CARROLS CORP
Form 10-Q
August 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 28, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**16-1287774**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

968 James Street	
Syracuse, New York	**13203**
(Address of principal executive office)	**(Zip Code)**

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

Commission File Number: 001-06553

CARROLS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**16-0958146**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
968 James Street	
Syracuse, New York	**13203**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether either of the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrants have submitted electronically and posted on their Corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

Carrols Restaurant Group, Inc.

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Carrols Corporation

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 31, 2009, Carrols Restaurant Group, Inc. had 21,594,145 shares of its common stock, $.01 par value, outstanding. As of July 31, 2009, all outstanding equity securities of Carrols Corporation, which consisted of 10 shares of its common stock, were owned by Carrols Restaurant Group, Inc.

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CARROLS RESTAURANT GROUP, INC. AND CARROLS CORPORATION

FORM 10-Q

QUARTER ENDED JUNE 28, 2009

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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, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,032	$ 3,399
Trade and other receivables	5,808	5,622
Inventories	5,272	5,588
Prepaid rent	2,998	2,998
Prepaid expenses and other current assets	7,280	6,738
Deferred income taxes	4,873	4,890
Total current assets	29,263	29,235
Property and equipment, net	191,485	195,376
Franchise rights, net (Note 4)	75,302	76,870
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	610	675
Franchise agreements, at cost less accumulated amortization of $5,636 and $5,729, respectively	5,813	5,826
Deferred income taxes	5,946	6,697
Other assets	9,858	10,585
Total assets	$ 443,211	$ 450,198
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	$ 15,090	$ 12,093
Accounts payable	20,009	18,789
Accrued interest	6,979	7,742
Accrued payroll, related taxes and benefits	18,175	15,431
Accrued income taxes payable	614	2,099
Accrued real estate taxes	4,081	3,803
Other liabilities	10,313	10,848
Total current liabilities	75,261	70,805
Long-term debt, net of current portion (Note 5)	268,152	289,202
Lease financing obligations (Note 9)	11,686	14,859
Deferred income sale-leaseback of real estate	43,634	43,447
Accrued postretirement benefits (Note 8)	1,566	1,697
Other liabilities (Note 7)	21,654	21,729
Total liabilities	421,953	441,739
Commitments and contingencies (Note 11)		
Stockholders equity:		

Preferred stock, par value $.01; authorized 20,000,000 shares, issued and outstanding none		
Voting common stock, par value $.01; authorized 100,000,000 shares, issued and outstanding - 21,592,726 and 21,592,462 shares, respectively	216	216
Additional paid-in capital	1,056	348
Retained earnings	18,163	6,072
Accumulated other comprehensive income (Note 13)	1,964	1,964
Treasury stock, at cost	(141)	(141)
Total stockholders equity	21,258	8,459
Total liabilities and stockholders equity	$ 443,211	$ 450,198

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

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

(Unaudited)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenues:				
Restaurant sales	$ 203,535	$ 210,331	$ 404,524	$ 405,724
Franchise royalty revenues and fees	399	351	753	711
Total revenues	203,934	210,682	405,277	406,435
Costs and expenses:				
Cost of sales	59,349	63,943	117,622	121,572
Restaurant wages and related expenses (including stock-based compensation expense of $53, $57, $105 and $114, respectively)	59,144	60,763	117,787	119,304
Restaurant rent expense	12,402	11,568	24,834	23,051
Other restaurant operating expenses	29,286	31,348	58,700	60,893
Advertising expense	7,567	9,224	15,578	17,048
General and administrative (including stock-based compensation expense of $308, $435, $603 and $852, respectively)	12,698	13,717	25,916	26,712
Depreciation and amortization	7,883	8,077	15,753	16,099
Impairment and other lease charges (Note 3)	63	81	354	102
Other income (Note 14)	(579)	(119)	(579)	(119)
Total costs and expenses	187,813	198,602	375,965	384,662
Income from operations	16,121	12,080	29,312	21,773
Interest expense	4,923	7,123	10,074	14,557
Gain on extinguishment of debt (Note 5)		(180)		(180)
Income before income taxes	11,198	5,137	19,238	7,396
Provision for income taxes (Note 6)	4,133	1,880	7,147	2,693
Net income	$ 7,065	$ 3,257	$ 12,091	$ 4,703
Basic net income per share (Note 12)	$ 0.33	$ 0.15	$ 0.56	$ 0.22
Diluted net income per share (Note 12)	$ 0.32	$ 0.15	$ 0.56	$ 0.22
Basic weighted average common shares outstanding (Note 12)	21,592,535	21,571,652	21,592,498	21,571,609
Diluted weighted average common shares outstanding (Note 12)	21,782,987	21,575,405	21,688,962	21,574,825

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(In thousands of dollars)

(Unaudited)

	2009	2008
Cash flows provided from operating activities:		
Net income	$ 12,091	$ 4,703
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss (gain) on disposals of property and equipment	105	(12)
Stock-based compensation expense	708	966
Impairment and other lease charges	354	102
Depreciation and amortization	15,753	16,099
Amortization of deferred financing costs	489	595
Amortization of unearned purchase discounts	(1,077)	(1,077)
Amortization of deferred gains from sale-leaseback transactions	(1,559)	(1,044)
Loss (gain) on settlements of lease financing obligations	(70)	31
Accretion of interest on lease financing obligations	19	120
Deferred income taxes	768	249
Accrued income taxes	(1,485)	1,031
Gain on extinguishment of debt		(180)
Changes in other operating assets and liabilities	3,694	(2,203)
Net cash provided from operating activities	29,790	19,380
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(5,620)	(16,385)
Restaurant remodeling	(5,421)	(6,168)
Other restaurant capital expenditures	(3,190)	(4,091)
Corporate and restaurant information systems	(3,077)	(2,585)
Total capital expenditures	(17,308)	(29,229)
Properties purchased for sale-leaseback	(210)	
Proceeds from sale-leaseback transactions	5,454	4,657
Proceeds from sales of other properties	249	119
Net cash used for investing activities	(11,815)	(24,453)
Cash flows provided from (used for) financing activities:		
Borrowings on revolving credit facility	51,700	62,400
Repayments on revolving credit facility	(66,700)	(52,900)
Scheduled principal payments on term loans	(3,000)	
Principal payments on capital leases	(53)	(71)
Proceeds from lease financing obligations	835	
Settlement of lease financing obligations	(1,120)	(5,500)
Financing costs associated with issuance of lease financing obligations	(4)	
Repurchase of senior subordinated notes		(1,820)

