

**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 July 2, 2017

OR

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

Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

968 James Street
Syracuse, New York
(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"/>	(Do not check if smaller reporting company)	
		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

As of August 7, 2017, Carrols Restaurant Group, Inc. had 36,158,711 shares of its common stock, \$.01 par value, outstanding.

CARROLS RESTAURANT GROUP, INC.
FORM 10-Q
QUARTER ENDED July 2, 2017

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PART I—FINANCIAL INFORMATION

ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	<u>July 2, 2017</u>	<u>January 1, 2017</u>
ASSETS		
Current assets:		
Cash	\$ 33,721	\$ 2,002
Trade and other receivables	10,591	7,623
Inventories	8,131	7,761
Prepaid rent	5,107	4,665
Prepaid expenses and other current assets	7,202	7,465
Refundable income taxes	153	153
Total current assets	<u>64,905</u>	<u>29,669</u>
Property and equipment, net of accumulated depreciation of \$270,965 and \$254,807, respectively	247,055	247,847
Franchise rights, net of accumulated amortization of \$97,061 and \$93,799, respectively (Note 3)	155,046	134,153
Goodwill (Note 3)	36,346	22,869
Franchise agreements, at cost less accumulated amortization of \$10,302 and \$9,734, respectively	23,587	19,591
Favorable leases, net of accumulated amortization of \$2,021 and \$1,760, respectively (Note 3)	6,222	5,441
Deferred income taxes (Note 7)	27,465	28,841
Other assets	1,862	1,744
Total assets	<u>\$ 562,488</u>	<u>\$ 490,155</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 6)	\$ 1,731	\$ 1,616
Accounts payable	20,778	22,445
Accrued interest	3,672	2,676
Accrued payroll, related taxes and benefits	23,469	26,029
Accrued real estate taxes	5,116	5,202
Other liabilities	13,287	10,932
Total current liabilities	<u>68,053</u>	<u>68,900</u>
Long-term debt, net of current portion (Note 6)	279,388	215,108
Lease financing obligations	1,196	2,938
Deferred income—sale-leaseback of real estate	11,542	12,271
Accrued postretirement benefits	4,693	4,566
Unfavorable leases, net of accumulated amortization of \$4,635 and \$4,643, respectively (Note 3)	13,945	11,686
Other liabilities (Note 5)	23,052	20,030
Total liabilities	<u>401,869</u>	<u>335,499</u>
Commitments and contingencies (Note 9)		
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—36,158,711 and 35,835,800 shares, respectively, and outstanding—35,427,401 and 35,258,579 shares, respectively	354	353
Additional paid-in capital	142,918	141,133
Retained earnings	18,691	14,514
Accumulated other comprehensive loss	(1,203)	(1,203)
Treasury stock, at cost	(141)	(141)
Total stockholders' equity	<u>160,619</u>	<u>154,656</u>
Total liabilities and stockholders' equity	<u>\$ 562,488</u>	<u>\$ 490,155</u>

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

CARROLS RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE AND SIX MONTHS ENDED JULY 2, 2017 AND JULY 3, 2016
(In thousands of dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Restaurant sales	\$ 279,478	\$ 241,368	\$ 519,330	\$ 463,887
Costs and expenses:				
Cost of sales	78,724	62,117	142,960	121,137
Restaurant wages and related expenses	87,948	73,545	169,019	145,628
Restaurant rent expense	18,892	16,118	36,489	31,996
Other restaurant operating expenses	41,910	37,316	81,105	73,005
Advertising expense	11,431	10,770	21,332	19,898
General and administrative (including stock-based compensation expense of \$903, \$606, \$1,786, and \$1,171 respectively)	14,411	14,355	29,987	27,561
Depreciation and amortization	13,366	11,486	26,517	22,543
Impairment and other lease charges (Note 4)	432	286	963	508
Other expense, net (Note 12)	29	1,479	29	1,035
Total operating expenses	267,143	227,472	508,401	443,311
Income from operations	12,335	13,896	10,929	20,576
Interest expense	5,029	4,520	9,830	9,055
Income before income taxes	7,306	9,376	1,099	11,521
Provision for income taxes (Note 7)	1,267	—	656	—
Net income	\$ 6,039	\$ 9,376	\$ 443	\$ 11,521
Basic and diluted net income per share (Note 11)	\$ 0.13	\$ 0.21	\$ 0.01	\$ 0.25
Shares used in computing net income per share:				
Basic weighted average common shares outstanding	35,415,416	35,117,463	35,399,820	35,109,610
Diluted weighted average common shares outstanding	44,941,819	44,818,528	44,980,576	44,849,707
Comprehensive income, net of tax:				
Net income	\$ 6,039	\$ 9,376	\$ 443	\$ 11,521
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 6,039	\$ 9,376	\$ 443	\$ 11,521

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

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

	Common Stock		Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	Shares	Amount						
Balance at January 3, 2016	35,039,890	\$ 350	\$ —	\$ 139,083	\$ (30,958)	\$ (335)	\$ (141)	\$ 107,999
Stock-based compensation	—	—	—	2,053	—	—	—	2,053
Vesting of non-vested shares and excess tax benefits	218,689	3	—	(3)	—	—	—	—
Net income	—	—	—	—	45,472	—	—	45,472
Change in postretirement benefit obligations, net of tax benefit of \$541	—	—	—	—	—	(868)	—	(868)
Balance at January 1, 2017	35,258,579	353	—	141,133	14,514	(1,203)	(141)	154,656
Cumulative-effect adjustment from adoption of ASU 2016-09	—	—	—	—	3,734	—	—	3,734
Stock-based compensation	—	—	—	1,786	—	—	—	1,786
Vesting of non-vested shares and excess tax benefits	168,822	1	—	(1)	—	—	—	—
Net income	—	—	—	—	443	—	—	443
Balance at July 2, 2017	<u>35,427,401</u>	<u>\$ 354</u>	<u>\$ —</u>	<u>\$ 142,918</u>	<u>\$ 18,691</u>	<u>\$ (1,203)</u>	<u>\$ (141)</u>	<u>\$ 160,619</u>

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

CARROLS RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JULY 2, 2017 AND JULY 3, 2016
(In thousands of dollars)
(Unaudited)

	Six Months Ended	
	July 2, 2017	July 3, 2016
Cash flows provided from operating activities:		
Net income	\$ 443	\$ 11,521
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss on disposals of property and equipment	479	(63)
Stock-based compensation	1,786	1,171
Impairment and other lease charges	963	508
Depreciation and amortization	26,517	22,543
Amortization of deferred financing costs	437	395
Amortization of bond premium	(24)	—
Amortization of deferred gains from sale-leaseback transactions	(839)	(904)
Deferred income taxes	656	—
Changes in other operating assets and liabilities	(1,689)	(6,886)
Net cash provided from operating activities	28,729	28,285
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(2,606)	(3,261)
Restaurant remodeling	(12,681)	(26,085)
Other restaurant capital expenditures	(7,810)	(8,531)
Corporate and restaurant information systems	(3,717)	(1,629)
Total capital expenditures	(26,814)	(39,506)
Acquisition of restaurants, net of cash acquired (Note 2)	(36,563)	(19,207)
Proceeds from sale-leaseback transactions	2,717	17,687
Proceeds from insurance recoveries	—	1,016
Net cash used for investing activities	(60,660)	(40,010)
Cash flows provided from financing activities:		
Proceeds from issuance of 8% senior secured second lien notes	79,875	—
Borrowings under senior credit facility	183,250	12,750
Repayments under senior credit facility	(196,750)	(12,750)
Principal payments on capital leases	(804)	(716)
Costs associated with financing long-term debt	(1,921)	(102)
Net cash provided from (used for) financing activities	63,650	(818)
Net increase (decrease) in cash	31,719	(12,543)
Cash, beginning of period	2,002	22,274
Cash, end of period	\$ 33,721	\$ 9,731
Supplemental disclosures:		
Interest paid on long-term debt	\$ 9,198	\$ 8,608
Interest paid on lease financing obligations	\$ 66	\$ 52
Accruals for capital expenditures	\$ 1,992	\$ 4,453
Non-cash reduction of lease financing obligations	\$ 1,744	\$ —
Income taxes refunded (paid)	\$ —	\$ —
Capital lease obligations acquired or incurred	\$ 277	\$ 263

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

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

1. Basis of Presentation

Business Description. At July 2, 2017 Carrols Restaurant Group, Inc. ("Carrols Restaurant Group") operated, as franchisee, 799 restaurants under the trade name "Burger King ®" in 17 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 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, 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 and six months ended July 2, 2017 and July 3, 2016 each contained thirteen and twenty-six weeks, respectively. The 2017 fiscal year will end December 31, 2017 and will contain 52 weeks.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements for the six months ended July 2, 2017 and July 3, 2016 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 consolidated financial statements have been included. The results of operations for the three and six months ended July 2, 2017 and July 3, 2016 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 January 1, 2017. The January 1, 2017 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 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 made at a total-Company basis. 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.

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 Company uses all available information to estimate fair values of identifiable intangible assets and property acquired. In making these

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

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 capital 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 capital 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.

