending 2008 through 2012 to be \$289, \$211, \$133, \$125, \$117 and \$99, respectively.

	June 30, 2007		December 31, 2006	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
Intangible assets	\$ 1,610	\$ 579	\$ 1,610	\$ 435

5. Long-term Debt

Long-term debt at June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Collateralized:		
Senior Credit Facility-Term loan B facility	\$	\$ 118,400
Senior Credit Facility-Term loan A facility	120,000	
Unsecured:		
9% Senior Subordinated Notes	180,000	180,000
Capital leases	1,392	1,509
	301,392	299,909
Less: current portion	(1,681)	(2,477)
	\$ 299,711	\$ 297,432

On March 9, 2007, Carrols terminated its senior credit facility and entered into a new senior credit facility with a syndicate of lenders. Carrols new senior credit facility totals approximately \$185 million, consisting of \$120 million principal amount of term loan A borrowings maturing on March 8, 2013 (or earlier on September 30, 2012 if Carrols 9% Senior Subordinated Notes due 2013 are not refinanced by June 30, 2012) and a \$65.0 million revolving facility (including a sub limit of up to \$25.0 million for letters of credit and up to \$5.0 million for swingline loans), maturing on March 8, 2012. The term loan A borrowings and an additional \$4.3 million of revolver borrowings from this facility were used to repay all outstanding borrowings and other obligations under Carrols prior senior credit facility and to pay certain fees and expenses incurred in connection with the new senior credit facility. The Company also recorded a \$1.5 million loss on extinguishment of debt in the six months ended June 30, 2007 for the write-off of deferred financing costs related to the prior senior credit facility.

Both term loan and revolving credit borrowings under the new senior credit facility bear interest at a per annum rate, at Carrols option, of either:

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1) the applicable margin ranging from 0% to 0.25% based on Carrols' senior leverage ratio (as defined in the new senior credit facility) plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or

2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on Carrols' senior leverage ratio.

Term loan A borrowings shall be due and payable in quarterly installments, beginning on June 30, 2008 as follows:

1) four quarterly installments of \$1.5 million beginning on June 30, 2008;

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

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

Under the new senior credit facility, Carrols is also required to make mandatory prepayments of principal on term loan A facility borrowings (a) annually in an initial amount equal to 50% of Excess Cash Flow (as defined in the new senior credit facility), (b) in the event of certain dispositions of assets (all subject to certain exceptions) and insurance proceeds, in an amount equal to 100% of the net proceeds received by Carrols therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt.

In general, Carrols' obligations under the new senior credit facility are guaranteed by the Company and all of Carrols' material subsidiaries and are collateralized by a pledge of Carrols' common stock and the stock of each of Carrols' material subsidiaries. The new senior credit facility contains certain covenants, including, without limitation, those limiting the Carrols' ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of its business, engage in transactions with related parties, make certain investments or pay dividends. In addition, Carrols is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the new senior credit facility).

At June 30, 2007, \$120.0 million principal amount of term loan borrowings were outstanding under the term loan A facility and no borrowings were outstanding under the revolving credit facility. After reserving \$16.0 million for letters of credit guaranteed by the facility, \$49.0 million was available for borrowings under the revolving credit facility at June 30, 2007. The Company was in compliance with the covenants under its senior credit facility as of June 30, 2007.

On December 15, 2004, Carrols issued \$180 million of 9% Senior Subordinated Notes due 2013, which are referred to herein as the senior subordinated notes. Restrictive covenants under the senior subordinated notes include limitations with respect to the Carrols' ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. At both June 30, 2007 and December 31, 2006, \$180.0 million principal amount of the senior subordinated notes was outstanding.

6. Income Taxes

The income tax provision for the three and six months ended June 30, 2007 and 2006 was comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Current	\$ 2,872	\$ 2,502	\$ 3,764	\$ 3,597
Deferred	(210)	(1,013)	(210)	(1,349)
	\$ 2,662	\$ 1,489	\$ 3,554	\$ 2,248

The provision for income taxes for the three and six months ended June 30, 2007 was derived using an estimated effective annual income tax rate for 2007 of 36.0% as well as the effect of any discrete tax items occurring in those periods. The tax provision for the three and six months ended June 30, 2007 includes a reduction of expense of \$0.4 million related to the recognition of additional employment tax credits, \$0.2 million of expense related to a New York state income tax audit assessment and \$0.1 million of expense associated with changes in New York state tax legislation enacted in the second quarter of 2007. The net reduction of income tax expense of \$0.1 million for these items was recorded in the

second quarter.

The provision for income taxes for the three and six months ended June 30, 2006 was derived using an estimated effective annual income tax rate for 2006 of 33.5% as well as the effect of any discrete tax items occurring in those periods. There were no discrete tax items affecting the provision for income taxes in the three and six months ended June 30, 2006.

The Company adopted the provisions of Financial Standards Accounting Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) and interpretation of FASB Statement No. 109 (SFAS 109) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in its consolidated financial statements. As of the adoption date of January 1, 2007, the Company had \$0.6 million of unrecognized tax benefits. At June 30, 2007, the Company had \$0.5 million of unrecognized tax benefits, all of which would reduce the Company s effective tax rate if recognized.

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

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

The Company recognized interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2007, the Company had approximately \$0.1 million of accrued interest related to uncertain tax positions.

The tax years 2003-2006 remain open to examination by the major taxing jurisdictions to which the Company is subject. It is not possible to reasonably estimate any possible change in the unrecognized tax benefits within the next twelve months.

On July 12, 2007, the Michigan Business Tax (the MBT Act) was signed into law, which provides a comprehensive restructuring of Michigan's principal business taxes effective January 1, 2008. The MBT Act replaces the Michigan Single Business Tax that is scheduled to expire at the end of 2007. The Company is currently evaluating the impact of this law on its consolidated financial statements.

7. Other Liabilities, Long-Term

Other liabilities, long-term, at June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Unearned purchase discounts	\$ 3,412	\$ 4,526
Accrued occupancy costs	9,203	8,683
Accrued workers' compensation costs	4,923	4,595
Other	6,611	5,690
	\$ 24,149	\$ 23,494

In 2001, management decided to close seven Taco Cabana restaurants in the Phoenix, Arizona market and discontinue restaurant development underway in that market. At June 30, 2007 and December 31, 2006, the Company had \$0.6 million and \$0.7 million in lease liability reserves, respectively, for remaining locations that are included in accrued occupancy costs.

The following table presents the activity in the exit cost reserve for the six months ended June 30, 2007:

	Six Months Ended June 30, 2007
Balance, beginning of period	\$ 656
Payments	(63)
Balance, end of period	\$ 593

8. Postretirement Benefits

The Company provides postretirement medical and life insurance benefits covering substantially all Burger King administrative and restaurant management salaried employees. A December 31 measurement date is used for postretirement benefits.

The following summarizes the components of net periodic benefit cost:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	\$ 128	\$ 118	\$ 246	\$ 236
Interest cost	110	83	203	166
Amortization of gains and losses	31	21	48	42
Amortization of unrecognized prior service cost	10	(7)	3	(14)
Net periodic postretirement benefit cost	\$ 279	\$ 215	\$ 500	\$ 430

Table of Contents

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

During the three and six months ended June 30, 2007, the Company made contributions of \$36 and \$100 to its postretirement plan. The Company expects to make additional contributions during 2007.

9. Lease Financing Obligations

The Company entered into sale-leaseback transactions in various years involving certain restaurant properties that did not qualify for sale-leaseback accounting and as a result, have been classified as financing transactions under Statement of Financial Accounting Standards (SFAS) No. 98, Accounting for Leases (SFAS 98). Under the financing method, the assets remain on the Company's consolidated balance sheet and proceeds received by the Company from these transactions are recorded as a financing liability. Payments under these leases are applied as payments of imputed interest and deemed principal on the underlying financing obligations.