Net cash provided from (used for) financing activities	(18,342)	2,109
Net decrease in cash and cash equivalents	(367)	(2,964)
Cash and cash equivalents, beginning of period	3,399	7,396
Cash and cash equivalents, end of period	$ 3,032	$ 4,432
Supplemental disclosures:		
Interest paid on long-term debt	$ 9,732	$ 11,596
Interest paid on lease financing obligations	$ 668	$ 2,520
Accruals for capital expenditures	$ 521	$ 962
Income taxes paid, net	$ 7,865	$ 1,414
Capital lease obligations incurred	$	$ 117
Non-cash reduction of assets under lease financing obligations due to lease amendments	$ 2,074	$
Non-cash reduction of lease financing obligations due to lease amendments	$ 2,833	$

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

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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 equity.

Business Description. At June 30, 2009 the Company operated, as franchisee, 314 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At June 30, 2009, the Company also owned and operated 91 Pollo Tropical restaurants, of which 85 were located in Florida, four were in New Jersey and one each in New York and Connecticut, and franchised a total of 27 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in the Bahamas and three on college campuses in Florida. At June 30, 2009, the Company owned and operated 154 Taco Cabana restaurants located primarily in Texas and franchised a total of four Taco Cabana restaurants, two in New Mexico, one in Texas and one in Georgia.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended December 28, 2008 and December 30, 2007 will be referred to as the fiscal years ended December 31, 2008 and 2007, respectively. Similarly, all references herein to the three and six months ended June 28, 2009 and June 29, 2008 will be referred to as the three and six months ended June 30, 2009 and June 30, 2008, respectively. The years ended December 31, 2008 and 2007 each contained 52 weeks and the three and six months ended June 30, 2009 and 2008 contained thirteen and twenty-six weeks, respectively.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2009 and 2008 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and six months ended June 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008 contained in the Company s 2008 Annual Report on Form 10-K. The December 31, 2008 balance sheet data is derived from those audited financial statements.

Fair Value of Financial Instruments. The following methods were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the fair value:

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

Senior Subordinated Notes. The fair values of outstanding senior subordinated notes are based on quoted market prices. The fair values at June 30, 2009 and December 31, 2008 were approximately $154.7 million and $111.4 million, respectively.

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

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

2. Stock-Based Compensation

As of June 30, 2009, the total non-vested stock-based compensation expense relating to the options and restricted shares was approximately $3.4 million and the Company expects to record an additional $0.7 million as compensation expense in 2009. At June 30, 2009, the remaining weighted average vesting period for stock options and restricted shares was 3.5 years and 1.7 years, respectively.

Stock Options

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

	2006 Plan			
	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands) (1)
Options outstanding at January 1, 2009	1,710,764	$ 12.17	5.3	$
Granted	536,900	2.20		
Forfeited	(57,384)	11.91		
Options outstanding at June 30, 2009	2,190,280	$ 9.86	5.3	$ 2,177
Vested or expected to vest at June 30, 2009	2,152,481	$ 9.88	5.3	$ 2,124
Options exercisable at June 30, 2009	698,254	$ 13.05	4.9	$

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

3. Impairment and Other Lease Charges

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

Impairment and other lease charges recorded on long-lived assets for its segments were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Burger King	$ 6	$ 71	$ 28	$ 92
Pollo Tropical	15		284	
Taco Cabana	42	10	42	10
	$ 63	$ 81	$ 354	$ 102

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

4. Goodwill and Franchise Rights

Goodwill. Goodwill is reviewed for impairment annually, or more frequently when events and circumstances indicate that the carrying amounts may be impaired. The Company performs its annual impairment assessment as of December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values. In performing its goodwill impairment test, the Company compares the net book values of its reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, the Company employs a combination of a discounted cash flow analysis and a market-based approach. The results of the discounted cash flow analyses are corroborated with other value indicators where available, such as comparable company earnings multiples and research analyst estimates. No impairment losses have been recognized as a result of these tests. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Balance, June 30, 2009	$ 56,307	$ 67,177	$ 1,450	$ 124,934

Burger King Franchise Rights. Amounts allocated to franchise rights for each Burger King acquisition are amortized using the straight-line method over the average remaining term of the acquired franchise agreements plus one twenty-year renewal period. The Company assesses the potential impairment of franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted future cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. There were no impairment charges recorded against franchise rights for the three and six months ended June 30, 2009 and 2008.

Amortization expense related to Burger King franchise rights was $784 and $799 for the three months ended June 30, 2009 and 2008, respectively. Amortization expense related to Burger King franchise rights was $1,568 and $1,600 for the six months ended June 30, 2009 and 2008, respectively. The Company estimates the amortization expense for the year ending December 31, 2009 and for each of the five succeeding years to be $3,197.

5. Long-term Debt

Long-term debt at June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Collateralized:		
Senior Credit Facility-Revolving credit facility	$ 3,000	$ 18,000
Senior Credit Facility-Term loan A facility	114,000	117,000
Unsecured:		
9% Senior Subordinated Notes	165,000	165,000

Capital leases	1,242	1,295
	283,242	301,295
Less: current portion	(15,090)	(12,093)
	$ 268,152	$ 289,202

Senior Credit Facility. On March 9, 2007, Carrols terminated and replaced its prior senior credit facility with a new senior credit facility with a syndicate of lenders. Carrols senior credit facility initially totaled approximately $185 million, consisting of $120 million principal amount of term loan A borrowings maturing on March 8, 2013 (or earlier on March 31, 2012 if the 9% Senior Subordinated Notes due 2013 are not refinanced by June 30, 2012) and a $65.0 million revolving credit facility (including a sub limit of up to $25.0 million for letters of credit and up to $5.0 million for swingline loans), maturing on March 8, 2012.

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on Carrols senior leverage ratio. At June 30, 2009 the LIBOR margin percentage was 1.25%.

At June 28, 2009, outstanding term loan borrowings under the senior credit facility were $114.0 million with the remaining balance due and payable as follows:

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

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

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

After reserving $14.3 million for letters of credit guaranteed by the facility, $47.7 million was available for borrowings under the revolving credit facility at June 28, 2009.