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 our own assumptions. Financial instruments include cash, trade and other receivables, accounts payable and long-term debt. The carrying amounts of cash, 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 July 2, 2017 was approximately \$293.6 million.

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 \$0.2 million and \$0.6 million during the three and six months ended July 2, 2017, respectively, and \$0.5 million and \$0.6 million during the three and six months ended July 3, 2016, respectively.

Recently Issued Accounting Pronouncements. In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the classification of certain cash receipts and payments in the statement of cash flows in order to eliminate diversity in practice. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the potential impact that adoption will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. This ASU will require organizations that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, using a modified retrospective approach. Early adoption is permitted. The Company is evaluating the potential impact that adoption will have on its consolidated financial statements and related

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

disclosures, but expects it will have a material impact on its consolidated balance sheet as the ASU requires balance sheet recognition of assets and obligations for current operating leases.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies certain elements of accounting for employee share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted this ASU in the first quarter of 2017. Upon adoption of this ASU, the Company elected to change its accounting policy and account for forfeitures when they occur. The Company recorded a \$3.7 million cumulative-effect adjustment to increase deferred tax assets and retained earnings as a result of the recognition of excess tax benefits previously unrealized. Prior periods have not been adjusted for the adoption of this ASU.

In May 2014, and in subsequent updates, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which requires recognition of revenue from contracts with customers upon transfer of promised goods or services in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services and expands related disclosure requirements. The new revenue guidance is effective for the Company beginning with our first quarter of fiscal 2018 and may be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company believes that impact of this adoption 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 franchisee restaurant sales in 20 states (the "ROFR"). Since the beginning of 2016, the Company has acquired an aggregate of 116 restaurants from other franchisees in the following transactions, some of which were subject to the ROFR:

Closing Date	Number of Restaurants	Purchase Price	Fee-Owned (1)	Market Location
<u>2016 Acquisitions:</u>				
February 23, 2016	(2)	12 \$ 7,127		Scranton/Wilkes-Barre, Pennsylvania
May 25, 2016		6 12,080	5	Detroit, Michigan
July 14, 2016	(2)	4 5,445	3	Detroit, Michigan
August 23, 2016		7 8,755	6	Portland, Maine
October 4, 2016		3 1,623		Raleigh, North Carolina
November 15, 2016		17 7,251		Pittsburgh and Johnstown, Pennsylvania
December 1, 2016		7 5,807	1	Columbus, Ohio
	56	48,088	15	
<u>2017 Acquisitions:</u>				
February 28, 2017		43 20,373		Cincinnati, Ohio
June 6, 2017	(2)	17 16,190	(3)	Baltimore, Maryland and Washington, DC
Total 2016 and 2017 Acquisitions	116	\$ 84,651	15	

(1) The 2016 acquisitions included the purchase of 15 fee-owned restaurants, of which 14 were sold in sale-leaseback transactions during 2016 for net proceeds of \$19.1 million.

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

(3) The purchase price and the related allocation for this acquisition (included in the presentation below) is preliminary and subject to adjustment related to working capital settlement and related deferred income tax considerations.

CARROLS RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands of dollars 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 2017 acquisitions reflected in the consolidated balance sheet as of July 2, 2017.

Trade and other receivables	\$	486
Inventory		566
Prepaid expenses		192
Other assets		52
Restaurant equipment		3,244
Restaurant equipment - subject to capital lease		235
Leasehold improvements		2,326
Franchise fees		1,292
Franchise rights (Note 3)		24,156
Favorable leases (Note 3)		1,100
Deferred income taxes		(4,456)
Goodwill (Note 3)		13,477
Capital lease obligations for restaurant equipment		(278)
Unfavorable leases (Note 3)		(2,997)
Accounts payable		(880)
Accrued payroll, related taxes and benefits		(270)
Other liabilities		(1,682)
Net assets acquired	\$	<u>36,563</u>

Goodwill recorded in connection with these acquisitions represents costs in excess of fair values assigned to the underlying net assets of acquired restaurants. Goodwill of \$6.5 million is expected to be deductible for income tax purposes for the 2017 acquisitions. Deferred income tax assets and liabilities are due primarily to the book and tax bases difference of franchise rights, property and equipment, net favorable and unfavorable leases and other liabilities.

The restaurants acquired in 2016 and 2017 contributed restaurant sales of \$34.4 million and \$55.1 million in the three and six months ended July 2, 2017, respectively, and \$5.1 million and \$7.0 million in the three and six months ended July 3, 2016, 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 2017 and 2016 for the three and six months ended July 2, 2017 and July 3, 2016 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:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 2, 2017</u>	<u>July 3, 2016</u>	<u>July 2, 2017</u>	<u>July 3, 2016</u>
Restaurant sales	\$ 285,952	\$ 266,630	\$ 541,112	\$ 523,210
Net income	\$ 6,659	\$ 12,481	\$ 1,716	\$ 16,629
Basic and diluted net income per share	\$ 0.15	\$ 0.28	\$ 0.04	\$ 0.37

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

This unaudited pro forma financial information does not give effect to any anticipated synergies, operating efficiencies or 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 \$0.4 million and \$1.2 million during the three and six months ended July 2, 2017, respectively, and \$0.2 million and \$0.6 million during the three and six months ended July 3, 2016, respectively.

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 its value. There have been no recorded goodwill impairment losses during the three or six months ended July 2, 2017 or July 3, 2016. The change in goodwill for the six months ended July 2, 2017 is summarized below:

Balance at January 1, 2017	\$ 22,869
Acquisitions of restaurants (Note 2)	13,477
Balance at July 2, 2017	<u>\$ 36,346</u>

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 or six months ended July 2, 2017 and July 3, 2016. The change in franchise rights for the six months ended July 2, 2017 is summarized below:

Balance at January 1, 2017	\$ 134,153
Acquisitions of restaurants (Note 2)	24,156
Amortization expense	(3,263)
Balance at July 2, 2017	<u>\$ 155,046</u>

Amortization expense related to franchise rights was \$1.7 million and \$1.5 million for the three months ended July 2, 2017 and July 3, 2016, respectively, and \$3.3 million and \$2.9 million for the six months ended July 2, 2017 and July 3, 2016, respectively. The Company expects annual amortization expense to be \$6.8 million in 2017 and \$7.1 million in each of the following five years.

Favorable and Unfavorable Leases. Amounts allocated to favorable and unfavorable leases are being amortized using the straight-line method over the remaining terms of the underlying lease agreements as a net reduction of restaurant rent expense. Additions to favorable lease assets and unfavorable lease liabilities from the 2017 acquisitions included in Note 2 totaled \$1.1 million and \$3.0 million for the six months ended July 2, 2017, respectively.

The net reduction of rent expense related to the amortization of favorable and unfavorable leases was \$0.2 million each of the three months ended July 2, 2017 and July 3, 2016 and \$0.4 million in the each of the six months ended July 2, 2017 and July 3, 2016. The Company expects the net annual reduction of rent expense to be \$0.8 million in 2017, \$0.9 million in 2018, \$0.8 million and 2019, \$0.7 million in 2020 and \$0.6 million and 2021 and 2022.

CARROLS RESTAURANT GROUP, INC.
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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 using these assets in the operation of its business. 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 July 2, 2017, the Company recorded impairment and other lease charges of \$0.4 million which included \$0.2 million of capital expenditures at previously impaired restaurants and \$0.2 million of other lease charges associated with changes in estimates of future costs related to closed restaurants. During the six months ended July 2, 2017, the Company recorded impairment and other lease charges of \$1.0 million, which included \$0.4 million of capital expenditures at previously impaired restaurants, \$0.2 million of asset impairment charges at three underperforming restaurants and \$0.4 million of other lease charges primarily due to three restaurants closed during the first quarter.

During the three months and six months ended July 3, 2016, the Company recorded asset impairment charges of \$0.5 million and \$0.6 million, respectively, primarily from capital expenditures at previously impaired restaurants. During the three months ended July 3, 2016, the Company reduced other lease charges by \$0.2 million due to favorable lease terminations for three previously closed restaurant properties.

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

	Six Months Ended	Year Ended
	July 2, 2017	January 1, 2017
Balance, beginning of the period	\$ 1,513	\$ 2,088
Provisions for restaurant closures	179	59
Changes in estimates of accrued costs	118	(89)
Payments, net	(387)	(691)
Other adjustments, including the effect of discounting future obligations	382	146
Balance, end of the period	<u>\$ 1,805</u>	<u>\$ 1,513</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.

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5. Other Liabilities, Long-Term

Other liabilities, long-term, at July 2, 2017 and January 1, 2017 consisted of the following:

	July 2, 2017	January 1, 2017
Deferred rent	\$ 12,669	\$ 11,498
Other accrued occupancy costs	3,143	3,254
Accrued workers' compensation and general liability claims	4,629	3,364
Deferred compensation	2,394	1,756
Other	217	158
	<u>\$ 23,052</u>	<u>\$ 20,030</u>

Other accrued occupancy costs above include long-term obligations pertaining to closed restaurant locations, contingent rent and unamortized lease incentives.