During the second quarter of 2007, the Company exercised its right of first refusal under the leases for five restaurant properties previously accounted for as lease financing obligations and purchased these properties from the lessor. As a result, the Company reduced its lease financing obligations by \$4.4 million. The Company also recorded a gain of \$0.2 million as a reduction of interest expense which represented the net amount by which the lease financing obligations exceeded the purchase price of the restaurant properties acquired.

During the second and third quarters of 2006, the Company refinanced 14 restaurant properties previously accounted for as lease financing obligations and amended lease agreements for 34 restaurant properties to eliminate or otherwise cure the provisions that precluded the original sale-leaseback accounting. As a result of these transactions in 2006, the Company reduced its lease financing obligations by \$52.8 million, reduced its assets under lease financing obligations by \$36.2 million and recorded deferred gains of \$18.3 million which are being amortized as a reduction to rent expense over the remaining term of the underlying leases, which is generally 20 years.

As a result of these transactions, rent expense in the three and six months ended June 30, 2007 includes an additional \$1.0 million and \$2.0 million of expense, respectively, compared to the three and six months ended June 30, 2006. Also as a result of these transactions, the three and six months ended June 30, 2006 includes additional depreciation expense of \$0.3 million and \$0.6 million and additional interest expense of \$1.3 million and \$2.6 million as compared to the three and six months ended June 30, 2007. Interest expense associated with lease financing obligations, including settlement gains and losses, for the three months ended June 30, 2007 and 2006 was \$1.3 million and \$4.5 million, respectively and for the six months ended June 30, 2007 and 2006 was \$2.8 million and \$7.3 million, respectively.

10. Other Income

In the first quarter of 2007, the Company recorded a gain of \$0.3 million related to sale of one of its Taco Cabana restaurant properties.

11. Business Segment Information

The Company is engaged in the quick-service and quick-casual restaurant industry, with three restaurant concepts: Burger King operating as a franchisee and Pollo Tropical and Taco Cabana, both Company-owned concepts. The Company's Burger King restaurants are all located in the United States, primarily in the Northeast, Southeast and Midwest. Pollo Tropical is a quick-casual restaurant chain featuring grilled marinated chicken and Caribbean style made from scratch side dishes. Pollo Tropical's core markets are located in South and Central Florida. Taco Cabana is a quick-casual restaurant chain featuring fresh Mexican style food, including flame-grilled beef and chicken fajitas, quesadillas and other Tex-Mex dishes. Taco Cabana's core markets are primarily located in Texas.

Table of Contents

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The accounting policies of each segment are the same as those described in the summary of significant accounting policies. The following table includes Segment EBITDA which is the measure of segment profit or loss reported to the chief operating decision maker for purposes of allocating resources to the segments and assessing their performance. Segment EBITDA is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment losses, stock-based compensation expense and other income and expense.

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

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

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

Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
June 30, 2007:					
Total revenues	\$ 42,747	\$ 60,774	\$ 96,928	\$	\$ 200,449
Cost of sales	14,149	17,975	25,515		57,639
Restaurant wages and related expenses	10,634	17,394	30,495	39	58,562
General and administrative expenses (1)	2,547	2,728	7,715	315	13,305
Depreciation and amortization	1,669	2,121	3,758	339	7,887
Segment EBITDA	7,254	8,024	8,393		
Capital expenditures, including acquisitions	6,810	5,387	3,347	1,302	16,846
June 30, 2006:					
Total revenues	\$ 38,478	\$ 58,681	\$ 93,422	\$	\$ 190,581
Cost of sales	12,367	17,015	24,004		53,386
Restaurant wages and related expenses	9,530	16,506	29,262		55,298
General and administrative expenses (1)	2,081	2,901	6,995		11,977
Depreciation and amortization	1,418	2,033	4,676	336	8,463
Segment EBITDA	7,669	8,121	10,282		
Capital expenditures, including acquisitions	3,720	3,594	2,165	525	10,004
Six Months Ended					
June 30, 2007:					
Total revenues	\$ 84,286	\$ 118,968	\$ 185,398	\$	\$ 388,652
Cost of sales	27,541	34,953	47,702		110,196
Restaurant wages and related expenses	20,965	33,874	59,595	76	114,510
General and administrative expenses (1)	5,036	5,601	15,181	633	26,451
Depreciation and amortization	3,164	4,174	7,601	639	15,578
Segment EBITDA	14,086	15,375	14,219		
Capital expenditures, including acquisitions	13,240	8,043	4,951	1,493	27,727
June 30, 2006:					
Total revenues	\$ 77,064	\$ 113,921	\$ 182,139	\$	\$ 373,124
Cost of sales	24,973	33,025	47,301		105,299
Restaurant wages and related expenses	18,973	32,235	57,752		108,960
General and administrative expenses (1)	4,266	5,857	14,228		24,351
Depreciation and amortization	2,782	4,063	9,276	659	16,780
Segment EBITDA	15,303	15,815	17,168		
Capital expenditures, including acquisitions	8,003	6,838	4,279	1,002	20,122
Identifiable Assets:					
At June 30, 2007	\$ 57,470	\$ 74,579	\$ 152,398	\$ 174,505	\$ 458,952
At December 31, 2006	46,617	71,601	155,272	179,369	452,859

- (1) For the Pollo Tropical and Taco Cabana segments, such amounts include general and administrative expenses related directly to each segment. For the Burger King segment such amounts include general and administrative expenses related directly to the Burger King segment as well as expenses associated with administrative support to all of the Company's segments including executive management, information systems and certain accounting, legal and other administrative functions.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Segment EBITDA:				
Pollo Tropical	\$ 7,254	\$ 7,669	\$ 14,086	\$ 15,303
Taco Cabana	8,024	8,121	15,375	15,815
Burger King	8,393	10,282	14,219	17,168
Subtotal	23,671	26,072	43,680	48,286
Less:				
Depreciation and amortization	7,887	8,463	15,578	16,780
Impairment losses	69	20	69	244
Interest expense	7,601	13,011	15,957	24,400
Loss on extinguishment of debt			1,485	
Provision for income taxes	2,662	1,489	3,554	2,248
Stock-based compensation expense	354		709	
Other income			(347)	
Net income	\$ 5,098	\$ 3,089	\$ 6,675	\$ 4,614

12. Commitments and Contingencies

On November 16, 1998, the Equal Employment Opportunity Commission (EEOC) filed suit in the United States District Court for the Northern District of New York (the Court), under Title VII of the Civil Rights Act of 1964, as amended, against Carrols. The complaint alleged that Carrols engaged in a pattern and practice of unlawful discrimination, harassment and retaliation against former and current female employees. The EEOC identified approximately 450 individuals (which was subsequently increased to 511 individuals) that it believed represented the class of claimants and was seeking monetary and injunctive relief from Carrols.

On April 20, 2005, the Court issued a decision and order granting Carrols Motion for Summary Judgment that Carrols filed in January 2004. Subject to possible appeal by the EEOC, the case is dismissed, however the Court noted that it was not ruling on the claims, if any, that individual employees might have against Carrols. The Company does not believe that any individual claim, if any, would have a material adverse impact on its consolidated financial statements.

On February 27, 2006, Carrols filed a motion for summary judgment to dismiss all but between four and 17 of the individual claims. On July 10, 2006, in its response to that motion, the EEOC has asserted that, notwithstanding the Court s dismissal of the case as a class action, the EEOC may still maintain some kind of collective action on behalf of these claimants. Oral argument before the Court was held on October 4, 2006 and the Company is awaiting the Court s decision on Carrols summary judgment motion. Although the Company believes that the EEOC s continued class litigation argument is without merit, it is not possible to predict the outcome of the pending motion.

