

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2019

OR

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

Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

83-3804854
(I.R.S. Employer
Identification No.)

968 James Street
Syracuse, New York
(Address of principal executive office)

13203
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the to use the extended transition period for complying with any new or revised financial accounting registrant has elected not standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01 per share	TAST	The NASDAQ Global Market

As of May 6, 2019, Carrols Restaurant Group, Inc. had 44,371,515 shares of its common stock, \$.01 par value, outstanding.

CARROLS RESTAURANT GROUP, INC.
FORM 10-Q
QUARTER ENDED MARCH 31, 2019

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PART I—FINANCIAL INFORMATION

ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**CARROLS RESTAURANT GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)**

	March 31, 2019	December 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,668	\$ 4,014
Trade and other receivables	12,214	11,693
Inventories	9,571	10,396
Prepaid rent	1,527	1,880
Prepaid expenses and other current assets	8,937	6,695
Refundable income taxes	32	—
Total current assets	33,949	34,678
Property and equipment, net of accumulated depreciation of \$340,148 and \$328,873, respectively	288,256	289,817
Franchise rights, net of accumulated amortization of \$110,051 and \$108,021, respectively (Note 3)	173,867	175,897
Goodwill (Note 3)	38,469	38,469
Franchise agreements, at cost less accumulated amortization of \$12,299 and \$12,022, respectively	25,251	24,414
Operating right-of-use assets, net	525,008	—
Deferred income taxes (Note 8)	25,376	28,291
Other assets	2,299	8,685
Total assets	\$ 1,112,475	\$ 600,251
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and finance lease liabilities (Notes 6 and 7)	\$ 1,969	\$ 1,948
Current portion of operating lease liabilities	32,732	—
Accounts payable	23,893	29,143
Accrued interest	9,174	3,818
Accrued payroll, related taxes and benefits	22,288	28,719
Accrued real estate taxes	5,039	5,910
Other liabilities	20,690	12,601
Total current liabilities	115,785	82,139
Long-term debt and finance lease liabilities, net of current portion (Notes 6 and 7)	282,256	276,823
Lease financing obligations	1,195	1,196
Operating lease liabilities	518,113	—
Deferred income—sale-leaseback of real estate	—	10,073
Accrued postretirement benefits	4,362	4,320
Other liabilities (Note 5)	7,663	40,160
Total liabilities	929,374	414,711
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, par value \$.01; authorized 20,000,000 shares, issued and outstanding—100 shares	—	—
Voting common stock, par value \$.01; authorized—100,000,000 shares, issued—37,007,102 and 36,583,903 shares, respectively, and outstanding—36,114,251 and 35,742,427 shares, respectively	361	357
Additional paid-in capital	151,981	150,459
Retained earnings	31,546	35,511
Accumulated other comprehensive loss	(646)	(646)
Treasury stock, at cost	(141)	(141)
Total stockholders' equity	183,101	185,540
Total liabilities and stockholders' equity	\$ 1,112,475	\$ 600,251

**CARROLS RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except share and per share amounts)
(Unaudited)**

Three Months Ended

	<u>March 31, 2019</u>	<u>April 1, 2018</u>
Restaurant sales	\$ 290,789	\$ 271,586
Costs and expenses:		
Cost of sales	82,575	73,005
Restaurant wages and related expenses	100,192	91,144
Restaurant rent expense	21,916	19,974
Other restaurant operating expenses	45,605	42,839
Advertising expense	11,872	11,265
General and administrative (including stock-based compensation expense of \$1,526 and \$1,585, respectively)	19,724	16,136
Depreciation and amortization	15,292	14,250
Impairment and other lease charges (Note 4)	910	309
Other income, net	(2,129)	—
Total operating expenses	<u>295,957</u>	<u>268,922</u>
Income (loss) from operations	(5,168)	2,664
Interest expense	5,947	5,926
Gain on bargain purchase (Note 2)	—	(22)
Loss before income taxes	(11,115)	(3,240)
Provision (benefit) for income taxes (Note 8)	354	(138)
Net loss	<u>\$ (11,469)</u>	<u>\$ (3,102)</u>
Basic and diluted net loss per share (Note 12)	<u>\$ (0.32)</u>	<u>\$ (0.09)</u>
Shares used in computing net loss per share:		
Basic and diluted weighted average common shares outstanding	36,045,137	35,665,811
Comprehensive loss, net of tax:		
Net loss	\$ (11,469)	\$ (3,102)
Other comprehensive income	—	—
Comprehensive loss	<u>\$ (11,469)</u>	<u>\$ (3,102)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

CARROLS RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock		Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Amount						
Balance at December 30, 2018	35,742,427	\$ 357	\$ —	\$ 150,459	\$ 35,511	\$ (646)	\$ (141)	\$ 185,540
Stock-based compensation	—	—	—	1,526	—	—	—	1,526
Vesting of non-vested shares	371,824	4	—	(4)	—	—	—	—
Net loss	—	—	—	—	(11,469)	—	—	(11,469)
Adoption of ASC 842, net of taxes (Note 6)	—	—	—	—	7,504	—	—	7,504
Balance at March 31, 2019	36,114,251	\$ 361	\$ —	\$ 151,981	\$ 31,546	\$ (646)	\$ (141)	\$ 183,101

	Common Stock		Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Amount						
Balance at December 31, 2017	35,436,252	\$ 354	\$ —	\$ 144,650	\$ 25,407	\$ (1,210)	\$ (141)	\$ 169,060
Stock-based compensation	—	—	—	1,585	—	—	—	1,585
Vesting of non-vested shares	283,248	3	—	(3)	—	—	—	—
Net loss	—	—	—	—	(3,102)	—	—	(3,102)
Balance at April 1, 2018	35,719,500	\$ 357	\$ —	\$ 146,232	\$ 22,305	\$ (1,210)	\$ (141)	\$ 167,543

See accompanying notes to unaudited condensed consolidated financial statements.

CARROLS RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2019	April 1, 2018
Cash flows provided by operating activities:		
Net loss	\$ (11,469)	\$ (3,102)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on disposals of property and equipment	146	75
Stock-based compensation	1,526	1,585
Gain on bargain purchase (Note 2)	—	(20)
Gain on settlement agreement (Note 13)	(1,913)	—
Impairment and other lease charges	910	309
Depreciation and amortization	15,292	14,250
Amortization of deferred financing costs	299	300
Amortization of bond premium	(238)	(223)
Amortization of deferred gains from sale-leaseback transactions	—	(395)
Deferred income taxes	346	(138)
Change in refundable income taxes	(32)	—
Changes in other operating assets and liabilities	3,121	7,197
Net cash provided by operating activities	<u>7,988</u>	<u>19,838</u>
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(5,507)	(7,132)
Restaurant remodeling	(7,607)	(7,054)
Other restaurant capital expenditures	(4,474)	(3,201)
Corporate and restaurant information systems	(587)	(541)
Total capital expenditures	<u>(18,175)</u>	<u>(17,928)</u>
Properties purchased for sale-leaseback	—	(2,173)
Proceeds from sale-leaseback transactions	2,302	1,292
Proceeds from insurance recoveries	123	—
Net cash used for investing activities	<u>(15,750)</u>	<u>(18,809)</u>
Cash flows provided by financing activities:		
Borrowings under prior senior credit facility	89,250	4,500
Repayments under prior senior credit facility	(83,000)	—
Payments on finance lease liabilities	(476)	(440)
Costs associated with financing long-term debt	(358)	—
Net cash provided by financing activities	<u>5,416</u>	<u>4,060</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,346)</u>	<u>5,089</u>
Cash and cash equivalents, beginning of period	4,014	29,412
Cash and cash equivalents, end of period	<u>\$ 1,668</u>	<u>\$ 34,501</u>
Supplemental disclosures:		
Interest paid on long-term debt	\$ 503	\$ 320
Interest paid on lease financing obligations	\$ 26	\$ 26
Accruals for capital expenditures	\$ 5,161	\$ 3,577
Income taxes refunded (paid)	\$ (45)	\$ 1
Lease assets obtained in exchange for new operating lease liabilities	\$ 15,952	\$ —

See accompanying notes to unaudited condensed consolidated financial statements.

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands, except share and per share amounts)

1. Basis of Presentation

Business Description. At March 31, 2019 Carrols Restaurant Group, Inc. ("Carrols Restaurant Group") operated, as franchisee, 845 restaurants under the trade name "Burger King®" in 18 Northeastern, Midwestern and Southeastern states.

Basis of Consolidation. Carrols Restaurant Group is a holding company and conducts all of its operations through its wholly-owned subsidiary, Carrols Holdco Inc. ("Carrols Holdco") and Carrols Holdco's wholly-owned subsidiary, Carrols Corporation ("Carrols") and Carrols' wholly-owned subsidiary, Carrols LLC, a Delaware limited liability company, and Carrols LLC's wholly-owned subsidiary Republic Foods, Inc., a Maryland corporation ("Republic Foods"). The unaudited condensed consolidated financial statements presented herein include the accounts of Carrols Restaurant Group and its wholly-owned subsidiary Carrols.

Unless the context otherwise requires, Carrols Restaurant Group, Carrols Holdco, Carrols, Carrols LLC and Republic Foods, Inc. are collectively referred to as the "Company." All intercompany transactions have been eliminated in consolidation.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. The three months ended March 31, 2019 and April 1, 2018 each contained thirteen weeks, respectively. The 2019 fiscal year will end December 29, 2019 and will contain 52 weeks.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2019 and April 1, 2018 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 unaudited condensed consolidated financial statements have been included. The results of operations for the three months ended March 31, 2019 and April 1, 2018 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 30, 2018. The December 30, 2018 consolidated balance sheet data is derived from those audited consolidated financial statements.

Use of Estimates. The preparation of the accompanying unaudited condensed consolidated 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 unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include: accrued occupancy costs, insurance liabilities, evaluation for impairment of long-lived assets and franchise rights, lease accounting matters, the valuation of acquired assets and liabilities and the valuation of deferred income tax assets. Actual results could differ from those estimates.

Segment Information. Operating segments are components of an entity for which separate financial information is available and is regularly reviewed by the chief operating decision maker in order to allocate resources and assess performance. The Company's chief operating decision maker currently evaluates the Company's operations from a number of different operational perspectives; however resource allocation decisions are determined based on the chief operating decision maker's evaluation of the total Company operations. The Company derives all significant revenues from a single operating segment. Accordingly, the Company views the operating results of its Burger King® restaurants as one reportable segment.

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands, except share and per share amounts)

Business Combinations. In accordance with ASC 805, the Company allocates the purchase price of an acquired business to its net identifiable assets and liabilities based on the estimated fair values. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. The excess value of the net identifiable assets and liabilities acquired over the purchase price, if any, is recorded as a bargain purchase gain. The Company uses all available information to estimate fair values of identifiable intangible assets and property acquired. In making these determinations, the Company may engage an independent third party valuation specialist to assist with the valuation of certain leasehold improvements, franchise rights and favorable and unfavorable leases.

The Company estimates that the seller's carrying value of acquired restaurant equipment, subject to certain adjustments, is equivalent to fair value of this equipment at the date of the acquisition. The fair values of assumed franchise agreements are valued as if the remaining term of the agreement is at the market rate. The fair values of acquired land, buildings, certain leasehold improvements and restaurant equipment subject to finance leases are determined using both the cost approach and market approach. The fair value of the favorable and unfavorable leases acquired, as well as the fair value of land, buildings, leasehold improvements and restaurant equipment subject to finance leases acquired is measured using significant inputs observable in the open market. The Company categorizes all such inputs as Level 2 inputs under ASC 820. The fair value of acquired franchise rights is primarily determined using the income approach, and unobservable inputs classified as Level 3 under ASC 820.

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. At December 30, 2018, the Company had \$2.3 million invested in money market funds, which are classified as cash equivalents on the condensed consolidated balance sheet.

Fair Value of Financial Instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect the Company's own assumptions. Financial instruments include cash and cash equivalents, trade and other receivables, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, trade and other receivables and accounts payable approximate fair value because of the short-term nature of these financial instruments. The fair value of the Carrols Restaurant Group 8.0% Senior Secured Second Lien Notes due 2022 is based on a recent trading value, which is considered Level 2, and at March 31, 2019 and December 30, 2018 was approximately \$280.5 million and \$277.1 million, respectively.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analysis of long-lived assets, goodwill and intangible assets. Long-lived assets and definite-lived intangible assets are measured at fair value on a nonrecurring basis using Level 3 inputs. As described in Note 4, the Company recorded long-lived asset impairment charges of \$0.9 million during the three months ended March 31, 2019 and \$0.1 million during the three months ended April 1, 2018.

Recently Issued Accounting Pronouncements Adopted. The Company adopted Accounting Standards Update ("ASU")No. 2016-02, Leases (Topic 842) on December 31, 2018, the first day of fiscal 2019. The new standard requires a lessee to recognize a liability for lease obligations, representing the discounted obligation to make minimum lease payments, and a corresponding right-of-use asset on the balance sheet for all leases with a term longer than 12 months.

The Company elected the optional transition method to initially apply the new lease standard at the adoption date and not adjust its comparative period consolidated financial statements. The Company has elected the package of three practical expedients, which permits the Company not to reassess prior conclusions about lease identification, lease classification and initial direct costs. The Company has not elected the use-of-hindsight or the practical expedient in determining lease term or impairment of right-of-use assets. In addition, the Company has elected a short-term lease exemption policy that permits the Company to not apply the recognition requirements of the new lease standard to leases with a term of 12 months or less. The Company has also elected an accounting policy to not separate lease and non-lease components for certain classes of leases.

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands, except share and per share amounts)

Adoption of this ASU resulted in recognition of additional net lease assets of approximately \$517.6 million and net lease liabilities of approximately \$542.9 million, respectively, as of December 31, 2018 based on the present value of remaining minimum rental payments and corresponding right-of-use assets based upon the operating lease liabilities adjusted for prepaid and deferred non-level rents, unamortized lease acquisition costs and unamortized favorable and unfavorable lease balances. The Company has recognized a cumulative-effect adjustment to retained earnings of approximately \$7.5 million, net of the deferred tax impact, on the date of adoption, to eliminate the historical deferred gains on qualified sale-leaseback transactions. The standard did not materially impact the condensed consolidated statements of cash flows.

Recently Issued Accounting Standards Not Yet Adopted. In January 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill by eliminating step 2 from the goodwill impairment test. Under the new ASU, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized for the amount by which the carrying amount exceeds its fair value. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company believes that this pronouncement will have no impact on its consolidated financial statements and related disclosures.

2. Acquisitions

In 2012, as part of an acquisition of restaurants from Burger King Corporation (“BKC”), the Company was assigned BKC’s right of first refusal on the sale of franchisee-operated restaurants in 20 states (the “ROFR”). Since the beginning of 2018, the Company has acquired an aggregate of 44 restaurants from other franchisees in the following transactions, some of which were subject to the ROFR (in thousands, except number of restaurants):

Closing Date	Number of Restaurants	Purchase Price	Market Location
February 13, 2018 (1)	1	\$ —	New York
August 21, 2018 (2)	2	1,666	Detroit, Michigan
September 5, 2018 (2)	31	25,930	Western Virginia
October 2, 2018	10	10,506	South Carolina and Georgia
	<u>44</u>	<u>\$ 38,102</u>	

- (1) During the first quarter of 2018, the allocation of the purchase price and the resulting bargain purchase gain for this acquisition was preliminary and subject to adjustment. Specifically, the Company was finalizing the valuation of franchise rights which will impact the amount of the bargain purchase gain. In the second quarter of 2018, the Company recorded a bargain purchase gain because the fair value of assets acquired, largely representing a franchise right asset of \$0.3 million, exceeded the total fair value of consideration paid by \$0.2 million.
- (2) Acquisitions resulting from the exercise of the ROFR.

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands, except share and per share amounts)

The Company allocated the aggregate purchase price to the net tangible and intangible assets acquired in the acquisitions at their estimated fair values. The following table summarizes the preliminary allocation of the aggregate purchase price for the 2018 acquisitions reflected in the condensed consolidated balance sheets as of December 30, 2018.

Inventory	\$	401
Restaurant equipment		2,092
Restaurant equipment - subject to finance leases		43
Leasehold improvements		1,329
Franchise fees		1,264
Franchise rights (Note 3)		31,275
Favorable leases (Note 3)		587
Deferred income taxes		346
Goodwill (Note 3)		1,677
Finance lease liabilities for restaurant equipment		(49)
Unfavorable leases (Note 3)		(624)
Accounts payable		(9)
Net assets acquired	<u>\$</u>	<u>38,332</u>

The results of operations for the restaurants acquired are included from the closing date of the respective acquisition. The 2018 acquired restaurants contributed restaurant sales of \$13.0 million in the three months ended March 31, 2019 and contributed restaurant sales of \$0.1 million in the three months ended April 1, 2018, respectively. It is impracticable to disclose net earnings for the post-acquisition period for the acquired restaurants as net earnings of these restaurants were not tracked on a collective basis due to the integration of administrative functions, including field supervision.

The unaudited pro forma impact on the results of operations for the restaurants acquired in 2018 for the three months ended March 31, 2019 and April 1, 2018 is included below. The unaudited pro forma results of operations are not necessarily indicative of the results that would have occurred had the acquisitions been consummated at the beginning of the periods presented, nor are they necessarily indicative of any future consolidated operating results. The following table summarizes the Company's unaudited pro forma operating results:

	Three Months Ended	
	March 31, 2019	April 1, 2018
Restaurant sales	\$ 290,789	\$ 284,817
Net loss	\$ (11,469)	\$ (2,269)
Basic and diluted net loss per share	\$ (0.32)	\$ (0.06)

This unaudited pro forma financial information does not give effect to any anticipated synergies, operating efficiencies, cost savings or any integration costs related to the acquired restaurants.

The unaudited pro forma financial results exclude transaction costs recorded as general and administrative expenses of \$0.1 million during the three months ended April 1, 2018.

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands, except share and per share amounts)

3. Intangible Assets

Goodwill. The Company is required to review goodwill for impairment annually, or more frequently when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of goodwill is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of the last day of its fiscal year and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess the value of its goodwill. There have been no recorded goodwill impairment losses during the three months ended March 31, 2019 or April 1, 2018. There has been no change in goodwill for the three months ended March 31, 2019.

Franchise Rights. Amounts allocated to franchise rights for each acquisition of Burger King® restaurants 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 cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each 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. No impairment charges were recorded related to the Company's franchise rights for the three months ended March 31, 2019 or April 1, 2018. The change in franchise rights for the three months ended March 31, 2019 is summarized below:

Balance at December 30, 2018	\$ 175,897
Amortization expense	(2,030)
Balance at March 31, 2019	\$ 173,867

Amortization expense related to franchise rights was \$2.0 million and \$1.8 million for the three months ended March 31, 2019 and April 1, 2018, respectively. The Company expects annual amortization expense to be \$8.1 million in 2019 and \$8.1 million in each of the following five years.

4. Impairment of Long-Lived Assets 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 over the life of the primary asset for each restaurant is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset 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. For closed restaurant locations, the Company reviews the future minimum lease payments and related ancillary costs from the date of the restaurant closure to the end of the remaining lease term and records a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries.

The Company determines the fair value of restaurant equipment, for those restaurants reviewed for impairment, based on current economic conditions and the Company's history of transferring these assets in the operation of its business. The Company determines the fair value of right-of-use lease assets based on an assessment of market rents and a discounted future cash flow model. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy.

During the three months ended March 31, 2019, the Company recorded impairment and other lease charges of \$0.9 million consisting of \$0.7 million related to initial impairment charges for two underperforming restaurants, capital expenditures of \$0.1 million at previously impaired restaurants, and \$0.1 million of other lease charges primarily due to the de-imaging of six restaurants closed during the first quarter.

During the three months ended April 1, 2018, the Company recorded impairment and other lease charges of \$0.3 million which included \$0.1 million of capital expenditures at previously impaired restaurants, a loss of \$0.1 million

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands, except share and per share amounts)

associated with a sale-leaseback of a restaurant property, and \$0.1 million of other lease charges associated with the closure of two underperforming restaurants.

The following table presents the activity in the accrual for closed restaurant locations:

	Three Months Ended	Year Ended
	March 31, 2019	December 30, 2018
Balance, beginning of period	\$ 1,352	\$ 2,028
Provisions for closures	41	249
Changes in estimates of accrued costs	(11)	(147)
Payments, net	(144)	(889)
Other adjustments, including the effect of discounting future obligations	23	111
Balance, end of period	<u>\$ 1,261</u>	<u>\$ 1,352</u>

Changes in estimates of accrued costs primarily relate to revisions or terminations of certain closed restaurant leases, changes in assumptions for sublease income and other costs.

5. Other Liabilities, Long-Term

Other liabilities, long-term, at March 31, 2019 and December 30, 2018 consisted of the following:

	March 31, 2019	December 30, 2018
Deferred rent	\$ —	\$ 16,610
Unfavorable leases, net	28	12,348
Accrual for closed restaurants, long-term	442	3,074
Accrued workers' compensation and general liability claims	3,429	4,398
Deferred compensation	3,644	3,610
Other	120	120
	<u>\$ 7,663</u>	<u>\$ 40,160</u>

In accordance with the adoption of ASC 842, as of December 31, 2018, the first day of fiscal 2019, unamortized unfavorable leases of \$12.3 million, deferred rent balances of \$16.6 million and unamortized lease incentives of \$2.6 million were reclassified to adjust the beginning balance of operating right-of-use assets.

6. Leases

The Company utilizes land and buildings in its operations under various lease agreements. The Company does not consider any one of these individual leases material to the Company's operations. Initial lease terms are generally for twenty years and, in many cases, provide for renewal options and in most cases rent escalations. Certain leases require contingent rent, determined as a percentage of sales as defined by the terms of the applicable lease agreement. For most locations, the Company is obligated for occupancy related costs including payment of property taxes, insurance and utilities.

Right-of-use ("ROU") lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make payments in exchange for that right of use. Operating lease ROU assets are presented as operating right-of-use assets, net, the current portion of operating lease liabilities are presented as current portion of operating lease liabilities, and the non-current portion of operating lease liabilities are presented as operating lease liabilities in the condensed consolidated balance sheets.

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The current portion of operating lease liabilities was \$32.7 million as of March 31, 2019. Leases with a term of 12 months or less are not recorded on the balance sheet.

The discount rate implicit within our leases is generally not readily determinable, and therefore, the Company uses its estimated incremental borrowing rate in determining the present value of lease payments. The incremental borrowing rate considers the Company's recent debt issuances and lease term.

The Company's real estate leases often contain options to renew, and less frequently, termination options. The exercise of such renewal and termination options are generally at the Company's sole discretion. The Company evaluates renewal and termination options at lease commencement to determine if such options are reasonably certain to be exercised based on economic factors. As of March 31, 2019, the Company had additional leases that have not yet commenced of \$9.2 million. These leases will commence between fiscal 2019 and 2020 with lease terms of 15 years to 20 years.

In addition, the Company utilizes certain restaurant equipment under various finance lease agreements. The Company does not consider any one of these individual leases material to the Company's operations. Initial lease terms are generally eight years.