6. Long-term Debt

Long-term debt at July 2, 2017 and January 1, 2017 consisted of the following:

	July 2, 2017	January 1, 2017
Collateralized:		
Carrols Restaurant Group 8% Senior Secured Second Lien Notes	\$ 275,000	\$ 200,000
Senior Credit Facility - Revolving credit borrowings	—	13,500
Capital leases	6,514	7,039
	<u>281,514</u>	<u>220,539</u>
Less: current portion	(1,731)	(1,616)
Less: deferred financing costs	(5,246)	(3,815)
Add: bond premium	\$ 4,851	\$ —
	<u>\$ 279,388</u>	<u>\$ 215,108</u>

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") for net proceeds of \$35.5 million after repayment of outstanding revolving credit borrowings of \$42.6 million and transaction fees of \$1.8 million. The 8% Notes mature and are payable on May 1, 2022. Interest is payable semi-annually on May 1 and November 1. The 8% Notes are guaranteed by the Company's subsidiaries and are 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 are 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. Prior to May 1, 2018, the Company may redeem some or all of the 8% Notes at a redemption price of 100% of the principal amount of each note plus accrued and unpaid interest, if any, and a make-whole premium. In addition, the indenture governing the 8% Notes also provides that the Company may redeem up to 35% of the 8% Notes using the proceeds of certain equity offerings completed before May 15, 2018.

The 8% Notes are 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

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are no significant restrictions on its 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 includes 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 provide that any capital stock and equity interests of any of the Company's subsidiaries will 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 contains 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.

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 July 2, 2017, there were no revolving credit borrowings outstanding and \$12.8 million of letters of credit were issued under the senior credit facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, \$60.2 million was available for revolving credit borrowings under the amended senior credit facility at July 2, 2017.

Borrowings under the senior credit facility bear 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 July 2, 2017 the Company's LIBOR Rate margin was 3.25% and the Alternate Base Rate margin was 2.25% based on the Company's Adjusted Leverage Ratio at the end of the first quarter of 2017.

The Company's obligations under the senior credit facility are jointly and severally guaranteed by its subsidiaries and are 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 is 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 contains 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

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facility requires 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 July 2, 2017.

The amended senior credit facility contains 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.

7. Income Taxes

The provision for income taxes for the three and six months ended July 2, 2017 and July 3, 2016 was comprised of the following:

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Current	\$ —	\$ —	\$ —	\$ —
Deferred	1,267	2,605	656	2,641
Change in valuation allowance	—	(2,605)	—	(2,641)
Provision for income taxes	\$ 1,267	\$ —	\$ 656	\$ —

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 and six months ended July 2, 2017 was derived using an estimated effective annual income tax rate for all of 2017 of 14.5%, 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 income tax provision for the six months ended July 2, 2017 contains net discrete tax adjustments of \$0.6 million of income tax expense.

In 2014, the Company recorded a valuation allowance on all of its net deferred tax assets. For the six months ended July 3, 2016, the Company determined that a valuation allowance was still needed for all of its net deferred income tax assets, based on the required weight of positive and negative evidence under ASC 740, including consideration of the Company's three-year cumulative losses at that date. Consequently, the Company recorded no provision or benefit for income taxes in the three or six months ended July 3, 2016.

During the fourth quarter of 2016, the Company evaluated evidence to consider the reversal of the valuation allowance on its net deferred income tax assets and determined in the fourth quarter of fiscal 2016 that there was sufficient positive evidence to conclude that it is more likely than not its deferred income tax assets are realizable. In determining the likelihood of future realization of the deferred income tax assets as of January 1, 2017, the Company considered both positive and negative evidence and weighted the effect of such evidence based upon its objectivity as required by ASC 740. As a result, the Company believed that the weight of the positive evidence, including the cumulative income position in the three most recent years (as adjusted for non-recurring items and permanent differences between book and tax) and forecasts for a sustained level of future taxable income, was sufficient to overcome the weight of the negative evidence, and recorded a \$30.4 million tax benefit to release the full valuation allowance against the Company's deferred income tax assets in the fourth quarter of 2016.

The Company's federal net operating loss carryforwards expire beginning in 2033. As of July 2, 2017, the Company had federal net operating loss carryforwards of approximately \$73.1 million. The Company's state net operating loss carryforwards expire beginning in 2017 through 2034.

The Company's policy is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. At July 2, 2017 and January 1, 2017, the Company had no unrecognized tax benefits and no accrued interest

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related to uncertain tax positions. The tax years 2013 - 2016 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.

8. Stock-Based Compensation

Stock-based compensation expense for three months ended July 2, 2017 and July 3, 2016 was \$0.9 million and \$0.6 million, respectively, and was \$1.8 million and \$1.2 million for the six months ended July 2, 2017 and July 3, 2016, respectively.

A summary of all non-vested shares activity for the six months ended July 2, 2017 was as follows:

	Shares	Weighted Average Grant Date Price
Non-vested at January 1, 2017	577,221	\$ 10.42
Granted	366,580	15.05
Vested	(168,822)	10.05
Forfeited	(43,669)	12.84
Non-vested at July 2, 2017	<u>731,310</u>	<u>\$ 12.68</u>

The fair value of non-vested shares is based on the closing price on the date of grant. As of July 2, 2017, the total non-vested stock-based compensation expense was approximately \$7.7 million and the remaining weighted average vesting period for non-vested shares was 2.3 years. The Company expects to record an additional \$1.7 million in stock-based compensation expense related to the vesting of these awards for the remainder of 2017.

9. 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 July 2, 2017, the Company is a guarantor under 27 Fiesta restaurant property leases, 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 July 2, 2017 was \$22.7 million. 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 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.

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10. 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 is convertible into 9,414,580 shares of the Company's Common Stock, which currently constitutes approximately 20.7% of the outstanding shares of the Company's common stock on a fully diluted basis. Pursuant to the terms of the Series A 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 twenty-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 the initial franchise fee, the Company generally pays BKC a monthly royalty at a rate of 4.5% of sales. Royalty expense was \$11.9 million and \$10.2 million in the three months ended July 2, 2017 and July 3, 2016, respectively and \$22.1 million and \$19.6 million for the six months ended July 2, 2017 and July 3, 2016, 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 participation in local advertising campaigns in markets that approve such additional spending. Advertising expense related to BKC was \$11.2 million and \$10.5 million in the three months ended July 2, 2017 and July 3, 2016, respectively, and \$20.8 million and \$19.5 million for the six months ended July 2, 2017 and July 3, 2016, respectively.

As of July 2, 2017, the Company leased 262 of its restaurant locations from BKC and 136 of these locations are subleased by BKC from a third-party lessor. Aggregate rent related to BKC leases was \$6.8 million and \$7.2 million for the three months ended July 2, 2017 and July 3, 2016, respectively and \$13.4 million and \$14.5 million for the six months ended July 2, 2017 and July 3, 2016, respectively. The Company believes the related party lease terms have not been significantly affected by the fact that the Company and BKC are deemed related parties.

As of July 2, 2017, the Company owed BKC \$8.1 million related to the payment of advertising, royalties and rent, which is remitted on a monthly basis and recorded as a current liability within accounts payable on the consolidated interim balance sheet as of July 2, 2017.

11. Net Income per Share

The Company applies the two-class method to calculate and present net income per share. The Company's non-vested share awards and Series A Convertible Preferred Stock issued to BKC contain non-forfeitable rights to dividends and are considered participating securities for purposes of computing net income 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.

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

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

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Basic net income (loss) per share:				
Net income	\$ 6,039	\$ 9,376	\$ 443	\$ 11,521
Less: Income attributable to non-vested shares	(104)	(148)	(8)	(180)
Less: Income attributable to preferred stock	(1,246)	(1,951)	(91)	(2,398)
Net income available to common stockholders	<u>\$ 4,689</u>	<u>\$ 7,277</u>	<u>\$ 344</u>	<u>\$ 8,943</u>
Weighted average common shares outstanding	<u>35,415,416</u>	<u>35,117,463</u>	<u>35,399,820</u>	<u>35,109,610</u>
Basic net income per share	<u>\$ 0.13</u>	<u>\$ 0.21</u>	<u>\$ 0.01</u>	<u>\$ 0.25</u>
Diluted net income per share:				
Net income	\$ 6,039	\$ 9,376	\$ 443	\$ 11,521
Shares used in computing basic net income per share	35,415,416	35,117,463	35,399,820	35,109,610
Dilutive effect of preferred stock and non-vested shares	9,526,403	9,701,065	9,580,756	9,740,097
Shares used in computing diluted net income per share	<u>44,941,819</u>	<u>44,818,528</u>	<u>44,980,576</u>	<u>44,849,707</u>
Diluted net income per share (1)	<u>\$ 0.13</u>	<u>\$ 0.21</u>	<u>\$ 0.01</u>	<u>\$ 0.25</u>
Shares excluded from diluted net income per share computations (2)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (1) Diluted net income per share is equal to basic net income per share for the periods presented due to the allocation of earnings to participating securities under the two-class method of calculating basic net income per share causing basic net income per share to be lower than diluted net income per share calculated under the treasury-stock method.
- (2) Shares issuable upon conversion of preferred stock and non-vested shares were excluded from the computation of diluted net income per share because their effect would have been anti-dilutive.