On November 30, 2002, four former hourly employees commenced a lawsuit against Carrols in the United States District Court for the Western District of New York entitled Dawn Seever, et al. v. Carrols Corporation. The lawsuit alleges, in substance, that Carrols violated certain minimum wage laws under the Federal Fair Labor Standards Act and related state laws by requiring employees to work without recording their time and by retaliating against those who complained. The plaintiffs seek damages, costs and injunctive relief. They also seek to notify, and

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eventually certify, a class consisting of current and former employees who, since 1998, have worked, or are working, for Carrols. As a result of the July 21, 2005 Status Conference, the parties agreed to withdraw Plaintiff's Motions to Certify and for National Discovery, and Defendant's Motion to Disqualify Counsel and related motions, to allow both sides limited additional discovery. Carrols has since filed a Motion for Summary Judgment as to the existing plaintiffs that the Court has under consideration. On January 19, 2007, plaintiffs re-filed the Motion to certify and for National Discovery. Carrols has opposed such Motions. Carrols has also moved to disqualify the Plaintiffs from representing the class and to strike the purported evidence presented in support of the motion to certify. The various motions are not yet set for hearing. It is too early to evaluate the likelihood of an unfavorable outcome or estimate the amount or range of potential loss, if any. Consequently, it is not possible to predict what adverse impact, if any, this case could have on the Company's consolidated financial statements. Carrols intends to continue to contest this case vigorously.

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

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

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

13. Net Income Per Share

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

The computation of diluted net income per share excludes options to purchase 631,375 shares of common stock in each of the three and six months ended June 30, 2007 because the exercise price of these options was greater than the average market price of the common shares in the periods and therefore, they were antidilutive. In addition, options to purchase 620,875 shares of common stock are excluded from the computation of diluted net income per share in each of the three and six months ended June 30, 2007 as they were antidilutive under the treasury stock method.

In connection with the Company's initial public offering in 2006, the Company authorized an 11.288 for-one stock split on November 21, 2006 which became effective on December 8, 2006. Accordingly, basic and diluted shares for all periods presented have been calculated based on the average shares outstanding, as adjusted for the stock split.

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Basic net income per share:				
Net income	\$ 5,098	\$ 3,089	\$ 6,675	\$ 4,614
Weighted average common shares outstanding	21,550,827	15,892,018	21,550,827	15,894,900
Basic net income per share	\$ 0.24	\$ 0.19	\$ 0.31	\$ 0.29
Diluted net income per share:				
Net income for diluted net income per share	\$ 5,098	\$ 3,089	\$ 6,675	\$ 4,614
Shares used in computed basic net income per share	21,550,827	15,892,018	21,550,827	15,894,900
Dilutive effect of stock options - treasury stock method	14,381		10,968	
Shares used in computed diluted net income per share	21,565,208	15,892,018	21,561,795	15,894,900
Diluted net income per share	\$ 0.24	\$ 0.19	\$ 0.31	\$ 0.29

14. Recent Accounting Developments

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. The statement applies whenever other pronouncements require or permit assets or liabilities to be measured at fair value. SFAS 157 is effective for the Company's fiscal year beginning January 1, 2008. The Company is evaluating the impact the adoption of SFAS 157 will have on the Company's consolidated financial statements.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for the Company's fiscal year beginning January 1, 2008. The Company is currently evaluating the impact the adoption of SFAS 159 will have on its financial statements.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (the FSP). The FSP provides guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP, a tax position could be effectively

Table of Contents

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

settled if a taxing authority has completed all of its required or expected examination procedures, if the entity does not intend to appeal or litigate the result and it is remote that the taxing authority would examine or re-examine the tax position. Application of the FSP shall be upon the initial adoption date of FIN 48. The FSP did not have a material impact on the Company's consolidated financial statements.

Table of Contents**ITEM 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****CARROLS CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

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

(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,524	\$ 3,939
Trade and other receivables	4,373	5,364
Inventories	4,596	4,677
Prepaid rent	3,650	4,130
Prepaid expenses and other current assets	6,413	5,367
Refundable income taxes		2,806
Deferred income taxes	4,539	4,539
Total current assets	26,095	30,822
Property and equipment, net	196,302	182,742
Franchise rights, net (Note 4)	81,660	83,268
Goodwill (Note 4)	124,934	124,934
Intangible assets, net (Note 4)	1,031	1,175
Franchise agreements, at cost less accumulated amortization of \$5,524 and \$5,431, respectively	5,733	5,793
Deferred income taxes	11,345	11,136
Other assets	11,852	12,989
Total assets	\$ 458,952	\$ 452,859
LIABILITIES AND STOCKHOLDER S DEFICIT		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 1,681	\$ 2,477
Accounts payable	20,956	17,860
Accrued interest	7,528	7,861
Accrued payroll, related taxes and benefits	16,414	18,445
Accrued income taxes payable	1,152	
Accrued real estate taxes	3,352	4,102
Other liabilities	10,806	10,623
Total current liabilities	61,889	61,368
Long-term debt, net of current portion (Note 5)	299,711	297,432
Lease financing obligations (Note 9)	54,258	58,571
Deferred income sale-leaseback of real estate	30,595	31,391
Accrued postretirement benefits (Note 8)	6,754	6,370
Other liabilities (Note 7)	24,114	23,462
Total liabilities	477,321	478,594

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Commitments and contingencies (Note 12)

Stockholder's deficit:

Common stock, par value \$1; authorized 1,000 shares, issued and outstanding 10 shares at both dates		
Additional paid-in capital	(9,913)	(10,601)
Accumulated deficit	(7,455)	(14,133)
Accumulated other comprehensive loss	(1,001)	(1,001)
Total stockholder's deficit	(18,369)	(25,735)
Total liabilities and stockholder's deficit	\$ 458,952	\$ 452,859

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

Table of Contents**CARROLS CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006****(In thousands of dollars)****(Unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Restaurant sales	\$ 200,117	\$ 190,252	\$ 387,983	\$ 372,465
Franchise royalty revenues and fees	332	329	669	659
Total revenues	200,449	190,581	388,652	373,124
Costs and expenses:				
Cost of sales	57,639	53,386	110,196	105,299
Restaurant wages and related expenses (including stock-based compensation expense of \$39, \$0, \$76 and \$0, respectively)	58,562	55,298	114,510	108,960
Restaurant rent expense	10,907	9,159	21,586	18,179
Other restaurant operating expenses	28,270	27,441	55,954	53,889
Advertising expense	8,449	7,248	16,984	14,160
General and administrative (including stock-based compensation expense of \$315, \$0, \$633 and \$0, respectively)	13,304	11,976	26,448	24,348
Depreciation and amortization	7,887	8,463	15,578	16,780
Impairment losses (Note 3)	69	20	69	244
Other income (Note 10)			(347)	
Total operating expenses	185,087	172,991	360,978	341,859
Income from operations	15,362	17,590	27,674	31,265
Interest expense	7,601	13,011	15,957	24,400
Loss on extinguishment of debt (Note 5)			1,485	
Income before income taxes	7,761	4,579	10,232	6,865
Provision for income taxes (Note 6)	2,662	1,489	3,554	2,248
Net income	\$ 5,099	\$ 3,090	\$ 6,678	\$ 4,617

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

Table of Contents

CARROLS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(In thousands of dollars)

(Unaudited)