Leases with an initial term of 12 months or less are not recorded on the balance sheet and are recognized as lease expense on a straight-line basis over the lease term. The Company does not account for lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) separately from the non-lease components.

Lease Position

Supplemental balance sheet information related to leases was as follows:

Leases	Classification	As of March 31, 2019
Assets		
Operating leases	Operating right-of-use assets, net	\$ 525,008
Finance leases	Property and equipment, net	2,663
Total leased assets		<u>\$ 527,671</u>
Liabilities		
Current		
Operating leases	Current portion of operating lease liabilities	\$ 32,732
Finance leases	Current portion of long-term debt and finance lease liabilities	1,969
Long-term		
Operating leases	Operating lease liabilities	518,113
Finance leases	Long-term debt and finance lease liabilities, net	1,496
Total lease liabilities		<u>\$ 554,310</u>
Weighted Average Remaining Lease Term		
Operating leases		13.7 years
Finance leases		1.9 years
Weighted Average Discount Rate		
Operating leases		7.0%
Finance leases		7.4%

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For certain leases where rent escalates based upon a change in a financial index, such as the Consumer Price Index, the difference between the rate at lease inception and the subsequent fluctuations in that rate are included in variable lease costs. Additionally, because the Company has elected to not separate lease and non-lease components, in limited instances, variable costs also include payments to the landlord for common area maintenance, real estate taxes, insurance and other operating expenses. Lease expense is recognized on a straight-line basis over the lease term, with variable lease payments recognized in the period those payments are incurred.

Lease Cost

The components and classification of lease expense for the three months ended March 31, 2019 are as follows:

Lease cost	Classification	Three Months Ended March 31, 2019
Operating lease cost (1)	Rent expense	\$ 18,294
Variable lease cost	Rent expense	3,800
Sublease income	Rent expense	(178)
Finance lease cost:		
Amortization of right-of-use assets	Depreciation and amortization	476
Interest on lease liabilities	Interest expense	71
Total lease cost		\$ 22,463

(1) Includes short-term leases, which are not material.

Other Information

Supplemental cash flow information related to leases was as follows:

	Three Months Ended March 31, 2019
Gain on sale-leaseback transactions	\$ 93
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 17,366
Operating cash flows from finance leases	\$ 71
Financing cash flows from finance leases	\$ 476

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Undiscounted Cash Flows

Maturities of lease liabilities were as follows:

Fiscal year ending:	Operating Leases	Finance Leases
December 29, 2019	\$ 52,148	\$ 1,633
January 3, 2021	66,866	1,454
January 2, 2022	65,139	345
January 1, 2023	64,211	190
December 31, 2023	62,836	68
Thereafter	558,864	129
Total minimum lease payments	870,064	3,819
Less: imputed interest	(319,219)	(354)
Present value of lease liabilities	550,845	3,465
Less: current portion	(32,732)	(1,969)
Total long-term lease liabilities	\$ 518,113	\$ 1,496

Disclosures Related to Periods Prior to Adoption of the New Lease Standard

As previously disclosed in the Company's 2018 Annual Report on Form 10-K and under the previous lease accounting standard, the maturities of lease liabilities at December 30, 2018 were as follows:

Fiscal year ending:	Operating Leases	Capital Leases
December 29, 2019	\$ 73,304	\$ 2,180
January 3, 2021	71,764	1,454
January 2, 2022	70,607	345
January 1, 2023	70,160	190
December 31, 2023	69,221	68
Thereafter	640,793	129
Total minimum lease payments	\$ 995,849	4,366
Less amount representing interest		(425)
Total obligations under capital leases		3,941
Less current portion		(1,948)
Long-term obligations under capital leases		\$ 1,993

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7. Long-Term Debt

Long-term debt at March 31, 2019 and December 30, 2018 consisted of the following:

	March 31, 2019	December 30, 2018
Collateralized:		
Carrols Restaurant Group 8% Senior Secured Second Lien Notes	\$ 275,000	\$ 275,000
Prior Senior Credit Facility - Revolving credit borrowings	6,250	—
Finance lease liabilities	3,465	3,941
	<u>284,715</u>	<u>278,941</u>
Less: current portion of finance lease liabilities	(1,969)	(1,948)
Less: deferred financing costs	(3,756)	(3,673)
Add: bond premium	3,266	3,503
Total Long-term debt	\$ 282,256	\$ 276,823

On April 30, 2019, the Company entered into a new senior secured credit facility in an aggregate principal amount of \$550.0 million, the proceeds of which, in part were used to refinance the existing indebtedness. See Note 14 to the unaudited condensed consolidated financial statements.

8% Notes. On April 29, 2015, the Company issued \$200.0 million principal amount of 8.0% Senior Secured Second Lien Notes due 2022 (the "Existing Notes") pursuant to an indenture dated as of April 29, 2015 governing such notes. On June 23, 2017, the Company issued an additional \$75.0 million principal amount of 8.0% Senior Secured Second Lien Notes due 2022 (the "Additional Notes" and together with the "Existing Notes", the "8% Notes"). The 8% Notes mature and were payable on May 1, 2022. Interest was payable semi-annually on May 1 and November 1. The 8% Notes were guaranteed by the Company's subsidiaries and were secured by second-priority liens on substantially all of the Company's and its subsidiaries' assets (including a pledge of all of the capital stock and equity interests of its subsidiaries).

The 8% Notes were redeemable at the option of the Company in whole or in part at any time after May 1, 2018 at a price of 104% of the principal amount plus accrued and unpaid interest, if any, if redeemed before May 1, 2019, 102% of the principal amount plus accrued and unpaid interest, if any, if redeemed after May 1, 2019 but before May 1, 2020 and 100% of the principal amount plus accrued and unpaid interest, if any, if redeemed after May 1, 2020.

The 8% Notes were jointly and severally guaranteed, unconditionally and in full by the Company's subsidiaries which are directly or indirectly 100% owned by the Company. Separate condensed consolidating information is not included because Carrols Restaurant Group is a holding company that has no independent assets or operations. There are no significant restrictions on the Company's ability or any of the guarantor subsidiaries' ability to obtain funds from its respective subsidiaries. All consolidated amounts in our unaudited condensed consolidated financial statements are representative of the combined guarantors.

The indenture governing the 8% Notes included certain covenants, including limitations and restrictions on the Company and its subsidiaries who are guarantors under such indenture to, among other things: incur indebtedness or issue preferred stock; incur liens; pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments; sell assets; agree to payment restrictions affecting certain subsidiaries; enter into transaction with affiliates; or merge, consolidate or sell substantially all of the Company's assets.

The indenture governing the 8% Notes and the security agreement provided that any capital stock and equity interests of any of the Company's subsidiaries would be excluded from the collateral to the extent that the par value, book value or market value of such capital stock or equity interests exceeds 20% of the aggregate principal amount of the 8% Notes then outstanding.

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The indenture governing the 8% Notes contained customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under the 8% Notes and the indenture governing the 8% Notes if there is a default under any of the Company's indebtedness having an outstanding principal amount of \$20.0 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due.

Prior Senior Credit Facility. On May 30, 2012, the Company entered into a senior credit facility, which has a maturity date of February 12, 2021, and was most recently amended on June 20, 2017 to increase the permitted indebtedness of our second lien notes to a principal amount not to exceed \$300.0 million in order to provide for the additional \$75.0 million of the 8% Notes issued on June 23, 2017. On January 13, 2017, the senior credit facility was amended to, among other things, provide for maximum revolving credit borrowings of up to \$73.0 million (including \$20.0 million available for letters of credit). The amended senior credit facility also provides for potential incremental borrowing increases of up to \$25.0 million, in the aggregate. As of March 31, 2019, there were \$6.3 million of revolving credit borrowings outstanding and \$11.6 million of letters of credit were issued under the senior credit facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, \$55.1 million was available for revolving credit borrowings under the amended senior credit facility at March 31, 2019.

Borrowings under the senior credit facility bore interest at a rate per annum, at the Company's option, of:

- (i) the Alternate Base Rate plus the applicable margin of 1.75% to 2.75% based on the Company's Adjusted Leverage Ratio, or
- (ii) the LIBOR Rate plus the applicable margin of 2.75% to 3.75% based on the Company's Adjusted Leverage Ratio (all terms as defined under the senior credit facility).

At March 31, 2019 the Company's LIBOR Rate margin was 2.75% and the Alternate Base Rate margin was 1.75% based on the Company's Adjusted Leverage Ratio at the end of the fourth quarter of 2018.

The Company's obligations under the senior credit facility were jointly and severally guaranteed by its subsidiaries and were secured by first priority liens on substantially all of the assets of the Company and its subsidiaries, including a pledge of all of the capital stock and equity interests of its subsidiaries.

Under the amended senior credit facility, the Company was required to make mandatory prepayments of borrowings in the event of dispositions of assets, debt issuances and insurance and condemnation proceeds (all subject to certain exceptions).

The amended senior credit facility contained certain covenants, including without limitation, those limiting the Company's and its subsidiaries' ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of its business in all material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends. In addition, the amended senior credit facility required the Company to meet certain financial ratios, including a Fixed Charge Coverage Ratio, Adjusted Leverage Ratio and First Lien Leverage Ratio (all as defined under the amended senior credit facility). The Company was in compliance with the financial covenants under its senior credit facility at March 31, 2019.

The amended senior credit facility contained customary default provisions, including that the lenders may terminate their obligation to advance and may declare the unpaid balance of borrowings, or any part thereof, immediately due and payable upon the occurrence and during the continuance of customary defaults which include, without limitation, payment default, covenant defaults, bankruptcy type defaults, cross-defaults on other indebtedness, judgments or upon the occurrence of a change of control.

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8. Income Taxes

The provision (benefit) for income taxes for the three months ended March 31, 2019 and April 1, 2018 was comprised of the following:

	Three Months Ended	
	March 31, 2019	April 1, 2018
Current	\$ 12	\$ —
Deferred	342	(138)
Provision (benefit) for income taxes	\$ 354	\$ (138)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes.

The provision for income taxes for the three months ended March 31, 2019 was derived using an estimated effective annual income tax rate for all of 2019 of (3.1)%, which excludes any discrete tax adjustments and is below the statutory rate due to the effect of fixed employment tax credits on taxable income. The benefits of federal employment credits are not directly related to the amount of pre-tax loss recorded in a period. Accordingly, in periods where recorded pre-tax income (loss) is relatively small, the proportional effect of these items on the effective tax rate may be significant. There were no discrete adjustments for the three months ended March 31, 2019.

The benefit for income taxes for the three months ended April 1, 2018 was derived using an estimated effective annual income tax rate for all of 2018 of 0.6%, which excludes any discrete tax adjustments and was below the statutory rate due to the effect of fixed employment tax credits on taxable income. The income tax benefit for the three months ended April 1, 2018 contains net discrete tax adjustments of \$0.1 million of income tax expense.

As of March 31, 2019, the Company had federal net operating loss carryforwards of approximately \$89.6 million which expire beginning in 2033. The Company's state net operating loss carryforwards expire beginning in 2019 through 2038.

The Company's policy is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. At March 31, 2019 and December 30, 2018, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions. The tax years 2013 - 2018 remain open to examination by the major taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to the uncertainties regarding the timing of examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

9. Stock-Based Compensation

Stock-based compensation expense for the three months ended March 31, 2019 and April 1, 2018 was \$1.5 million and \$1.6 million, respectively. On January 15, 2019, the Company granted 417,500 non-vested restricted shares to certain employees and officers of the Company and 47,470 non-vested restricted shares to outside directors of the Company. These shares vest, become non-forfeitable and are being expensed over their three-year vesting period.

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A summary of all non-vested shares activity for the three months ended March 31, 2019 was as follows:

	Shares	Weighted Average Grant Date Price
Non-vested at December 30, 2018	796,476	\$ 13.12
Granted	468,199	\$ 9.48
Vested	(371,824)	\$ 12.68
Non-vested at March 31, 2019	<u>892,851</u>	<u>\$ 11.40</u>

The fair value of non-vested shares is based on the closing price on the date of grant. As of March 31, 2019, the total non-vested unrecognized stock-based compensation expense was approximately \$9.0 million and the remaining weighted average vesting period for non-vested shares was 2.1 years. The Company expects to record an additional \$4.2 million in stock-based compensation expense related to the vesting of these awards for the remainder of 2019.

10. Commitments and Contingencies

Lease Guarantees. Fiesta Restaurant Group, Inc. ("Fiesta"), a former wholly-owned subsidiary of the Company, was spun-off in 2012 to the Company's stockholders. As of March 31, 2019, the Company is a guarantor under 27 Fiesta restaurant property leases, of which all except for one of those restaurants is still operating, with lease terms expiring on various dates through 2030, and is the primary lessee on five Fiesta restaurant property leases, which it subleases to Fiesta. The Company is fully liable for all obligations under the terms of the leases in the event that Fiesta fails to pay any sums due under the lease, subject to indemnification provisions of the Separation and Distribution Agreement entered into in connection with the spin-off of Fiesta.

The maximum potential amount of future undiscounted rental payments the Company could be required to make under these leases at March 31, 2019 was \$15.1 million of which \$0.6 million is included in operating lease liabilities in accordance with ASC 842. The obligations under these leases will generally continue to decrease over time as these operating leases expire. No payments related to these guarantees have been made by the Company to date and none are expected to be required to be made in the future. The Company has not recorded a liability for \$14.5 million these guarantees in accordance with ASC 460 - *Guarantees* as Fiesta has indemnified the Company for all such obligations and the Company did not believe it was probable it would be required to perform under any of the guarantees or direct obligations.

Litigation. The Company is a party to various litigation matters that arise in the ordinary course of business. The Company does not believe that the outcome of any of these other matters meet the disclosure or recognition standards, nor will they have a material adverse effect on its consolidated financial statements.

11. Transactions with Related Parties

In connection with an acquisition of restaurants from BKC in 2012, the Company issued to BKC 100 shares of Series A Convertible Preferred Stock, which was exchanged for 100 shares of newly issued Series B Convertible Preferred Stock in 2018, and as of March 31, 2019 is convertible into approximately 17.5% of the outstanding shares of the Company's common stock after giving effect to the conversion of the Series B Preferred Stock. Pursuant to the terms of the Series B Convertible Preferred Stock, BKC also has two representatives on the Company's board of directors.

Each of the Company's restaurants operates under a separate franchise agreement with BKC. These franchise agreements generally provide for an initial term of twenty years and currently have an initial franchise fee of fifty thousand dollars. Any franchise agreement, including renewals, can be extended at the Company's discretion for an additional 20 year term, with BKC's approval, provided that, among other things, the restaurant meets the current Burger King image standard and the Company is not in default under terms of the franchise agreement. In addition to

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the initial franchise fee, the Company generally pays BKC a monthly royalty at a rate of 4.5% of sales. Royalty expense was \$12.4 million and \$11.6 million in the three months ended March 31, 2019 and April 1, 2018, respectively.

The Company is also generally required to contribute 4% of restaurant sales from its restaurants to an advertising fund utilized by BKC for its advertising, promotional programs and public relations activities, and additional amounts for additional local advertising in markets that approve such advertising. Advertising expense associated with these expenditures was \$11.5 million and \$10.9 million in the three months ended March 31, 2019 and April 1, 2018, respectively.

As of March 31, 2019, the Company leased 241 of its restaurant locations from BKC and 116 of these locations are subleased by BKC from a third-party lessor. Aggregate rent under these BKC leases was \$6.8 million for each of the three months ended March 31, 2019 and April 1, 2018, respectively. The Company believes the related party lease terms have not been significantly affected by the fact that the Company and BKC are deemed to be related parties.

As of March 31, 2019, the Company owed BKC \$10.2 million related to the payment of advertising, royalties and rent, which is remitted on a monthly basis. In addition, BKC owed the Company \$1.9 million related to a settlement with BKC for their approval of new restaurant development by other franchisees which unfavorably impacted the Company's restaurants which was recorded as other income and included in trade and other receivables in the unaudited condensed consolidated financial statements at March 31, 2019.

12. Net Loss per Share

The Company applies the two-class method to calculate and present net loss per share. The Company's non-vested share awards and Series B Convertible Preferred Stock issued to BKC contain non-forfeitable rights to dividends and are considered participating securities for purposes of computing net loss per share pursuant to the two-class method. Under the two-class method, net earnings are reduced by the amount of dividends declared (whether paid or unpaid) and the remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. As the Company incurred a net loss for the three months ended March 31, 2019 and April 1, 2018 and losses are not allocated to participating securities under the two-class method, such method is not applicable for the aforementioned interim reporting periods.

Basic net loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the reporting period. Diluted net loss per share reflects additional shares of common stock outstanding, where applicable, calculated using the treasury stock method or the two-class method.

The following table sets forth the calculation of basic and diluted net loss per share:

	Three Months Ended	
	March 31, 2019	April 1, 2018
Basic net loss per share:		
Net loss	\$ (11,469)	\$ (3,102)
Weighted average common shares outstanding	36,045,137	35,665,811
Basic net loss per share	\$ (0.32)	\$ (0.09)
Diluted net loss per share:		
Net loss	\$ (11,469)	\$ (3,102)
Shares used in computing diluted net loss per share	36,045,137	35,665,811
Diluted net loss per share	\$ (0.32)	\$ (0.09)
Shares excluded from diluted net loss per share computations (1)	10,307,431	10,233,980

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(1) Shares issuable upon conversion of preferred stock and non-vested shared were excluded from the computation of diluted net loss per share because their effect would have been anti-dilutive.

13. Other Income

In the three months ended March 31, 2019, the Company recorded other income of \$1.9 million related to a settlement with BKC for their approval of new restaurant development by other franchisees which unfavorably impacted the Company's restaurants, a gain on a sale-leaseback transaction of \$0.1 million, and a gain related to an insurance recovery from a fire at one of its restaurants in the prior year of \$0.1 million.

14. Subsequent Events

The Company reviewed and evaluated subsequent events through the issuance date of the Company's unaudited condensed consolidated financial statements.

Merger Agreement

On April 30, 2019, the Company consummated the transaction contemplated by the Agreement and Plan of Merger ("Merger Agreement") dated as of February 19, 2019 among Carrols Restaurant Group, Carrols Holdco, GRC MergerSub Inc. ("GRC MergerSub"), GRC MergerSub LLC, Cambridge Franchise Partners, LLC, Cambridge Franchise Holdings, LLC ("Cambridge Holdings") and New CFH, LLC to acquire 165 Burger King® and 55 Popeyes® restaurants and six convenience stores from Cambridge Holdings (the "Cambridge Acquisition"). Cambridge Holdings received 7,364,413 shares of the Company's common stock, and at closing owned approximately 16.6% of the Company's outstanding common stock. Cambridge Holdings also received 10,000 shares of Series C Convertible Preferred Stock of the Company ("Series C Preferred Stock") which accrues a 9% dividend per annum, payable semi-annually in shares of the Company's common stock and that will initially be convertible into approximately 7.45 million shares of Carrols common stock. The conversion of the Series C Preferred Stock received by Cambridge Holdings will be subject to a vote of the Company's stockholders which will occur at the Company's 2019 Annual Meeting of Stockholders, and will automatically convert into the Company's common stock upon stockholder approval of such conversion. All shares issued to Cambridge Holdings are subject to a two year restriction on sale or transfer subject to certain limited exceptions. As part of the transaction, Cambridge Holdings will have the right to designate up to two director nominees and two Cambridge Holdings executives joined the Company's Board of Directors on April 30, 2019.

Pursuant to the Merger Agreement, on April 30, 2019, the merger of GRC MergerSub and Carrols Restaurant Group, Inc. ("OldCRG") was consummated with OldCRG as the surviving entity (the "Holding Company Reorganization") which resulted in OldCRG becoming a wholly-owned subsidiary of Carrols Holdco Inc. ("NewCRG"). On April 30, 2019, OldCRG was renamed "Carrols Holdco Inc." and NewCRG was renamed "Carrols Restaurant Group, Inc." In connection with the Holding Company Reorganization and by operation of Rule 12g-3(a) promulgated under the Securities Exchange Act of 1934 as amended (the "Exchange Act"), NewCRG is the successor issuer to OldCRG and has succeeded to the attributes of OldCRG as the registrant, including OldCRG's Securities and Exchange Commission ("SEC") file number and CIK number. Shares of NewCRG Common Stock are deemed to be registered under Section 12(b) of the Exchange Act, and NewCRG is subject to the informational requirements of the Exchange Act, and the rules and regulations promulgated thereunder, and will file reports and other information with the SEC using OldCRG's SEC file number (001-33174). Shares of NewCRG common stock continue to trade on the NASDAQ Global Market under the symbol "TAST".

The preliminary allocation of the purchase price for the Cambridge Acquisition requires extensive use of accounting estimates and judgments to allocate the purchase price to tangible and intangible assets acquired and liabilities assumed based on their respective fair values. As the values of certain asset and liabilities are preliminary in nature, the fair values for assets acquired and liabilities assumed are subject to adjustment as additional information is obtained. For purposes of a preliminary allocation of the assets acquired and liabilities assumed, the excess of the purchase price over the estimated fair value of net tangible and intangible assets has been assigned to franchise rights. The preliminary fair value of property and equipment, and franchise agreements is based on the assets carrying value due to recent valuations completed by Cambridge Holdings. The amounts allocated to the assets acquired and liabilities assumed

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are based on management’s preliminary estimates of their respective fair values. Definitive allocations will be performed and finalized, including the completion of valuations of assets acquired and liabilities assumed with the assistance of third party valuation specialists.

The following table summarizes the preliminary allocation of the aggregate purchase price for the Cambridge Acquisition and has been derived from the December 30, 2018 balance sheet of Cambridge Holdings:

Inventory	\$	2,705
Prepaid expenses		2,418
Other assets		11,965
Property and equipment		114,008
Franchise fees		4,175
Franchise rights		207,148
Deferred income taxes		725
Accounts payable		(3,557)
Accrued payroll, related taxes and benefits		(3,989)
Long-term debt		(124,879)
Lease financing obligations		(50,839)
Other liabilities		(16,607)
Net assets acquired	\$	<u>143,273</u>

New Credit Facilities

On April 30, 2019, the Company entered into a new senior secured credit facility in an aggregate principal amount of \$550.0 million, consisting of (i) a term loan B facility in an aggregate principal amount of \$425.0 million (the “Term Loan B Facility”) and (ii) a new revolving credit facility (including a sub-facility for standby letters of credit) in an aggregate principal amount of \$125.0 million (the “New Revolving Credit Facility” and, together with the Term Loan B Facility, the “New Senior Credit Facilities”). Borrowings under the New Senior Credit Facilities bear interest, at a rate per annum equal to (i) the Alternate Base Rate (as defined in the New Senior Credit Facilities) plus 2.25% or (b) LIBOR Rate (as defined in the New Senior Credit Facilities) plus 3.25%. The Term Loan B Facility will amortize in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount of the Term Loan B Facility with the remainder due on the Term Loan B Facility maturing in seven years on April 30, 2026. The New Revolving Credit Facility will mature in five years on April 30, 2024.