12. Other Income and Expense

In the three months ended July 3, 2016, the Company recorded a gain of \$0.5 million related to an insurance recovery from a fire at one of its restaurants and expense of \$1.85 million related to a litigation settlement. Additionally, in the six months ended July 3, 2016, the Company recorded a gain of \$0.5 million related to a settlement for a partial condemnation on one of its operating restaurant properties.

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

Carrols Restaurant Group, Inc. and its consolidated subsidiaries (collectively, "Carrols Restaurant Group", the "Company", "we", "our" or "us") operated, as franchisee, 799 restaurants under the trade name "Burger King ®" in 17 Northeastern, Midwestern and Southeastern states.

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. The three and six months ended July 2, 2017 and July 3, 2016 each contained thirteen and twenty-six weeks, respectively. Our fiscal year ending December 31, 2017 will contain 52 weeks and our fiscal year ended January 1, 2017 contained 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 Corporation, 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 interim 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 January 1, 2017. 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 and six months ended July 2, 2017 compared to the three and six months ended July 3, 2016 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 July 2, 2017, our restaurant operations consisted of 799 franchised Burger King restaurants in 17 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 franchisee restaurant sales in 20 states (the "ROFR"). In the first six months of 2017 we acquired a total of 60 restaurants in two separate transactions, 17 located in the Baltimore, MD market and 43 located in and around the Cincinnati, OH market. During the year ended January 1, 2017 we acquired 56 restaurants in seven separate transactions and during the year ended January 3, 2016 we acquired 55 restaurants in eight separate transactions.

For 2017, we have modified our groupings of restaurants for reporting and analysis purposes. We refer to our restaurants acquired in 2015, 2016 and 2017 as our "acquired restaurants". All of our other restaurants, including restaurants acquired before 2015, are referred to as our "legacy restaurants".

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 and the closures of restaurants. Restaurants, including restaurants we acquire, are included in comparable restaurant sales after they have been open or owned for 12 months and immediately after they open from being remodeled.
- *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 the amortization of favorable and unfavorable leases, reduced by the amortization of deferred gains on sale-leaseback transactions.
- *Other restaurant operating expenses* include all other restaurant-level operating costs, the major components of which are royalty expenses paid to BKC, utilities, repairs and maintenance, real estate taxes and credit card fees.
- *Advertising expense* includes advertising payments to BKC based on a percentage of sales as required under our franchise and operating agreements and additional marketing and promotional expenses in certain of our markets.
- *General and administrative expenses* are comprised primarily of salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees, acquisition costs and stock-based compensation expense.
- *EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income.* EBITDA, Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income are non-GAAP financial measures. EBITDA represents net income 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. Adjusted net income also presents the provision or benefit for income taxes as if there was no valuation allowance on our net deferred income tax assets during all periods presented.

We are presenting Adjusted EBITDA, Restaurant-Level EBITDA and Adjusted net income because we believe that they provide a more meaningful comparison than EBITDA and net income of our core business operating results, as well as with those of other similar companies. Additionally, we present Restaurant-Level EBITDA because it excludes the impact of general and administrative expenses and other income or expense which are not directly related to restaurant-level operations. Management believes that Adjusted EBITDA and Restaurant-Level EBITDA, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations on page 28, 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 28.

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 senior credit facility.

Recent and Future Events Affecting our Results of Operations

Burger King Restaurant Acquisitions

From the beginning of 2016 through July 2, 2017, we have acquired 116 restaurants from other franchisees in the following transactions (\$ in thousands):

<u>Closing Date</u>		<u>Number of Restaurants</u>	<u>Purchase Price</u>	<u>Fee-Owned Restaurants</u>	<u>Market Location</u>
<u>2016 Acquisitions:</u>					
February 23, 2016	(1)	12	\$ 7,127		Scranton/Wilkes-Barre, Pennsylvania
May 25, 2016		6	12,080	5	Detroit, Michigan
July 14, 2016	(1)	4	5,445	3	Detroit, Michigan
August 23, 2016		7	8,755	6	Portland, Maine
October 4, 2016		3	1,623		Raleigh, North Carolina
November 15, 2016		17	7,251		Pittsburgh and Johnstown, Pennsylvania
December 1, 2016		7	5,807	1	Columbus, Ohio
		<u>56</u>	<u>48,088</u>	<u>15</u>	
<u>2017 Acquisitions:</u>					
February 28, 2017		43	20,373		Cincinnati, Ohio
June 6, 2017	(1)	17	16,190		Baltimore, Maryland and Washington, DC
Total 2016 and 2017 Acquisitions		<u>116</u>	<u>\$ 84,651</u>	<u>15</u>	

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

The 2016 acquisitions included the purchase of 15 fee-owned restaurants, of which 14 were sold in sale-leaseback transactions in 2016 for net proceeds of \$19.1 million.

The unaudited pro forma impact on the results of operations for the 2016 and 2017 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 period 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 2016 or 2017 acquired restaurants. The following table summarizes certain unaudited pro forma financial information related to our operating results for the three and six months ended July 2, 2017:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 2, 2017</u>		<u>July 2, 2017</u>	
Restaurant sales	\$	285,952	\$	541,112
Income from operations	\$	13,334	\$	12,983
Adjusted EBITDA	\$	28,327	\$	43,861

Capital Expenditures and Remodeling Commitment with BKC

Under our operating agreement with BKC, beginning on January 1, 2016 and until we exceed operating 1,000 Burger King restaurants, a minimum of 10% of our annual new restaurant growth (including acquisitions) must come from the development of new Burger King restaurants (which includes restaurants we relocate within their market area); provided that for 2016 only, any required restaurant development may be deferred and opened by the end of 2017. At July 2, 2017, we have completed the development of three restaurants towards this commitment.

In 2017, we anticipate that total capital expenditures will range from \$65 million to \$85 million although the actual amount of capital expenditures may differ from these estimates. Capital expenditures in 2017 include remodeling 28 to 32 restaurants to the BKC 20/20 image standard at an approximate average cost of \$550,000 per restaurant, rebuilding 6 to 8 restaurants and the construction of 10 to 15 new restaurants, of which 2 or 3 restaurants will be relocated within their respective markets, at an average cost of \$1,300,000 per restaurant which excludes the cost of land. Capital expenditures in 2017 also include approximately \$10 million to \$12 million for non-recurring investments in new kitchen production and food holding systems, new restaurant training systems and certain point-of-sale equipment 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. At July 2, 2017 we had 578 restaurants with the 20/20 restaurant image, which included restaurants converted prior to our acquisition.

Issuance of Indebtedness and Amendment to our Senior Credit Facility

On June 23, 2017, we issued in a private placement an additional \$75 million principal amount of 8% Notes at a premium of 106.5% and used a portion of the net proceeds to repay all of our revolving credit borrowings under the amended senior credit facility and to pay related fees and expenses. We received net proceeds of approximately \$35.5 million from the offering which will be used for working capital and general corporate purposes, including future restaurant acquisitions.

On June 20, 2017, we entered into an amendment to our senior credit facility to increase the permitted indebtedness for our second lien notes to a principal amount not to exceed \$300.0 million in order to provide for the additional \$75 million of the 8% Notes issued on June 23, 2017.

Additionally, on January 13, 2017, we entered into an amendment to our senior credit facility to, among other things, increase the maximum revolving credit borrowings by \$18.0 million to a total of \$73.0 million.

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 the first six months of 2017 we closed fifteen restaurants, excluding one restaurant relocated within its respective market area. In 2016, we closed seven restaurants, including six restaurants closed on January 1, 2017 and excluding five restaurants relocated within their respective trade areas. We currently anticipate that for all of 2017 we will close a total 15 to 20 restaurants at or near the end of their respective lease term, excluding any restaurants being relocated within their trade area.

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.

Reversal of Valuation on Deferred Income Tax Assets

In 2014, we recorded a valuation allowance on all of our net deferred tax assets. For the three months ended July 3, 2016 we determined that a valuation allowance was still needed for all of our net deferred income tax assets, based on the required weight of positive and negative evidence under ASC 740, including consideration of our three-year cumulative loss at that date. Consequently, we recorded no provision or benefit for income taxes in the second quarter of 2016.

During the fourth quarter of 2016, we evaluated evidence to consider the reversal of the valuation allowance on our net deferred income tax assets and determined that there was sufficient positive evidence to conclude that it is more likely than not our deferred income tax assets are realizable. In determining the likelihood of future realization of our deferred income tax assets as of January 1, 2017, we considered both positive and negative evidence and weighted

the effect of such evidence based upon its objectivity as required by ASC 740. As a result, we believed that the weight of the positive evidence, including the cumulative income position in the three most recent years (as adjusted for non-recurring items and permanent differences between book and tax) and forecasts for a sustained level of future taxable income, was sufficient to overcome the weight of the negative evidence, and recorded a \$30.4 million tax benefit to release the full valuation allowance against our deferred income tax assets in the fourth quarter of 2016.

Effect of Minimum Wage Increases

Certain of the states and municipalities in which we operate have increased their minimum wage rates for 2017 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 \$10.75 an hour in 2017 (from \$9.75 an hour in 2016) with subsequent annual increases reaching \$15.00 an hour by July 1, 2021. Starting in 2015, we have been receiving New York State minimum wage tax credits that partially offset these additional labor costs. These tax credits diminish over the next few years but currently total approximately \$500,000 per year. We had 128 restaurants in New York State at July 2, 2017. 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.