	2007	2006
Cash flows provided from operating activities:		
Net income	\$ 6,678	\$ 4,617
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss on disposals of property and equipment	109	
Stock-based compensation expense	709	
Depreciation and amortization	15,578	16,780
Amortization of deferred financing costs	638	742
Amortization of unearned purchase discounts	(1,078)	(1,077)
Amortization of deferred gains from sale-leaseback transactions	(969)	(338)
Impairment losses	69	244
Gain on settlement of lease financing obligations	(163)	(308)
Accretion of interest on lease financing obligations	262	153
Deferred income taxes	(210)	(1,349)
Loss on extinguishment of debt	1,485	
Changes in other operating assets and liabilities	6,479	3,070
Net cash provided from operating activities	29,587	22,534
Cash flows provided from (used for) investing activities:		
Capital expenditures:		
New restaurant development	(18,720)	(12,066)
Restaurant remodeling	(3,244)	(3,345)
Other restaurant capital expenditures	(4,270)	(3,709)
Corporate and restaurant information systems	(1,493)	(1,002)
Total capital expenditures	(27,727)	(20,122)
Properties purchased for sale-leaseback	(2,461)	(1,655)
Deposit on properties purchased for sale-leaseback		(1,616)
Proceeds from sale-leaseback transactions	2,473	26,118
Proceeds from sales of other properties	979	
Net cash provided from (used for) investing activities	(26,736)	2,725
Cash flows used for financing activities:		
Repayment of term loans under prior credit facility	(118,400)	
Borrowings on revolving credit facility	11,600	
Repayments on revolving credit facility	(11,600)	
Proceeds from new senior credit facility	120,000	
Scheduled principal payments on term loans		(1,100)
Principal pre-payments on term loans		(17,000)
Principal payments on capital leases	(205)	(208)
Expenses from initial public offering	(21)	

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Financing costs associated with issuance of debt	(1,228)	(4)
Settlement of lease financing obligations	(4,412)	(14,225)
Net cash used for financing activities	(4,266)	(32,537)
Net decrease in cash and cash equivalents	(1,415)	(7,278)
Cash and cash equivalents, beginning of period	3,939	9,331
Cash and cash equivalents, end of period	\$ 2,524	\$ 2,053

Supplemental disclosures:

Interest paid on long-term debt	\$ 12,912	\$ 15,051
Interest paid on lease financing obligations	\$ 2,476	\$ 7,353
Increase in accruals for capital expenditures	\$ 196	\$ 205
Income taxes paid (refunded), net	\$ (195)	\$ 1,049
Non-cash reduction of assets under lease financing obligation due to lease amendments	\$	\$ 13,582
Non-cash reduction of lease financing obligations due to lease amendments	\$	\$ 22,744

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

Table of Contents

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of dollars, except share amounts)

1. Basis of Presentation

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

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

Business Description. At June 30, 2007 the Company operated, as franchisee, 326 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At June 30, 2007, the Company also owned and operated 80 Pollo Tropical restaurants of which 77 were located in Florida and three were located in the New York City metropolitan area, two of which were located in northern New Jersey, and one of which was located in Brooklyn, New York and franchised a total of 27 Pollo Tropical restaurants, consisting of 23 in Puerto Rico, two in Ecuador and two on college campuses in Florida. At June 30, 2007, the Company owned and operated 142 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico and one in Georgia.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended December 31, 2006 and January 1, 2006 will be referred to as the fiscal years ended December 31, 2006 and 2005, respectively. Similarly, all references herein to the three and six months ended July 1, 2007 and July 2, 2006 will be referred to as the three and six months ended June 30, 2007 and June 30, 2006, respectively. The years ended December 31, 2006 and 2005 each contained 52 weeks and the three and six months ended June 30, 2007 and 2006 contained 13 and 26 weeks, respectively.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2007 and 2006 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and six months ended June 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2006 contained in the Company s 2006 Annual Report on Form 10-K. The December 31, 2006 balance sheet data is derived from those audited financial statements.

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include: accrued occupancy costs, insurance liabilities, legal obligations, income taxes, evaluation for impairment of goodwill, long-lived assets and Burger King franchise rights, lease accounting matters and stock-based compensation. Actual results could differ from those estimates.

Earnings Per Share Presentation. The guidance of SFAS No. 128, Earnings Per Share, requires presentation of earnings per share by all entities that have issued common stock or potential common stock if those securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market. The Company s common stock is not publicly traded and therefore, earnings per share amounts are not presented.

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

(in thousands of dollars, except share amounts)

2. Stock-Based Compensation

Carrols Restaurant Group adopted an incentive stock plan in 2006 (the 2006 Plan) under which incentive stock options, non-qualified stock options and restricted shares may be granted to employees and non-employee directors. During the three months ended June 30, 2007, there were an aggregate of 1,000 restricted shares granted to certain employees and an aggregate of 10,500 incentive stock options granted to three non-employee directors under the 2006 Plan. In December 2006, Carrols Restaurant Group granted incentive stock options, non-qualified stock options and restricted shares under the 2006 Plan. The stock options granted generally vest at 20% per year and expire seven years from the date of grant. Restricted shares granted to employees generally vest 33% per year for three years and restricted shares granted to non-employee directors generally vest at 20% per year.

Stock-based compensation related to these grants was \$0.4 million and \$0.7 million in the three and six months ended June 30, 2007, respectively and the income tax benefit recognized in the consolidated statement of operations for stock-based compensation was \$0.1 million and \$0.2 million for the three and six months ended June 30, 2007, respectively. There were no stock options issued or stock-based compensation expense recorded in the three or six months ended June 30, 2006.

As of June 30, 2007, the total non-vested stock-based compensation expense relating to the stock options and restricted stock was approximately \$4.7 million and the Company expects to record an additional \$0.8 million as compensation expense for the remainder of 2007. The remaining weighted average vesting period for the stock options is 3.89 years and for the restricted shares is approximately 3.09 years at June 30, 2007.

Stock Options

A summary of all option activity for the six months ended June 30, 2007 was as follows:

		2006 Plan		Aggregate Intrinsic Value
	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	(in thousands) (1)
Options outstanding at January 1, 2007	1,241,750	\$ 14.30		
Options granted	10,500	15.81		
Options exercised				
Options forfeited	(18,500)	14.30		
Options outstanding at June 30, 2007	1,233,750	\$ 14.31	6.51	\$ 1,377
Expected to vest at June 30, 2007	1,217,441	\$ 14.31	6.51	\$ 1,357
Options exercisable at June 30, 2007		\$		\$

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

Restricted Shares

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The restricted stock activity for the six months ended June 30, 2007 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2007	75,800	\$ 13.00
Shares granted	1,000	\$ 16.00
Shares vested	(200)	\$ 13.00
Shares forfeited	(3,500)	\$ 13.00
Nonvested at June 30, 2007	73,100	\$ 13.04

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

(in thousands of dollars, except share amounts)

The fair value of restricted shares granted is determined based on the Company's closing stock price on the date of grant.

3. Impairment of Long-Lived Assets

The Company reviews its long-lived assets, principally property and equipment, for impairment at the restaurant level. If an indicator of impairment exists for any of its assets, an estimate of undiscounted future cash flows from the related long-lived assets is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value.

For the three and six months ended June 30, 2007 and 2006, the Company recorded impairment losses on long-lived assets for its segments as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Burger King	\$ 14	\$	\$ 14	\$ 224
Taco Cabana	55	20	55	20
	\$ 69	\$ 20	\$ 69	\$ 244

4. Goodwill, Franchise Rights and Intangible Assets

Goodwill. Goodwill is reviewed for impairment annually, or more frequently when events and circumstances indicate that the carrying amounts may be impaired. The Company performs its annual impairment assessment as of December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Goodwill at June 30, 2007 and December 31, 2006	\$ 56,307	\$ 67,177	\$ 1,450	\$ 124,934

Burger King Franchise Rights. Amounts allocated to franchise rights for each Burger King acquisition are amortized using the straight-line method over the average remaining term of the acquired franchise agreements at January 1, 2002 plus one twenty-year renewal period. The Company assesses the potential impairment of franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted future cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. There were no impairment charges against franchise rights for the three and six months ended June 30, 2007 and 2006.

Amortization expense related to Burger King franchise rights was \$804 and \$873 for the three months ended June 30, 2007 and 2006, respectively. Amortization expense related to Burger King franchise rights was \$1,608 for in each of the six months ended June 30, 2007 and 2006. The estimated amortization expense for the year ending December 31, 2007 and for each of the five succeeding years is \$3,216.