The proceeds of the Term Loan B Facility were used to refinance the existing indebtedness of (i) the Company and (ii) New CFH and its subsidiaries and (iii) the payment of fees and expenses in connection with the transactions contemplated by the Merger Agreement and New Senior Credit Facilities. The proceeds of the Revolving Credit Facility will be used to finance ongoing working capital and for other general corporate purposes, including permitted acquisitions and required expenditures under development agreements.

Area Development and Remodeling Agreement

The Company, Carrols, Carrols LLC, and BKC have entered into an Area Development and Remodeling Agreement (“Area Development Agreement”) commencing on April 30, 2019 and ending on September 30, 2024, which supersedes the Operating Agreement dated as of May 30, 2012, as amended, between Carrols LLC and BKC. Pursuant to the Area Development Agreement, BKC assigned its right of first refusal under its franchise agreements with its franchisees to purchase all of the assets of a Burger King restaurant on the same terms proposed between such franchisee and a third party purchaser (the “ADA ROFR”), in 16 states and a limited number of counties in four additional states, and granted franchise pre-approval to acquire Burger King restaurants until the date that Carrols LLC has acquired more than an aggregate of 500 Burger King restaurants. The continued assignment of the ADA ROFR is subject to suspension or termination in the event of non-compliance by Carrols LLC with certain terms as set forth in the Area Development Agreement. Carrols LLC will pay BKC \$3.0 million for the ADA ROFR in four equal installment payments over the course of one year.

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands, except share and per share amounts)

Pursuant to the Area Development Agreement, Carrols LLC agreed to open, build and operate 200 new Burger King restaurants and remodel or upgrade 748 Burger King restaurants to BKC's Burger King of Tomorrow restaurant image over the term of the Area Development Agreement.

Popeyes Development Agreement

In addition, through the Cambridge Acquisition, the Company has assumed Cambridge Holdings' development agreement for Popeyes®, which includes a ROFR for acquisitions in two southern states, as well as, a development commitment for approximately 80 new Popeyes® restaurants over six years.

Redemption of 8% Notes

On April 30, 2019, the Company irrevocably called for the redemption of \$275.0 million of 8.0% Senior Secured Second Lien Notes due 2022 (the "Existing Notes") and irrevocably deposited with The Bank of New York Mellon Trust Company, N.A., as trustee for the Existing Notes (the "Trustee"), an amount of funds sufficient to redeem such Existing Notes on May 30, 2019 (including accrued interest thereon, to the date of redemption). Consequently, on April 30, 2019, each of the Company and the guarantors under the Existing Notes (i) discharged its respective obligations under the Existing Notes and the Indenture related thereto dated as of April 29, 2015, by and among the Company and the guarantors listed therein, as amended by the Supplemental Indenture in Respect of Guarantee, dated as of July 6, 2017, among the Company, the guarantor named therein and the Trustee (as amended, the "Existing Indenture"), other than those obligations which by the terms of the Existing Indenture survive and (ii) terminated its respective obligations under the Second Lien Security Agreement dated as of April 29, 2015 among the Company, the guarantors party thereto and the Trustee.

ITEM 2—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of March 31, 2019, Carrols Restaurant Group, Inc. and its consolidated subsidiaries (collectively, "Carrols Restaurant Group", the "Company", "we", "our" or "us") operated, as franchisee, 845 restaurants under the trade name "Burger King®" in 18 Northeastern, Midwestern and Southeastern states.

We operate on a 52 or 53 week fiscal year ending on the Sunday closest to December 31. Our fiscal quarters are comprised of 13 weeks, with the exception of the fourth quarter of a 53 week year, which contains 14 weeks. Our fiscal years ending December 29, 2019 and December 30, 2018 each contain 52 weeks.

Introduction

We are a holding company and conduct all of our operations through our direct and indirect subsidiaries and have no assets other than the shares of capital stock of Carrols Holdco Inc., our direct wholly-owned subsidiary. The following Management's Discussion and Analysis of Financial Condition and Results of Operations (or "MD&A") is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and the accompanying financial statement notes appearing elsewhere in this report and our Annual Report on Form 10-K for the year ended December 30, 2018. The overview provides our perspective on the individual sections of MD&A, which include the following:

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

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

Results from Operations—an analysis of our results of operations for the three months ended March 31, 2019 compared to the three months ended April 1, 2018 including a review of material items and known trends and uncertainties.

Liquidity and Capital Resources—an analysis of historical information regarding our sources of cash and capital expenditures, the existence and timing of commitments and contingencies, changes in capital resources and a discussion of cash flow items affecting liquidity.

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

Effects of New Accounting Standards—a discussion of new accounting standards and any implications related to our financial statements.

Forward Looking Statements—cautionary information about forward-looking statements and a description of certain risks and projections.

Company Overview

We are one of the largest restaurant companies in the United States and have been operating restaurants for more than 55 years. We are the largest Burger King® franchisee in the United States, based on number of restaurants, and have operated Burger King® restaurants since 1976. As of March 31, 2019, our restaurant operations consisted of 845 franchised Burger King® restaurants in 18 states.

In 2012, as part of an acquisition of restaurants from Burger King Corporation ("BKC") we were assigned BKC's right of first refusal on the sale of franchisee-operated restaurants in 20 states (the "ROFR"). During the year ended December 30, 2018 we acquired 44 restaurants in four separate transactions.

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

- *Restaurant sales* consist of food and beverage sales at our restaurants, net of discounts and excluding sales tax collected. Restaurant sales are influenced by changes in comparable restaurant sales, menu price increases,

new restaurant development, acquisition of restaurants, and the closure of restaurants. Comparable restaurant sales reflects the change in year-over-year sales for the comparable restaurant base. Restaurants, including restaurants we acquire, are included in comparable restaurant sales after they have been open or owned for 12 months and immediately after they re-open following a remodel.

- *Cost of sales* consists of food, paper and beverage costs including packaging costs, less purchase discounts. Cost of sales is generally influenced by changes in commodity costs, the mix of items sold, the level of promotional discounting and the effectiveness of our restaurant-level controls to manage food and paper costs.
- *Restaurant wages and related expenses* include all restaurant management and hourly productive labor costs and related benefits, employer payroll taxes and restaurant-level bonuses. Payroll and related benefits are subject to inflation, including minimum wage increases and increased costs for health insurance, workers' compensation insurance and federal and state unemployment insurance.
- *Restaurant rent expense* includes base rent and contingent rent on our leases characterized as operating leases, and, in 2018, the amortization of favorable and unfavorable leases.
- *Other restaurant operating expenses* include all other restaurant-level operating costs, the major components of which are royalty expenses paid to BKC, utilities, repairs and maintenance, real estate taxes and credit card fees.
- *Advertising expense* includes advertising payments to BKC based on a percentage of sales as required under our franchise and operating agreements and additional marketing and promotional expenses in certain of our markets.
- *General and administrative expenses* are comprised primarily of salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees, acquisition costs and stock-based compensation expense.
- *EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income.* EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income are non-GAAP financial measures. EBITDA represents net income or loss, before provision or benefit for income taxes, interest expense and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted to exclude impairment and other lease charges, acquisition costs, stock compensation expense and non-recurring income or expense. Restaurant-Level EBITDA represents income or loss from operations adjusted to exclude general and administrative expenses, depreciation and amortization, impairment and other lease charges and other income or expense. Adjusted net income represents net income adjusted to exclude loss on extinguishment of debt, impairment and other lease charges, acquisition costs, non-recurring income and expense and the related income tax effect of these adjustments.

We are presenting Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income because we believe that they provide a more meaningful comparison than EBITDA and net income of our core business operating results, as well as with those of other similar companies. Additionally, we present Restaurant-Level EBITDA because it excludes the impact of general and administrative expenses and other income or expense, which are not directly related to restaurant-level operations. Management believes that Adjusted EBITDA and Restaurant-Level EBITDA, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations on page 33, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced.

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

companies. For the reconciliation between net income to EBITDA, Adjusted EBITDA and Adjusted net income and the reconciliation of income from operations to Restaurant-Level EBITDA, see page 33.

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

- EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;
- EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect the interest expense or the cash requirements necessary to service principal or interest payments on our debt;
- Although depreciation and amortization are non-cash charges, the assets that we currently depreciate and amortize will likely have to be replaced in the future, and EBITDA, Adjusted EBITDA and Restaurant-Level EBITDA do not reflect the cash required to fund such replacements; and
- EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income do not reflect the effect of earnings or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges (such as impairment and other lease charges and acquisition costs) have recurred and may reoccur.
- *Depreciation and amortization* primarily includes the depreciation of fixed assets, including equipment, owned buildings and leasehold improvements utilized in our restaurants, the amortization of franchise rights from our acquisitions of Burger King restaurants and the amortization of franchise fees paid to BKC.
- *Impairment and other lease charges* are determined through our assessment of the recoverability of property and equipment and intangible assets by determining whether the carrying value of these assets can be recovered over their respective remaining lives through undiscounted future operating cash flows. A potential impairment charge is evaluated whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Losses on sale-leaseback transactions are recognized when they are incurred. Lease charges are recorded for our obligations under the related leases for closed locations net of estimated sublease recoveries.
- *Interest expense* consists primarily of interest expense associated with our \$275.0 million of 8% Senior Secured Second Lien Notes due 2022 (the "8% Notes"), amortization of deferred financing costs, amortization of bond premium and interest on revolving credit borrowings under our prior senior credit facility.

Recent and Future Events Affecting our Results of Operations

Burger King Restaurant Acquisitions

During 2018, we acquired 44 restaurants from other franchisees in the following transactions (in thousands, except number of restaurants):

Closing Date	Number of Restaurants	Purchase Price	Market Location
February 13, 2018 (1)	1	—	New York
August 21, 2018 (2)	2	1,666	Detroit, Michigan
September 5, 2018 (2)	31	25,930	Western Virginia
October 2, 2018	10	10,506	South Carolina and Georgia
	44	\$ 38,102	

- (1) During the first quarter of 2018, the allocation of the purchase price and the resulting bargain purchase gain for this acquisition was preliminary and subject to adjustment. Specifically, the Company was finalizing the valuation of franchise rights which will impact the amount of the bargain purchase gain. In the second quarter of 2018, the Company recorded a bargain purchase gain because the fair value of assets acquired, largely representing a franchise right asset of \$0.3 million, exceeded the total fair value of consideration paid by \$0.2 million.

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

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

The following table summarizes certain unaudited pro forma financial information related to our operating results for the three months ended March 31, 2019 and April 1, 2018:

	Three Months Ended	
	March 31, 2019	April 1, 2018
Restaurant sales	\$ 290,789	\$ 284,817
Income from operations	\$ (5,168)	\$ 3,775
Adjusted EBITDA	\$ 13,087	\$ 21,235

Capital Expenditures

Giving effect to the Cambridge Acquisition (as defined below) which closed on April 30, 2019, in 2019, we expect that capital expenditures before discretionary growth-related expenditures (i.e. new restaurant development and acquisitions) will be \$120 million to \$130 million, including \$50 million to \$60 million for construction of 20 to 25 new Burger King® restaurants and 8 to 10 new Popeyes® restaurants, and \$35 million to \$40 million for remodels and upgrades. We will review on an ongoing basis our future remodel and development plans in relation to our available capital resources and alternate investment opportunities.

Refinancing of Indebtedness and New Senior Credit Facilities

On April 30, 2019, the Company entered into a new senior secured credit facility which provides for senior secured credit facilities in an aggregate principal amount of \$550.0 million, consisting of (i) a term loan B facility in an aggregate principal amount of \$425.0 million (the "Term Loan B Facility"), the entire amount of which was borrowed by the Company on April 30, 2019 and (ii) a revolving credit facility (including a sub-facility for standby letters of credit) in an aggregate principal amount of \$125.0 million (the "Revolving Credit Facility" and, together with the Term Loan B Facility, the "Senior Credit Facilities"), which was undrawn as of April 30, 2019. The Senior Credit Facilities also provide that the Company has the right at any time and from time to time, subject to customary conditions, to incur one or more incremental term loan facilities and/or to increase the commitments under the Revolving Credit Facility in an aggregate principal amount for all such incremental term loans and Revolving Credit Facility increases of up to (a) the greater of (i) \$135.0 million and (ii) an amount equal to 100% of the Company's Consolidated EBITDA (as such term is defined in the Senior Credit Facilities) for the period of four consecutive fiscal quarters ended on or prior to the applicable date of determination, plus (b) an amount equal to all voluntary prepayments, repurchases, redemptions and other retirements of the Term Loan B Facility and certain other incremental term loans and incremental equivalent debt, in each case, made prior to such date of incurrence and/or increase (other than voluntary prepayments, repurchases, redemptions and other retirements and voluntary commitment reductions to the extent funded by a refinancing with long-term funded indebtedness (other than loans under the Revolving Credit Facility)) plus (c) an additional amount at any time (including at any time prior to utilization of amounts set forth in clauses (a) and (b) above) so long as, in the case of this clause (c) only, (1) in the case of any such indebtedness secured on a pari passu lien basis with the Term Loan B Facility, the Company not exceeding a specified pro forma first lien net leverage ratio, (2) in the case of any such indebtedness secured on a junior lien basis to the Term Loan B Facility, the Company not exceeding a specified pro forma secured net leverage ratio and (3) in the case of any such indebtedness that is unsecured, the Company not exceeding a specified pro forma total net leverage ratio. The Term Loan B Facility matures on April 30, 2026. The Revolving Credit Facility matures on April 30, 2024. The Company used borrowings under the Term Loan B Facility to refinance the existing indebtedness of (i) the Company and (ii) New CFH and its subsidiaries and the payment of fees and expenses in connection with the transactions contemplated by the Merger Agreement and the Senior Credit Facilities. The proceeds of the Revolving Credit Facility will be used to finance ongoing working capital and for other

general corporate purposes of the Company and its subsidiaries, including permitted acquisitions and required expenditures under development agreements. As of April 30, 2019, there were no revolving credit borrowings outstanding and \$11.6 million of letters of credit were issued under the Revolving Credit Facility. After reserving for issued letters of credit, \$113.4 million was available for revolving credit borrowings under the Revolving Credit Facility at April 30, 2019.

Borrowings under the Term Loan B Facility and the Revolving Credit Facility will bear interest at a rate per annum, at the Company's option, of (i) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus the applicable margin of 2.25% or (ii) the LIBOR Rate (as defined in the Senior Credit Facilities) plus the applicable margin of 3.25%.

The Company's obligations under the Senior Credit Facilities are secured by first priority liens on substantially all of the assets of the Company and subsidiary guarantors (including a pledge of all of the capital stock and equity interests of certain subsidiary guarantors).

Under the Senior Credit Facilities, the Company will be required to make mandatory prepayments of borrowings in the event of dispositions of assets, debt issuances and insurance and condemnation proceeds (all subject to certain exceptions).

The Senior Credit Facilities contain certain covenants, including, without limitation, those limiting the Company's and the subsidiary guarantors' ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of its business in any material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends.

Under the Senior Credit Facilities, the lenders may terminate their obligation to advance and may declare the unpaid balance of borrowings, or any part thereof, immediately due and payable upon the occurrence and during the continuance of customary defaults which include, without limitation, payment default, covenant defaults, bankruptcy type defaults, defaults on other indebtedness, judgments or upon the occurrence of a change of control (as specified therein).

Redemption of 8% Notes

On April 30, 2019, the Company irrevocably called for the redemption of \$275.0 million of 8% Senior Secured Second Lien Notes due 2022 (the "Existing Notes") and irrevocably deposited with The Bank of New York Mellon Trust Company, N.A., as trustee for the Existing Notes (the "Trustee"), an amount of funds sufficient to redeem such Existing Notes on May 30, 2019 (including accrued interest thereon, to the date of redemption). Consequently, on April 30, 2019, each of the Company and the guarantors under the Existing Notes (i) discharged its respective obligations under the Existing Notes and the Indenture related thereto dated as of April 29, 2015, by and among the Company and the guarantors listed therein, as amended by the Supplemental Indenture in Respect of Guarantee, dated as of July 6, 2017, among the Company, the guarantor named therein and the Trustee (as amended, the "Existing Indenture"), other than those obligations which by the terms of the Existing Indenture survive and (ii) terminated its respective obligations under the Second Lien Security Agreement dated as of April 29, 2015 among the Company, the guarantors party thereto and the Trustee.

Future Restaurant Closures

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

In 2018, excluding one restaurant relocated within its trade area, we closed nine restaurants. We currently anticipate closing a total of 10 to 15 restaurants, of which six have already closed during the first quarter of 2019. Anticipated closings exclude any restaurants being relocated within their trade area, at the end of their respective lease term.

Our determination of whether to close restaurants in the future is subject to further evaluation and may change. We may incur lease charges in the future from closures of underperforming restaurants prior to the expiration of their

contractual lease term. We do not believe that the future impact on our results of operations due to restaurant closures will be material, although there can be no assurance in this regard.

Effect of Minimum Wage Increases

Certain of the states and municipalities in which we operate have increased their minimum wage rates for 2019 and in many cases have also approved additional increases for future periods. Most notably, New York State has increased the minimum wage applicable to our business to \$12.75 an hour in 2019 (from \$11.75 per hour in 2018) with subsequent annual increases reaching \$15.00 an hour by July 1, 2021. Since 2015 we have been receiving New York State minimum wage tax credits totaling approximately \$500,000 per year that partially offset these additional labor costs. However, the New York State minimum wage tax credits expired in the beginning in 2019. We had 128 restaurants in New York State at March 31, 2019. We typically attempt to offset the effects of wage inflation, at least in part, through periodic menu price increases. However, no assurance can be given that we will be able to offset these wage increases in the future.

Subsequent Events

Merger Agreement

On April 30, 2019, the Company consummated the transaction contemplated by the Agreement and Plan of Merger ("Merger Agreement") dated as of February 19, 2019 among Carrols Restaurant Group, Carrols Holdco Inc., GRC MergerSub Inc. ("GRC MergerSub"), GRC MergerSub LLC, Cambridge Franchise Partners, LLC, Cambridge Franchise Holdings, LLC ("Cambridge Holdings") and New CFH, LLC to acquire 165 Burger King® and 55 Popeyes® restaurants and six convenience stores from Cambridge Holdings (the "Cambridge Acquisition"). Cambridge Holdings received 7,364,413 shares of the Company's common stock, and at closing owned approximately 16.6% of the Company's outstanding common stock. Cambridge Holdings also received 10,000 shares of Series C Convertible Preferred Stock of the Company ("Series C Preferred Stock") which accrues a 9% dividend per annum, payable semi-annually in shares of the Company's common stock and that will be convertible into approximately 7.45 million shares of Carrols common stock. The conversion of the Series C Preferred Stock received by Cambridge Holdings will be subject to a vote of the Company's stockholders which will occur at the Company's 2019 Annual Meeting of Stockholders, and will automatically convert into the Company's common stock upon stockholder approval of such conversion. All shares issued to Cambridge Holdings are subject to a two year restriction on sale or transfer subject to certain limited exceptions. As part of the transaction, Cambridge Holdings will have the right to designate up to two director nominees and two Cambridge Holdings executives joined the Company's Board of Directors on April 30, 2019.

Pursuant to the Merger Agreement, on April 30, 2019, the merger of GRC MergerSub and Carrols Restaurant Group, Inc. ("OldCRG") was consummated with OldCRG as the surviving entity (the "Holding Company Reorganization") which resulted in OldCRG becoming a wholly-owned subsidiary of Carrols Holdco Inc. ("NewCRG"). On April 30, 2019, OldCRG was renamed "Carrols Holdco Inc." and NewCRG was renamed "Carrols Restaurant Group, Inc." In connection with the Holding Company Reorganization and by operation of Rule 12g-3(a) promulgated under the Securities Exchange Act of 1934 as amended (the "Exchange Act"), NewCRG is the successor issuer to OldCRG and has succeeded to the attributes of OldCRG as the registrant, including OldCRG's Securities and Exchange Commission ("SEC") file number and CIK number. Shares of NewCRG Common Stock are deemed to be registered under Section 12(b) of the Exchange Act, and NewCRG is subject to the informational requirements of the Exchange Act, and the rules and regulations promulgated thereunder, and will file reports and other information with the SEC using OldCRG's SEC file number (001-33174). Shares of NewCRG common stock continue to trade on the NASDAQ Global Market under the symbol "TAST".

Area Development and Remodeling Agreement

The Company, Carrols, Carrols LLC, and BKC have entered into an Area Development and Remodeling Agreement ("Area Development Agreement") commencing on April 30, 2019 and ending on September 30, 2024, which supersedes the Operating Agreement dated as of May 30, 2012, as amended, between Carrols LLC and BKC. Pursuant to the Area Development Agreement, BKC assigned its right of first refusal under its franchise agreements with its franchisees to purchase all of the assets of a Burger King restaurant on the same terms proposed between such franchisee and a third party purchaser (the "ADA ROFR"), in 16 states and a limited number of counties in four additional states, and granted franchise pre-approval to acquire Burger King restaurants until the date that Carrols LLC has acquired more

than an aggregate of 500 Burger King restaurants. The continued assignment of the ADA ROFR is subject to suspension or termination in the event of non-compliance by Carrols LLC with certain terms as set forth in the Area Development Agreement. Carrols LLC will pay BKC \$3.0 million for the ADA ROFR in four equal installment payments over the course of one year.

Pursuant to the Area Development Agreement, Carrols LLC agreed to open, build and operate 200 new Burger King restaurants and remodel or upgrade 748 Burger King restaurants to BKC's Burger King of Tomorrow restaurant image over the term of the Area Development Agreement.

Popeyes Development Agreement

In addition, through the Cambridge Acquisition, the Company has assumed Cambridge Holdings' development agreement for Popeyes®, which includes a ROFR for acquisitions in two southern states, as well as, a development commitment for approximately 80 new Popeyes® restaurants over six years.

Results of Operations

Three Months Ended March 31, 2019 Compared to Three Months Ended April 1, 2018

The following table highlights the key components of sales and the number of restaurants in operation for the quarter ended March 31, 2019 as compared to the quarter ended April 1, 2018:

	Three Months Ended	
	March 31, 2019	April 1, 2018
Restaurant Sales	290,789	271,586
Change in Comparable Restaurant Sales %	2.4%	6.2%
Restaurants operating at beginning of period	849	807
New restaurants opened, including relocations	2	2
Restaurants acquired	—	1
Restaurants closed	(6)	(3)
Restaurants operating at end of period	845	807

Restaurant Sales. Total restaurant sales in the first quarter of 2019 increased 7.1% to \$290.8 million from \$271.6 million in the first quarter of 2018. Our comparable restaurant sales increased 2.4% over the prior year quarter consisting of an increase in average check of 0.1%, including a 1.3% effective price increase since the beginning of 2018 offset by higher promotional discounting, and an increase in customer traffic of 2.3%. Restaurant sales also increased due to restaurants acquired since the beginning of 2018 which added \$13.0 million of restaurant sales. New restaurants opened since the beginning of 2018 contributed \$2.5 million of restaurant sales.