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

In general, Carrols obligations under the senior credit facility are guaranteed by the Company and all of Carrols material subsidiaries and are collateralized by a pledge of Carrols common stock and the stock of each of Carrols material subsidiaries. The senior credit facility contains certain covenants, including, without limitation, those limiting Carrols ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of its business, engage in transactions with related parties, make certain investments or pay dividends. In addition, Carrols is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the senior credit facility). Carrols was in compliance with the covenants under its senior credit facility as of June 30, 2009.

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

Restrictive covenants under the Notes include limitations with respect to the Carrols ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. The Indenture governing the Notes contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the Notes and the Indenture if there is a default under any indebtedness of Carrols having an outstanding principal amount of $20 million or more (which would include the senior credit facility) if such default results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. Carrols was in compliance with the restrictive covenants in the Indenture governing the Notes as of June 30, 2009.

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

6. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Current	$ 4,125	$ 1,945	$ 6,379	$ 2,444
Deferred	8	(65)	768	249
	$ 4,133	$ 1,880	$ 7,147	$ 2,693

The provision for income taxes for the three and six months ended June 30, 2009 was derived using an estimated effective annual income tax rate for 2009 of 37.4%, which excludes any discrete tax adjustments. Discrete tax adjustments reduced the provision for income taxes by $57 in both the three months and six months ended June 30, 2009. The provision for income taxes for the three and six months ended June 30, 2008 was derived using an estimated effective annual income tax rate for 2008 of 37.9%, which excludes any discrete tax adjustments. Discrete tax adjustments reduced the provision for income taxes by $66 and $112 for the three and six months ended June 30, 2008, respectively.

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

The tax years 2005-2008 remain open to examination by the major taxing jurisdictions to which the Company is subject. It is not possible to reasonably estimate any possible change in the unrecognized tax benefits within the next twelve months due to the uncertainties regarding the timing of any examinations.

7. Other Liabilities, Long-Term

Other liabilities, long-term, at June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Accrued occupancy costs	$ 11,110	$ 10,949
Accrued workers compensation costs	4,201	4,312
Deferred compensation	3,047	3,244
Other	3,296	3,224
	$ 21,654	$ 21,729

8. Postretirement Benefits

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The following summarizes the components of net periodic benefit income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 7	$ (24)	$ 15	$ 14
Interest cost	27	(18)	54	53
Amortization of net gains and losses	21	3	42	44
Amortization of prior service credit	(88)	(67)	(172)	(180)
Net periodic postretirement benefit income	$ (33)	$ (106)	$ (61)	$ (69)

During the three and six months ended June 30, 2009, the Company made contributions of $37 and $72 to its postretirement plan and expects to make additional contributions during 2009.

9. Lease Financing Obligations

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

In the second quarter of 2009, the Company purchased from the lessor one of its restaurant properties previously subject to a lease financing obligation for $1.1 million. The Company also modified provisions in two of its restaurant leases previously accounted for as lease financing obligations which allowed the respective sale transactions to qualify for sale-leaseback accounting and resulted in a reduction of lease financing obligations of $2.8 million. The Company also entered into a sale transaction for a restaurant property that did not qualify for sale-leaseback accounting and the proceeds of $0.8 million were recorded as a lease financing obligation. As a result of these transactions in the second quarter of 2009, lease financing obligations were reduced $3.2 million, assets under lease financing obligations were reduced by $2.1 million and deferred gains on qualified sale-leaseback transactions of $0.7 million were recorded.

In the second quarter of 2008, the Company purchased from the lessor six restaurant properties for $5.5 million that were previously accounted for as lease financing obligations.

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

Interest expense associated with lease financing obligations, including settlement gains and losses, for the three months ended June 30, 2009 and 2008 was $0.3 million and $1.4 million, respectively, and for the six months ended June 30, 2009 and 2008 was $0.6 million and $2.7 million, respectively.

10. Business Segment Information

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

The accounting policies of each segment are the same as those described in the summary of significant accounting policies. The following table includes Segment EBITDA, which is the measure of segment profit or loss reported to the chief

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

operating decision maker for purposes of allocating resources to the segments and assessing their performance. Segment EBITDA is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense, other income and gains and losses on extinguishment of debt.

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

Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
June 30, 2009:					
Total revenues	$ 44,578	$ 63,816	$ 95,540	$	$ 203,934
Cost of sales	14,562	18,527	26,260		59,349
Restaurant wages and related expenses	10,968	18,804	29,319	53	59,144
General and administrative expenses (1)	2,454	2,896	7,040	308	12,698
Depreciation and amortization	1,970	2,225	3,304	384	7,883
Segment EBITDA	6,767	8,038	9,044		
Capital expenditures, including acquisitions	349	2,793	3,822	2,379	9,343
June 30, 2008:					
Total revenues	$ 45,404	$ 63,436	$ 101,842	$	$ 210,682
Cost of sales	15,312	19,540	29,091		63,943
Restaurant wages and related expenses	10,899	18,594	31,213	57	60,763
General and administrative expenses (1)	2,762	3,006	7,514	435	13,717
Depreciation and amortization	2,000	2,091	3,611	375	8,077
Segment EBITDA	6,733	5,789	8,089		
Capital expenditures, including acquisitions	4,862	6,158	3,479	1,881	16,380
Six Months Ended					
June 30, 2009:					
Total revenues	$ 88,716	$ 126,530	$ 190,031	$	$ 405,277
Cost of sales	29,206	36,886	51,530		117,622
Restaurant wages and related expenses	21,864	36,999	58,819	105	117,787
General and administrative expenses (1)	4,801	5,852	14,660	603	25,916
Depreciation and amortization	3,922	4,459	6,649	723	15,753
Segment EBITDA	13,232	16,244	16,072		
Capital expenditures, including acquisitions	1,204	6,579	6,448	3,077	17,308
June 30, 2008:					
Total revenues	$ 89,736	$ 123,693	$ 193,006	$	$ 406,435
Cost of sales	29,653	38,376	53,543		121,572
Restaurant wages and related expenses	22,199	36,244	60,747	114	119,304
General and administrative expenses (1)	5,328	6,012	14,520	852	26,712
Depreciation and amortization	3,916	4,162	7,249	772	16,099
Segment EBITDA	12,737	12,371	13,713		
Capital expenditures, including acquisitions	11,408	9,040	6,196	2,585	29,229
Identifiable Assets:					
At June 30, 2009	$ 55,149	$ 66,729	$ 144,775	$ 176,558	$ 443,211
At December 31, 2008	64,550	67,093	143,152	175,403	450,198