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

(in thousands of dollars, except share amounts)

Intangible Assets. The Company acquired four Taco Cabana restaurants from a franchisee in 2005. Under Emerging Issues Task Force Issue No. 04-1, Accounting for Preexisting Relationships between the Parties to a Business Combination (EITF 04-1), certain reacquired rights, including the right to the acquirer's trade name, are required to be recognized as intangible assets apart from goodwill. The Company allocated \$1.6 million of the purchase price to this intangible asset. The Company recorded amortization expense relating to the intangible asset of approximately \$71 and \$72 for the three months ended June 30, 2007 and 2006, respectively. Amortization for each of the six months ended June 30, 2007 and 2006 was \$144. The Company expects the annual amortization expense for the year ending December 31, 2007 and for each of five years ending 2008 through 2012 to be \$289, \$211, \$133, \$125, \$117 and \$99, respectively.

	June 30, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets	\$ 1,610	\$ 579	\$ 1,610	\$ 435

5. Long-term Debt

Long-term debt at June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Collateralized:		
Senior Credit Facility-Term loan B facility	\$	\$ 118,400
Senior Credit Facility-Term loan A facility	120,000	
Unsecured:		
9% Senior Subordinated Notes	180,000	180,000
Capital leases	1,392	1,509
	301,392	299,909
Less: current portion	(1,681)	(2,477)
	\$ 299,711	\$ 297,432

On March 9, 2007, the Company terminated its senior credit facility and entered into a new senior credit facility with a syndicate of lenders. The Company's new senior credit facility totals approximately \$185 million, consisting of \$120 million principal amount of term loan A borrowings maturing on March 8, 2013 (or earlier on September 30, 2012 if the Company's 9% Senior Subordinated Notes due 2013 are not refinanced by June 30, 2012) and a \$65.0 million revolving facility (including a sub limit of up to \$25.0 million for letters of credit and up to \$5.0 million for swingline loans), maturing on March 8, 2012. The term loan A borrowings and an additional \$4.3 million of revolver borrowings from this facility were used to repay all outstanding borrowings and other obligations under the Company's prior senior credit facility and to pay certain fees and expenses incurred in connection with the new senior credit facility. The Company also recorded a \$1.5 million loss on extinguishment of debt in the six months ended June 30, 2007 for the write-off of deferred financing costs related to the prior senior credit facility.

Both term loan and revolving credit borrowings under the new senior credit facility bear interest at a per annum rate, at the Company's option, of either:

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1) the applicable margin ranging from 0% to 0.25% based on the Company's senior leverage ratio (as defined in the new senior credit facility) plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or

2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on the Company's senior leverage ratio.

Term loan A borrowings shall be due and payable in quarterly installments, beginning on June 30, 2008 as follows:

1) four quarterly installments of \$1.5 million beginning on June 30, 2008;

2) eight quarterly installments of \$3.0 million beginning on June 30, 2009;

3) four quarterly installments of \$4.5 million beginning on June 30, 2011; and

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

4) four quarterly installments of \$18.0 million beginning on June 30, 2012.

Under the new senior credit facility, the Company is also required to make mandatory prepayments of principal on term loan A facility borrowings (a) annually in an initial amount equal to 50% of Excess Cash Flow (as defined in the new senior credit facility), (b) in the event of certain dispositions of assets (all subject to certain exceptions) and insurance proceeds, in an amount equal to 100% of the net proceeds received by the Company therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt.

In general, the Company's obligations under the new senior credit facility are guaranteed by the Company and all of the Company's material subsidiaries and are collateralized by a pledge of the Company's common stock and the stock of each of the Company's material subsidiaries. The new senior credit facility contains certain covenants, including, without limitation, those limiting the Company's ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of its business, engage in transactions with related parties, make certain investments or pay dividends. In addition, the Company is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the new senior credit facility).

At June 30, 2007, \$120.0 million principal amount of term loan borrowings were outstanding under the term loan A facility and no borrowings were outstanding under the revolving credit facility. After reserving \$16.0 million for letters of credit guaranteed by the facility, \$49.0 million was available for borrowings under the revolving credit facility at June 30, 2007. The Company was in compliance with the covenants under its new senior credit facility as of June 30, 2007.

On December 15, 2004, the Company issued \$180 million of 9% Senior Subordinated Notes due 2013, which are referred to herein as the senior subordinated notes. Restrictive covenants under the senior subordinated notes include limitations with respect to the Carrols' ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. At both June 30, 2007 and December 31, 2006, \$180.0 million principal amount of the senior subordinated notes was outstanding.

6. Income Taxes

The income tax provision for the three and six months ended June 30, 2007 and 2006 was comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Current	\$ 2,872	\$ 2,502	\$ 3,764	\$ 3,597
Deferred	(210)	(1,013)	(210)	(1,349)
	\$ 2,662	\$ 1,489	\$ 3,554	\$ 2,248

The provision for income taxes for the three and six months ended June 30, 2007 was derived using an estimated effective annual income tax rate for 2007 of 36.0% as well as the effect of any discrete tax items occurring in those periods. The tax provision for the three and six months ended June 30, 2007 includes a reduction of expense of \$0.4 million related to the recognition of additional employment tax credits, \$0.2 million of expense related to a New York state income tax audit assessment and \$0.1 million of expense associated with changes in New York state tax legislation enacted in the second quarter of 2007. The net reduction of income tax expense of \$0.1 million for these items was recorded in the second quarter.

The provision for income taxes for the three and six months ended June 30, 2006 was derived using an estimated effective annual income tax rate for 2006 of 33.5% as well as the effect of any discrete tax items occurring in those periods. There were no discrete tax items affecting the

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provision for income taxes in the three and six months ended June 30, 2006.

The Company adopted the provisions of Financial Standards Accounting Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) and interpretation of FASB Statement No. 109 (SFAS 109) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in its consolidated financial statements. As of the adoption date of January 1, 2007, the Company had \$0.6 million of unrecognized tax benefits. At June 30, 2007, the Company had \$0.5 million of unrecognized tax benefits, all of which would reduce the Company's effective tax rate if recognized.

The Company recognized interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2007, the Company had approximately \$0.1 million of accrued interest related to uncertain tax positions.

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

(in thousands of dollars, except share amounts)

The tax years 2003-2006 remain open to examination by the major taxing jurisdictions to which the Company is subject. It is not possible to reasonably estimate any possible change in the unrecognized tax benefits within the next twelve months.

On July 12, 2007, the Michigan Business Tax (the MBT Act) was signed into law, which provides a comprehensive restructuring of Michigan's principal business taxes effective January 1, 2008. The MBT Act replaces the Michigan Single Business Tax that is scheduled to expire at the end of 2007. The Company is currently evaluating the impact of this law on our consolidated financial statements.

7. Other Liabilities, Long-Term

Other liabilities, long-term, at June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Unearned purchase discounts	\$ 3,412	\$ 4,526
Accrued occupancy costs	9,203	8,683
Accrued workers' compensation costs	4,923	4,595
Other	6,576	5,658
	\$ 24,114	\$ 23,462

In 2001, management decided to close seven Taco Cabana restaurants in the Phoenix, Arizona market and discontinue restaurant development underway in that market. At June 30, 2007 and December 31, 2006, the Company had \$0.6 million and \$0.7 million in lease liability reserves, respectively, for the remaining locations that are included in accrued occupancy costs.

The following table presents the activity in the exit cost reserve for the six months ended June 30, 2007:

	Six Months Ended June 30, 2007
Balance, beginning of period	\$ 656
Payments	(63)
Balance, end of period	\$ 593

8. Postretirement Benefits

The Company provides postretirement medical and life insurance benefits covering substantially all Burger King administrative and restaurant management salaried employees. A December 31 measurement date is used for postretirement benefits.