Comparable restaurant sales increased 6.2% in the first quarter of 2018 consisting of an increase in average check of 5.9% and an increase in customer traffic of 0.3%. The effect in the first quarter of 2018 from menu price increases taken since the beginning of 2017 was approximately 3.3%.

Operating Costs and Expenses (percentages stated as a percentage of total restaurant sales). The following table sets forth, for the three months ended March 31, 2019 and April 1, 2018, selected operating results as a percentage of total restaurant sales:

	Three Months Ended	
	March 31, 2019	April 1, 2018
Costs and expenses (all restaurants):		
Cost of sales	28.4%	26.9%
Restaurant wages and related expenses	34.5%	33.6%
Restaurant rent expense	7.5%	7.4%
Other restaurant operating expenses	15.7%	15.8%
Advertising expense	4.1%	4.1%
General and administrative	6.8%	5.9%

Cost of sales increased to 28.4% in the first quarter of 2019 from 26.9% in the first quarter of 2018 due primarily to higher promotional discounting (1.3%), an increase in commodity costs (0.2%) which is net of a 2.5% reduction in beef costs compared to the prior year, and an unfavorable sales mix effect on promotional items (0.2%) partially offset by menu price increases taken since the beginning of 2018 (0.4%).

Restaurant wages and related expenses increased to 34.5% in the first quarter of 2019 from 33.6% in the first quarter of 2018 due primarily to the effect of hourly labor rate increases of 4.6%, including minimum wage increases, over the prior year, and the impact of higher management wages in newly opened restaurants.

Other restaurant operating expenses decreased to 15.7% in the first quarter of 2019 from 15.8% in the first quarter of 2018 due primarily to lower electricity rates and the leveraging of sales increases on fixed operating expenses.

Advertising expense was 4.1% in both the first three months of 2019 and 2018.

Restaurant rent expense increased to 7.5% in the first quarter of 2019 from 7.4% in the first quarter of 2018 due to the elimination of deferred gain amortization from sale-leaseback transactions (\$0.4 million) due to the implementation of the new lease accounting standard combined with higher contingent rent resulting from higher sales volumes.

Restaurant-Level EBITDA. As a result of the factors discussed above, Restaurant-Level EBITDA decreased \$4.7 million, or 14.2%, to \$28.6 million in the first quarter of 2019, and as a percentage of total restaurant sales, decreased to 9.8% in the first quarter of 2019 from 12.3% in the prior year period. For a reconciliation between Restaurant-Level EBITDA and loss from operations see page 33.

General and Administrative Expenses. General and administrative expenses increased \$3.6 million in the first quarter of 2019 to \$19.7 million, and as a percentage of total restaurant sales, increased to 6.8% in the first quarter of 2019 from 5.9% in the first quarter of 2018. The increase in general and administrative expense results primarily from \$2.6 million of higher acquisition costs due to the Merger Agreement with Cambridge and \$0.2 million of additional field management and restaurant manager costs related to the 2018 acquisitions.

Adjusted EBITDA. As a result of the factors above, Adjusted EBITDA decreased to \$13.1 million in the first quarter of 2019 from \$18.9 million in the first quarter of 2018, and as a percentage of total restaurant sales, decreased to 4.5% in the first quarter of 2019 from 7.0% in the prior year period. For a reconciliation between net loss and EBITDA and Adjusted EBITDA see page 33.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$1.0 million to \$15.3 million in the first quarter of 2019 from \$14.3 million in the first quarter of 2018 due primarily to our new restaurant development, remodeling initiatives and acquisition of restaurants in 2018.

Impairment and Other Lease Charges. Impairment and other lease charges were \$0.9 million in the first quarter of 2019 consisting of \$0.7 million related to initial impairment charges for two underperforming restaurants, capital expenditures of \$0.1 million at previously impaired restaurants, and \$0.1 million of other lease charges primarily due to the de-imaging of six restaurants closed during the first quarter.

During the first quarter of 2018, we recorded impairment and other lease charges of \$0.3 million which included \$0.1 million of capital expenditures at previously impaired restaurants, a loss of \$0.1 million associated with a sale-leaseback of a restaurant property, and \$0.1 million of other lease charges associated with the closure of two underperforming restaurants.

Other Income, net. Other income, net includes other income of \$1.9 million related to a settlement with BKC for their approval of new restaurant development by other franchisees which unfavorably impacted the Company's restaurants, a gain on a sale-leaseback transaction of \$0.1 million, and a gain related to an insurance recovery from a fire at one of our restaurants in the prior year of \$0.1 million.

Interest Expense. Interest expense was \$5.9 million in both the first quarters of 2019 and 2018. The weighted average interest rate on our long-term debt, excluding lease financing obligations, was 7.9% in both the first quarter of 2019 and 2018.

Provision (benefit) for Income Taxes. The provision (benefit) for income taxes is lower than the statutory rate due to the effect of fixed tax credits relative to our estimated pre-tax income (loss). For the three months ended March 31, 2019, the provision for income taxes was derived using an estimated effective annual income tax rate for

all of 2019 of (3.1)%. For the three months ended April 1, 2018, the benefit for income taxes was derived using an estimated effective annual tax rate for all of 2018 of 0.6%.

Net Loss. As a result of the above, the net loss for the first quarter of 2019 was \$11.5 million, or \$0.32 per diluted share, compared to the net loss in the first quarter of 2018 of \$3.1 million, or \$0.09 per diluted share.

Reconciliations of net loss to EBITDA, Adjusted EBITDA and Adjusted net loss, and income (loss) from operations to Restaurant-Level EBITDA for the three months ended March 31, 2019 and April 1, 2018 are as follows (in thousands, except for per share data):

	Three Months Ended	
	March 31, 2019	April 1, 2018
Reconciliation of EBITDA and Adjusted EBITDA:		
Net loss	\$ (11,469)	\$ (3,102)
Provision (benefit) for income taxes	354	(138)
Interest expense	5,947	5,926
Depreciation and amortization	15,292	14,250
EBITDA	10,124	16,936
Impairment and other lease charges	910	309
Acquisition costs (1)	2,656	105
Other income, net (2)	(2,129)	—
Gain on bargain purchase	—	(22)
Stock-based compensation expense	1,526	1,585
Adjusted EBITDA	\$ 13,087	\$ 18,913
Reconciliation of Restaurant-Level EBITDA:		
Income (loss) from operations	\$ (5,168)	\$ 2,664
Add:		
General and administrative expenses	19,724	16,136
Depreciation and amortization	15,292	14,250
Impairment and other lease charges	910	309
Other income, net (2)	(2,129)	—
Restaurant-Level EBITDA	\$ 28,629	\$ 33,359
Reconciliation of Adjusted net income:		
Net loss	\$ (11,469)	\$ (3,102)
Add:		
Impairment and other lease charges	910	309
Acquisition costs (1)	2,656	105
Other income, net (2)	(2,129)	—
Gain on bargain purchase	—	(22)
Income tax effect on above adjustments (3)	(359)	(82)
Adjusted net loss	\$ (10,391)	\$ (2,792)
Adjusted diluted net loss per share (4)	\$ (0.29)	\$ (0.08)

(1) Acquisition costs include legal and professional fees incurred in connection with restaurant acquisitions and in 2019, the Merger Agreement, which were included in general and administrative expense.

(2) Other income for the three months ended March 31, 2019 includes other income of \$1.9 million related to a settlement with BKC for their approval of new restaurant development by other franchisees which unfavorably impacted the Company's

restaurants, a gain on a sale-leaseback transaction of \$0.1 million, and a gain of \$0.1 million related to an insurance recovery from a fire at one of our restaurants.

- (3) The income tax effect related to the adjustments for impairment and other lease charges, gain on bargain purchase, other income and acquisition costs during the periods presented was calculated using an effective income tax rate of 25% for the three months ended March 31, 2019 and 21% for the three months ended April 1, 2018, respectively.
- (4) Adjusted diluted net loss per share is calculated based on Adjusted net loss and the dilutive weighted average common shares outstanding for the respective periods, where applicable.

Liquidity and Capital Resources

We do not have significant receivables or inventory and receive trade credit based upon negotiated terms in purchasing food products and other supplies. We are able to operate with a substantial working capital deficit because:

- restaurant operations are primarily conducted on a cash basis;
- rapid turnover results in a limited investment in inventories; and
- cash from sales is usually received before related liabilities for food, supplies and payroll are paid.

Interest payments under our debt obligations, capital expenditures including our remodeling initiatives, payments of royalties and advertising to BKC and payments related to our lease obligations represent significant liquidity requirements for us, as well as any discretionary expenditures for the acquisition or development of additional Burger King restaurants. We believe our cash balances, cash generated from our operations and availability of revolving credit borrowings under our new Senior Credit Facilities will provide sufficient cash availability to cover our anticipated working capital needs, capital expenditures and debt service requirements for the next twelve months.

Operating Activities. Net cash provided by operating activities in the first three months of 2019 decreased to \$8.0 million from \$19.8 million in the first three months of 2018 due primarily to a decrease in Adjusted EBITDA of \$5.8 million combined with a \$6.0 million reduction in working capital.

Investing Activities. Net cash used for investing activities in the first three months of 2019 and 2018 was \$15.8 million and \$18.8 million, respectively. In the first three months of 2019 we received net proceeds of \$2.3 million from one sale-leaseback transaction and received \$0.1 million of proceeds from an insurance recovery related to a fire at one of our restaurants in 2019.

The first three months of 2018 included the purchase of certain restaurant properties to be sold in sale-leaseback transactions for \$2.2 million. Investing activities in the first three months of 2018 also included net proceeds of \$1.3 million from one sale-leaseback transaction.

Capital expenditures are a large component of our investing activities and include: (1) new restaurant development, which may include the purchase of real estate; (2) restaurant remodeling, which includes the renovation or rebuilding of the interior and exterior of our existing restaurants including expenditures associated with our franchise agreement renewals and certain restaurants that we acquire; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants, and from time to time, to support BKC's initiatives; and (4) corporate and restaurant information systems, including expenditures for our point-of-sale systems for restaurants that we acquire.

The following table sets forth our capital expenditures for the periods presented (in thousands):

Three Months Ended March 31, 2019

New restaurant development	\$	5,507
Restaurant remodeling		7,607
Other restaurant capital expenditures		4,474
Corporate and restaurant information systems		587
Total capital expenditures	\$	<u>18,175</u>

Three Months Ended April 1, 2018

New restaurant development	\$	7,132
Restaurant remodeling		7,054
Other restaurant capital expenditures		3,201
Corporate and restaurant information systems		541
Total capital expenditures	\$	<u>17,928</u>

Financing Activities. Net cash provided by financing activities in the first three months of 2019 was \$5.4 million due primarily to net revolving credit borrowings of \$6.3 million net of principal payments on finance leases of \$0.5 million and costs associated with the new Senior Credit Facilities of \$0.4 million which closed on April 30, 2019. Net cash provided by financing activities in the first three months of 2018 was \$4.1 million due primarily to revolving credit borrowings of \$4.5 million net of principal payments on finance leases of \$0.4 million.

8% Senior Secured Second Lien Notes. The \$275 million principal amount of 8% Notes matured on May 1, 2022. Interest was payable semi-annually on May 1 and November 1. The 8% Notes were guaranteed by our material subsidiaries and were secured by second-priority liens on substantially all of our and our subsidiaries' assets (including a pledge of all of the capital stock and equity interests of our subsidiaries).

The 8% Notes were redeemable at our option in whole or in part at any time after May 1, 2018 at a price of 104% of the principal amount plus accrued and unpaid interest, if any, if redeemed before May 1, 2019, 102% of the principal amount plus accrued and unpaid interest, if any, if redeemed after May 1, 2019 but before May 1, 2020 and 100% of the principal amount plus accrued and unpaid interest, if any, if redeemed after May 1, 2020.

The 8% Notes were jointly and severally guaranteed, unconditionally and in full by our subsidiaries which are directly or indirectly 100% owned by us. Separate condensed consolidating information is not included because Carrols Restaurant Group is a holding company that has no independent assets or operations. There are no significant restrictions on our ability or any of the guarantor subsidiaries' ability to obtain funds from its respective subsidiaries. All consolidated amounts in our financial statements are representative of the combined guarantors.

The indenture governing the 8% Notes included certain covenants, including limitations and restrictions on our and our subsidiaries who are guarantors under such indenture to, among other things: incur indebtedness or issue preferred stock; incur liens; pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments; sell assets; agree to payment restrictions affecting certain subsidiaries; enter into transaction with affiliates; or merge, consolidate or sell substantially all of our assets.

The indenture governing the 8% Notes and the security agreement provided that any capital stock and equity interests of any of our subsidiaries would be excluded from the collateral to the extent that the par value, book value or market value of such capital stock or equity interests exceeds 20% of the aggregate principal amount of the 8% Notes then outstanding.

The indenture governing the 8% Notes contained customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under the 8% Notes and the indenture governing the 8% Notes if there is a default under any of our indebtedness having an outstanding principal amount of \$20.0 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due.

See " - Redemption of 8% Notes".

Prior Senior Credit Facility. On May 30, 2012, we entered into a senior credit facility, which was most recently amended on June 20, 2017 to increase the permitted indebtedness of our second lien notes to a principal amount not to exceed \$300.0 million in order to provide for the additional \$75 million principal amount of the 8% Notes issued on June 23, 2017. Previously, on January 13, 2017, we entered into an amendment to our senior credit facility to, among other things, increase maximum revolving credit borrowings to \$73.0 million (including \$20.0 million available for letters of credit). The amended senior credit facility also provided for potential incremental borrowing increases of up to \$25.0 million, in the aggregate. As of March 31, 2019, there were \$6.3 million revolving credit borrowings outstanding and \$11.6 million of letters of credit were issued under the senior credit facility. After reserving for issued letters of credit, \$55.1 million was available for revolving credit borrowings under the amended senior credit facility at March 31, 2019.

Borrowings under the prior senior credit facility bore interest at a rate per annum, at our option, of:

- (i) the Alternate Base Rate plus the applicable margin of 1.75% to 2.75% based on our Adjusted Leverage Ratio, or
- (ii) the LIBOR Rate plus the applicable margin of 2.75% to 3.75% based on our Adjusted Leverage Ratio (all terms as defined under the senior credit facility).

At March 31, 2019 our LIBOR Rate margin was 2.75% and the Alternate Base Rate margin was 1.75% based on our Adjusted Leverage Ratio at the end of the fourth quarter of 2018.

Our obligations under the prior senior credit facility were jointly and severally guaranteed by our subsidiaries and were secured by first priority liens on substantially all of our assets, including a pledge of all of the capital stock and equity interests of our subsidiaries.

Under the amended senior credit facility, we were required to make mandatory prepayments of borrowings in the event of dispositions of assets, debt issuances and insurance and condemnation proceeds (all subject to certain exceptions).

The amended senior credit facility contained certain covenants, including without limitation, those limiting our and our subsidiaries' ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of its business in all material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends. In addition, the amended senior credit facility required us to meet certain financial ratios, including a Fixed Charge Coverage Ratio, Adjusted Leverage Ratio and First Lien Leverage Ratio (all as defined under the amended senior credit facility). We were in compliance with the financial covenants under our senior credit facility at March 31, 2019.

The amended senior credit facility contained customary default provisions, including that the lenders may terminate their obligation to advance and may declare the unpaid balance of borrowings, or any part thereof, immediately due and payable upon the occurrence and during the continuance of customary defaults which include, without limitation, payment default, covenant defaults, bankruptcy type defaults, cross-defaults on other indebtedness, judgments or upon the occurrence of a change of control.

See " - Refinancing of Indebtedness and New Senior Credit Facilities".

Contractual Obligations

A table of our contractual obligations as of December 30, 2018 was included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. Except as follows, there have been no significant changes to our contractual obligations during the three months ended March 31, 2019.

Effective December 31, 2018, the first day of fiscal 2019, we adopted ASC Topic 842, *Leases*, which resulted in recognition of additional net lease liabilities of approximately \$542.9 million. Refer to Item 1. Financial Statements – Note 6 – Leases for additional information regarding the adoption of ASC Topic 842.

Inflation

The inflationary factors that have historically affected our results of operations include increases in food and paper costs, labor and other operating expenses, the cost of providing medical and prescription drug insurance to our employees and energy costs. Wages paid in our restaurants are impacted by changes in the Federal and state hourly minimum wage rates and the Fair Labor Standards Act. Accordingly, changes in the Federal and state hourly minimum wage rates and increases in the wage level to not be considered an hourly employee will directly affect our labor costs. We typically attempt to offset the effect of inflation, at least in part, through periodic menu price increases and various cost reduction programs. However, no assurance can be given that we will be able to offset such inflationary cost increases in the future.

Application of Critical Accounting Policies

Our unaudited condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the “Significant Accounting Policies” footnote in the notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. Critical accounting estimates are those that require application of management’s most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Except as set forth below, there have been no material changes affecting our critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

Effective December 31, 2018, the first day of fiscal 2019, we adopted ASC Topic 842, *Leases*, which resulted in changes to our critical accounting policy relating to lease accounting. Refer to Item 1. Financial Statements – Note 1 – Basis of Presentation for additional information regarding the new and updated policies as a result of the adoption of ASC Topic 842.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. These statements are often identified by the words “may”, “might”, “will”, “should”, “anticipate”, “believe”, “expect”, “intend”, “estimate”, “hope”, “plan” or similar expressions. In addition, expressions of our strategies, intentions or plans are also forward looking statements. These statements reflect management’s current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected or implied in the forward-looking statements. We have identified significant factors that could cause actual results to differ materially from those stated or implied in the forward-looking statements. We believe important factors that could cause actual results to differ materially from our expectations include the following, in addition to other risks and uncertainties discussed herein and in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018:

- *Effectiveness of the Burger King® advertising programs and the overall success of the Burger King brand;*
- *Increases in food costs and other commodity costs;*
- *Competitive conditions, including pricing pressures, couponing, aggressive marketing and the potential impact of competitors new unit openings on sales of our restaurants;*
- *Our ability to integrate any restaurants we acquire;*
- *Regulatory factors;*

- *Environmental conditions and regulations;*
- *General economic conditions, particularly in the retail sector;*
- *Weather conditions;*
- *Fuel prices;*
- *Significant disruptions in service or supply by any of our suppliers or distributors;*
- *Changes in consumer perception of dietary health and food safety;*
- *Labor and employment benefit costs, including the effects of minimum wage increases, health care reform and changes in the Fair Labor Standards Act;*
- *The outcome of pending or future legal claims or proceedings;*
- *Our ability to manage our growth and successfully implement our business strategy;*
- *Our inability to service our indebtedness;*
- *Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;*
- *The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties; and*
- *Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if our products cause injury, ingredient disclosure and labeling laws and regulations, reports of cases of food borne illnesses such as "mad cow" disease, and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as negative publicity regarding food quality, illness, injury or other health concerns.*

ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes from the information presented in Item 7A included in our Annual Report on Form 10-K for the year ended December 30, 2018 with respect to our market risk sensitive instruments.

A 1% change in interest rates would have resulted in a nominal change to interest expense for both the three months ended March 31, 2019 and April 1, 2018, respectively.

ITEM 4—CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Our senior management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures. We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2019.

Changes in Internal Control. Except as set forth below, during the first quarter of 2019, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the three months ended March 31, 2019, we updated our lease accounting system and implemented a new lease accounting process in response to the adoption of ASU No. 2016-02, effective December 31, 2018, the first day of fiscal 2019. These implementations resulted in a material change in a component of our internal control over financial reporting. The operating effectiveness of these changes to our internal control over financial reporting were evaluated as part of our quarterly assessment of the effectiveness of internal control over financial reporting as of the three months ended March 31, 2019.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to various litigation matters that arise in the ordinary course of business. We do not believe that the outcome of any of these other matters meet the disclosure or recognition standards, nor will they have a material adverse effect on our consolidated financial statements.

Item 1A. Risk Factors

Part I-Item 1A of Annual Report on Form 10-K for the fiscal year ended December 30, 2018 describes important factors that could materially adversely affect our business, consolidated financial condition or results of operations or cause our operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time-to-time. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) The following exhibits are filed as part of this report.

Exhibit No.

10.1	Development Agreement dated as of October 9, 2017 between Popeyes Louisiana Kitchen, Inc. and Cambridge Quality Chicken, LLC
10.2	First Amendment to Development Agreement dated as of June 27, 2018 among Popeyes Louisiana Kitchen, Inc. and Cambridge Quality Chicken, LLC, Frayser Quality, LLC, Cambridge Chicken Holdings, LLC, Matt Perelman and Alex Sloane
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.1	Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.2	Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CARROLS RESTAURANT GROUP, INC.

Date: May 10, 2019

/s/ Daniel T. Accordino

(Signature)

Daniel T. Accordino
Chief Executive Officer

Date: May 10, 2019

/s/ Paul R. Flanders

(Signature)

Paul R. Flanders
Vice President, Chief Financial Officer and Treasurer



POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

Between

POPEYES LOUISIANA KITCHEN, INC.

and

CAMBRIDGE QUALITY CHICKEN, LLC

Dev. Agr. No.: 3385 No. Options: 70 Date: October 9,
2017

Exclusive Non-Exclusive

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

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EXHIBIT “A” – DEVELOPMENT SCHEDULE

EXHIBIT “B” – DESCRIPTION OF DEVELOPMENT AREA EXHIBIT “C” – LEASE ADDENDUM

EXHIBIT “D” – ROFR PROCEDURES

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

THIS AGREEMENT (the “**Agreement**”), made this 9th day of October, 2017, by and between **POPEYES LOUISIANA KITCHEN, INC.**, a Minnesota corporation, with its principal place of business at 400 Perimeter Center Terrace, Suite 1000, Atlanta, Georgia 30346, U.S.A. (“**Franchisor**” or “**Popeyes**”) and **CAMBRIDGE QUALITY CHICKEN, LLC**, a Delaware limited liability company, with its principal place of business at 8010 Stage Hills Blvd., Bartlett, Tennessee 38133 (“**Developer**”).