Results of Operations

Three and Six Months Ended July 2, 2017 Compared to Three and Six Months Ended July 3, 2016

The following table highlights the key components of sales for the three and six month period ended July 2, 2017 as compared to the three and six month period ended July 3, 2016 :

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Restaurant Sales:				
Legacy restaurants	\$ 226,196	\$ 217,759	\$ 428,323	\$ 421,552
Acquired restaurants	53,282	23,609	91,007	42,335
Total	<u>\$ 279,478</u>	<u>\$ 241,368</u>	<u>\$ 519,330</u>	<u>\$ 463,887</u>
Change in Comparable Restaurant Sales %	4.6%	0.7%	2.1%	3.0%
Legacy restaurants	4.7%	0.6%	2.1%	3.0%
Acquired restaurants (1)	3.2%	7.3%	1.4%	7.3%

(1) Acquired restaurants are included in comparable sales after they have been owned for twelve months.

The following table sets forth the number of stores in operation at the end of the three and six month periods ended July 2, 2017 and July 3, 2016:

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Operating at beginning of period	788	717	753	705
New restaurants opened	(1)	2	2	2
Acquired	17	6	60	18
Closed	(1)	(2)	(16)	(2)
Operating at end of period	<u>799</u>	<u>723</u>	<u>799</u>	<u>723</u>

(1) In the six months ended July 2, 2017, new restaurants opened included two restaurants relocated with their market area and closed restaurants included one restaurant closed as a result of relocation.

Restaurant Sales. Comparable restaurant sales increased 4.6% in the second quarter of 2017 consisting of an increase in average check of 3.3%, including a 1.6% effect of menu price increases since the beginning of the second

quarter of 2016, and an increase in customer traffic of 1.3%. The increase in restaurant sales also reflected the acquisition of 104 restaurants since the beginning of the second quarter of 2016 which contributed \$30.1 million of restaurant sales during the second quarter of 2017.

For the six months ended July 2, 2017, comparable restaurant sales increased 2.1% due to an increase in average check of 3.0% offset by a decrease in customer traffic of 0.9%. The effect in the first six months of 2017 from menu price increases taken since the beginning of 2016 was approximately 1.7%. Restaurant sales also increased due to the 116 restaurants acquired since the beginning of 2016 which added \$55.1 million of restaurant sales.

Operating Costs and Expenses (percentages stated as a percentage of total restaurant sales). The following table sets forth, for the three and six months ended July 2, 2017 and July 3, 2016, selected operating results as a percentage of total restaurant sales:

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Costs and expenses (all restaurants):				
Cost of sales	28.2%	25.7%	27.5%	26.1%
Restaurant wages and related expenses	31.5%	30.5%	32.5%	31.4%
Restaurant rent expense	6.8%	6.7%	7.0%	6.9%
Other restaurant operating expenses	15.0%	15.5%	15.6%	15.7%
Advertising expense	4.1%	4.5%	4.1%	4.3%
General and administrative	5.2%	5.9%	5.8%	5.9%

Cost of sales increased to 28.2% in the second quarter of 2017 from 25.7% in the second quarter of 2016 due primarily to an increase in commodity costs (1.4%) which includes a 13.4% increase in beef costs compared to the prior year period, higher promotional discounting (0.5%) and sales mix changes (0.8%) partially offset by menu price increases taken since the beginning of the second quarter of 2016 (0.5%).

Cost of sales increased to 27.5% in the first six months of 2017 from 26.1% in the first six months of 2016 as a result of higher commodity costs (0.8%), including a 8.6% increase in beef prices compared to the prior year period, higher levels of promotional discounting (0.7%) and sales mix changes (0.5%) offset in part by menu price increases taken since the beginning of 2016 (0.7%).

Restaurant wages and related expenses increased to 31.5% in the second quarter of 2017 from 30.5% in the second quarter of 2016 and to 32.5% in the first six months of 2017 from 31.4% in the first six months of 2016 due primarily to the effect of hourly labor rate increases of 7% over the second quarter of 2016 and 6% over the first six months of 2016, including minimum wage increases, and the deleveraging of fixed management wages (0.3%).

Other restaurant operating expenses decreased to 15.0% in the second quarter of 2017 from 15.5% in the second quarter of 2016 and in the first six months of 2017 decreased to 15.6% from 15.7% in the first six months of 2016 due primarily to lower building and equipment repair and maintenance expenditures and lower electricity costs.

Advertising expense decreased to 4.1% in the second quarter of 2017 compared to 4.5% in the second quarter of 2016 and to 4.1% in the first six months of 2017 from 4.3% in the first six months of 2016 due to a reduction of local advertising spending in certain of our markets in 2017 from the prior year period.

Restaurant rent expense increased to 6.8% in the second quarter of 2017 from 6.7% in the second quarter of 2016, and increased to 7.0% in the first six months of 2017 from 6.9% in the first six months of 2016 due to higher contingent rent resulting from higher sales volumes.

Restaurant-Level EBITDA. As a result of the factors discussed above, Restaurant-Level EBITDA decreased \$0.9 million, or 2.2%, to \$40.6 million in the second quarter of 2017, and as a percentage of total restaurant sales, decreased to 14.5% in the first quarter of 2017 from 17.2% in the prior year period. For a reconciliation between Restaurant-Level EBITDA and income from operations see page 28.

	Three Months Ended				Six Months Ended			
	July 2, 2017	% ⁽¹⁾	July 3, 2016	% ⁽¹⁾	July 2, 2017	% ⁽¹⁾	July 3, 2016	% ⁽¹⁾
(in thousands of dollars)								
Restaurant-Level EBITDA:								
Legacy restaurants	\$ 34,053	15.1%	\$ 37,716	17.3%	\$ 58,302	13.6%	\$ 66,057	15.7%
Acquired restaurants	6,520	12.2%	3,786	16.0%	10,123	11.1%	6,166	14.6%
Total	\$ 40,573	14.5%	\$ 41,502	17.2%	\$ 68,425	13.2%	\$ 72,223	15.6%

(1) Restaurant-Level EBITDA margin is calculated as a percentage of restaurant sales for each respective group of restaurants.

Restaurant-Level EBITDA margin decreased 2.2% for our legacy restaurants in the second quarter of 2017 due to the higher commodity and wage costs discussed above. Restaurant-Level EBITDA margin decreased 3.8% for our acquired restaurants in the second quarter of 2017 due to lower average unit sales volumes at the restaurants we acquired since the end of the first quarter of 2016 and similar expense factors mentioned above. Restaurant-Level EBITDA margin for our acquired restaurants was lower in the second quarter of 2017 compared to our legacy restaurants due primarily to the effect of lower average restaurant sales volumes on fixed costs, operating inefficiencies, and higher repairs and maintenance expenses related to deferred maintenance prior to our acquisition of the restaurants.

For the first six months of 2017, Restaurant-Level EBITDA margin decreased 2.1% for our legacy restaurants due primarily to increased commodity and labor costs as discussed above. Restaurant-Level EBITDA margin decreased 3.5% for our acquired restaurants due to similar factors. Restaurant-Level EBITDA margin for our acquired restaurants was lower in the first six months of 2017 compared to our legacy restaurants due primarily to the effect of lower average restaurant sales volumes on fixed operating expenses.

General and Administrative Expenses. General and administrative expenses increased \$0.1 million in the second quarter of 2017 to \$14.4 million, and as a percentage of total restaurant sales, decreased to 5.2% from 5.9% in the second quarter of 2016. The decrease in total general and administrative expenses was due primarily to additional field management and restaurant manager training costs related to the 2016 and 2017 acquisitions, higher stock-based compensation expense of \$0.3 million and higher acquisition costs of \$0.2 million, partially offset by lower administrative bonus accruals of \$0.8 million.

In the first six months of 2017, general and administrative expenses increased \$2.4 million to \$30.0 million and, as a percentage of total restaurant sales, decreased to 5.8% from 5.9% in the first six months of 2016. The increase in total general and administrative expenses was due primarily to additional district manager salaries and travel costs and restaurant manager training costs related to the 2016 and 2017 acquisitions, higher acquisition costs of \$0.5 million and higher stock-based compensation expense of \$0.6 million partially offset by lower administrative bonus accruals of \$1.0 million.

Adjusted EBITDA. As a result of the factors above, Adjusted EBITDA decreased to \$27.5 million in the second quarter of 2017 from \$27.9 million in the second quarter of 2016, and, as a percentage of total restaurant sales, decreased to 9.8% in the second quarter of 2017 from 11.6% in the prior year period. Adjusted EBITDA decreased to \$41.4 million in the first six months of 2017 from \$46.4 million in the first six months of 2016.

For a reconciliation between net income and EBITDA and Adjusted EBITDA see page 28.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$1.9 million to \$13.4 million in the second quarter of 2017 from \$11.5 million in the second quarter of 2017 and increased to \$26.5 million in the first six months of 2017 from \$22.5 million in the first six months of 2016 due primarily to our ongoing remodeling initiatives and our acquisition of restaurants in 2016 and 2017.