The following summarizes the components of net periodic benefit cost:

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	\$ 128	\$ 118	\$ 246	\$ 236
Interest cost	110	83	203	166
Amortization of gains and losses	31	21	48	42
Amortization of unrecognized prior service cost	10	(7)	3	(14)
Net periodic postretirement benefit cost	\$ 279	\$ 215	\$ 500	\$ 430

Table of Contents

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(in thousands of dollars, except share amounts)

During the three and six months ended June 30, 2007, the Company made contributions of \$36 and \$100 to its postretirement plan. The Company expects to make additional contributions during 2007. The Company expects to make additional contributions during 2007.

9. Lease Financing Obligations

The Company entered into sale-leaseback transactions in various years involving certain restaurant properties that did not qualify for sale-leaseback accounting and as a result, have been classified as financing transactions under SFAS No. 98, Accounting for Leases (SFAS 98). Under the financing method, the assets remain on the Company's consolidated balance sheet and proceeds received by the Company from these transactions are recorded as a financing liability. Payments under these leases are applied as payments of imputed interest and deemed principal on the underlying financing obligations.

During the second quarter of 2007, the Company exercised its right of first refusal under the leases for five restaurant properties previously accounted for as lease financing obligations and purchased these properties from the lessor. As a result, the Company reduced its lease financing obligations by \$4.4 million. The Company also recorded a gain of \$0.2 million as a reduction of interest expense which represented the net amount by which the lease financing obligations exceeded the purchase price of the restaurant properties acquired.

During the second and third quarters of 2006, the Company refinanced 14 restaurant properties previously accounted for as lease financing obligations and amended lease agreements for 34 restaurant properties to eliminate or otherwise cure the provisions that precluded the original sale-leaseback accounting. As a result of these transactions in 2006, the Company reduced its lease financing obligations by \$52.8 million, reduced its assets under lease financing obligations by \$36.2 million and recorded deferred gains of \$18.3 million which are being amortized as a reduction to rent expense over the remaining term of the underlying leases, which is generally 20 years .

As a result of these transactions, rent expense in the three and six months ended June 30, 2007 includes an additional \$1.0 million and \$2.0 million of expense, respectively, compared to the three and six months ended June 30, 2006. Also as a result of these transactions, the three and six months ended June 30, 2006 includes additional depreciation expense of \$0.3 million and \$0.6 million and additional interest expense of \$1.3 million and \$2.6 million as compared to the three and six months ended June 30, 2007. Interest expense associated with lease financing obligations, including settlement gains and losses, for the three months ended June 30, 2007 and 2006 was \$1.3 million and \$4.5 million, respectively and for the six months ended June 30, 2007 and 2006 was \$2.8 million and \$7.3 million, respectively.

10. Other Income

In the first quarter of 2007, the Company recorded a gain of \$0.3 million related to sale of one of its Taco Cabana restaurant properties.

11. Business Segment Information

The Company is engaged in the quick-service and quick-casual restaurant industry, with three restaurant concepts: Burger King operating as a franchisee and Pollo Tropical and Taco Cabana, both Company-owned concepts. The Company's Burger King restaurants are all located in the United States, primarily in the Northeast, Southeast and Midwest. Pollo Tropical is a quick-casual restaurant chain featuring grilled marinated chicken and Caribbean style made from scratch side dishes. Pollo Tropical's core markets are located in South and Central Florida. Taco Cabana is a quick-casual restaurant chain featuring fresh Mexican style food, including flame-grilled beef and chicken fajitas, quesadillas and other Tex-Mex dishes. Taco Cabana's core markets are primarily located in Texas.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies. The following table includes Segment EBITDA which is the measure of segment profit or loss reported to the chief operating decision maker for purposes of allocating resources to the segments and assessing their performance. Segment EBITDA is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment losses, stock-based compensation expense and other income and expense.

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

(in thousands of dollars, except share amounts)

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

Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
June 30, 2007:					
Total revenues	\$ 42,747	\$ 60,774	\$ 96,928	\$	\$ 200,449
Cost of sales	14,149	17,975	25,515		57,639
Restaurant wages and related expenses	10,634	17,394	30,495	39	58,562
General and administrative expenses (1)	2,546	2,728	7,715	315	13,304
Depreciation and amortization	1,669	2,121	3,758	339	7,887
Segment EBITDA	7,255	8,024	8,393		
Capital expenditures, including acquisitions	6,810	5,387	3,347	1,302	16,846
June 30, 2006:					
Total revenues	\$ 38,478	\$ 58,681	\$ 93,422	\$	\$ 190,581
Cost of sales	12,367	17,015	24,004		53,386
Restaurant wages and related expenses	9,530	16,506	29,262		55,298
General and administrative expenses (1)	2,080	2,901	6,995		11,976
Depreciation and amortization	1,418	2,033	4,676	336	8,463
Segment EBITDA	7,670	8,121	10,282		
Capital expenditures, including acquisitions	3,720	3,594	2,165	525	10,004
Six Months Ended					
June 30, 2007:					
Total revenues	\$ 84,286	\$ 118,968	\$ 185,398	\$	\$ 388,652
Cost of sales	27,541	34,953	47,702		110,196
Restaurant wages and related expenses	20,965	33,874	59,595	76	114,510
General and administrative expenses (1)	5,033	5,601	15,181	633	26,448
Depreciation and amortization	3,164	4,174	7,601	639	15,578
Segment EBITDA	14,089	15,375	14,219		
Capital expenditures, including acquisitions	13,240	8,043	4,951	1,493	27,727
June 30, 2006:					
Total revenues	\$ 77,064	\$ 113,921	\$ 182,139	\$	\$ 373,124
Cost of sales	24,973	33,025	47,301		105,299
Restaurant wages and related expenses	18,973	32,235	57,752		108,960
General and administrative expenses (1)	4,263	5,857	14,228		24,348
Depreciation and amortization	2,782	4,063	9,276	659	16,780
Segment EBITDA	15,306	15,815	17,168		
Capital expenditures, including acquisitions	8,003	6,838	4,279	1,002	20,122
Identifiable Assets:					
At June 30, 2007	\$ 57,470	\$ 74,579	\$ 152,398	\$ 174,505	\$ 458,952
At December 31, 2006	46,617	71,601	155,272	179,369	452,859

(1) For the Pollo Tropical and Taco Cabana segments, such amounts include general and administrative expenses related directly to each segment. For the Burger King segment such amounts include general and administrative expenses related directly to the Burger King

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segment as well as expenses associated with administrative support to all of the Company's segments including executive management, information systems and certain accounting, legal and other administrative functions.

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

(in thousands of dollars, except share amounts)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Segment EBITDA:				
Pollo Tropical	\$ 7,255	\$ 7,670	\$ 14,089	\$ 15,306
Taco Cabana	8,024	8,121	15,375	15,815
Burger King	8,393	10,282	14,219	17,168
Subtotal	23,672	26,073	43,683	48,289
Less:				
Depreciation and amortization	7,887	8,463	15,578	16,780
Impairment losses	69	20	69	244
Interest expense	7,601	13,011	15,957	24,400
Loss on extinguishment of debt			1,485	
Provision for income taxes	2,662	1,489	3,554	2,248
Stock-based compensation expense	354		709	
Other income			(347)	
Net income	\$ 5,099	\$ 3,090	\$ 6,678	\$ 4,617

12. Commitments and Contingencies

On November 16, 1998, the Equal Employment Opportunity Commission (EEOC) filed suit in the United States District Court for the Northern District of New York (the Court), under Title VII of the Civil Rights Act of 1964, as amended, against the Company. The complaint alleged that the Company engaged in a pattern and practice of unlawful discrimination, harassment and retaliation against former and current female employees. The EEOC identified approximately 450 individuals (which were subsequently increased to 511 individuals) that it believed represented the class of claimants and was seeking monetary and injunctive relief from the Company.

On April 20, 2005, the Court issued a decision and order granting the Company's Motion for Summary Judgment that the Company filed in January 2004. Subject to possible appeal by the EEOC, the case is dismissed, however the Court noted that it was not ruling on the claims, if any, that individual employees might have against the Company. The Company does not believe that any individual claim, if any, would have a material adverse impact on its consolidated financial statements.