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

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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,	
	2009	2008	2009	2008
Segment EBITDA:				
Pollo Tropical	$ 6,767	$ 6,733	$ 13,232	$ 12,737
Taco Cabana	8,038	5,789	16,244	12,371
Burger King	9,044	8,089	16,072	13,713
Subtotal	23,849	20,611	45,548	38,821
Less:				
Depreciation and amortization	7,883	8,077	15,753	16,099
Impairment and other lease charges	63	81	354	102
Interest expense	4,923	7,123	10,074	14,557
Provision for income taxes	4,133	1,880	7,147	2,693
Stock-based compensation expense	361	492	708	966
Gain on extinguishment of debt		(180)		(180)
Other income	(579)	(119)	(579)	(119)
Net income	$ 7,065	$ 3,257	$ 12,091	$ 4,703

11. Commitments and Contingencies

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

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 (the Court) entitled Dawn Seever, et al. v. Carrols Corporation. The lawsuit alleged, 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 sought damages, costs and injunctive relief. They also sought to notify and certify a class consisting of current and former employees who, since 1998, have worked, or are working, for Carrols. On December 17, 2007, the Court issued a decision and order denying Plaintiffs motion for notice and class certification and granting the Company s motion to dismiss all of the claims of the plaintiffs, other than certain nominal claims relating to orientation and managers meetings. Those nominal claims have now been resolved and on June 10, 2009 the case was dismissed in its entirety with prejudice.

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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.

12. Net Income per Share

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

The computation of diluted net income per share excludes options to purchase 1,067,277 and 1,099,544 shares of common stock in each of the three and six months ended June 30, 2009 and 2008, respectively, 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 57,500 and 2,538 shares of common stock are excluded from the computation of diluted net income per share in the three and six months ended June 30, 2009 and 2008, respectively, as they were antidilutive under the treasury stock method.

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,	
	2009	2008	2009	2008
Basic net income per share:				
Net income	$ 7,065	$ 3,257	$ 12,091	$ 4,703
Weighted average common shares outstanding	21,592,535	21,571,652	21,592,498	21,571,609
Basic net income per share	$ 0.33	$ 0.15	$ 0.56	$ 0.22
Diluted net income per share:				
Net income for diluted net income per share	$ 7,065	$ 3,257	$ 12,091	$ 4,703
Shares used in computed basic net income per share	21,592,535	21,571,652	21,592,498	21,571,609
Dilutive effect of restricted shares and stock options	190,452	3,753	96,464	3,216
Shares used in computed diluted net income per share	21,782,987	21,575,405	21,688,962	21,574,825
Diluted net income per share	$ 0.32	$ 0.15	$ 0.56	$ 0.22

13. Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income (SFAS 130), requires the disclosure of certain revenue, expenses, gains and losses that are excluded from net income in accordance with U.S. generally accepted accounting principles. The items that currently impact the Company s other comprehensive income are changes in postretirement benefit obligations, net of tax.

	Three months ended June 30,	Six months ended June 30,

	2009	2008	2009	2008
Net income	$ 7,065	$ 3,257	$ 12,091	$ 4,703
Change in postretirement benefit obligation, net of tax				8
Comprehensive income	$ 7,065	$ 3,257	$ 12,091	$ 4,711

14. Other Income

During the three and six months ended June 30, 2009, the Company recorded a gain of $0.6 million related to an insurance recovery for damages to Taco Cabana restaurants during Hurricane Ike. The Company recorded a gain of $0.1 million in the three and six months ended June 30, 2008 related to the sale of a Taco Cabana property.

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

15. Recent Accounting Developments

In May 2009, the FASB issued SFAS No. 165 (SFAS 165), Subsequent Events, which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The Company implemented SFAS 165 during the three months ended June 30, 2009. The Company evaluated for subsequent events through August 5, 2009, the issuance date of the Company s financial statements. No subsequent events requiring disclosure were noted.

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168 (SFAS 168), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and identifies the sources of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the U.S. The Company is required to adopt the provisions of SFAS 168 for its interim period ending September 30, 2009 and it will impact the Company s financial statement disclosures as all future references to authoritative accounting literature will be referenced in accordance with SFAS 168. There will be no changes to the content of the Company s financial statements or disclosures as a result of implementing SFAS 168.

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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, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,032	$ 3,399
Trade and other receivables	5,808	5,622
Inventories	5,272	5,588
Prepaid rent	2,998	2,998
Prepaid expenses and other current assets	7,280	6,738
Deferred income taxes	4,873	4,890
Total current assets	29,263	29,235
Property and equipment, net	191,485	195,376
Franchise rights, net (Note 4)	75,302	76,870
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	610	675
Franchise agreements, at cost less accumulated amortization of $5,636 and $5,729, respectively	5,813	5,826
Deferred income taxes	5,946	6,697
Other assets	9,858	10,585
Total assets	$ 443,211	$ 450,198
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	$ 15,090	$ 12,093
Accounts payable	20,009	18,789
Accrued interest	6,979	7,742
Accrued payroll, related taxes and benefits	18,175	15,431
Accrued income taxes	614	2,099
Accrued real estate taxes	4,081	3,803
Other liabilities	10,313	10,848
Total current liabilities	75,261	70,805
Long-term debt, net of current portion (Note 5)	268,152	289,202
Lease financing obligations (Note 9)	11,686	14,859
Deferred income sale-leaseback of real estate	43,634	43,447
Accrued postretirement benefits (Note 8)	1,566	1,697
Other liabilities (Note 7)	21,607	21,685
Total liabilities	421,906	441,695
Commitments and contingencies (Note 11)		
Stockholder s equity:		
Common stock, par value $1; authorized 1,000 shares, issued and outstanding 10 shares		
Additional paid-in capital	(6,437)	(7,145)

Retained earnings	25,778	13,684
Accumulated other comprehensive income (Note 12)	1,964	1,964
Total stockholder s equity	21,305	8,503
Total liabilities and stockholder s equity	$ 443,211	$ 450,198