WITNESSETH:

WHEREAS, Franchisor has developed and owns a unique system for opening and operating restaurants (“**Popeyes Restaurant(s)**”) specializing in the preparation, merchandising, advertising and sale of “Louisiana” style menu items that include spicy chicken, biscuits, fried shrimp and other seafood, red beans and rice and other quick-service menu items developed and owned by Franchisor (the “**Popeyes System**” or “**System**”)

WHEREAS, the distinguishing characteristics of the Popeyes System include the names “Popeyes”, “Popeyes Chicken and Biscuits” and “Popeyes Louisiana Kitchen”; specially designed buildings, distinctive interior and exterior layouts, trade dress, decor, color schemes, and furnishings; confidential food and beverage formulas and recipes; specialized menus; and standards and specifications for equipment, equipment layouts, products, operating procedures, and training programs, all of which may be changed, improved, and further developed by Franchisor from time to time;

WHEREAS, Franchisor identifies the Popeyes System by means of certain trade names, service marks, trademarks, logos, emblems, and other indicia of origin, including the marks “Popeyes”, “Popeyes Chicken and Biscuits” and “Popeyes Louisiana Kitchen” and such other trade names, service marks, trademarks and trade dress as are now, or may hereafter, be designated by Franchisor for use in connection with the Popeyes System (collectively referred to as the “**Proprietary Marks**”);

WHEREAS, Franchisor continues to develop, use, and control the use of the Proprietary Marks in order to identify for the public the source of services and products marketed thereunder in the Popeyes System and to represent the Popeyes System’s high standards of quality, appearance, and service;

WHEREAS, Developer wishes to be assisted, trained and licensed by Franchisor as a Popeyes developer and franchisee and licensed to use, in connection therewith, the Proprietary Marks;

WHEREAS, Developer understands the importance of the Popeyes System and Popeyes high and uniform standards of quality, cleanliness, appearance, and service, and the necessity of

opening and operating Developer's Popeyes Restaurants in conformity with the Popeyes System; and

WHEREAS, Developer wishes to obtain the right to develop Popeyes Restaurants ("**Franchised Units**") in the area described in this Agreement and to use the Popeyes System in connection with those Franchised Units;

NOW, THEREFORE, the parties hereto agree as follows:

I. GRANT

1.01. Franchisor hereby grants to Developer during the Development Term (as defined below), subject to the terms and conditions of this Agreement and as long as Developer shall not be in default of any material term of this Agreement or any other development, franchise or other agreement between Developer and Franchisor (or any parent, subsidiary or affiliate of Franchisor beyond applicable cure period), **non-exclusive** development rights to obtain franchises to establish and operate new Franchised Units, and to use the Popeyes System solely in connection therewith, at specific locations to be designated in separate franchise agreements ("**Franchise Agreements**"), executed as provided in Section 3.01. of this Agreement, and pursuant to the schedule set forth in **Exhibit "A"** to this Agreement ("**Development Schedule**"). Developer acknowledges and agrees that (i) it shall develop and open for business and keep open pursuant to the terms of this Agreement and each Franchise Agreement the minimum number of new Franchised Units in the Development Area in strict compliance with the Development Schedule (including each Year's Cumulative Net Opening Target (as defined in **Exhibit "A"** attached hereto)), and (ii) Developer's failure to do so shall constitute a default of this Agreement. Each Franchised Unit developed pursuant to this Agreement shall be located in the area described in **Exhibit "B"** to this Agreement ("**Development Area**"). The term of this Agreement ("**Development Term**") begins on the date of this Agreement and expires on December 31, 2024. There is no renewal term for this Agreement.

1.02. Other than the provision of a ROFR by Franchisor pursuant to **Exhibit "D"**, this Agreement is non-exclusive. Franchisor retains the right at all times to establish and/or to license others to establish Franchised Units anywhere in the Development Area during or after the Development Term.

1.03. Each Franchised Unit for which a development right is granted hereunder shall be established and operated pursuant to a Franchise Agreement to be entered into between Developer and Franchisor in accordance with Section 3.01. hereof.

1.04. This Agreement is not a Franchise Agreement, and does not grant Developer any right to use Franchisor's Proprietary Marks or the Popeyes System, but merely sets forth the terms and conditions under which Developer will be entitled to obtain a Franchise Agreement.

1.05. Developer shall have no right under this Agreement to license others under the Proprietary Marks or to use the Popeyes System.

II. FRANCHISE FEES

In consideration of the development rights granted herein and for administrative and other expenses incurred by Franchisor and for the development opportunities lost or deferred as a result of the rights granted Developer herein, and in consideration of the franchise granted to Developer under each Franchise Agreement, for the first Year (as defined in the Development Schedule) and each Year thereafter during the Development Term, Developer shall pay Franchise Fees to Franchisor in an aggregate amount equal to \$50,000 *multiplied by* the Net Opening Target for the Year in question (each, a “Franchise Fee Prepayment”).

Each Franchise Fee Prepayment shall serve as a credit towards the Franchise Fees of \$50,000 due from Developer to Franchisor for the opening of each Franchised Unit for the applicable Year. Upon the execution of each Franchise Agreement, Franchisor will apply \$50,000 from the previously made Franchise Fee Prepayment as payment for the Franchise Fee owed by Developer for the applicable Franchised Unit until the full amount of the Franchise Fee Prepayment is applied.

Each Franchise Fee Prepayment shall be non-refundable, deemed fully earned by Franchisor upon payment, and paid in two equal installments, with the first installment coming due on or before January 1 of the Year in question, and the second installment due on or before July 1 of the Year in question; provided, that, (i) if Developer desires to enter into a Franchise Agreement but it does not have a credit in place from an installment of a Franchise Fee Prepayment paid to Franchisor, then Franchisor shall have no obligation to enter into such Franchise Agreement until Developer pays to Franchisor a Franchise Fee in immediately available funds in the amount of \$50,000, which shall be non-refundable, and (ii) such \$50,000 Franchise Fee payment may be deducted from the next Franchise Fee Prepayment installment due from Developer to Franchisor in accordance with this Agreement.

By way of example only, for Year 2018, Developer shall pay to Franchisor a Franchise Fee Prepayment of \$500,000, payable as follows: on or before January 1, 2018, Developer shall pay to Franchisor an amount equal to \$250,000, and on or before July 1, 2018, Developer shall pay to Franchisor an additional amount equal to \$250,000. However, if Developer desires to enter into a Franchise Agreement prior to January 1, 2018, then Developer shall be obligated to pay a \$50,000 Franchise Fee to Franchisor at the signing of such Franchise Agreement, and such \$50,000 Franchise Fee may be deducted from Developer’s Franchise Fee Prepayment installment due on January 1, 2018 (which would be \$200,000).

III. DEVELOPMENT SCHEDULE

3.01. Developer shall exercise each development right granted herein only by executing a franchise agreement (“**Franchise Agreement**”) for each Franchised Unit for a site accepted by Franchisor in the Development Area as hereinafter provided. Developer’s right to execute such a Franchise Agreement shall be contingent upon Developer’s performance of all of the terms and

conditions of this Agreement and any other development, franchise or other agreements between Developer and Franchisor. The Franchise Agreement for each Franchised Unit developed pursuant to this Agreement shall be in the form of Franchisor's then current Franchise Agreement; provided, however: (i) the recurring, non-refundable royalty fee payable pursuant to the Franchise Agreement shall be five percent (5%) of Gross Sales (as defined in Franchisor's current form of Franchise Agreement included in Franchisor's Disclosure Document issued March 27, 2017, and (ii) to the extent the terms of Franchisor's then current Franchise Agreement are inconsistent with this Agreement, this Agreement shall control.

3.02. Recognizing that time is of the essence in this Agreement, Developer agrees to exercise the development rights granted hereunder in the manner specified in Section IV hereof and to satisfy the Development Schedule. Failure by Developer to adhere to the Development Schedule shall constitute a default under this Agreement, as provided in Section 5.03. hereof.

3.03. Developer further acknowledges and agrees that following the date of this Agreement, Franchisor intends to establish (or, alternatively, if currently in existence, Franchisor intends to continue to maintain) an advertising cooperative in each designated market area, as defined by Nielsen Media Research, Inc. ("**DMA**"), in which a Franchised Unit is located or to be located, at which time Developer shall be obligated to make a cooperative contribution in an amount that is not less than the amount designated by such cooperative, based upon a percentage of such Franchised Unit's Gross Sales for the preceding week, payable weekly (or on such other basis as may be set forth in the Manual or otherwise agreed to in writing by Franchisor). Such cooperative contribution shall be sent to Franchisor together with the Advertising Fund Contributions of 4% of Gross Sales (as defined in Franchisor's current form of Franchise Agreement included in Franchisor's Disclosure Document issued March 27, 2017), and will be allocated by Franchisor to the applicable advertising cooperative account, which will be administered by Franchisor. Developer also acknowledges and agrees that (i) Developer shall make such cooperative contributions until such time otherwise provided by Franchisor in writing, (ii) such cooperative contributions are the "Co-op Contributions" under and as governed by the applicable Franchise Agreement and are in addition to (and not in lieu of) any other separate payments, fees, or contributions provided for under any Franchise Agreement (including the Royalty Fees and the Advertising Fund Contributions), and (iii) Developer's failure to make any such cooperative contribution shall be deemed a default of the applicable Franchise Agreement. Developer further covenants to Franchisor that Developer shall, for the entire term of each Franchise Agreement (including any renewals, if any), cast its votes in each advertising cooperative in each DMA relating to each Franchised Unit in favor of an above-the-fund local advertising cooperative rate that is equal to or greater than 1.0% of such Franchised Unit's Gross Sales.

IV. FRANCHISED UNIT OPENINGS

4.01. Developer shall submit a complete site acceptance request package for each Franchised Unit for review by Franchisor, together with such site information as required by Franchisor to evaluate the proposed site. Franchisor shall, provided there then exists no default by Developer under this Agreement or any other development, franchise or other agreement between Developer and Franchisor, evaluate each site, proposed site plan, floor plan, and elevations proposed

for which Developer has provided all necessary evaluation information, and shall promptly (but not more than (i) at all times on or before December 31, 2018, thirty (30) days, and (ii) at all times on or after January 1, 2019, forty-five (45) days, in either case, after receipt of Developer's complete site acceptance request package (including the proposed site plan, floor plan and elevations)) send to Developer written notice of acceptance or non-acceptance of the site plans and evaluations; provided, that, Developer acknowledges and agrees that the foregoing shall be subject to the requirements of Franchisor's impact policy standards, and in the event an impact study analysis is requested under such policy, such notice of acceptance or non-acceptance may be delayed by thirty (30) to forty-five (45) additional days. Developer's receipt of Franchisor's written notice of acceptance only shall serve to constitute acceptance of a site. Developer agrees that Franchisor may refuse to accept a site for a proposed Franchised Unit for any reason, in Franchisor's sole judgment applying standards consistent with criteria Franchisor uses to approve sites in other comparable market areas, including Developer's failure to demonstrate sufficient financial capabilities to properly develop, operate and maintain the proposed Franchised Unit. To this end, Developer shall furnish Franchisor with such financial statements and other information regarding Developer and the development and operation of the proposed Franchised Unit, as Franchisor reasonably may require. Site acceptance does not assure that a Franchise Agreement will be executed. Franchisor's acceptance of one or more sites is not a representation or a promise by Franchisor that a Franchised Unit at the accepted site will achieve a certain sales volume or a certain level of profitability. Similarly, Franchisor's acceptance of one or more sites and its refusal to accept other sites is not a representation or a promise that an accepted site will have a higher sales volume or be more profitable than a site which Franchisor did not accept. Franchisor assumes no liability or responsibility for: (i) evaluation of an accepted site's soil for hazardous substances; (ii) inspection of any structure on the accepted site for asbestos or other toxic or hazardous materials; (iii) compliance with the Americans With Disabilities Act ("**ADA**"); or (iv) compliance with any other applicable law. It is Developer's sole responsibility to obtain satisfactory evidence and/or assurances that the accepted site (and any structures thereon) is free from environmental contamination and in compliance with the requirements of the ADA.

4.02. Developer and Franchisor each agrees as follows:

A. Within ninety (90) days after notice of Franchisor's site acceptance, Developer shall submit, in writing to Franchisor, satisfactory proof to Franchisor that Developer:

1. owns the accepted site at which the Franchised Unit is to be developed and operated (the "**Franchised Location**");
 2. has leased the Franchised Location for a term which, with renewal options, is not less than the initial term of the Franchise Agreement; or
 3. has entered into a written agreement to purchase or to lease the Franchised Location on terms provided herein, subject only to obtaining necessary governmental permits. The proof required by this Section includes submission of executed copies of all leases and deeds, as well as all governmental approvals if
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effectiveness of the leases or deeds is conditioned thereon. Notwithstanding the foregoing, Developer shall not be deemed to be in default under this Agreement if Developer's written agreement to purchase or to lease the Franchised Location is subject to other commercially reasonable contingencies and conditions to closing.

If Developer proposes to lease or sublease the Franchised Location, the lease or sublease shall not contain any covenants, use clauses or other obligations that would prevent Developer from performing its obligations under this Agreement. Any lease, sublease, or lease memorandum for the Franchised Location shall contain an addendum substantially in the form attached hereto as **Exhibit "C"** or language in the body of such document containing the provisions substantially in the form of the addendum. The addendum includes provisions providing certain rights to Franchisor, including among other things: (i) certain assignment rights related to Franchisor and other Popeyes franchisees; (ii) Franchisor rights upon uncured defaults of the lease/sublease; and (iii) de-identification rights upon expiration and/or termination of the lease/sublease. Additionally, any lease, sublease, or lease memorandum for the Franchised Location shall contain provisions that satisfy the following requirements during the entire term of the lease/sublease, including any renewal terms:

a. The landlord consents to Developer's use of the proprietary signs, distinctive designs and layouts of the Popeyes System, the Proprietary Marks, and upon expiration or the earlier termination of the lease, consents to permit Developer, at Developer's expense, to remove all such items and other trade fixtures, so long as Developer makes repairs to the building caused by such removal.

b. The landlord agrees that Developer shall be solely responsible for all obligations, debts and payments under the lease.

c. The landlord agrees not to amend or otherwise modify the lease in any manner that would affect any of the foregoing requirements, including the lease addendum, without the prior written consent of Franchisor, which consent shall not be unreasonably withheld.

B. Developer shall be obligated to prepare final and complete plans and specifications for the construction (whether in connection with new construction, renovation, or otherwise) and decoration of the Franchised Unit, which must be in conformity with Franchisor's standards and specifications for Franchised Units, as set out in the plans and specifications made available to Developer as described below, the Manual (as defined in the Franchise Agreement) or otherwise in writing (the "**Construction Plans**"). Franchisor will make available to Developer standard plans and specifications to be utilized only in the development of Developer's Construction Plans for the Franchised Unit. Developer may not modify or deviate from such standard plans and specifications or Developer's approved equipment plan (including any modifications or deviations that may be required by local or state laws, regulations or ordinances) without Franchisor's prior written consent.

1. The final Construction Plans for new, freestanding construction shall include survey, site plan and details, utility plan and details, paving and grading plan and details, storm drainage plan and details, site lighting plan, landscape and irrigation plans, foundation plan and details and other documents required by local regulation as well as a complete set of the standard plans site- adapted and sealed by Developer's architect at Developer's cost to meet local regulation.

2. The final Construction Plans for conversions or completion of existing buildings must include a site plan with dimensioned drive-thru details, dimensioned floor plan, reflected ceiling plan, material and fixture schedules, equipment plan and schedule, dimensioned exterior elevations and details, exterior finish schedule, dimensioned interior elevations and details, interior finish schedule, core drill plan, kitchen equipment elevations including utility rough-in dimensions, dimensioned plumbing and electrical plans and fixture schedules, low-voltage schematic plans and elevations, electrical panel schedule, mechanical plan, hood details including fire suppression system, HVAC equipment schedule (existing or new), and any other documents required by local regulation.

3. For each Franchised Unit to be developed hereunder, Franchisor shall provide Developer up to two (2) equipment layout drawings for an accepted site in the most recent version of AutoCAD within ten (10) business days after receipt of Developer's existing conditions plan for such site in AutoCAD (or, alternatively, if such site is vacant with no structures or improvements, an AutoCAD survey of such site).

4. Developer assumes all cost, liability and expense for developing, constructing and equipping the Franchised Units. It shall be Developer's responsibility to have prepared Construction Plans to suit the shape and dimensions of the Franchised Location and Developer shall ensure that the Construction Plans comply with applicable ordinances, ADA requirements, building codes and permit requirements and with lease requirements and restrictions. Developer shall obtain and use only registered architects, registered engineers, and professional and licensed contractors who demonstrate to Franchisor's reasonable satisfaction the ability to meet Franchisor's reasonable quality standards (as determined by Franchisor in its reasonable discretion), in each case, to prepare the Construction Plans (including surveys and site and foundation plans), to adapt the Construction Plans to applicable local or state laws, regulations or ordinances, and to construct the Franchised Unit. Developer shall bear all costs and expenses incurred in connection with the preparation of all Construction Plans (including the costs and expenses incurred for any plans containing deviations or modifications from Franchisor's standard plans and specifications).

5. Developer shall submit all Construction Plans to Franchisor in PDF and AutoCAD format promptly upon Developer's receipt of its building permit. Franchisor shall evaluate Developer's Construction Plans to determine whether such

plans conform to Franchisor's standard plans, brand image, approval equipment plan, or completeness. If appropriate, Franchisor will approve Developer's Construction Plans. Franchisor assumes no liability for the adequacy of any Construction Plan.

6. The Franchised Unit may not open if construction has not been performed in substantial compliance with Developer's Construction Plans as approved by Franchisor. This Agreement may be terminated if such non-compliance is not cured within a commercially reasonable amount of time.

C. Within ninety (90) days after notice of Franchisor's site acceptance, Developer shall execute the Franchise Agreement, if one has not already been executed, and pay all fees required thereunder unless already paid pursuant to this Agreement. Notwithstanding the foregoing, Developer shall not be required to execute a Franchise Agreement prior to closing on the purchase or lease of the site. Each of Matt Perelman and Alex Sloane (collectively, "**Owners**") shall jointly and severally guarantee Developer's payment and performance under this Agreement and also shall bind themselves to the terms of this Agreement pursuant to a Guaranty and Subordination, in a form acceptable to Franchisor. Franchisor reserves the right, in its sole discretion, from time to time upon consideration of certain circumstances presented by Developer such as for family estate planning purposes, to waive the requirement that some or all of the previously described individuals execute the Guaranty and Subordination. Franchisor reserves the right to require any guarantor to provide personal financial statements to Franchisor from time to time in Franchisor's reasonable discretion.

4.03. Developer shall procure the insurance coverage provided for in Section XI of the Franchise Agreement, prior to commencement of construction of a Franchised Unit, and shall maintain such insurance coverage throughout the term of the Franchise Agreement.

4.04. Developer shall (i) commence construction or renovation of each Franchised Unit within fifteen (15) days after issuance of all requisite construction permits (provided that Franchisor's approval of Developer's Construction Plans has been obtained) and (ii) promptly notify Franchisor of each construction commencement date. Notwithstanding the foregoing, Developer shall not be deemed to be in default under this Agreement if Developer commences construction of a Franchised Unit after such fifteen (15) day period provided Developer commences construction of the Franchised Unit a reasonable time thereafter. Developer shall at all times, use its best efforts to obtain all necessary construction permits in order to avoid delays in the commencement of construction or renovation of the Franchised Units. In the construction of each Franchised Unit, Developer shall only use general contractors and architects duly licensed by the jurisdiction in which the Franchised Unit is to be constructed or renovated and (upon Franchisor's request) approved, in writing, by Franchisor. If commencement of construction or renovation is delayed by a cause beyond the reasonable control of Developer, the date upon which commencement of construction or renovation is to begin may be extended by obtaining written approval of Franchisor.

4.05. Subject to a Force Majeure Event (as defined below), Developer shall have completed construction or renovation and commenced operation of the Franchised Unit within three hundred

sixty (360) days from execution of the Franchise Agreement. Franchisor may, in its sole discretion, extend this period to address unforeseen construction delays, not within the control of Developer. Nothing herein shall be deemed to relieve Developer of the obligation of complying with the Development Schedule. Any delay resulting from any Force Majeure Event shall extend performance or excuse performance, in whole or in part, as reasonably determined by Franchisor according to the applicable circumstances. As used above, the term “Force Majeure Event” shall mean any of the following events: acts of God, earthquake, blizzard or flood, fires, embargoes, trade sanctions, technological disaster, war, riot or terrorist acts.

4.06. At least forty-five (45) days prior to the proposed commencement of operation of each Franchised Unit, Developer shall notify Franchisor in writing of such proposed opening. Upon receipt of such notice, Franchisor shall provide a representative to be present at the opening of the first Franchised Unit. Each Franchised Unit shall not open until Developer has received Franchisor’s prior written approval to open.

V. DEFAULT AND TERMINATION

5.01. The rights granted to Developer in this Agreement have been granted based upon Developer’s representations and assurances, among others, that the conditions set forth in Sections III and IV of this Agreement will be met by Developer in a timely manner.

5.02. Developer shall be deemed to be in default under this Agreement, and all rights granted herein shall automatically terminate without notice to Developer, if Developer shall become insolvent or make a general assignment for the benefit of creditors; if a petition in bankruptcy is filed by Developer or such a petition is filed against Developer and not opposed by Developer; or if Developer is adjudicated bankrupt or insolvent; or if a receiver or other custodian (permanent or temporary) of Developer’s assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under the applicable law of any jurisdiction should be instituted by or against Developer; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless a supersedeas bond is filed); or if Developer is dissolved; or if execution is levied against Developer’s property or business; or if suit to foreclose any lien or mortgage against the premises or equipment of any Franchised Unit developed hereunder is instituted against Developer and not dismissed within thirty (30) days; or if the real or personal property of any Franchised Unit developed hereunder shall be sold after levy thereupon by any sheriff, marshal, or constable.

5.03. If Developer fails to comply with the Development Schedule (including any Year’s Cumulative Net Opening Target) or any other material term of this Agreement, fails to obtain Franchisor’s acceptance of a site or approval of construction plans and proceeds to commence construction of a Franchised Unit at the site, utilizes construction plans that do not conform to Franchisor’s approved standards and specifications, or fails to comply with any material term or condition of any Franchise Agreement covering a Franchised Unit established hereunder, or any other agreement between Developer or any affiliate of Developer and Franchisor or any affiliate of Franchisor, such action shall constitute a default under this Agreement. Upon such default,

Franchisor, in its discretion, may, effective immediately upon the mailing of written notice by Franchisor to Developer, do any one or more of the following:

- A. Terminate this Agreement and all rights granted hereunder without affording Developer any opportunity to cure the default;
- B. Reduce the number of Franchised Units which Developer may establish pursuant to Section 1.01. of this Agreement; or
- C. Withhold evaluation or approval of site proposal packages and refuse to permit the opening of any Franchised Unit then under construction or otherwise not ready to commence operations.