On February 27, 2006, the Company filed a motion for summary judgment to dismiss all but between four and 17 of the individual claims. On July 10, 2006, in its response to that motion, the EEOC has asserted that, notwithstanding the Court's dismissal of the case as a class action, the EEOC may still maintain some kind of collective action on behalf of these claimants. Oral argument before the Court was held on October 4, 2006 and the Company is awaiting the Court's decision on the Company's summary judgment motion. Although the Company believes that the EEOC's continued class litigation argument is without merit, it is not possible to predict the outcome of the pending motion.

On November 30, 2002, four former hourly employees commenced a lawsuit against the Company in the United States District Court for the Western District of New York entitled Dawn Seever, et al. v. Carrols Corporation. The lawsuit alleges, in substance, that the Company violated certain minimum wage laws under the Federal Fair Labor Standards Act and related state laws by requiring employees to work without recording their time and by retaliating against those who complained. The plaintiffs seek damages, costs and injunctive relief. They also seek to

notify, and eventually certify, a class consisting of current and former employees who, since 1998, have worked, or are working, for the Company. As a result of the July 21, 2005 Status Conference, the parties agreed to withdraw Plaintiff's Motions to Certify and for National Discovery, and Defendant's Motion to Disqualify Counsel and related motions, to allow both sides limited additional discovery. The Company has since filed a Motion for Summary Judgment as to the existing plaintiffs that the Court has under consideration. On January 19, 2007, plaintiffs re-filed the Motion to certify and for National Discovery. The Company has opposed such Motions. The Company has also moved to disqualify the Plaintiffs from representing the class and to strike the purported evidence presented in support of the motion to certify. The various motions are not yet set for hearing. It is too early to evaluate the likelihood of an unfavorable outcome or estimate the amount or range of potential loss, if any. Consequently, it is not possible to predict what adverse impact, if any, this case could have on the Company's consolidated financial statements. The Company intends to continue to contest this case vigorously.

Table of Contents

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(in thousands of dollars, except share amounts)

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

13. Recent Accounting Developments

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. The statement applies whenever other pronouncements require or permit assets or liabilities to be measured at fair value. SFAS 157 is effective for the Company s fiscal year beginning January 1, 2008. The Company is evaluating the impact the adoption of SFAS 157 will have on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for the Company s fiscal year beginning January 1, 2008. The Company is currently evaluating the impact the adoption of SFAS 159 will have on its consolidated financial statements.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (the FSP). The FSP provides guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP, a tax position could be effectively settled if a taxing authority has completed all of its required or expected examination procedures, if the entity does not intend to appeal or litigate the result and it is remote that the taxing authority would examine or re-examine the tax position. Application of the FSP shall be upon the initial adoption date of FIN 48. The FSP did not have a material impact on the Company s consolidated financial statements.

14. Guarantor Financial Statements

The Company s obligations under the senior subordinated notes are jointly and severally guaranteed in full on an unsecured senior subordinated basis by certain of the Company s subsidiaries (Guarantor Subsidiaries), all of which are directly or indirectly wholly-owned by the Company. These subsidiaries are:

Cabana Beverages, Inc.

Cabana Bevco LLC

Carrols Realty Holdings

Carrols Realty I Corp.

Carrols Realty II Corp.

Carrols J.G. Corp.

Quanta Advertising Corp.

Pollo Franchise, Inc.

Pollo Operations, Inc.

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Taco Cabana, Inc.

TP Acquisition Corp.

TC Bevco LLC

T.C. Management, Inc.

TC Lease Holdings III, V and VI, Inc.

Get Real, Inc.

Texas Taco Cabana, L.P.

TPAQ Holding Corporation

The following supplemental financial information sets forth on a consolidating basis, balance sheets as of June 30, 2007 and December 31, 2006 for the Parent Company Only, Guarantor Subsidiaries and for the Company and the related statements of operations and cash flows for the three and six months ended June 30, 2007 and 2006.

Table of Contents

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(in thousands of dollars, except share amounts)

For certain of the Company's sale-leaseback transactions, the Parent Company has guaranteed on an unsecured basis the rental payments of its subsidiaries. In accordance with Emerging Issues Task Force Issue No. 90-14, "Unsecured Guarantee by Parent of Subsidiary's Lease Payments in a Sale-Leaseback Transaction," the Company has included in the following guarantor financial statements amounts pertaining to these leases as if they were accounted for as financing transactions of the Guarantor Subsidiaries. These adjustments are eliminated in consolidation.

For purposes of the guarantor financial statements, the Company and its subsidiaries determine the applicable tax provision for each entity generally using the separate return method. Under this method, current and deferred taxes are allocated to each reporting entity as if it were to file a separate tax return. The rules followed by the reporting entity in computing its tax obligation or refund, including the effects of the alternative minimum tax, would be the same as those followed in filing a separate return with the Internal Revenue Service. However, for purposes of evaluating an entity's ability to realize its tax attributes, the Company assesses whether it is more likely than not that those assets will be realized at the consolidated level. Any differences in the total of the income tax provision (benefit) for the Parent Company only and the Guarantor Subsidiaries, as calculated on the separate return method and the consolidated income tax provision (benefit) are eliminated in consolidation.

The Company provides some administrative support to its subsidiaries related to executive management, information systems and certain accounting, legal and other administrative functions. For purposes of the guarantor financial statements, the Company allocates such corporate costs on a specific identification basis, where applicable, or based on revenues or the number of restaurants for each subsidiary. Management believes that these allocations are reasonable based on the nature of costs incurred.

Table of Contents**CONSOLIDATING BALANCE SHEET**

June 30, 2007

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 558	\$ 1,966	\$	\$ 2,524
Trade and other receivables	1,187	3,186		4,373
Inventories	2,847	1,749		4,596
Prepaid rent	1,654	1,996		3,650
Prepaid expenses and other current assets	2,414	3,999		6,413
Deferred income taxes	2,653	1,886		4,539
Total current assets	11,313	14,782		26,095
Property and equipment, net	62,911	185,910	(52,519)	196,302
Franchise rights, net	81,660			81,660
Goodwill	1,450	123,484		124,934
Intangible assets, net		1,031		1,031
Franchise fees, net	5,733			5,733
Intercompany receivable (payable)	157,837	(158,727)	890	
Investment in subsidiaries	38,279		(38,279)	
Deferred income taxes	5,423	7,183	(1,261)	11,345
Other assets	7,876	5,637	(1,661)	11,852
Total assets	\$ 372,482	\$ 179,300	\$ (92,830)	\$ 458,952

LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)

Current liabilities:				
Current portion of long-term debt	\$ 1,592	\$ 89	\$	\$ 1,681
Accounts payable	9,869	11,087		20,956
Accrued interest	7,528			7,528
Accrued payroll, related taxes and benefits	9,372	7,042		16,414
Accrued income taxes payable	1,152			1,152
Accrued real estate taxes	720	2,632		3,352
Other liabilities	7,270	3,536		10,806
Total current liabilities	37,503	24,386		61,889
Long-term debt, net of current portion	298,654	1,057		299,711
Lease financing obligations	14,878	105,181	(65,801)	54,258
Deferred income sale-leaseback of real estate	16,878	5,466	8,251	30,595
Accrued postretirement benefits	6,754			6,754
Other liabilities	16,184	7,563	367	24,114
Total liabilities	390,851	143,653	(57,183)	477,321
Commitments and contingencies				

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Stockholder s equity (deficit)	(18,369)	35,647	(35,647)	(18,369)
Total liabilities and stockholder s equity (deficit)	\$ 372,482	\$ 179,300	\$ (92,830)	\$ 458,952