Impairment and Other Lease Charges. Impairment and other lease charges were \$0.4 million in the second quarter of 2017 due primarily to \$0.2 million of asset impairment charges previously impaired restaurants and \$0.2 million of other lease charges associated with changes in estimates of costs related to previously closed restaurants. During the three months and July 3, 2016, the Company recorded impairment and other lease charges of \$0.3 million resulting

from asset impairment charges of \$0.5 million for capital expenditures at previously impaired restaurants offset by a reduction in other lease charges by \$0.2 million due to favorable lease terminations for three of its previously closed restaurant properties.

Impairment and other lease charges were \$1.0 million in the first six months of 2017, which included \$0.4 million of capital expenditures at previously impaired restaurants, \$0.2 million of asset impairment charges at three underperforming restaurants and \$0.4 million of other lease charges due to restaurants closed during the first quarter of 2017 and changes in estimates of costs related to previously closed restaurants. In the first six months of 2016, we recorded asset impairment charges of \$0.6 million, resulting primarily from capital expenditures at previously impaired restaurants.

Other Income and Expense. In the second quarter of 2016, we had a gain of \$0.5 million related to an insurance recovery from a fire at one of our restaurants and expense of \$1.85 million related to a litigation settlement with our former Chairman and CEO. In the first six months of 2016, we also had a gain of \$0.5 million related to a settlement for a partial condemnation on one of our operating restaurant properties.

Interest Expense. Interest expense increased to \$5.0 million in the second quarter of 2017 from \$4.5 million in the second quarter of 2016 and increased to \$9.8 million in the first six months of 2017 from \$9.1 million in the first six months of 2016 due to higher revolving credit borrowings in 2017 compared to no revolving credit borrowings in 2016. The weighted average interest rate on our long-term debt, excluding lease financing obligations, was 7.6% in the second quarter of 2017 and 8.0% in the second quarter of 2016 and was 7.6% in the first six months of 2017 from 8.0% in the first six months of 2016.

Provision for Income Taxes. The provision for income taxes for the three and six months ended July 2, 2017 was derived using an estimated effective annual income tax rate for all of 2017 of 14.5%, which excludes any discrete tax adjustments. The effective tax rate is below the statutory tax rate due to the effect of fixed employment tax credits on taxable income. The income tax provision for the six months ended July 2, 2017 contains net discrete tax adjustments of \$0.6 million of tax expense.

Due to the valuation allowance on all of our net deferred income tax assets in 2016 discussed above, we did not record any provision or benefit for income taxes in the three or six months ended July 3, 2016.

Net Income. As a result of the above, net income for the second quarter of 2017 was \$6.0 million, or \$0.13 per diluted share, compared to net income in the second quarter of 2016 of \$9.4 million, or \$0.21 per diluted share. Net income for first six months of 2017 was \$0.4 million, or \$0.01 per diluted share, compared to net income in first six months of 2016 of \$11.5 million, or \$0.25 per diluted share.

Reconciliations of net income to EBITDA, Adjusted EBITDA and Adjusted net income and income from operations to Restaurant-Level EBITDA for three and six months ended July 2, 2017 and July 3, 2016 are as follows (in thousands, except for per share data):

Reconciliation of EBITDA and Adjusted EBITDA:	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Net income	\$ 6,039	\$ 9,376	\$ 443	\$ 11,521
Provision for income taxes	1,267	—	656	—
Interest expense	5,029	4,520	9,830	9,055
Depreciation and amortization	13,366	11,486	26,517	22,543
EBITDA	25,701	25,382	37,446	43,119
Impairment and other lease charges	432	286	963	508
Acquisition costs (1)	448	230	1,166	638
Gain on partial condemnation and fire (2)	—	(456)	—	(906)
Litigation settlement (2)	—	1,850	—	1,850
Stock-based compensation expense	903	606	1,786	1,171
Adjusted EBITDA	\$ 27,484	\$ 27,898	\$ 41,361	\$ 46,380

Reconciliation of Restaurant-Level EBITDA:

Income from operations	\$ 12,335	\$ 13,896	\$ 10,929	\$ 20,576
Add:				
General and administrative expenses	14,411	14,355	29,987	27,561
Depreciation and amortization	13,366	11,486	26,517	22,543
Impairment and other lease charges	432	286	963	508
Other expense, net	29	1,479	29	1,035
Restaurant-Level EBITDA	\$ 40,573	\$ 41,502	\$ 68,425	\$ 72,223

Reconciliation of Adjusted net income:

Net income	\$ 6,039	\$ 9,376	\$ 443	\$ 11,521
Add:				
Impairment and other lease charges	432	286	963	508
Gain on partial condemnation and fire (2)	—	(456)	—	(906)
Litigation settlement (2)	—	1,850	—	1,850
Acquisition costs (1)	448	230	1,166	638
Income tax effect on above adjustments (3)	(334)	(726)	(809)	(794)
Provision for deferred income tax valuation allowance (4)	—	(2,605)	—	(2,641)
Adjusted net income	\$ 6,585	\$ 7,955	\$ 1,763	\$ 10,176
Adjusted diluted net income per share (5)	\$ 0.14	\$ 0.18	\$ 0.04	\$ 0.22

(1) Acquisition costs for the periods presented include primarily legal and professional fees incurred in connection with restaurant acquisitions, which were included in general and administrative expense.

(2) Other income for the three months ended July 3, 2016 includes a gain of \$0.5 million related to an insurance recovery from a fire at one of our restaurants and an accrual of \$1.85 million related to an agreement to settle and resolve litigation with our former Chairman and CEO. Additionally, for the six months ended July 3, 2016, other income includes a gain of \$0.5 million related to a settlement for a partial condemnation on one of our operating restaurant properties.

- (3) The income tax effect related to the adjustments for impairment and other lease charges, acquisition costs and gain on partial condemnation during the periods presented was calculated using an effective income tax rate of 38%.
- (4) Prior to the fourth quarter of 2016, we recognized a valuation allowance on all of our net deferred income tax assets. This valuation allowance was reversed in the fourth quarter of 2016. For comparability, when presenting Adjusted net income, this adjustment reflects the benefit that would have been realized from our deferred income tax assets during the three and six months ended July 3, 2016 as if such valuation allowance on net deferred income tax assets had been reversed prior to 2016.
- (5) Adjusted diluted net income per share is calculated based on Adjusted net income 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.

On June 20, 2017, we entered into an amendment to our senior credit facility to, among other things, 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 of the 8% Notes issued on June 23, 2017. On January 13, 2017, we entered into an amendment to our senior credit facility to, among other things, increase the maximum revolving credit borrowings by \$18.0 million to a total of \$73.0 million.

Interest payments under our debt obligations, capital expenditures, including our remodeling and new restaurant development initiatives in 2017, 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 of additional Burger King restaurants. We believe cash generated from our operations and availability of revolving credit borrowings under our amended senior credit facility 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 from operating activities in the first six months of 2017 increased to \$28.7 million from \$28.3 million in the first six months of 2016 due primarily to an increase in cash from changes in the components of net working capital of \$5.2 million offset by a decrease in Adjusted EBITDA of \$5.0 million.

Investing Activities. Net cash used for investing activities in the first six months of 2017 and 2016 was \$60.7 million and \$40.0 million, respectively.

As discussed above, in the first six months of 2017 we acquired 60 restaurants in two transactions for a total cash purchase price of \$36.6 million and in first six months of 2016 we acquired 18 restaurants in two transactions for a total cash purchase price of \$19.2 million.

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 of dollars):

Six Months Ended July 2, 2017

New restaurant development	\$	2,606
Restaurant remodeling		12,681
Other restaurant capital expenditures		7,810
Corporate and restaurant information systems		3,717
Total capital expenditures	\$	<u>26,814</u>
Number of new restaurant openings, including relocations		2

Six Months Ended July 3, 2016

New restaurant development	\$	3,261
Restaurant remodeling		26,085
Other restaurant capital expenditures		8,531
Corporate and restaurant information systems		1,629
Total capital expenditures	\$	<u>39,506</u>
Number of new restaurant openings, including relocations		2

Investing activities in the first six months of 2016 also included proceeds from sale-leaseback transactions of \$17.7 million and insurance proceeds of \$1.0 million related to fires at two of our restaurants.

Financing Activities. Net cash provided from financing activities in the first six months of 2017 was \$63.7 million due primarily to the proceeds of \$79.9 from the issuance of additional \$75.0 million principal of 8% Notes at a premium offset by the net repayment of revolving credit borrowings of \$13.5 million and principal payments on capital leases of \$0.8 million. Net cash used for financing activities in the first six months of 2016 was \$0.8 million due primarily to principal payments on capital leases.

8% Senior Secured Second Lien Notes. The \$275 million principal amount of 8% Notes mature on May 1, 2022. Interest is payable semi-annually on May 1 and November 1. The 8% Notes are guaranteed by our material subsidiaries and are 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 are 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. Prior to May 1, 2018, we may redeem some or all of the 8% Notes at a redemption price of 100% of the principal amount of each 8% Note plus accrued and unpaid interest, if any, and a make-whole premium. In addition, the indenture governing the 8% Notes also provides that we may redeem up to 35% of the 8% Notes using the proceeds of certain equity offerings completed before May 1, 2018.