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

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CARROLS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(In thousands of dollars)

(Unaudited)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenues:				
Restaurant sales	$ 203,535	$ 210,331	$ 404,524	$ 405,724
Franchise royalty revenues and fees	399	351	753	711
Total revenues	203,934	210,682	405,277	406,435
Costs and expenses:				
Cost of sales	59,349	63,943	117,622	121,572
Restaurant wages and related expenses (including stock-based compensation expense of $53, $57, $105 and $114, respectively)	59,144	60,763	117,787	119,304
Restaurant rent expense	12,402	11,568	24,834	23,051
Other restaurant operating expenses	29,286	31,348	58,700	60,893
Advertising expense	7,567	9,224	15,578	17,048
General and administrative (including stock-based compensation expense of $308, $435, $603 and $852, respectively)	12,697	13,716	25,913	26,709
Depreciation and amortization	7,883	8,077	15,753	16,099
Impairment and other lease charges (Note 3)	63	81	354	102
Other income (Note 13)	(579)	(119)	(579)	(119)
Total costs and expenses	187,812	198,601	375,962	384,659
Income from operations	16,122	12,081	29,315	21,776
Interest expense	4,923	7,123	10,074	14,557
Gain on extinguishment of debt (Note 5)		(180)		(180)
Income before income taxes	11,199	5,138	19,241	7,399
Provision for income taxes (Note 6)	4,133	1,880	7,147	2,693
Net income	$ 7,066	$ 3,258	$ 12,094	$ 4,706

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

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CARROLS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(In thousands of dollars)

(Unaudited)

	2009	2008
Cash flows provided from operating activities:		
Net income	$ 12,094	$ 4,706
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss (gain) on disposals of property and equipment	105	(12)
Stock-based compensation expense	708	966
Impairment and other lease charges	354	102
Depreciation and amortization	15,753	16,099
Amortization of deferred financing costs	489	595
Amortization of unearned purchase discounts	(1,077)	(1,077)
Amortization of deferred gains from sale-leaseback transactions	(1,559)	(1,044)
Loss (gain) on settlements of lease financing obligations	(70)	31
Accretion of interest on lease financing obligations	19	120
Deferred income taxes	768	249
Accrued income taxes	(1,485)	1,031
Gain on extinguishment of debt		(180)
Changes in other operating assets and liabilities	3,691	(2,206)
Net cash provided from operating activities	29,790	19,380
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(5,620)	(16,385)
Restaurant remodeling	(5,421)	(6,168)
Other restaurant capital expenditures	(3,190)	(4,091)
Corporate and restaurant information systems	(3,077)	(2,585)
Total capital expenditures	(17,308)	(29,229)
Properties purchased for sale-leaseback	(210)	
Proceeds from sale-leaseback transactions	5,454	4,657
Proceeds from sales of other properties	249	119
Net cash used for investing activities	(11,815)	(24,453)
Cash flows provided from (used for) financing activities:		
Borrowings on revolving credit facility	51,700	62,400
Repayments on revolving credit facility	(66,700)	(52,900)
Scheduled principal payments on term loans	(3,000)	
Principal payments on capital leases	(53)	(71)
Proceeds from lease financing obligations	835	
Settlement of lease financing obligations	(1,120)	(5,500)
Financing costs associated with issuance of lease financing obligations	(4)	
Repurchase of senior subordinated notes		(1,820)

Net cash provided from (used for) financing activities	(18,342)	2,109
Net decrease in cash and cash equivalents	(367)	(2,964)
Cash and cash equivalents, beginning of period	3,399	7,396
Cash and cash equivalents, end of period	$ 3,032	$ 4,432
Supplemental disclosures:		
Interest paid on long-term debt	$ 9,732	$ 11,596
Interest paid on lease financing obligations	$ 668	$ 2,520
Accruals for capital expenditures	$ 521	$ 962
Income taxes paid, net	$ 7,865	$ 1,414
Capital lease obligations incurred	$	$ 117
Non-cash reduction of assets under lease financing obligations due to lease amendments	$ 2,074	$
Non-cash reduction of lease financing obligations due to lease amendments	$ 2,833	$

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

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

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

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

Business Description. At June 30, 2009 the Company operated, as franchisee, 314 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At June 30, 2009, the Company also owned and operated 91 Pollo Tropical restaurants, of which 85 were located in Florida, four were in New Jersey and one each in New York and Connecticut, and franchised a total of 27 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in the Bahamas and three on college campuses in Florida. At June 30, 2009, the Company owned and operated 154 Taco Cabana restaurants located primarily in Texas and franchised a total of four Taco Cabana restaurants, two in New Mexico, one in Texas and one in Georgia.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended December 28, 2008 and December 30, 2007 will be referred to as the fiscal years ended December 31, 2008 and 2007, respectively. Similarly, all references herein to the three and six months ended June 28, 2009 and June 29, 2008 will be referred to as the three and six months ended June 30, 2009 and June 30, 2008, respectively. The years ended December 31, 2008 and 2007 each contained 52 weeks and the three and six months ended June 30, 2009 and 2008 contained thirteen and twenty-six weeks, respectively.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2009 and 2008 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and six months ended June 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008 contained in the Company s 2008 Annual Report on Form 10-K. The December 31, 2008 balance sheet data is derived from those audited financial statements.

Fair Value of Financial Instruments. The following methods were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the fair value:

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

Senior Subordinated Notes. The fair values of outstanding senior subordinated notes are based on quoted market prices. The fair values at June 30, 2009 and December 31, 2008 were approximately $154.7 million and $111.4 million, respectively.

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

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Earnings Per Share Presentation. The guidance of Statement of Financial Accounting Standards (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.

2. Stock-Based Compensation

As of June 30, 2009, the total non-vested stock-based compensation expense relating to the options and restricted shares was approximately $3.4 million and the Company expects to record an additional $0.7 million as compensation expense in 2009. At June 30, 2009 the remaining weighted average vesting period for stock options and restricted shares was 3.5 years and 1.7 years, respectively.