In addition to the foregoing, Developer also acknowledges and agrees as follows:

- i. If Developer fails to comply with the Development Schedule for a certain Year, then Developer shall be obligated (upon notice from Franchisor) to pay to Franchisor an amount from Developer equal to the Franchise Fee Prepayment for the immediately following Year. For the avoidance of doubt, Developer will not be required to pay to Franchisor any Franchise Fee Prepayment for any other subsequent Year. By way of example only, if Developer does not achieve the Cumulative Net Opening Target for Year 2019, then Developer shall be obligated to pay to Franchisor an aggregate amount of \$500,000, which is equal to the Franchise Fee Prepayment for Year 2020 (but Developer will not be required to pay to Franchisor the Franchise Fee Prepayment for Years 2021, 2022, or 2023). In the event Developer pays to Franchisor a Franchise Fee Prepayment for a certain Year and this Agreement is terminated during such Year, then (i) Developer shall have a credit for that portion of the Franchise Fee Prepayment that has not yet been applied by Franchisor for new Franchised Units, regardless of whether the Net Opening Target has been met for the Year in question, and (ii) if any portion of such credit remains unapplied by Developer within 12 months following the termination date of this Agreement, then such unapplied portion of the credit shall automatically expire (without any further action by or notice from Franchisor). By way of example only, suppose that as of September 1, 2019, (i) Developer has paid to Franchisor a Franchise Fee Prepayment of \$500,000 for Year 2019; (ii) Developer has developed and opened two (2) new Franchised Units; and (iii) Franchisor has applied \$100,000 of the \$500,000 Franchise Fee Prepayment for Year 2019 to those two (2) Franchised Units, leaving \$400,000 of the Franchise Fee Prepayment that has not yet been applied. If Developer terminates this Agreement on September 1, 2019, Developer will have a credit of \$400,000 to be applied to Franchise Fees payable by Developer to Franchisor for eight (8) new Popeyes restaurants to be developed by Developer in accordance with Franchisor's then-current standards and requirements for new restaurant development. Any portion of that \$400,000 credit that, as of September 1, 2020, has not yet been applied to the Franchise Fees for new Popeyes restaurant development will automatically expire; and
 - ii. Franchisor shall be entitled to pursue any other remedies available hereunder or at law or in equity.
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5.04. Upon termination of this Agreement, Developer shall have no right to establish or operate any Franchised Unit for which a Franchise Agreement has not been executed by Franchisor and delivered to Developer at the time of termination; and Franchisor shall be entitled to establish, and to license others to establish, Franchised Units in the Development Area, except as may be provided under any other agreement which is then in effect between Franchisor and Developer.

5.05. An act or omission that constitutes a default under this Agreement but not a default under an existing Franchise Agreement between the parties hereto shall not constitute a default under such Franchise Agreement.

5.06. The parties to this Agreement acknowledge and agree that upon Franchisor's receipt of (i) a non-refundable early termination fee in the amount of \$500,000.00 in immediately available funds (which early termination fee shall be in addition to and not in lieu of any other amount(s) that may be owed by Developer to Franchisor, whether under this Agreement, any Franchise Agreement, or any other agreement between Developer and Franchisor), and (ii) a general release of all claims that Developer may have against Franchisor (in form and substance reasonably satisfactory to Franchisor), Developer may terminate this Agreement. Notwithstanding such termination, Developer shall continue to be bound by and will comply with all of the requirements of this Agreement that by their nature are intended to survive the termination or expiration of this Agreement (including the covenants against competition, the obligation to defend, indemnify and hold harmless Franchisor from matters resulting from or alleged to have resulted from or in connection with Developer's operation of any Franchised Unit, and against disclosure of confidential information as specified therein).

VI. TRANSFERABILITY OF INTEREST

6.01. Transfer by Franchisor. This Agreement shall inure to the benefit of the successors and assigns of Franchisor. Franchisor shall have the right to transfer or assign its interest in this Agreement to any person, persons, partnership, association, corporation or other entity. If Franchisor's assignee assumes all of the obligations of Franchisor hereunder and sends Developer written notice of the assignment so attesting, Developer agrees promptly to execute a general release of Franchisor, and any affiliates of Franchisor, from claims or liabilities of Franchisor under this Agreement.

6.02. Transfer by Developer. Developer understands and acknowledges that the rights and duties set forth in this Agreement are personal to Developer, and that Franchisor has granted this Agreement in reliance on Developer's business skill and financial capacity. Accordingly, neither (i) Developer, nor (ii) any immediate or remote successor to Developer, nor (iii) any individual, partnership, corporation or other legal entity which directly or indirectly owns any interest in Developer or in this Agreement, shall sell, assign, transfer, convey, donate, pledge, mortgage, or otherwise encumber any direct or indirect interest in this Agreement or in Developer without the prior written consent of Franchisor, which consent may be withheld by Franchisor at its sole discretion. Any purported assignment or transfer, by operation of law or otherwise, not having the written consent of Franchisor as described above, shall be null and void, and shall constitute a

material breach of this Agreement, for which Franchisor may then terminate without opportunity to cure pursuant to Section 5.03. of this Agreement. Developer understands and acknowledges that individual development rights to obtain franchises to establish and operate Franchised Units may not be transferred except in connection with an approved transfer of this Agreement, together with all remaining development options due to be developed under this Agreement, in accordance with the conditions set forth herein.

Notwithstanding anything herein to the contrary, the owners of the direct or indirect equity interests in Developer may sell, assign, transfer, convey, donate, pledge, mortgage or otherwise encumber such interests (whether to each other or to individuals or entities that are not owners of direct or indirect equity interests in Developer as of the date of this Agreement), but subject to and only so long as the following requirements are fully satisfied:

- (i) In the case of a transfer to a transferee that (A) is not Matt Perelman or Alex Sloane, and (B) owns direct or indirect equity interests in Developer as of the date of this Agreement, such transfer shall be permitted so long as (I) such transferee shall not at any time be involved in the day-to-day operations, management, or affairs of Developer, any parent entity of Developer, or any Franchised Unit, (II) such transferee shall not at any time have access to Franchisor's confidential or proprietary information regarding the System, and (III) such transferee shall not at any time have any ability to vote upon the day-to-day operations, management, or affairs of Developer or any parent entity of Developer (whether via such transferee's equity interests or otherwise);
 - (ii) In the case of a transfer to a transferee that (A) is not Matt Perelman or Alex Sloane, and (B) does not own any direct or indirect equity interests in Developer as of the date of this Agreement, such transfer shall be permitted so long as after giving effect to such transfer, such transferee shall not own in the aggregate five percent (5%) or more of the outstanding direct or indirect equity interests in Developer;
 - (iii) After giving effect to a transfer permitted under clause (i) or clause (ii) above, Matt Perelman and Alex Sloane (whether individually or collectively, and to the exclusion of any other third party) shall maintain the sole power to control and direct the day-to-day operations, management, and affairs of Developer, each parent entity of Developer, and each Franchised Unit;
 - (iv) A transfer of direct or indirect equity interests in Developer to Matt Perelman or Alex Sloane shall be permitted; and
 - (v) In the event of a transfer permitted under clause (i), clause (ii), or clause (iv) above, within the 15-day period immediately following any such transfer, Developer shall provide Franchisor with written notice of such
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transfer and, upon Franchisor's request, copies of documentation evidencing such transfer.

VII. CONFIDENTIAL INFORMATION

7.01. Developer shall not, during the Development Term or thereafter, communicate, divulge, or use for the benefit of any other person, persons, partnership, association, corporation or other entity any confidential information, knowledge, or know-how concerning the construction and methods of operation of any Franchised Unit which may be communicated to Developer, or of which Developer may be apprised, by virtue of Developer's operation under the terms of this Agreement. Developer shall divulge such confidential information only to: (i) such directors, officers, and employees of Developer as must have access to it in order to exercise the development rights granted hereunder and to establish and operate the Franchised Units pursuant to the Franchise Agreement; (ii) Developer's attorneys, professional advisors, and certified public accountants on an as needed basis for legitimate business purposes of the Developer; and (iii) Developer may be required by law, provided, Developer shall give Franchisor prior written notice of any such required disclosure immediately upon receipt of notice by Developer in order for Franchisor to have the opportunity to seek a protective order or take such other actions as it deems appropriate under the circumstances. Without limiting the generality of the foregoing, Developer may share with its financing sources (debt or equity) the terms of this Agreement.

7.02. Any and all information, knowledge, and know-how, including drawings, materials, equipment, recipes, prepared mixtures or blends of spices or other food products, and other data, which Franchisor designates as confidential, either specifically in writings of any kind, course of conduct, or which otherwise derives economic value, actual or potential, from not being generally known, and not ascertainable by proper means and in the subject of reasonable efforts, under the circumstances, to maintain secrecy, and any information, knowledge, or know-how which may be derived by analysis thereof, shall be deemed confidential for purposes of this Agreement, except information which Developer can demonstrate came to Developer's attention prior to disclosure thereof by Franchisor or which, at the time of disclosure thereof by Franchisor to Developer, had become a part of the public domain, through publication or communication by others or which, after disclosure to Developer by Franchisor, becomes a part of the public domain, through publication or communication by others. For the purposes of Section 7.01 and 7.02, confidential information shall not include information or matter which at the time of disclosure is generally available to the public or thereafter becomes generally available to the public other than through a breach of any obligation under this Agreement caused by an act or omission on the part of Developer.

7.03. At Franchisor's request, Developer shall require all personnel employed by Developer who have received or will receive training from Franchisor, and all officers, directors, and holders of a direct or indirect legal or beneficial ownership interest of ten percent (10%) or more in Developer, in each case, to execute a confidentiality agreement containing confidentiality obligations similar to those set forth in Section VII of this Agreement (including a prohibition against communicating, divulging or using for the benefit of any person, persons, partnership, association, corporation, or any other entity, any confidential information, knowledge, or know-how concerning the methods of operation of the Franchised Units). A duplicate original of each such agreement shall be

provided to Franchisor upon execution. Every confidentiality agreement required by this Section 7.03. shall be in a form reasonably satisfactory to Franchisor and consistent with this Section 7, including specific identification of Franchisor as a third-party beneficiary of such confidentiality obligations with the independent right to enforce them. Failure by Developer to obtain execution of such a confidentiality agreement required by this Section 7.03. shall constitute a material breach of this Agreement.

7.04. Franchisor may, prior to the execution of a Franchise Agreement, provide to Developer access to Franchisor's confidential and proprietary Manual (as defined in the Franchise Agreement), which contains the operating standards, training standards, specifications, procedures and techniques prescribed by Franchisor from time to time. Otherwise, the Manual shall be made available to Developer as provided in the Franchise Agreement. The Manual shall at all times remain the sole property of Franchisor.

A. Developer shall at all times treat the Manual, and the information contained therein, as confidential, and shall use all reasonable efforts to keep such information secret and confidential. Developer shall not, at any time, without Franchisor's prior written consent, copy, duplicate, record, or otherwise make the Manual available to any unauthorized person or entity.

B. In order for Developer to benefit from new knowledge, information, methods and technology adopted and used by Franchisor in the operation of the System, Franchisor may from time to time revise the Manual by bulletin, video, the Internet, electronic mail or by other written or electronic communication (including an online learning management system designated by Franchisor). Developer shall review, understand, adhere to and abide by all such revisions. Developer acknowledges and agrees that (a) Franchisor retains the right to modify, add to, or rescind any requirement, standard, or specification set forth in the Manual in order to adapt the Popeyes System to changing conditions, competitive circumstances, business strategies, business practices, and technological innovations and other changes that Franchisor deems appropriate in its business judgment, and (b) Developer shall comply with such modifications, additions, or rescissions. Notwithstanding the foregoing, no new requirement, standard or specification set forth in the Manual or otherwise, may act as a unilateral amendment to any express term, condition, or provision of this Agreement.

C. If Developer desires to print a physical copy of the Manual, Developer agrees at all times to keep such copy current and up-to-date, and in the event of any dispute as to the contents of such copy, the terms of the Manual maintained by Franchisor shall be controlling.

D. The Manual is intended to further the purposes of this Agreement, and is specifically incorporated, by reference, into this Agreement. Except as otherwise set forth in this Agreement, in the event of a conflict between the terms of this Agreement and the terms of the Manual, the terms of this Agreement shall control. Developer acknowledges and agrees that any required standards set forth in this Agreement and the Manual exist to protect Franchisor's interests in the Popeyes System and the Proprietary

Marks and not for the purpose of establishing any control or duty to take control over those matters that are reserved to Developer (including the day-to-day operation of the Franchised Units and the conduct and management of Developer's employees).

VIII. COVENANTS

8.01. Developer specifically acknowledges that, pursuant to this Agreement, Developer will receive valuable specialized training and confidential information, including information regarding the operational, sales, promotional, and marketing methods, procedures and techniques of Franchisor and the System. Developer covenants that, during the Development Term, Developer (who, unless otherwise specified, shall include for purposes of this Section VIII, collectively and individually, all officers, directors and holders of a direct or indirect legal or beneficial ownership interest of ten percent (10%) or more in Developer, and of any corporation directly or indirectly controlling Developer, if Developer is a corporation, and the general partners and any limited partners, including any corporation and the officers, directors and holders of a direct or indirect legal or beneficial ownership interest of ten percent (10%) or more in Developer, of a corporation which controls, directly or indirectly, any general or limited partner, if Developer is a partnership) shall not, either directly or indirectly, for Developer or through or on behalf of, or in conjunction with, any person, persons, partnership, association, corporation or other entity:

A. Divert or attempt to divert any business or customer of the business franchised hereunder to any competitor by direct or indirect inducements or otherwise, or to do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Franchisor's Proprietary Marks and the System;

B. Solicit for employment any person who is, at that time, employed by Franchisor or by any other Popeyes franchisee, or otherwise, directly or indirectly, induce such person to leave his or her employment therewith, provided, that, the foregoing covenant shall not restrict or prohibit Developer from (i) making generalized searches for employees (by use of advertisements in print, electronic or social media, the engagement of search firms or otherwise), (ii) continuing its ordinary course hiring practices that are not targeted specifically or directly at employees of Franchisor or any other Popeyes franchisee, or (iii) hiring an employee of Franchisor or any other Popeyes franchisee who first initiates an employment discussion with Developer, so long as neither Developer nor any of its affiliates have not violated the foregoing covenant regarding solicitation and inducement ((i) through (iii) are hereinafter referred to as the "**Non-Solicitation Exceptions**"). For each instance in which Developer or any affiliate of Developer hires a manager or assistant manager, or other person who (A) has completed (or is scheduled to complete) the Popeyes Training Program for his or her applicable management role at the applicable Popeyes Restaurant, and (B) was employed by Franchisor or another Popeyes franchisee in the same or a contiguous designated market area for not less than the immediately preceding twelve (12) months, then Developer shall promptly pay Franchisor or such other Popeyes franchisee (as applicable) the sum of \$5,000, whether or not such hiring violated the foregoing covenant regarding solicitation and inducement. If and to the extent such hiring violated the foregoing covenant, nothing contained herein (including Developer's payment of the foregoing \$5,000

sum) shall constitute a waiver by Franchisor of any rights or remedies against Developer; or

C. Own, maintain, operate, engage in, or have any interest in any quick service (either takeout, on premises consumption, or a combination thereof) restaurant that specializes in the sale of chicken (“**Disqualifying Restaurant**”); provided, however, that the term “Disqualifying Restaurant” shall not apply to any business operated by Developer under a franchise agreement with Franchisor or an affiliate of Franchisor.

8.02. Developer covenants that, except as otherwise approved in writing by Franchisor, Developer shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, partnership, association, corporation or other entity:

A. For a period of two (2) years following expiration or termination of this Agreement, regardless of the cause for termination, own, maintain, engage in, or have an interest in any Disqualifying Restaurant which is located within the Development Area or within ten (10) miles of the Development Area; or

B. Subject to the Non-Solicitation Exceptions set forth in Section 8.01. B., for a period of one (1) year following the termination or expiration of this Agreement, employ or seek to employ any person who is, at the time, employed by Franchisor or by any other Popeyes franchisee, or otherwise, directly or indirectly, induce such person to leave his or her employment therewith.

8.03. At Franchisor’s request, Developer shall require and obtain execution of covenants similar to those set forth in this Section VIII (including covenants applicable upon the termination of a person’s relationship with Developer) from all personnel employed by Developer who have received or will receive training from Franchisor, and all officers, directors, and holders of a direct or indirect legal or beneficial ownership interest of ten percent (10%) or more in Developer. Every covenant required by this Section 8.03. shall be in a form reasonably satisfactory to Franchisor and consistent with this Section 8, including specific identification of Franchisor as a third-party beneficiary of such covenants with the independent right to enforce them. Failure by Developer to obtain execution of a covenant required by this Section 8.03. shall constitute a material breach of this Agreement. A duplicate original of each such covenant shall be provided by Developer to Franchisor immediately upon execution.

8.04. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section VIII, is held unreasonable or unenforceable by a court or agency having jurisdiction in a final decision, Developer expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant was separately stated in and made a part of this Section VIII.

A. Right to Reduce Covenants. Developer understands and acknowledges that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in Sections 8.01. and 8.02. of this Agreement, or any portion thereof, without Developer's consent, effective immediately upon receipt by Developer of written notice thereof, and Developer agrees that it shall comply with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of this Section VIII hereof.

B. Injunctive Relief. The parties acknowledge that it will be difficult to ascertain with any degree of certainty the amount of damages resulting from a breach by of any of the covenants contained in this Section VIII. It is further agreed and acknowledged that any violation by Developer of any of said covenants will cause irreparable harm to Franchisor. Accordingly, Developer agrees that upon proof of the existence of a violation of any of said covenants, Franchisor will be entitled to injunctive relief against Developer in any court of competent jurisdiction having authority to grant such relief, together with all costs and reasonable attorneys' fees incurred by Franchisor in bringing such action.

8.05. Notwithstanding the foregoing, the confidentiality and non-competition requirements set forth in Sections 7.03, 8.01, and 8.03 above shall not apply to a holder of a direct or indirect legal or beneficial ownership interest of ten percent (10%) or more in Developer, but only so long as (A) such holder shall not at any time be involved in the day-to-day operations, management, or affairs of Developer, any parent entity of Developer, or any Franchised Unit, (B) such holder shall not at any time have access to Franchisor's confidential or proprietary information regarding the System, and (C) such holder shall not at any time have any ability to vote upon the day-to-day operations, management, or affairs of Developer, any parent entity of Developer, or any Franchised Unit (whether via such holder's equity interests or otherwise).

8.06. During the Development Term, Developer further covenants to Franchisor as follows (and Developer acknowledges that its failure to fully comply with or satisfy any of the following covenants shall be deemed to be a failure to comply with a material term of this Agreement, in which case Franchisor may exercise all rights and remedies set forth in Section V hereof):

A. Developer shall not at any time incur total Consolidated Funded Indebtedness (as defined below) and rent and lease obligations that would cause the ratio of (i) the total Consolidated Funded Indebtedness of Developer, plus the product of eight (8) multiplied by the aggregate amount of principal rent or lease payments made by Developer during the 12-month period immediately preceding the date of determination, minus the New Unit Adjustment (as defined below), and minus the cash or cash equivalents held by Developer, to (ii) the trailing twelve months EBITDAR (as defined below) of Developer ending at such time, to be greater than six (6.0) times.

As used above and herein, the following defined terms shall have the following meanings:

(i) The term “Developer’s Credit Agreement” shall mean that certain Second Amended and Restated Credit Agreement dated as of March 7, 2017 among Louisiana Quality, LLC, Tennessee Quality, LLC, Mirabile Investment Corporation, and LQ Real Estate, LLC as the Borrowers and the Lenders party thereto, and Regions Bank, as Administrative Agent, as in effect on the date of this Agreement;

(ii) The term “Consolidated Funded Indebtedness” shall have the meaning ascribed to such defined term in Developer’s Credit Agreement on the date of this Agreement;

(iii) The term “New Unit Adjustment” shall have the meaning ascribed to such defined term in Developer’s Credit Agreement on the date of this Agreement;

(iv) The term “Consolidated Net Income” shall have the meaning ascribed to such defined term in Developer’s Credit Agreement on the date of this Agreement; and

(v) The term “EBITDAR” shall mean, for any period of measurement, an amount equal to Consolidated Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Net Income (without duplication): (a) interest charges, (b) the provision for federal, state, local and foreign income taxes payable, (c) depreciation and amortization expense, (d) rent and lease expense, (e) other non-cash items reducing such Consolidated Net Income which do not represent a cash item in such period or any future period, (f) customary pre-opening expenses for such period, (g) all out-of-pocket transaction fees, costs and expenses incurred during such period (and, in each case, incurred as of or within 180 days after the transaction in connection with which such fees, costs and expenses are incurred) in connection with acquisitions, dispositions, investments and incurrences of indebtedness (including the closing of this Agreement), and (h) such other items which represent reasonable non-recurring or extraordinary charges; and minus the following to the extent included in calculating such Consolidated Net Income for such period: (i) federal, state, local and foreign income tax credits for such period, (ii) all non-cash items increasing such Consolidated Net Income which do not represent a cash item in such period or any future period, (iii) capital gains for such period, and (iv) such other items which represent non-recurring or extraordinary gains for such period, all as determined in accordance with GAAP.

Annually, upon Franchisor’s request after Developer’s fourth quarter numbers have been finalized, Developer shall at its sole expense promptly (but in any event within 20 days following the date of Franchisor’s request) submit to Franchisor such financial statements, reports, records, information and data as Franchisor provides pursuant to Developer’s Credit Agreement.

B. Taking into consideration operations at all Popeyes restaurants owned and operated by Developer or any affiliate or subsidiary of Developer (whether developed under this Agreement or not) for more than one (1) year in the Development Area, such operations shall at all times, on average over all such stores, score in the top one-half (50%) of the Peer Category (as defined below) in which Franchisor reasonably places Developer for each of Franchisor's then standard metrics as applied consistently across the Popeyes brand domestically.

As used above, the term "Peer Category" shall mean each category of similarly situated Popeyes franchisees that Franchisor may designate from time to time in its discretion. By way of example only, as of the date of this Agreement, Franchisor has determined that each of the following constitutes a Peer Category: (i) all Popeyes franchisees owning five or fewer Popeyes restaurants, (ii) all Popeyes franchisees owning between six and fourteen Popeyes restaurants, and (iii) all Popeyes franchisees owning fifteen or more Popeyes restaurants.

8.07. Franchisor and Developer further acknowledge and agree as follows:

A. Under some or all of its Popeyes franchise agreements with its franchisees, Franchisor has (i) the right to approve all sales and assignments of Popeyes Restaurants to a third party (the "Prospective Purchaser") in a franchisee-to-franchisee transfer or a franchisee-to-prospective franchisee transfer (an "F-to-F Transfer"), and (ii) a right of first refusal ("ROFR") to purchase all of the assets constituting the Popeyes Restaurant, or the shares in the applicable franchisee, on the same terms as contained in any proposed purchase agreement between such franchisee and the Prospective Purchaser (the "Purchase Agreement").

B. During the Development Term, Franchisor agrees that it will provide Developer with an opportunity, on an exclusive basis, to acquire any Popeyes Restaurant in the Development Area that is the subject of an F-to-F Transfer by following the procedures set out in **Exhibit "D"** attached hereto (the "ROFR Procedures") subject to the requirements and limitations set out in **Exhibit "B"**. Developer acknowledges that (a) Franchisor's rights in any F-to-F Transfer (including its ROFR) are granted and limited by the language of the applicable Popeyes franchise agreement (each, a "Transferor Franchise Agreement"), (b) the effect and/or enforceability of such rights may be limited under applicable law, (c) Franchisor may have no legal right to withhold its consent to an F-to-F Transfer between its franchisees and third parties, (d) Franchisor makes no representation or warranty as to the enforceability of the ROFR or as to the application of the ROFR to a particular transaction or situation, and (e) the obligation of Franchisor hereunder does not extend to the proposed purchase of real property owned, leased, or otherwise under the control of Franchisor, a franchisee, or any third party.