Table of Contents**CONSOLIDATING BALANCE SHEET**

December 31, 2006

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,182	\$ 2,757	\$	\$ 3,939
Trade and other receivables	783	4,581		5,364
Inventories	2,997	1,680		4,677
Prepaid rent	2,203	1,927		4,130
Prepaid expenses and other current assets	1,920	3,447		5,367
Refundable income taxes	2,806			2,806
Deferred income taxes	2,653	1,886		4,539
Total current assets	14,544	16,278		30,822
Property and equipment, net	62,978	171,369	(51,605)	182,742
Franchise rights, net	83,268			83,268
Goodwill	1,450	123,484		124,934
Intangible assets, net		1,175		1,175
Franchise agreements, net	5,793			5,793
Intercompany receivable (payable)	151,907	(152,204)	297	
Investment in subsidiaries	35,396		(35,396)	
Deferred income taxes	5,215	6,619	(698)	11,136
Other assets	8,703	6,008	(1,722)	12,989
Total assets	\$ 369,254	\$ 172,729	\$ (89,124)	\$ 452,859
LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)				
Current liabilities:				
Current portion of long-term debt	\$ 2,295	\$ 182	\$	\$ 2,477
Accounts payable	7,783	10,077		17,860
Accrued interest	7,861			7,861
Accrued payroll, related taxes and benefits	11,034	7,411		18,445
Accrued real estate taxes	1,754	2,348		4,102
Other liabilities	7,123	3,500		10,623
Total current liabilities	37,850	23,518		61,368
Long-term debt, net of current portion	296,397	1,035		297,432
Lease financing obligations	19,419	103,060	(63,908)	58,571
Deferred income sale-leaseback of real estate	18,548	4,812	8,031	31,391
Accrued postretirement benefits	6,370			6,370
Other liabilities	16,405	6,799	258	23,462
Total liabilities	394,989	139,224	(55,619)	478,594
Commitments and contingencies				

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Stockholder's equity (deficit)	(25,735)	33,505	(33,505)	(25,735)
Total liabilities and stockholder's equity (deficit)	\$ 369,254	\$ 172,729	\$ (89,124)	\$ 452,859

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended June 30, 2007****(In thousands of dollars)****(Unaudited)**

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:				
Restaurant sales	\$ 96,928	\$ 103,189	\$	\$ 200,117
Franchise royalty revenues and fees		332		332
Total revenues	96,928	103,521		200,449
Costs and expenses:				
Cost of sales	25,515	32,124		57,639
Restaurant wages and related expenses (including stock-based compensation expense of \$39)	30,483	28,079		58,562
Restaurant rent expense	5,914	3,685	1,308	10,907
Other restaurant operating expenses	14,337	13,933		28,270
Advertising expense	4,559	3,890		8,449
General and administrative (including stock based compensation expense of \$315)	6,867	6,437		13,304
Depreciation and amortization	3,944	4,251	(308)	7,887
Impairment losses	14	55		69
Other income				
Total operating expenses	91,633	92,454	1,000	185,087
Income from operations	5,295	11,067	(1,000)	15,362
Interest expense	6,540	2,515	(1,454)	7,601
Intercompany interest allocations	(4,556)	4,556		
Income before income taxes	3,311	3,996	454	7,761
Provision for income taxes	1,095	1,389	178	2,662
Equity income from subsidiaries	2,883		(2,883)	
Net income	\$ 5,099	\$ 2,607	\$ (2,607)	\$ 5,099

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended June 30, 2006****(In thousands of dollars)****(Unaudited)**

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:				
Restaurant sales	\$ 93,422	\$ 96,830	\$	\$ 190,252
Franchise royalty revenues and fees		329		329
Total revenues	93,422	97,159		190,581
Costs and expenses:				
Cost of sales	24,004	29,382		53,386
Restaurant wages and related expenses	29,262	26,036		55,298
Restaurant rent expense	5,163	3,270	726	9,159
Other restaurant operating expenses	13,736	13,705		27,441
Advertising expense	3,980	3,268		7,248
General and administrative	6,268	5,708		11,976
Depreciation and amortization	4,844	3,774	(155)	8,463
Impairment losses		20		20
Total operating expenses	87,257	85,163	571	172,991
Income from operations	6,165	11,996	(571)	17,590
Interest expense	10,693	3,123	(805)	13,011
Intercompany interest allocations	(4,556)	4,556		
Income before income taxes	28	4,317	234	4,579
Provision for income taxes	11	1,490	(12)	1,489
Equity income from subsidiaries	3,073		(3,073)	
Net income	\$ 3,090	\$ 2,827	\$ (2,827)	\$ 3,090

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS**

Six Months Ended June 30, 2007

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:				
Restaurant sales	\$ 185,398	\$ 202,585	\$	\$ 387,983
Franchise royalty revenues and fees		669		669
Total revenues	185,398	203,254		388,652
Costs and expenses:				
Cost of sales	47,702	62,494		110,196
Restaurant wages and related expenses (including stock-based compensation expense of \$76)	59,620	54,890		114,510
Restaurant rent expense	11,781	7,209	2,596	21,586
Other restaurant operating expenses	28,310	27,644		55,954
Advertising expense	8,610	8,374		16,984
General and administrative (including stock based compensation expense of \$633)	13,584	12,864		26,448
Depreciation and amortization	7,944	8,247	(613)	15,578
Impairment loss	14	55		69
Other income		(347)		(347)
Total operating expenses	177,565	181,430	1,983	360,978
Income from operations	7,833	21,824	(1,983)	27,674
Interest expense	13,817	5,027	(2,887)	15,957
Loss on extinguishment of debt	1,485			1,485
Intercompany interest allocations	(9,112)	9,112		
Income before income taxes	1,643	7,685	904	10,232
Provision for income taxes	507	2,760	287	3,554
Equity income from subsidiaries	5,542		(5,542)	
Net income	\$ 6,678	\$ 4,925	\$ (4,925)	\$ 6,678

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS**

Six Months Ended June 30, 2006

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:				
Restaurant sales	\$ 182,139	\$ 190,326	\$	\$ 372,465
Franchise royalty revenues and fees		659		659
Total revenues	182,139	190,985		373,124
Costs and expenses:				
Cost of sales	47,301	57,998		105,299
Restaurant wages and related expenses	57,752	51,208		108,960
Restaurant rent expense	10,548	6,299	1,332	18,179
Other restaurant operating expenses	27,483	26,406		53,889
Advertising expense	7,659	6,501		14,160
General and administrative	12,759	11,589		24,348
Depreciation and amortization	9,605	7,459	(284)	16,780
Impairment losses	224	20		244
Total operating expenses	173,331	167,480	1,048	341,859
Income from operations	8,808	23,505	(1,048)	31,265
Interest expense	20,397	5,488	(1,485)	24,400
Intercompany interest allocations	(9,112)	9,112		
Income before income taxes	(2,477)	8,905	437	6,865
Provision for income taxes	(976)	3,129	95	2,248
Equity income from subsidiaries	6,118		(6,118)	
Net income	\$ 4,617	\$ 5,776	\$ (5,776)	\$ 4,617

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS**

Six Months Ended June 30, 2007

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
Cash flows provided from operating activities:				
Net income	\$ 6,678	\$ 4,925	\$ (4,925)	\$ 6,678
Adjustments to reconcile net income to net cash provided from operating activities:				
Gain on disposals of property and equipment	133	(24)		109
Stock-based compensation expense	530	179		709
Depreciation and amortization	7,944	8,247	(613)	15,578
Amortization of deferred financing costs	608	104	(74)	638
Amortization of unearned purchase discounts	(1,078)			(1,078)
Amortization of deferred gains from sale-leaseback transactions	(593)	(127)	(249)	(969)
Impairment losses	14	55		69
Gain on settlements of lease financing obligations	(163)			(163)
Accretion of interest on lease financing obligations	33	229		262
Deferred income taxes	(210)	(323)	323	(210)
Loss on extinguishment of debt	1,485			1,485
Changes in other operating assets and liabilities	(5,561)	6,502	5,538	6,479
Net cash provided from operating activities	9,820	19,767		