Stock Options

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

	2006 Plan			
	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands) (1)
Options outstanding at January 1, 2009	1,710,764	$ 12.17	5.3	$
Granted	536,900	2.20		
Forfeited	(57,384)	11.91		
Options outstanding at June 30, 2009	2,190,280	$ 9.86	5.3	$ 2,177
Vested or expected to vest at June 30, 2009	2,152,481	$ 9.88	5.3	$ 2,124
Options exercisable at June 30, 2009	698,254	$ 13.05	4.9	$

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

3. Impairment and Other Lease Charges

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Impairment and other lease charges recorded on long-lived assets for its segments were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Burger King	$ 6	$ 71	$ 28	$ 92
Pollo Tropical	15		284	
Taco Cabana	42	10	42	10
	$ 63	$ 81	$ 354	$ 102

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

4. Goodwill and Franchise Rights

Goodwill. Goodwill is reviewed for impairment annually, or more frequently when events and circumstances indicate that the carrying amounts may be impaired. The Company performs its annual impairment assessment as of December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values. In performing its goodwill impairment test, the Company compares the net book values of its reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, the Company employs a combination of a discounted cash flow analysis and a market-based approach. The results of the discounted cash flow analyses are corroborated with other value indicators where available, such as comparable company earnings multiples and research analyst estimates. No impairment losses have been recognized as a result of these tests. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Balance, June 30, 2009	$ 56,307	$ 67,177	$ 1,450	$ 124,934

Burger King Franchise Rights. Amounts allocated to franchise rights for each Burger King acquisition are amortized using the straight-line method over the average remaining term of the acquired franchise agreements plus one twenty-year renewal period. The Company assesses the potential impairment of franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted future cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. There were no impairment charges recorded against franchise rights for the three months and six months ended June 30, 2009 and 2008.

Amortization expense related to Burger King franchise rights was $784 and $799 for the three months ended June 30, 2009 and 2008, respectively. Amortization expense related to Burger King franchise rights was $1,568 and $1,600 for the six months ended June 30, 2009 and 2008, respectively. Carrols Restaurant Group estimates the amortization expense for the year ending December 31, 2009 and for each of the five succeeding years to be $3,197.

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5. Long-term Debt

Long-term debt at June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Collateralized:		
Senior Credit Facility-Revolving credit facility	$ 3,000	$ 18,000
Senior Credit Facility-Term loan A facility	114,000	117,000
Unsecured:		
9% Senior Subordinated Notes	165,000	165,000
Capital leases	1,242	1,295
	283,242	301,295
Less: current portion	(15,090)	(12,093)
	$ 268,152	$ 289,202

Senior Credit Facility. On March 9, 2007, the Company terminated and replaced its prior senior credit facility with a new senior credit facility with a syndicate of lenders. The Company s credit facility totals approximately $185 million, consisting of $120 million principal amount of term loan A borrowings maturing on March 8, 2013 (or earlier on March 30, 2012 if the 9% Senior Subordinated Notes due 2013 are not refinanced by June 30, 2012) and a $65.0 million revolving credit facility (including a sub limit of up to $25.0 million for letters of credit and up to $5.0 million for swingline loans), maturing on March 8, 2012.

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

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

2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on the Company s senior leverage ratio. At June 30, 2009 the LIBOR margin percentage was 1.25%.

At June 28, 2009, outstanding term loan borrowings under the senior credit facility were $114.0 million with the remaining balance due and payable as follows:

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

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

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

After reserving $14.3 million for letters of credit guaranteed by the facility, $47.7 million was available for borrowings under the revolving credit facility at June 28, 2009.

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

In general, the Company s obligations under the senior credit facility are guaranteed by Carrols Restaurant Group and all of the Company s material subsidiaries and are collateralized by a pledge of the Company s common stock and the stock of each of the Company s material subsidiaries. The senior credit facility contains certain covenants, including, without limitation, those limiting the Company s ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of its business, engage in transactions with related parties, make certain investments or pay dividends. In addition, the Company is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the senior credit facility). The Company was in compliance with the covenants under its new senior credit facility as of June 30, 2009.

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

Restrictive covenants under the Notes include limitations with respect to the Company s ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. The Indenture governing the Notes contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the Notes and the Indenture if there is a default under any indebtedness of the Company having an outstanding principal amount of $20 million or more (which would include the senior credit facility) if such default results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. The Company was in compliance with the restrictive covenants in the Indenture governing the Notes as of June 30, 2009.

6. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Current	$ 4,125	$ 1,945	$ 6,379	$ 2,444
Deferred	8	(65)	768	249
	$ 4,133	$ 1,880	$ 7,147	$ 2,693

The provision for income taxes for the three and six months ended June 30, 2009 was derived using an estimated effective annual income tax rate for 2009 of 37.4%, which excludes any discrete tax adjustments. Discrete tax adjustments reduced the provision for income taxes by $57 in both the three months and six months ended June 30, 2009. The provision for income taxes for the three and six months ended June 30, 2008 was derived using an estimated effective annual income tax rate for 2008 of 37.9%, which excludes any discrete tax adjustments. Discrete tax adjustments reduced the provision for income taxes by $66 and $112 for the three and six months ended June 30, 2008, respectively.

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

The tax years 2005-2008 remain open to examination by the major taxing jurisdictions to which the Company is subject. It is not possible to reasonably estimate any possible change in the unrecognized tax benefits within the next twelve months due to the uncertainties regarding the timing of any examinations.

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7. Other Liabilities, Long-Term

Other liabilities, long-term, at June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Accrued occupancy costs	$ 11,110	$ 10,949
Accrued workers compensation costs	4,201	4,312
Deferred compensation	3,047	3,244
Other	3,249	3,180
	$ 21,607	$ 21,685

8. Postretirement Benefits

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

The following summarizes the components of net periodic benefit income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 7	$ (24)	$ 15	$ 14
Interest cost	27	(18)	54	53
Amortization of net gains and losses	21	3	42	44
Amortization of prior service credit	(88)	(67)	(172)	(180)
Net periodic postretirement benefit income	$ (33)	$ (106)	$ (61)	$ (69)

During the three and six months ended June 30, 2009, the Company made contributions of $37 and $72 to its postretirement plan and expects to make additional contributions during 2009.