IX. NOTICES

Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered, sent by registered mail, or by other means which will provide evidence of the date received to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other party:

Notices to Franchisor: Popeyes Louisiana Kitchen, Inc.
400 Perimeter Center Terrace Suite 1000
Atlanta, Georgia 30346, U.S.A. Attention: Head of Legal

Notices to Developer: Cambridge Quality Chicken, LLC
8010 Stage Hills Blvd. Bartlett, TN 38133
Attention: Matt Perelman and Alex Sloane

All written notices and reports permitted or required to be delivered by the provisions of this Agreement shall be addressed to the party to be notified at its most current principal business address of which the notifying party has been notified and shall be deemed so delivered (i) at the time delivered by hand; or (ii) if sent by registered or certified mail or by other means which affords the sender evidence of delivery, on the date and time of receipt or attempted delivery if delivery has been refused or rendered impossible by the party being notified.

X. NON-WAIVER

No failure of Franchisor to exercise any power reserved to it in this Agreement, or to insist upon compliance by Developer with any obligation or condition in this Agreement, and no custom or practice of the parties at variance with the terms hereof, shall constitute a waiver of Franchisor's right to demand exact compliance with the terms of this Agreement. Waiver by Franchisor of any particular default shall not affect or impair Franchisor's right with respect to any subsequent default of the same or of a different nature, nor shall any delay, forbearance, or omission of Franchisor to exercise any power or rights arising out of any breach or default by Developer of any of the terms, provisions, or covenants of this Agreement, affect or impair Franchisor's rights, nor shall such constitute a waiver by Franchisor of any rights hereunder or right to declare any subsequent breach or default. Subsequent acceptance by Franchisor of any payments due to it shall not be deemed to be a waiver by Franchisor of any preceding breach by Developer of any terms, covenants, or conditions of this Agreement.

XI. INDEPENDENT CONTRACTOR AND INDEMNIFICATION

11.01. This Agreement does not constitute Developer an agent, legal representative, joint venturer, partner, employee or servant of Franchisor for any purpose whatsoever. It is understood

and agreed that Developer shall be an independent contractor and is in no way authorized to make any contract, agreement, warranty, or representation on behalf of Franchisor or to incur any debt or any other obligation in Franchisor's name, and that Franchisor shall in no event assume liability for, or be deemed liable hereunder as a result of, any such action or by reason of any act or omission of Developer, or any claim or judgment arising therefrom. Neither this Agreement nor Franchisor's course of conduct is intended, nor may anything in this Agreement (nor Franchisor's course of conduct) be construed, to state or imply that Franchisor is the employer of Developer's employees and/or independent contractors, nor vice versa. The parties further agree that this Agreement does not create any fiduciary or special relationship between them. In all public records, in relationships with other persons, and on letterhead and business forms, Developer shall indicate its independent ownership of the Franchised Units and that Developer is a franchisee of Franchisor.

11.02. Developer shall hold itself out to the public to be an independent contractor operating pursuant to this Agreement. Developer agrees to take such actions as shall be necessary to that end. Developer shall have no right or power to, and shall not, bind or obligate Franchisor in any way or manner, nor shall Developer represent at any time that Developer has any right to do so. Without limiting the generality of the foregoing, Developer acknowledges that (i) Franchisor has no responsibility or obligation to ensure that the Franchised Units are developed in compliance with all applicable laws, ordinances, and regulations, and (ii) Franchisor shall have no liability in the event the development of the Franchised Units violates any applicable law, ordinance, or regulation.

11.03. Developer agrees to defend, indemnify and hold harmless Franchisor, its parent, subsidiaries and affiliates, and their respective officers, directors, employees, agents, successors and assigns from all claims, demands, losses, damages, liabilities, cost and expenses (including attorneys' fees and litigation expenses) resulting from, or alleged to have resulted from, or in connection with Developer's development of the Franchised Units, including any claim or actions based on or arising out of (i) Developer's violation of any applicable laws, rules, or regulations (including any applicable employment or workplace-related laws, rules, or regulations), (ii) the acts or omissions of Developer or any of its employees, or (iii) any injuries, including death to persons or damages to or destruction of property, sustained or alleged to have been sustained in connection with or to have arisen out of or incidental to the development of the Franchised Units and/or the performance of this Agreement by Developer, its agents, employees, and/or its subcontractors, their agents and employees, or anyone for whose acts they may be liable, regardless of whether or not such claim, demand, damage, loss, liability, cost or expense is caused in whole or in part by the negligence of Franchisor, Franchisor's representative, or the employees, agents, invitees, or licensees thereof. For the avoidance of doubt, the provisions of this Section 11.03. shall survive the expiration or termination of this Agreement and be fully binding and enforceable as though such expiration or termination had not occurred.

11.04. Franchisor shall advise Developer in the event Franchisor receives notice that a claim has been or may be filed with respect to a matter covered by this Agreement, and Developer shall immediately assume the defense thereof at Developer's sole cost and expense. In any event, Franchisor will have the right, through counsel of its choice, to control any matter to the extent it could directly or indirectly affect Franchisor and/or its parent, subsidiaries or affiliates or their officers, directors, employees, agents, successors or assigns. If Developer fails to assume such

defense, Franchisor may defend, settle, and litigate such action in the manner it deems appropriate and Developer shall, immediately upon demand, pay to Franchisor all costs (including attorneys' fees and litigation expenses) incurred by Franchisor in affecting such defense, in addition to any sum which Franchisor may pay by reason of any settlement or judgment against Franchisor.

11.05. Franchisor's right to indemnity hereunder shall exist notwithstanding that joint or several liability may be imposed upon Franchisor by statute, ordinance, regulation or judicial decision.

11.06. Developer agrees to pay Franchisor all expenses, attorneys' fees and court costs, incurred by Franchisor, its parent, subsidiaries, affiliates, and their successors and assigns to remedy any defaults of or enforce any rights under this Agreement, effect termination of this Agreement or collect any amounts due under this Agreement. To the extent Developer's obligation to make payment to Franchisor as required by any part of this Agreement shall be governed by OCGA Section 13-1-11 and Developer defaults with regard to such payment obligations, Developer shall pay attorneys' fees in the amount of fifteen percent (15%) of the principal and interest owing to Franchisor in addition to all other costs and expenses actually incurred by Franchisor, including any costs or expenses incurred in connection with any arbitration, court, appellate, bankruptcy, or administrative proceeding (a "**Proceeding**") and any experts' fees and expenses, whether or not Franchisor commences a Proceeding.

XII. APPROVALS

12.01. Whenever this Agreement requires the approval of Franchisor, Developer shall make a timely written request to Franchisor therefore and such approval or consent granted shall be in writing and shall be timely provided. Whenever this Agreement or any related agreement grants, confers or reserves to Franchisor the right to take action, refrain from taking action, or grant or withhold Franchisor's consent or approval, unless the provision specifically states otherwise, Franchisor may take into consideration Franchisor's good faith assessment of the long term interests of all stakeholders in the Popeyes System. When the terms of this Agreement specifically require that Franchisor not unreasonably withhold Franchisor's approval or consent, if Developer is in material default of this Agreement (after applicable notice and cure period), any withholding of Franchisor's approval or consent will be considered reasonable.

12.02. Franchisor makes no warranties or guaranties upon which Developer may rely, and assumes no liability or obligation to Developer or any third party to which Franchisor would not otherwise be subject, by providing any waiver, approval, advice, consent, or services to Developer in connection with this Agreement, or by reason of any neglect, delay, or denial of any request therefor.

XIII. ACKNOWLEDGMENT

13.01. Developer acknowledges that the success of the business venture contemplated by this Agreement involves substantial business risks and will be largely dependent upon the ability

of Developer as an independent businessperson. Franchisor expressly disclaims the making of, and Developer acknowledges not having received, any warranty or guaranty, expressed or implied, as to the potential volume, profits, or success of the business venture contemplated by this Agreement.

13.02. Developer acknowledges that Developer has received, read, and understands this Agreement, the exhibits hereto, and agreements relating hereto, if any; and Franchisor has accorded Developer ample time and opportunity to consult with advisors of Developer's own choosing about the potential benefits and risks of entering into this Agreement.

13.03. Developer acknowledges that Developer has received the Franchise Disclosure Document required by the Trade Regulation Rule of the Federal Trade Commission entitled "Disclosure Requirements and Prohibitions concerning Franchising and Business Opportunity Ventures" at least fourteen (14) calendar days prior to the date on which this Agreement was executed.

XIV. SEVERABILITY AND CONSTRUCTION

14.01. Except as expressly provided to the contrary herein, each section, paragraph, part, term, and/or provision of this Agreement shall be considered severable; and if, for any reason, any section, part, term, and/or provision herein is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation by a court or agency having valid jurisdiction, such shall not impair the operation, or have any other effect upon, such other portions, sections, parts, terms, and/or provisions of this Agreement as may remain otherwise intelligible, and the latter shall continue to be given full force and effect to bind the parties; and said invalid portions, sections, parts, terms, and/or provisions shall be deemed not to be part of this Agreement.

14.02. Except as has been expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Developer, Franchisor, Franchisor's officers, directors, and employees, and Developer's and Franchisor's respective successors and assigns, any rights or remedies under or by reason of this Agreement.

14.03. Developer expressly agrees to be bound by any covenant or promise imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof any portion or portions which a court will hold to be unreasonable and unenforceable in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such court order.

14.04. All captions in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof. In this Agreement, the words "include", "includes", and "including" shall be deemed to be followed by the phrase "without limitation".

14.05. All provisions of this Agreement which, by their terms or intent, are designed to survive the expiration or termination of this Agreement, shall so survive the expiration and/or termination of this Agreement.

14.06. This Agreement may be executed in multiple counterparts, each of which when executed and delivered shall be deemed to be an original and all of which together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile and any other electronic transmission (including PDF) shall be effective as delivery of a manually executed counterpart of this Agreement.

XV. ENTIRE AGREEMENT AND APPLICABLE LAW

15.01. This Agreement, the documents referred to herein, and the exhibits hereto, constitute the entire, full, and complete agreement between Franchisor and Developer concerning the subject matter hereof and supersede any and all prior agreements. Nothing in this Agreement is intended to disclaim the representations made by Franchisor in its franchise disclosure document. Except for those permitted to be made unilaterally by Franchisor hereunder, no amendment, change, or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

15.02. This Agreement takes effect upon its acceptance and execution by Franchisor and shall be interpreted and construed under the laws of the State of Georgia which laws shall prevail in the event of any conflict of law (without regard to, and without giving effect to, the application of Georgia choice of law or conflict of law rules); provided, however, that if the covenants in Section VIII of this Agreement would not be enforceable under the laws of Georgia, then such covenants shall be interpreted and construed under the laws of the State in which Developer operates the Franchised Units developed hereunder, or in the State where Developer is domiciled if Developer, at such time, is not operating any Franchised Units. Nothing in this Section XV is intended by the parties to subject this Agreement to any franchise or similar law, rule, or regulation of the State of Georgia to which this Agreement would not otherwise be subject.

15.03. The parties agree that any action brought by Developer against Franchisor in any court, whether federal or state, shall be brought within such state and in the judicial district in which Franchisor has its principal place of business. Any action brought by Franchisor against Developer in any court, whether federal or state, may be brought within the state and in the judicial district in which Franchisor has its principal place of business. Developer hereby consents to personal jurisdiction and venue in the state and judicial district in which Franchisor has its principal place of business.

15.04. No right or remedy herein conferred upon or reserved to Franchisor is exclusive of any other right or remedy herein, or by law or equity provided or permitted; but each shall be cumulative of any other right or remedy provided in this Agreement.

15.05. Nothing herein contained shall bar Franchisor's right to obtain injunctive relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

15.06. Any and all claims and actions arising out of or relating to this Agreement (including the offer and sale of any franchise), the relationship of Developer and Franchisor, or Developer's operation of any Franchised Unit, brought by Developer shall be commenced within eighteen (18) months from the occurrence of the facts giving rise to such claim or action, or such claim or action shall be barred.

15.07. Franchisor and Developer hereby waive to the fullest extent permitted by law any right to or claim of any consequential, punitive, or exemplary damages against the other, and agree that in the event of a dispute between them each shall be limited to the recovery of any actual damages sustained by it.

XVI. GENERAL RELEASE

Developer (on behalf of itself and its parent, subsidiaries, affiliates and their respective past and present owners, officers, directors, shareholders, partners, agents and employees, in their corporate and individual capacities), all individuals who execute this Agreement and all guarantors of Developer's obligations under this Agreement and all other persons or entities acting on Developer's behalf or claiming under Developer (collectively, "**Developer Releasors**") freely and without any influence, forever release and covenant not to sue Franchisor and its subsidiaries, predecessors and affiliates and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities (collectively, "**Franchisor Releasees**"), with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, whether known or unknown, vested or contingent, suspected or unsuspected (collectively, "**Claims**"), that any of the Developer Releasors now own or hold or may at any time have owned or held as of the date of this Agreement, including Claims arising under federal, state and local laws, rules and ordinances and Claims arising out of, or related to this Agreement, any real estate contracts or development agreements and all other agreements between any Developer Releasors and any Franchisor Releasees, the development or proposed development of any System unit, the sale of a franchise to any Developer Releasors, the operation of any business using the System by any Developer Releasors and/or performance by any Franchisor Releasees of any obligations under any agreement with any Developer Releasors; provided, however, Claims shall not include claims arising from representations in the Franchise Disclosure Document, or its exhibits or amendments. Developer (on behalf of the Developer Releasors) agrees that fair consideration has been given for this release and fully understands that this is a negotiated, complete and final release of all of Developer Releasors' Claims. DEVELOPER, ON BEHALF OF ITSELF AND THE DEVELOPER RELEASORS, WAIVES ANY RIGHTS AND BENEFITS CONFERRED BY ANY APPLICABLE PROVISION OF LAW EXISTING UNDER ANY FEDERAL, STATE OR POLITICAL SUBDIVISION THEREOF WHICH WOULD INVALIDATE ALL OR ANY PORTION OF THE RELEASE CONTAINED IN THIS AGREEMENT BECAUSE SUCH RELEASE MAY EXTEND TO CLAIMS THAT THE DEVELOPER RELEASORS DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR AT THE TIME OF EXECUTION OF THIS AGREEMENT.

[Signatures on Next Page]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have duly executed, sealed, and delivered this Agreement in multiple originals as of the day and year first above-written.

WITNESS: FRANCHISOR:

POPEYES LOUISIANA KITCHEN, INC.

/s/ Melody Stervens By: /s/ Chad Crawford

Chad Crawford
President, North America

WITNESS: DEVELOPER:

CAMBRIDGE QUALITY CHICKEN, LLC

/s/ Lisa P. Simmons By: /s/ Matt Perelman

Title: Co-President

[SIGNATURE PAGE TO DEVELOPMENT AGREEMENT]

EXHIBIT "A"

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

DEVELOPMENT SCHEDULE

YEAR ("Year")	Cumulative Net Opening Target
Year 2018: Period beginning on the date of this Agreement and ending on December 31, 2018, subject to a cure period of 120 days	10
Year 2019: Period beginning on January 1, 2019, and ending on December 31, 2019	20
Year 2020: Period beginning on January 1, 2020, and ending on December 31, 2020	30
Year 2021: Period beginning on January 1, 2021, and ending on December 31, 2021	40
Year 2022: Period beginning on January 1, 2022, and ending on December 31, 2022	50
Year 2023: Period beginning on January 1, 2023, and ending on December 31, 2023	60
Year 2024: Period beginning on January 1, 2024, and ending on December 31, 2024	70
TOTAL	70

On or before the expiration date of each Year described above, Developer shall be obligated to develop and have open for business in accordance with this Agreement the number of new Franchised Units necessary to fully satisfy such Year's cumulative net opening target described above (the "Cumulative Net Opening Target").

Each new Franchised Unit developed by Developer in accordance with this Agreement during each Year will be added towards the calculation to determine whether Developer has satisfied such Year's Cumulative Net Opening Target.

[Exhibit "A" is continued on following page.]

TO BE INITIALED BY BOTH PARTIES:

FRANCHISOR: /s/CC DEVELOPER: /s/MP

EXHIBIT "A"

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

DEVELOPMENT SCHEDULE

Developer acknowledges and agrees that in no event will (i) any new Popeyes restaurant developed outside of the Development Area or (ii) any existing Popeyes restaurant acquired by Developer or any affiliate or subsidiary of Developer from a third-party (whether located inside or outside of the Development Area), in any case, be added towards the calculation to determine whether Developer has satisfied any Year's Cumulative Net Opening Target.

Developer also acknowledges and agrees that any Popeyes restaurant located inside of the Development Area and owned and operated by Developer or any affiliate or subsidiary of Developer (excluding Burger King restaurants but including any Popeyes restaurant (i) developed by Developer under this Agreement, or (ii) acquired by Developer or an affiliate or subsidiary of Developer) that is permanently closed for business during any Year (regardless of whether such closure is due to expiration, early termination, or otherwise) shall be deducted from the calculation to determine whether Developer has satisfied such Year's Cumulative Net Opening Target. Developer shall not close any Popeyes restaurant without Franchisor's prior written consent, which Franchisor may withhold in its sole discretion.

TO BE INITIALED BY BOTH PARTIES: FRANCHISOR: /s/CC DEVELOPER: /s/MP

EXHIBIT "B"

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

DESCRIPTION OF DEVELOPMENT AREA

The Development Area shall consist of the following:

Memphis, TN DMA: The following counties within the Memphis, TN DMA and shown on the Territory Map attached hereto as Schedule I:

- A. Counties within the State of Tennessee: Crockett, Dyer, Fayette, Hardeman, Haywood, Lauderdale, McNairy, Shelby, Tipton.
- B. Counties within the State of Mississippi: Alcorn, Benton, Coahoma, DeSoto, Lafayette, Marshall, Panola, Quitman, Tate, Tippah, Tunica.
- C. Counties within the State of Arkansas: Crittenden, Cross, Lee, Mississippi, Phillips, Poinsett, St. Francis.

Nashville, TN DMA: The following counties within the Nashville, TN DMA and shown on the Territory Map attached hereto as Schedule II:

- A. Counties within the State of Tennessee : Bedford, Benton, Cannon, Cheatham, Clay, Coffee, Davidson, Decatur, DeKalb, Dickson , Franklin, Giles, Henry, Hickman, Houston, Humphreys, Jackson, Lawrence, Lewis, Macon, Marshall, Maury, Montgomery , Moore, Overton, Perry, Pickett, Putnam, Robertson, Rutherford, Smith, Stewart, Sumner, Trousdale, Van Buren, Warren, Wayne, White, Williamson, Wilson.
- B. Counties within the State of Kentucky: Allen, Christian, Clinton, Cumberland, Logan, Monroe, Simpson, Todd, Trigg.

Knoxville, TN DMA: The following counties within the Knoxville, TN DMA and shown on the Territory Map attached hereto as Schedule III:

- A. Counties within the State of Tennessee: Anderson, Blount, Campbell, Claiborne, Cocke, Cumberland, Fentress , Grainger, Hamblen, Hancock, Jefferson, Knox, Loudon, Monroe, Morgan , Roane, Scott, Sevier, Union.
- B. Counties within the State of Kentucky: Bell, Harlan, McCreary.

[Exhibit "B" is continued on following page.]

**TO BE INITIALED BY BOTH PARTIES:
FRANCHISOR: /s/CC DEVELOPER: /s/MP**

EXHIBIT "B"

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

DESCRIPTION OF DEVELOPMENT AREA

Tri-Cities, TN DMA: The following counties within the Tri-Cities, TN DMA and shown on the Territory Map attached hereto as Schedule IV:

- A. Counties within the State of Tennessee: Carter, Greene, Hawkins , Johnson, Sullivan , Unicoi, Washington.
- B. Counties within the State of Virginia: Buchanan, Dickenson , Lee, Russell, Scott, Smyth, Washington, Wise, Bristol , Norton.
- C. Counties within the State of Kentucky: Leslie, Letcher.

Chattanooga, TN DMA: The following counties within the Chattanooga, TN DMA and shown on the Territory Map attached hereto as Schedule V:

- A. Counties within the State of Tennessee: Bledsoe, Bradley, Grundy, Hamilton, McMinn , Marion, Meigs, Polk, Rhea, Sequatchie.
- B. Counties within the State of Georgia: Catoosa, Chattooga, Dade, Murray, Walker, Whitfield.
- C. Counties within the State of North Carolina: Cherokee.

Lexington, KY DMA: The following counties within the Lexington, KY DMA and shown on the Territory Map attached hereto as Schedule VI:

- A. Counties within the State of Kentucky: Anderson, Bath, Bourbon, Boyle, Breathitt, Casey, Clark , Clay, Estill, Fayette, Fleming, Franklin, Garrard, Harrison , Jackson, Jessamine, Knott, Knox, Laurel, Lee, Lincoln, Madison, Magoffin, Menifee, Mercer, Montgomery, Morgan, Nickolas, Owsley, Perry, Powell, Pulaski , Robertson, Rockcastle, Rowan, Russell, Scott, Wayne, Whitley, Wolfe, Woodford.

[Exhibit "B" is continued on following page.]

**TO BE INITIALED BY BOTH PARTIES:
FRANCHISOR: /s/CC DEVELOPER: /s/MP**

EXHIBIT "B"

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

DESCRIPTION OF DEVELOPMENT AREA

Louisville, KY DMA: The following counties within the Louisville, KY DMA and shown on the Territory Map attached hereto as Schedule VII:

- A. Counties within the State of Kentucky: Adair, Breckinridge, Bullitt, Carroll, Grayson, Green, Hardin , Henry, Jefferson, Larue, Marion, Meade, Nelson, Oldham, Shelby, Spencer, Taylor, Trimble, Washington.
- B. Counties within the State of Indiana : Clark , Crawford, Floyd, Harrison, Jackson, Jefferson, Jennings, O range, Scott, Washington.

Jackson, TN DMA: The following counties within the Jackson, TN DMA and shown on the Territory Map attached hereto as Schedule VIII:

- A. Counties within the State of Tennessee: Carroll, Chester , Gibson, Hard in, Henderson, Madison.

(Exhibit "B" is continued on following page.]

TO BE INITIALED BY BOTH PARTIES:

FRANCHISOR: /s/CC DEVELOPER: /s/MP

EXHIBIT "B"

**POPEYES LOUISIANA KITCHEN
DEVELOPMENT AGREEMENT**

DESCRIPTION OF DEVELOPMENT AREA

Developer acknowledges that the following sites are (i) located within the Development Area, and (ii) to be developed by other Popeyes franchisees under separate agreements with Franchisor:**

A one (1) mile radius around the following intersections shown on the Territory Map depicting the Counties within the Memphis, TN OMA attached hereto as Schedule I:

1. Poplar Ave & Kirby Pkwy, Germantown, TN;
2. Poplar Ave & S Highland St, Memphis TN;
3. Summer Ave & Waring Rd, Memphis, TN; and
4. Houston Levee Rd & Macon Rd, Cordova, TN.

A two (2) mile radius around the following intersections shown on the Territory Map depicting the Counties within the Louisville, KY DMA attached hereto as Schedule VII:

1. Bardstown Rd & I 265, Louisville, KY;
2. Outer Loop & Preston Hwy, Louisville, KY; and
3. Westport Rd & I 265N, Worthington, KY.

****In the event Developer purchases any of the foregoing sites or 100% of the equity interests in the entity that controls such sites as of the date hereof, or all or substantially all of the assets of such entity including the rights to develop such sites, in such cases, prior to the opening of such site for business to the public as a Popeyes restaurant, then Developer's subsequent development and opening of any such site for business to the public as a Popeyes restaurant will count towards Developer's Cumulative Net Opening Target for the applicable Year.**

TO BE INITIALED BY BOTH PARTIES:

FRANCHISOR: /s/CC DEVELOPER: /s/MP

EXHIBIT "C"

**POPEYES LOUISIANA KITCHEN
DEVELOPMENT AGREEMENT**

LEASE ADDENDUM

This Lease Addendum (this "**Addendum**") is made this day of _____, 20 , by and between _____, a _____ (together with its successors and assigns, "**Landlord**"), and _____, a _____ ("**Tenant**").

W I T N E S S E T H:

Notwithstanding anything to the contrary in that lease by and between the parties executed contemporaneously herewith (the "**Lease**"), the parties agree as follows:

- 1) The Lease may be assigned at any time by Tenant to Popeyes Louisiana Kitchen, Inc., a Minnesota corporation ("**Popeyes**") or its affiliates, and then by Popeyes or its affiliates, if they so choose, to another Popeyes franchisee, both with Popeyes' approval and agreement of course, and with the consent of the Landlord, which consent shall not be unreasonably withheld, conditioned or delayed (without payment of any assignment fee or similar charge or increase in any rentals payable to Landlord). Popeyes shall be released from all liability under the Lease or related to the Premises, effective as of the date of assignment or subleasing the Premises to an approved Popeyes franchisee, but otherwise all other assignors shall remain obligated under the Lease notwithstanding such assignment.
 - 2) Landlord shall copy Popeyes (at 400 Perimeter Center Terrace, Suite 1000, Atlanta, GA 30346; Attn: VP of Development with a concurrent copy to the Attn: Franchise Administration) on any amendments, assignments of the Lease and/or notice it gives to Tenant under the Lease. If Landlord is not required to give notice to Tenant concerning some types of defaults under the Lease, then Landlord shall give a courtesy written notice to Popeyes at least ten (10) days before pursuing any remedies under the Lease unless to so delay would irrevocably harm Landlord.
 - 3) In the event Tenant defaults under the Lease and fails to cure such default within the applicable cure period, Popeyes may (but is not obligated to), at its option, either (a) cure Tenant's default in accordance with the terms of the Lease, or (b) assume the Lease and Tenant's obligations hereunder. If Popeyes elects to assume the Lease, then Popeyes shall be obligated only for obligations under the Lease arising on or after the effective date of its assumption of the Lease. In either event, the Lease shall remain in full force and effect. Landlord, Tenant, and Popeyes agree to execute all documents necessary to affect such an assignment. Popeyes may then assign the Lease or sublease the Premises to another Popeyes franchisee of Popeyes with the consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed, and Popeyes shall be released from all liability under the
-

Lease or related to the Premises, effective as of the date of assignment or subleasing to another Popeyes franchisee.

- 4) If Tenant for any reason ceases to operate as a franchisee of Popeyes under the Popeyes Chicken & Biscuits or Popeyes Louisiana Kitchen system, or if the Lease terminates for any reason and Popeyes does not assume it, as provided above, or if Popeyes or one of its affiliates or franchisees becomes the Tenant hereunder but the Lease subsequently terminates for any reason, then the tenant at such time and Popeyes, if not the tenant hereunder, shall have the right to remove from the Premises any and all items of a proprietary nature, including, without limitation, all items having on them, or themselves constituting, trademarks, service marks, copyrights, tradenames or logos. Any such removal must be made within thirty (30) days following the date that Popeyes receives written notice of the expiration of the Lease or termination of Tenant's right to possession under the Lease, whichever occurs first, and the then-tenant or Popeyes, depending on who removes the items, shall promptly repair all damage to the Premises caused by such removal, and will leave the Premises in a safe and sanitary condition.
- 5) Upon any assignment, or other method by which Popeyes, its affiliates, or another franchisee becomes tenant under the Lease, then Landlord shall permit such new tenant to make necessary repairs, modifications and upgrades so as to conform the Premises to Popeyes then-existing standards for similar restaurants.
- 6) Popeyes is intended to be a third-party beneficiary of the foregoing provisions of the Addendum and as such may enforce such provisions in accordance with applicable law, having relied thereon.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum to be executed by their duly authorized officers, who represent that they have authority to execute this Addendum on behalf of said entity.

Landlord:___ Tenant: ___

By:___ By: ___

Title:___ Title: ___

Date:___ Date: ___

EXHIBIT "D"

POPEYES LOUISIANA KITCHEN DEVELOPMENT AGREEMENT

ROFR PROCEDURES

Franchisor shall notify Developer about the proposed F-to-F Transfer and provide Developer with copies of the Purchase Agreement and all other information and documentation that Franchisor receives from the applicable franchisees relating to the F-to-F Transfer (collectively, the "ROFR Information").

Within three (3) business days of Developer's receipt of the ROFR Information, Developer may request reasonable additional information regarding the assets or other interests to be transferred and, to the extent such information is obtainable under the applicable Transferor Franchise Agreement, Franchisor will request such reasonable additional information from the transferor franchisee (the "Transferor"). After having delivered to Developer all reasonable information requested by Developer and obtainable under the Transferor Franchise Agreement, or, if any such information is not provided by the Transferor despite Franchisor's request for same and Franchisor determines in its reasonable discretion that the requested reasonable additional information is not material to the proposed transaction, Franchisor will determine, in its reasonable discretion, the commencement of the exercise period under the ROFR (the "ROFR Exercise Period"), and provide Developer with written notice of the same, which ROFR Exercise Period will expire as set forth in the Transferor Franchise Agreement(s).

Developer will notify Franchisor in writing of its decision whether to request that Franchisor assign and transfer the ROFR to Developer, as and to the extent permitted under the Transferor Franchise Agreement (the "ROFR Notice") at least three (3) days prior to the expiration of the ROFR Exercise Period. Upon receipt of a ROFR Notice, Franchisor will assign and transfer the ROFR to Developer, as permitted under the Transferor Franchise Agreement and will consent and approve Developer's exercise of the ROFR. Thereafter, Developer will exercise the ROFR in accordance with the Transferor Franchise Agreement and take all further action necessary to consummate the F-to-F Transfer in accordance with the Purchase Agreement.

In the event that the Transferor or any other Person challenges the transfer and assignment of the ROFR to Developer or the exercise of the ROFR by Developer, Developer will engage counsel reasonably acceptable to Franchisor to represent the mutual interests of Franchisor and Developer in order to contest such challenge. However, Developer acknowledges and agrees that Franchisor has not made any representations or warranties to Developer about the enforceability of the ROFR or the assignment of the ROFR to Developer. Accordingly, Developer agrees to bear its own risk regarding the validity of the enforceability of the ROFR and the assignment of the ROFR, and to bear its own costs and expenses including but not limited to all due diligence and other transactional costs and all attorneys' fees and costs in connection with the ROFR.

Notwithstanding the ROFR Procedures set forth above, Franchisor may, at its sole discretion, by written notice to the Transferor and Developer, elect to have Developer control the ROFR process directly with the Transferor, whereupon Developer will do so.

For the avoidance of doubt, Franchisor shall have no obligation to assign its ROFR or otherwise follow these ROFR Procedures with respect to a Purchase Agreement (or any other transaction) involving (a) the issuance of new shares to the owners of the Transferor, (b) a change in ownership of a Transferor which does not give rise to both a change in management and a change in control over the Transferor, (c) the transfer of assets or equity interests to a family member for estate planning purposes or by reason of the Laws of inheritance or descent, or (d) a Popeyes Restaurant located outside of the Development Area.

FIRST AMENDMENT TO DEVELOPMENT AGREEMENT

THIS FIRST AMENDMENT TO DEVELOPMENT AGREEMENT (this "Amendment") is made and entered into on June 27, 2018, by and among **POPEYES LOUISIANA KITCHEN, INC.**, a Minnesota corporation ("**PLKI**"), **CAMBRIDGE QUALITY CHICKEN, LLC**, a Delaware limited liability company ("**Existing Developer**"), **FRAYSER QUALITY, LLC**, a Delaware limited liability company ("**Frayser**"), **CAMBRIDGE CHICKEN HOLDINGS, LLC**, a Delaware limited liability company ("**Cambridge Chicken**"; Frayser and Cambridge Chicken are collectively referred to herein as "**New Developers**"; Existing Developer and New Developer are collectively referred to herein as "**Developers**"), and **MATT PERELMAN** and **ALEX SLOANE**, each in his individual capacity (each, a "**Guarantor**").

WITNESSETH:

WHEREAS, PLKI and Existing Developer are parties to a Popeyes Louisiana Kitchen development agreement dated October 9, 2017 (as amended from time to time, the "**Development Agreement**"), pursuant to which PLKI granted Existing Developer the right to develop Popeyes Louisiana Kitchen restaurants (collectively, the "**Restaurants**"), in accordance with the terms and conditions set forth therein. Capitalized terms used herein, unless otherwise defined herein, shall have the meanings ascribed to such terms in the Development Agreement;

WHEREAS, Existing Developer has requested that PLKI modify the Development Schedule as well as the Development Area;

WHEREAS, Existing Developer has also requested that PLKI agree to join each New Developer as a "Developer" under the Development Agreement;

WHEREAS, PLKI is willing to (a) modify the Development Schedule as well as the Development Area, and (b) join each New Developer as a "Developer" under the Development Agreement, in each case, subject to the terms and conditions set forth in this Amendment.

NOW THEREFORE, in consideration of the mutual covenants and conditions herein contained, and other good valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Effect of Amendment. This Amendment shall be attached to, incorporated in, and become a part of the Development Agreement. The terms and conditions stated in this Amendment, to the extent they are inconsistent with terms and conditions of the Development Agreement, shall prevail over the terms and conditions of the Development Agreement.

2. Joinder of New Developers.

A. By its signature below, each New Developer assumes and agrees to be bound by all of the terms, obligations, liabilities, covenants, representations, warranties and conditions of the Development Agreement, jointly and severally with Existing Developer, and assumes and agrees to be bound thereby as a "Developer", with the same force and effect as if such New Developer had originally executed the Development Agreement along with Existing Developer.

B. Existing Developer acknowledges and agrees that each New Developer shall be deemed to a "Developer" under the Development Agreement.

C. Each reference to "Developer" in the Development Agreement shall be deemed to include each New Developer.

2. Amendments to the Development Agreement. The Development Agreement is hereby as amended as follows:

A. By deleting the clause (i) of Section 5.03. of the Development Agreement, and by substituting the following new clause (i):

i. If Developer fails to comply with the Development Schedule for a certain Year, then Developer shall be obligated (upon notice from Franchisor) to pay to Franchisor an amount from Developer equal to the Franchise Fee Prepayment for the immediately following Year. For the avoidance of doubt, Developer will not be required to pay to Franchisor any Franchise Fee Prepayment for any other subsequent Year. By way of example only, if Developer does not achieve the Cumulative Net Opening Target for Year 2019, then Developer shall be obligated to pay to Franchisor an aggregate amount of \$550,000, which is equal to the Franchise Fee Prepayment for Year 2020 (but Developer will not be required to pay to Franchisor the Franchise Fee Prepayment for Years 2021, 2022, or 2023). In the event Developer pays to Franchisor a Franchise Fee Prepayment for a certain Year and this Agreement is terminated during such Year, then (i) Developer shall have a credit for that portion of the Franchise Fee Prepayment that has not yet been applied by Franchisor for new Franchised Units, regardless of whether the Net Opening Target has been met for the Year in question, and (ii) if any portion of such credit remains unapplied by Developer within 12 months following the termination date of this Agreement, then such unapplied portion of the credit shall automatically expire (without any further action by or notice from Franchisor). By way of example only, suppose that as of September 1, 2019, (i) Developer has paid to Franchisor a Franchise Fee Prepayment of \$550,000 for Year 2019; (ii) Developer has developed and opened two (2) new Franchised

Units; and (iii) Franchisor has applied \$100,000 of the \$550,000 Franchise Fee Prepayment for Year 2019 to those two (2) Franchised Units, leaving \$450,000 of the Franchise Fee Prepayment that has not yet been applied. If Developer terminates this Agreement on September 1, 2019, Developer will have a credit of \$450,000 to be applied to Franchise Fees payable by Developer to Franchisor for nine (9) new Popeyes restaurants to be developed by Developer in accordance with Franchisor's then-current standards and requirements for new restaurant development. Any portion of that \$450,000 credit that, as of September 1, 2020, has not yet been applied to the Franchise Fees for new Popeyes restaurant development will automatically expire; and

B. By adding the following new clause C. to Section 8.07. of the Development Agreement:

C. Developer acknowledges and agrees that, notwithstanding anything in this Agreement to the contrary, (i) Developer shall have no right to request that PLKI assign or transfer any ROFR for any Popeyes Restaurant located in the Non-ROFR Territory (as defined on **Exhibit "B"**), and (ii) the terms and provisions set forth in this Section shall not apply to any Popeyes Restaurant located in the Non-ROFR Territory.

C. By deleting the Development Schedule chart set forth on **Exhibit "A"** attached to the Development Agreement, and by substituting the following new chart in lieu thereof:

YEAR ("Year")	Cumulative Net Opening Target
Year 2018: Period beginning on the date of this Agreement and ending on December 31, 2018, subject to a cure period of 120 days	10
Year 2019: Period beginning on January 1, 2019, and ending on December 31, 2019	21
Year 2020: Period beginning on January 1, 2020, and ending on December 31, 2020	32
Year 2021: Period beginning on January 1, 2021, and ending on December 31, 2021	44
Year 2022: Period beginning on January 1, 2022, and ending on December 31, 2022	56
Year 2023: Period beginning on January 1, 2023, and ending on December 31, 2023	68
Year 2024: Period beginning on January 1, 2024, and ending on December 31, 2024	80
TOTAL	80

D. By adding the following to **Exhibit "B"** of the Development Agreement and the description of the non-exclusive Development Area set forth therein:

Columbus, MS DMA: The following counties and as shown on the map attached hereto as Schedule IX:

- A. Counties within the State of Mississippi: Calhoun, Chickasaw, Choctaw, Clay, Itawamba, Lee, Lowndes, Monroe, Montgomery, Noxubee, Oktibbeha, Pontotoc, Prentiss, Tishomingo, Union, Webster, Winston, Yalobusha
- B. Counties within the State of Alabama: Lamar

Greenwood, MS DMA: The following counties and as shown on the map attached hereto as Schedule X:

- A. Counties within the State of Mississippi: Bolivar, Carroll, Grenada, Leflore, Sunflower, Tallahatchie, Washington

Hattiesburg, MS DMA: The following counties and as shown on the map attached hereto as Schedule XI:

- A. Counties within the State of Mississippi: Covington, Forrest, Jasper, Jones, Lamar, Marion, Perry, Wayne

Jackson, MS DMA: The following counties and as shown on the map attached hereto as Schedule XII:

- A. Counties within the State of Mississippi: Adams, Attala, Claiborne, Copiah, Franklin, Hinds, Holmes, Humphreys, Issaquena, Jefferson, Jefferson Davis, Lawrence, Leake, Lincoln, Madison, Pike, Rankin, Scott, Sharkey, Simpson, Walthall, Warren, Yazoo

Monroe, LA DMA: The following counties and as shown on the map attached hereto as Schedule XIII:

- A. Counties within the State of Louisiana: Caldwell, Catahoula, Concordia, East Carroll, Franklin, Jackson, La Salle, Lincoln, Madison, Morehouse, Ouachita, Richland, Tensas, Union, West Carroll, Winn
- B. Counties within the State of Arkansas: Ashley, Union

The parties hereto acknowledge and agree that the portion of the Development Area consisting of the Columbus, MS DMA; the Greenwood, MS DMA; the

Hattisburg, MS DMA; the Jackson, MS DMA; and the Monroe, LA DMA (as reflected on Schedules IX through XIII attached hereto) is collectively referred to herein as the "**Non-ROFR Territory**".

E. By adding the following new paragraph to the very end of **Exhibit "D"** of the Development Agreement:

Developer acknowledges and agrees that, notwithstanding anything in this Agreement to the contrary, Developer shall have no right to request that PLKI assign or transfer any ROFR for any Popeyes Restaurant located in the Non-ROFR Territory, and (ii) the terms and provisions set forth in this Exhibit shall not apply to any Popeyes Restaurant located in the Non-ROFR Territory.

F. By attaching to the Development Agreement each of **Schedule IX**, **Schedule X**, and **Schedule XI**, **Schedule XII**, and **Schedule XIII** attached to this Amendment, in proper numerical sequence.

G. **Exhibit "C"** to the Development Agreement is hereby deleted, and the Lease Addendum shall no longer be required of Developers.

3. **General Release**. To induce PLKI to enter into this Amendment, each Developer (on behalf of itself and its parent, subsidiaries, affiliates and their respective past and present owners, officers, directors, shareholders, partners, agents and employees, in their corporate and individual capacities) and all other persons or entities acting on such Developer's behalf or claiming under such Developer (collectively, "**Releasors**") freely and without any influence, forever release and covenant not to sue PLKI and its subsidiaries, predecessors and affiliates and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities (collectively, "**PLKI Releasees**"), with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, whether known or unknown, vested or contingent, suspected or unsuspected (collectively, "**Claims**"), that any of the Releasors now own or hold or may at any time have owned or held, including Claims arising under federal, state and local laws, rules and ordinances and Claims arising out of, or related to, this Amendment, the Development Agreement, any Restaurant, any real estate contracts or development agreements and all other agreements between any Releasors and any PLKI Releasees, the development or proposed development of any System unit, the sale of a franchise to any Releasors, the operation of any business using the System by any Releasors and/or performance by any PLKI Releasees of any obligations under any agreement with any Releasors. Each Developer (on behalf of itself and the Releasors) agrees that fair consideration has been given for this release and fully understands that this is a negotiated, complete and final release of all of Releasors' Claims. EACH DEVELOPER (ON BEHALF OF ITSELF AND THE RELEASORS) WAIVES ANY RIGHTS AND BENEFITS CONFERRED BY ANY APPLICABLE PROVISION OF LAW EXISTING UNDER ANY FEDERAL, STATE OR POLITICAL SUBDIVISION THEREOF WHICH WOULD INVALIDATE ALL OR ANY

PORTION OF THE RELEASE CONTAINED IN THIS AMENDMENT BECAUSE SUCH RELEASE MAY EXTEND TO CLAIMS THAT THE RELEASORS DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR AT THE TIME OF EXECUTION OF THIS AMENDMENT.

4. Ratification and Reaffirmation by Guarantors. Each Guarantor hereby acknowledges this Amendment and all of the transactions contemplated hereby. All the terms, provisions, covenants, representations, warranties, conditions and stipulations contained in each and every guaranty signed by such Guarantor in favor of PLKI (collectively, the "Guaranty"), and all of such Guarantor's obligations thereunder, are hereby ratified, reaffirmed and confirmed by such Guarantor in all respects, and each Guarantor admits the validity and enforceability of the Guaranty and agrees and admits that such Guarantor has no defense to or offset against any such obligation, all of which shall continue to apply with full force and effect to such Guarantor from and after the date of this Amendment.

5. Miscellaneous.

A. By executing this Amendment, each party hereto, for such party and such party's respective successors, assigns, heirs, and representatives represent and warrant that their representations herein are true and correct and that each of them has the right and authority to enter into and to accept the terms and conditions of this Amendment.

B. The Development Agreement, this Amendment, and the documents referred to herein, constitute the entire, full, and complete agreement among the parties hereto concerning the subject matter hereof and supersede any and all prior agreements. No other representations have induced any party to execute this Amendment; and there are no representations, inducements, promises, or agreements, oral or otherwise, between the parties not embodied herein which are of any force or effect with reference to this Amendment or otherwise. No amendment, change, or variance from this Amendment shall be binding on either party unless executed in writing.

C. This Amendment shall be governed by the governing law and venue provisions set forth in the Development Agreement.

D. The Development Agreement shall remain in full force and effect (except as specifically amended herein), and each Developer shall continue to be bound by the duties, liabilities, and obligations set forth in the Development Agreement.

E. This Amendment may be executed in multiple counterparts, and each copy so executed and delivered shall be deemed to be an original. Any signature by e-mail or facsimile shall be binding. Each reference to "include" or "including" shall be deemed to be followed by "without limitation" or "but not limited to" whether or not they are followed by such phrases or words of like import.

IN WITNESS WHEREOF, the parties hereto intending to be legally bound hereby have executed this Amendment in duplicate on the day and year first written.

WITNESS: POPEYES LOUISIANA KITCHEN, INC.

By: /s/ Alexandra Williams

Name: Alexandra Williams

/s/ C Michael Title: SR. ANALYST, FCM

[Signatures continue on following page.]

WITNESS: DEVELOPERS:

CAMBRIDGE QUALITY CHICKEN, LLC

/s/ Lisa P. Simmons By: /s/ Matt Perelman

Name: Matt Perelman
Title: Co-President

/s/ Lisa P. Simmons By: /s/ Alex Sloane

Name: Matt Perelman
Title: Co-President

WITNESS: FRAYSER QUALITY, LLC

/s/ Lisa P. Simmons By: /s/ Matt Perelman

Name: Matt Perelman
Title: Co-President

/s/ Lisa P. Simmons By: /s/ Alex Sloane

Name: Matt Perelman
Title: Co-President

WITNESS: CAMBRIDGE CHICKEN HOLDINGS, LLC

/s/ Lisa P. Simmons By: /s/ Matt Perelman

Name: Matt Perelman
Title: Co-President

/s/ Lisa P. Simmons By: /s/ Alex Sloane

Name: Matt Perelman
Title: Co-President

WITNESS: GUARANTORS:

/s/ Lisa P. Simmons /s/ Matt Perelman

Matt Perelman

/s/ Lisa P. Simmons /s/ Alex Sloane

Matt Perelman

CERTIFICATIONS

I, Daniel T. Accordino, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2019 of Carrols Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2019

/s/ Daniel T. Accordino

Daniel T. Accordino
Chief Executive Officer

CERTIFICATIONS

I, Paul R. Flanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2019 of Carrols Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2019

/s/ Paul R. Flanders

Paul R. Flanders
Vice President, Chief Financial Officer and Treasurer

**CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Daniel T. Accordino, Chief Executive Officer of Carrols Restaurant Group, Inc. (the "Company"), hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel T. Accordino

Daniel T. Accordino
Chief Executive Officer

May 10, 2019

**CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Paul R. Flanders, Vice President, Chief Financial Officer and Treasurer of Carrols Restaurant Group, Inc. (the "Company"), hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul R. Flanders

Paul R. Flanders

Vice President, Chief Financial Officer and Treasurer

May 10, 2019