9. Lease Financing Obligations

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

In the second quarter of 2009, the Company purchased from the lessor one of its restaurant properties previously subject to a lease financing obligation for $1.1 million. The Company also modified provisions in two of its restaurant leases previously accounted for as lease financing obligations which allowed the respective sale transactions to qualify for sale-leaseback accounting and resulted in a reduction of lease financing obligations of $2.8 million. The Company also entered into a sale transaction for a restaurant property that did not qualify for sale-leaseback accounting and the proceeds of $0.8 million were recorded as a lease financing obligation. As a result of these transactions in the second quarter of 2009, lease financing obligations were reduced $3.2 million, assets under lease financing obligations were reduced by $2.1 million and deferred gains on qualified sale-leaseback transactions of $0.7 million were recorded.

In the second quarter of 2008, the Company purchased from the lessor six restaurant properties for $5.5 million that were previously accounted for as lease financing obligations.

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

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Interest expense associated with lease financing obligations, including settlement gains and losses, for the three months ended June 30, 2009 and 2008 was $0.3 million and $1.4 million, respectively, and for the six months ended June 30, 2009 and 2008 was $0.6 million and $2.7 million, respectively.

10. Business Segment Information

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

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

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

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Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
June 30, 2009:					
Total revenues	$ 44,578	$ 63,816	$ 95,540	$	$ 203,934
Cost of sales	14,562	18,527	26,260		59,349
Restaurant wages and related expenses	10,968	18,804	29,319	53	59,144
General and administrative expenses (1)	2,453	2,896	7,040	308	12,697
Depreciation and amortization	1,970	2,225	3,304	384	7,883
Segment EBITDA	6,768	8,038	9,044		
Capital expenditures, including acquisitions	349	2,793	3,822	2,379	9,343
June 30, 2008:					
Total revenues	$ 45,404	$ 63,436	$ 101,842	$	$ 210,682
Cost of sales	15,312	19,540	29,091		63,943
Restaurant wages and related expenses	10,899	18,594	31,213	57	60,763
General and administrative expenses (1)	2,761	3,006	7,514	435	13,716
Depreciation and amortization	2,000	2,091	3,611	375	8,077
Segment EBITDA	6,734	5,789	8,089		
Capital expenditures, including acquisitions	4,862	6,158	3,479	1,881	16,380
Six Months Ended					
June 30, 2009:					
Total revenues	$ 88,716	$ 126,530	$ 190,031	$	$ 405,277
Cost of sales	29,206	36,886	51,530		117,622
Restaurant wages and related expenses	21,864	36,999	58,819	105	117,787
General and administrative expenses (1)	4,798	5,852	14,660	603	25,913
Depreciation and amortization	3,922	4,459	6,649	723	15,753
Segment EBITDA	13,235	16,244	16,072		
Capital expenditures, including acquisitions	1,204	6,579	6,448	3,077	17,308
June 30, 2008:					
Total revenues	$ 89,736	$ 123,693	$ 193,006	$	$ 406,435
Cost of sales	29,653	38,376	53,543		121,572
Restaurant wages and related expenses	22,199	36,244	60,747	114	119,304
General and administrative expenses (1)	5,325	6,012	14,520	852	26,709
Depreciation and amortization	3,916	4,162	7,249	772	16,099
Segment EBITDA	12,740	12,371	13,713		
Capital expenditures, including acquisitions	11,408	9,040	6,196	2,585	29,229
Identifiable Assets:					
At June 30, 2009	$ 55,149	$ 66,729	$ 144,775	$ 176,558	$ 443,211
At December 31, 2008	64,550	67,093	143,152	175,403	450,198

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Segment EBITDA:				
Pollo Tropical	$ 6,768	$ 6,734	$ 13,235	$ 12,740
Taco Cabana	8,038	5,789	16,244	12,371
Burger King	9,044	8,089	16,072	13,713
Subtotal	23,850	20,612	45,551	38,824
Less:				
Depreciation and amortization	7,883	8,077	15,753	16,099
Impairment and other lease charges	63	81	354	102
Interest expense	4,923	7,123	10,074	14,557
Provision for income taxes	4,133	1,880	7,147	2,693
Stock-based compensation expense	361	492	708	966
Gain on extinguishment of debt		(180)		(180)
Other income	(579)	(119)	(579)	(119)
Net income	$ 7,066	$ 3,258	$ 12,094	$ 4,706

11. Commitments and Contingencies

On November 16, 1998, the Equal Employment Opportunity Commission (EEOC) filed suit in the United States District Court for the Northern District of New York (the Court), under Title VII of the Civil Rights Act of 1964, as amended, against 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. 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 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 summary judgment motion. The Company does not believe that any individual claim, if any, would have a material adverse impact on its consolidated financial statements. Although the Company believes that the EEOC s continued class litigation argument is without merit, it is not possible to predict the outcome of the pending motion.

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 (the Court) entitled Dawn Seever, et al. v. the Company. The lawsuit alleged, 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 sought damages, costs and injunctive relief. They also sought to notify and certify a class consisting of current and former employees who, since 1998, have worked, or are working, for the Company. On December 17, 2007, the Court issued a decision and order denying Plaintiffs motion for notice and class certification and granting the Company s motion to dismiss all of the claims of the plaintiffs, other than certain nominal claims relating to orientation and managers meetings. Those nominal claims have now been resolved and on June 10, 2009 the case was dismissed in its entirety with prejudice.

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.

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12. Comprehensive income

SFAS No. 130, Reporting Comprehensive Income (SFAS 130), requires the disclosure of certain revenue, expenses, gains and losses that are excluded from net income in accordance with U.S. generally accepted accounting principles. The items that currently impact the Company s other comprehensive income are changes in the postretirement benefit obligations, net of tax.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income	$ 7,066	$ 3,258	$ 12,094	$ 4,706
Change in postretirement benefit obligation, net of tax				8
Comprehensive income	$ 7,066	$ 3,258	$ 12,094	$ 4,714

13. Other Income

During the three and six months ended June 30, 2009, the Company recorded a gain of $0.6 million related to an insurance recovery for damages to Taco Cabana restaurants during Hurricane Ike. The Company recorded a gain of $0.1 million in the three and six months ended June 30, 2008 related to the sale of a Taco Cabana property.

14. Recent Accounting Developments

In May 2009, the FASB issued SFAS No. 165 (SFAS 165), Subsequent Events, which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The Company implemented SFAS 165 during the three months ended June 30, 2009. The Company evaluated for subsequent events through August 5, 2009, the issuance date of the Company s financial statements. No subsequent events requiring disclosure were noted.

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168 (SFAS 168), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and identifies the sources of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the U.S. The Company is required to adopt the provisions of SFAS 168 for its interim period ending September 30, 2009 and it will impact the Company s financial statement disclosures as all future references to authoritative accounting literature will be referenced in accordance with SFAS 168. There will be no changes to the content of the Company s financial statements or disclosures as a result of implementing SFAS 168.

15. Guarantor Financial Statements

The Company s obligations under the 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 LLC

Carrols Realty Holdings Corp.

Carrols Realty I Corp.

Carrols Realty II Corp.

Carrols J.G. Corp.

Quanta Advertising Corp.

Pollo Franchise, Inc.

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Pollo Operations, Inc.

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, 2009 and December 31, 2008 for the Parent Company only, Guarantor Subsidiaries and for the Company and the related statements of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008.

At the beginning of the third quarter of 2008 assets and liabilities related to the Company s Burger King restaurant operations were transferred to Carrols LLC, a 100% owned subsidiary of the Company. Carrols LLC became a Guarantor Subsidiary at that time and its results of operations and cash flows are included with the Company s other Guarantor Subsidiaries for all periods presented.

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 for the Parent Company only and the Guarantor Subsidiaries, as calculated on the separate return method and the consolidated income tax provision 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.

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CONSOLIDATING BALANCE SHEET

June 30, 2009

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 35	$ 2,997	$	$ 3,032
Trade and other receivables	(560)	6,368		5,808
Inventories		5,272		5,272
Prepaid rent		2,998		2,998
Prepaid expenses and other current assets	1,001	6,279		7,280
Deferred income taxes	58	4,815		4,873
Total current assets	534	28,729		29,263
Property and equipment, net	11,556	266,369	(86,440)	191,485
Franchise rights, net		75,302		75,302
Goodwill		124,934		124,934
Intangible assets, net		610		610
Franchise fees, net		5,813		5,813
Intercompany receivable (payable)	149,241	(167,802)	18,561	
Investment in subsidiaries	151,426		(151,426)	
Deferred income taxes	2,772	5,679	(2,505)	5,946
Other assets	4,989	7,249	(2,380)	9,858
Total assets	$ 320,518	$ 346,883	$ (224,190)	$ 443,211
LIABILITIES AND STOCKHOLDER S EQUITY				
Current liabilities:				
Current portion of long-term debt	$ 15,000	$ 90	$	$ 15,090
Accounts payable	4,458	15,551		20,009
Accrued interest	6,979			6,979
Accrued payroll, related taxes and benefits	840	17,335		18,175
Accrued income taxes payable	614			614
Accrued real estate taxes		4,081		4,081
Other liabilities	155	10,158		10,313
Total current liabilities	28,046	47,215		75,261
Long-term debt, net of current portion	267,000	1,152		268,152
Lease financing obligations		128,672	(116,986)	11,686
Deferred income sale-leaseback of real estate		24,282	19,352	43,634
Accrued postretirement benefits	1,566			1,566
Other liabilities	2,601	18,010	996	21,607

Total liabilities	299,213	219,331	(96,638)	421,906
Stockholder s equity	21,305	127,552	(127,552)	21,305
Total liabilities and stockholder s equity	$ 320,518	$ 346,883	$ (224,190)	$ 443,211

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

CONSOLIDATING BALANCE SHEET

December 31, 2008

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 361	$ 3,038	$	$ 3,399
Trade and other receivables	(113)	5,735		5,622
Inventories		5,588		5,588
Prepaid rent		2,998		2,998
Prepaid expenses and other current assets	1,033	5,705		6,738
Deferred income taxes	58	4,832		4,890
Total current assets	1,339	27,896		29,235
Property and equipment, net	9,168	267,060	(80,852)	195,376
Franchise rights, net		76,870		76,870
Goodwill		124,934		124,934
Intangible assets, net		675		675
Franchise agreements, net		5,826		5,826
Intercompany receivable (payable)	169,553	(173,825)	4,272	
Investment in subsidiaries	136,071		(136,071)	
Deferred income taxes	2,794	5,788	(1,885)	6,697
Other assets	5,449	7,366	(2,230)	10,585
Total assets	$ 324,374	$ 342,590	$ (216,766)	$ 450,198
LIABILITIES AND STOCKHOLDER S EQUITY				
Current liabilities:				
Current portion of long-term debt	$ 12,000	$ 93	$	$ 12,093
Accounts payable	1,800	16,989		18,789
Accrued interest	7,742			7,742
Accrued payroll, related taxes and benefits	(453)	15,884		15,431
Accrued income taxes payable	2,099			2,099
Accrued real estate taxes		3,803		3,803
Other liabilities	193	10,655		10,848
Total current liabilities	23,381	47,424		70,805
Long-term debt, net of current portion	288,000	1,202		289,202
Lease financing obligations		121,341	(106,482)	14,859
Deferred income sale-leaseback of real estate		26,868	16,579	43,447
Accrued postretirement benefits	1,697			1,697
Other liabilities	2,793	18,203	689	21,685

Total liabilities	315,871	215,038	(89,214)	441,695
Stockholder s equity	8,503	127,552	(127,552)	8,503
Total liabilities and stockholder s equity	$ 324,374	$ 342,590	$ (216,766)	$ 450,198

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended June 30, 2009

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:				
Restaurant sales	$	$ 203,535	$	$ 203,535
Franchise royalty revenues and fees		399		399
Total revenues		203,934		203,934
Costs and expenses:				
Cost of sales		59,349		59,349
Restaurant wages and related expenses (including stock based compensation expense of $53)		59,144		59,144
Restaurant rent expense		10,149	2,253	12,402
Other restaurant operating expenses		29,286		29,286
Advertising expense		7,567		7,567
General and administrative (including stock based compensation expense of $308)	2,192	10,505		12,697
Depreciation and amortization		8,386	(503)	7,883
Impairment and other lease charges		63		63
Other income		(579)		(579)
Total costs and expenses	2,192	183,870	1,750	187,812
Income (loss) from operations	(2,192)	20,064	(1,750)	16,122
Interest expense	4,620	2,873	(2,570)	4,923
Intercompany interest allocations	(4,469)	4,469		&nbs