The 8% Notes are 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 includes 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 provide that any capital stock and equity interests of any of our subsidiaries will 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 contains 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.

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 of the 8% Notes issued on June 23, 2017. 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 provides for potential incremental borrowing increases of up to \$25.0 million, in the aggregate. As of July 2, 2017, there were no revolving credit borrowings outstanding and \$12.8 million of letters of credit were issued under the senior credit facility. After reserving for issued letters of credit, \$60.2 million was available for revolving credit borrowings under the amended senior credit facility at July 2, 2017.

Borrowings under the senior credit facility bear 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 July 2, 2017 our LIBOR Rate margin was 3.25% and the Alternate Base Rate margin was 2.25% based on our Adjusted Leverage Ratio at the end of the first quarter of 2017.

Our obligations under the senior credit facility are jointly and severally guaranteed by our subsidiaries and are 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 are 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 contains certain covenants, including without limitation, those limiting our 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 requires 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 July 2, 2017.

The amended senior credit facility contains 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.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of July 2, 2017 (in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Long-term debt obligations, including interest (1)	\$ 385,000	\$ 22,000	\$ 44,000	\$ 319,000	\$ —
Capital lease obligations, including interest (2)	7,502	2,150	4,284	844	224
Operating lease obligations (3)	938,175	67,913	132,323	127,532	610,407
Lease financing obligations, including interest (4)	1,827	106	215	219	1,287
Total contractual obligations	\$ 1,332,504	\$ 92,169	\$ 180,822	\$ 447,595	\$ 611,918

- (1) Our long term debt at July 2, 2017 included \$275 million of 8% Notes. Total interest payments on our Notes of \$110.0 million for all years presented are included at the coupon rate of 8%.
- (2) Includes total interest of \$1.0 million for all years presented.
- (3) Represents the aggregate minimum lease payments under operating leases. Many of our leases also require contingent rent based on a percentage of sales in addition to the minimum base rent and require expenses incidental to the use of the property all of which have been excluded from this table.
- (4) Includes total interest of \$0.6 million for all years presented.

We have not included obligations under our postretirement medical benefit plans in the contractual obligations table as our postretirement plan is not required to be funded in advance, but is funded as retiree medical claims are paid. Also excluded from the contractual obligations table are payments we may make for workers' compensation, general liability and employee healthcare claims for which we pay all claims, subject to annual stop-loss limitations both for individual claims and claims in the aggregate. The majority of our recorded liabilities related to self-insured employee health and insurance plans represent estimated reserves for incurred claims that have yet to be filed or settled. The total of these liabilities was \$8.7 million at July 2, 2017.

Future restaurant development and remodeling obligations to BKC have also been excluded from the table above as well as contractual obligations related to royalties and advertising payable to BKC.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements other than our operating leases, which are primarily for our restaurant properties and not recorded on our consolidated balance sheet.

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 interim 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 January 1,

2017. 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. 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 January 1, 2017.

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 January 1, 2017:

- *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;*
- *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 January 1, 2017 with respect to our market risk sensitive instruments.

A 1% change in interest rates would have resulted in a \$0.1 million change to interest expense for the six months ended July 2, 2017 due to our revolving credit borrowings and a nominal change in the six months ended July 3, 2016.

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 July 2, 2017.

No change occurred in our internal control over financial reporting during the second quarter of 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 January 1, 2017 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 January 1, 2017.

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.

3.1	Certificate of Amendment to Restated Certificate of Incorporation of Carrols Restaurant Group, Inc.
3.2	Second Amendment to Amended and Restated Bylaws of Carrols Restaurant Group, Inc.
10.1	Fifth Amendment to Credit Agreement dated as of June 20, 2017 among Carrols Restaurant Group, Inc., the guarantors named therein, the lenders named therein and Wells Fargo Bank, National Association, as administrative agent.
10.2	Registration Rights Agreement, dated as of June 23, 2017, among Carrols Restaurant Group, Inc., the guarantors named therein and Wells Fargo Securities, LLC.
10.3	Supplemental Indenture, dated as of July 6, 2017, among Carrols Restaurant Group, Inc., Republic Foods, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee
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: August 9, 2017

/s/ Daniel T. Accordino

(Signature)

Daniel T. Accordino
Chief Executive Officer

Date: August 9, 2017

/s/ Paul R. Flanders

(Signature)

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

CERTIFICATE OF AMENDMENT
TO
RESTATED CERTIFICATE OF INCORPORATION
OF
CARROLS RESTAURANT GROUP, INC.

Carrols Restaurant Group, Inc. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, hereby certifies as follows:

FIRST: The Board of Directors of the Corporation, by unanimous written consent dated March 22, 2017, adopted resolutions proposing and declaring it advisable and in the best interests of the Corporation that the Rested Certificate of Incorporation of the Corporation (the "Certificate of Incorporation") be amended as follows.

Section (A) of Article NINTH of the Certificate of Incorporation is hereby amended in its entirety by inserting the following in lieu thereof:

"(A) The business and affairs of the Corporation shall be managed by or under the direction of the Board which shall consist of not less than three directors, the exact number of directors to be determined from time to time by resolution adopted by an affirmative vote of a majority of the Board. The directors shall be divided into three classes designated Class I, Class II and Class III. Each class shall consist, as nearly as possible, of one-third of the total number of directors constituting the entire Board. Class I directors shall be originally elected for a term expiring at the first annual meeting of stockholders occurring after the Effective Time, Class II directors shall be originally elected for a term expiring at the second succeeding annual meeting of stockholders, and Class III directors shall be originally elected for a term expiring at the third succeeding annual meeting of stockholders. At each such succeeding annual meeting of stockholders, successors to the class of directors whose term expires at that annual meeting shall be elected by an affirmative vote of a majority of the votes cast with respect to such nominee at any meeting for the election of directors at which a quorum is present, provided that if the number of nominees exceeds the number of directors to be elected, the directors shall be elected by a plurality of the votes of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. In an election of directors, a majority of the votes cast means that the number of votes cast "for" a nominee must exceed 50% of the votes cast with respect to such nominee (excluding abstentions). If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a newly created directorship resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case shall a decrease in the number of directors remove or shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Any newly created directorship on the Board that results

from an increase in the number of directors or any vacancies in the Board resulting from death, resignation, retirement, disqualification or removal from office or any other cause shall be filled only by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Any director so elected to fill a vacancy in the Board resulting from death, resignation, disqualification or removal from office or any other cause shall have the same remaining term as that of his predecessor. Directors may be removed only for cause, and either by majority of the entire Board or the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of the voting power of the outstanding Voting Stock, voting together as a single class."

SECOND: Thereafter, pursuant to the resolutions of the Board of Directors of the Corporation, an annual meeting of the stockholders of the Corporation was duly called and held on June 8, 2017, upon notice and in accordance with Section 222 of the General Corporation Law of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: The foregoing amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed this 8th day of June, 2017.

CARROLS RESTAURANT GROUP, INC.

/s/ William E. Myers

Name: William E. Myers

Title: Vice President, General Counsel and Secretary

SECOND AMENDMENT
TO
AMENDED AND RESTATED BYLAWS
OF
CARROLS RESTAURANT GROUP, INC.
(effective as of June 8, 2017)

Article II, Section 1 of the Amended and Restated Bylaws, as amended, of Carrols Restaurant Group, Inc. (the "Corporation") is hereby amended and restated in its entirety as follows:

"Section 1. *Number*. The Board shall consist of such number of directors, which shall not be less than three, as shall from time to time be fixed exclusively by resolution of the Board. The directors shall be divided into three classes in the manner set forth in the Certificate of Incorporation, each class to be elected for the term set forth therein. A nominee for director election shall be elected by the affirmative vote of a majority of the votes cast with respect to such nominee at any meeting for the election of directors at which a quorum is present, provided that if the number of nominees exceeds the number of directors to be elected, the directors shall be elected by a plurality of the votes of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. In an election of directors, a majority of the votes cast means that the number of votes cast "for" a nominee must exceed 50% of the votes cast with respect to such nominee (excluding abstentions). If a director is not elected, the director shall promptly tender his or her resignation to the Board. The Corporate Governance and Nominating Committee (the "Corporate Governance and Nominating Committee") will make a recommendation to the Board on whether to accept or reject the resignation, or whether other action should be taken. The Board will act on the resignation taking into account the recommendation of the Corporate Governance and Nominating Committee and publicly disclose its decision and the rationale behind it within 90 days from the date of the certification of the election results. The director who tenders his or her resignation will not participate in the decisions of the Corporate Governance and Nominating Committee or the Board that concern such resignation. If a director's resignation is accepted by the Board pursuant to this Bylaw, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of Article II, Section 2 or may decrease the size of the Board pursuant to the provisions of Article II, Section 1. A majority of the total number of directors then in office (but not less than one-third of the number of directors constituting the entire Board) shall constitute a quorum for the transaction of business and, except as otherwise provided by law or by the Certificate of Incorporation, the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board. Directors need not be stockholders."

FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of June 20, 2017, is by and among **CARROLS RESTAURANT GROUP, INC.**, a Delaware corporation (the "Borrower"), certain Subsidiaries of the Borrower party hereto (collectively, the "Guarantors"), the Lenders party hereto (the "Lenders") and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as administrative agent on behalf of the Lenders under the Credit Agreement (as hereinafter defined) (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement.

W I T N E S S E T H

WHEREAS, the Borrower, the Guarantors, the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of May 30, 2012 (as amended by that certain First Amendment to Credit Agreement dated as of December 19, 2014, that certain Second Amendment to Credit Agreement and First Amendment to Security Agreement dated as of April 29, 2015, that certain Third Amendment to Credit Agreement dated as of February 12, 2016, that certain Fourth Amendment to Credit Agreement dated as of January 13, 2017 and as may be further amended, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement");

WHEREAS, the Credit Parties have requested that the Required Lenders amend certain provisions of the Credit Agreement; and

WHEREAS, the Required Lenders are willing to make such amendments to the Credit Agreement, in accordance with and subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

**ARTICLE I
AMENDMENTS TO CREDIT AGREEMENT**

1.1 Amendment to Section 6.1(i). Section 6.1(i) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(i) [reserved];

1.2 Amendment to Section 6.1. Section 6.1 of the Credit Agreement is hereby amended by (i) deleting the "." at the end of Section 6.1(j) and inserting ";" in its place and (ii) adding new Sections 6.1(k) and (l) thereto which shall read in their entirety as follows:

(k) [reserved]; and

(l) Indebtedness under the Second Lien Notes in an aggregate principal amount not to exceed \$300,000,000.

**ARTICLE II
CONDITIONS TO EFFECTIVENESS**

2.1 Closing Conditions. This Amendment shall become effective on the date that each of the following conditions are satisfied (in each case, in form and substance reasonably acceptable to the Administrative Agent) (such date, the “Fifth Amendment Effective Date”):

(a) Executed Amendment. The Administrative Agent shall have received a copy of this Amendment duly executed by each of the Credit Parties, the Required Lenders and the Administrative Agent.

(b) Fees and Expenses. The Administrative Agent shall have received from the Borrower, all fees and expenses that are payable to the Administrative Agent and the Lenders in connection with the consummation of the transactions contemplated hereby and King & Spalding LLP shall have received from the Borrower payment of all outstanding fees and expenses previously incurred and all fees and expenses incurred in connection with this Amendment.

(c) Miscellaneous. All other documents and legal matters in connection with the transactions contemplated by this Amendment shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

**ARTICLE III
MISCELLANEOUS**

3.1 Amended Terms. On and after the Fifth Amendment Effective Date, all references to the Credit Agreement in each of the Credit Documents shall hereafter mean the Credit Agreement as amended by this Amendment. Except as specifically amended hereby or otherwise agreed, the Credit Agreement is hereby ratified and confirmed and shall remain in full force and effect according to its terms.

3.2 Representations and Warranties of Credit Parties. Each of the Credit Parties represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Person and constitutes such Person’s legal, valid and binding obligation, enforceable in accordance with its terms, except as such enforceability may be subject to (i) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors’ rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by such Person of this Amendment.

(d) The representations and warranties set forth in Article III of the Credit Agreement are true and correct as of the date hereof (except for those which expressly relate to an earlier date).

(e) After giving effect to this Amendment, no event has occurred and is continuing which constitutes a Default or an Event of Default.

(f) The Security Documents continue to create a valid security interest in, and Lien upon, the Collateral, in favor of the Administrative Agent, for the benefit of the Lenders, which security interests and Liens are perfected in accordance with the terms of the Credit Agreement and the Security Documents and prior to all Liens other than Permitted Liens.

(g) The Credit Party Obligations are not reduced or modified by this Amendment and are not subject to any offsets, defenses or counterclaims.

3.3 Reaffirmation of Credit Party Obligations. Each Credit Party hereby ratifies the Credit Agreement and acknowledges and reaffirms (a) that it is bound by all terms of the Credit Documents applicable to it and (b) that it is responsible for the observance and full performance of its respective Credit Party Obligations.

3.4 Credit Document. This Amendment shall constitute a Credit Document under the terms of the Credit Agreement.

3.5 Expenses. The Borrower agrees to pay all reasonable costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and expenses of the Administrative Agent's legal counsel.

3.6 Further Assurances. The Credit Parties agree to promptly take such action, upon the request of the Administrative Agent, as is necessary to carry out the intent of this Amendment.

3.7 Entirety. This Amendment and the other Credit Documents embody the entire agreement among the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof.

3.8 Counterparts; Telecopy. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of an executed counterpart to this Amendment by telecopy or other electronic means shall be effective as an original and shall constitute a representation that an original will be delivered.

3.9 No Actions, Claims, Etc. As of the date hereof, each of the Credit Parties hereby acknowledges and confirms that it has no knowledge of any actions, causes of action, claims, demands, damages and liabilities of whatever kind or nature, in law or in equity, against the Administrative Agent, the Lenders, or the Administrative Agent's or the Lenders' respective officers, employees, representatives, agents, counsel or directors arising from any action by such Persons, or failure of such Persons to act under the Credit Agreement on or prior to the date hereof.

3.10 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

3.11 Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

3.12 Consent to Jurisdiction; Service of Process; Waiver of Jury Trial. The jurisdiction, service of process and waiver of jury trial provisions set forth in Sections 9.13 and 9.16 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*.

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IN WITNESS WHEREOF the parties hereto have caused this Amendment to be duly executed on the date first above written.

BORROWER: **CARROLS RESTAURANT GROUP, INC.,**
a Delaware corporation

By: /s/ Paul R. Flanders
Name: Paul R. Flanders
Title: VP-CFO

GUARANTORS: **CARROLS CORPORATION,**
a Delaware corporation

By: /s/ Paul R. Flanders
Name: Paul R. Flanders
Title: VP-CFO

CARROLS LLC,
a Delaware limited liability company

By: /s/ Paul R. Flanders
Name: Paul R. Flanders
Title: VP-CFO

ADMINISTRATIVE AGENT: **WELLS FARGO BANK, NATIONAL ASSOCIATION,**
as a Lender and as Administrative Agent

By: /s/ Maureen S. Malphus
Name: Maureen S. Malphus
Title: Vice President

LENDERS: **MANUFACTURERS AND TRADERS TRUST COMPANY,** as a Lender

By: /s/ Timothy McDevitt
Name: Timothy McDevitt
Title: Vice President

LENDERS: **Cooperatieve Rabobank U.A., New York Branch,** as a Lender

By: /s/ Chris Grimes

Name: Chris Grimes
Title: Executive Director

By: /s/ Megan Buckley
Name: Megan Buckley
Title: Vice President

REGISTRATION RIGHTS AGREEMENT

by and among

Carrols Restaurant Group, Inc.

and

Wells Fargo Securities, LLC

Dated as of June 23, 2017

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this “*Agreement*”) is made and entered into as of June 23, 2017, by Carrols Restaurant Group, Inc., a Delaware corporation (the “*Issuer*”), the entities named in Schedule I hereto, (each a “*Guarantor*” and together the “*Guarantors*” (except that following the New Notes Issue Date (as defined in the preliminary offering memorandum), Republic Foods, Inc. will become a Guarantor as required by the Indenture)), and Wells Fargo Securities, LLC (the “*Initial Purchaser*”), who has agreed to purchase the Issuer’s 8.00% Senior Secured Second Lien Notes due 2022 (the “*Notes*”) fully and unconditionally guaranteed by the Guarantors (the “*Guarantees*”) pursuant to the Purchase Agreement. The Notes and the Guarantees attached thereto are herein collectively referred to as the “*Securities*.”

This Agreement is made pursuant to the Purchase Agreement, dated June 20, 2017 (the “*Purchase Agreement*”), among the Issuer, the Guarantors and the Initial Purchaser (i) for the benefit of the Initial Purchaser and (ii) for the benefit of the holders from time to time of Transfer Restricted Securities, including the Initial Purchaser. In order to induce the Initial Purchaser to purchase the Securities, the Issuer has agreed to provide the registration rights set forth in this Agreement. The execution and delivery of this Agreement is a condition to the obligations of the Initial Purchaser, as set forth in Section 6(m) of the Purchase Agreement.

The parties hereby agree as follows:

Section 1. *Definitions.*

As used in this Agreement, the following capitalized terms shall have the following meanings:

Additional Interest: As defined in Section 5 hereof.

Advice: As defined in Section 6(c) hereof.

Agreement: As defined in the preamble hereto.

Broker-Dealer: Any broker or dealer registered under the Exchange Act.

Business Day: Any day other than a Saturday, Sunday or U.S. federal holiday or a day on which banking institutions or trust companies located in New York, New York are authorized or obligated to be closed.

Closing Date: The date of this Agreement.

Commission: The Securities and Exchange Commission.

Consume: A registered Exchange Offer shall be deemed “*Consummated*” for purposes of this Agreement upon the occurrence of (i) the filing and effectiveness under the Securities Act of the Exchange Offer Registration Statement relating to the Exchange Securities

to be issued in the Exchange Offer, (ii) the maintenance of such Registration Statement continuously effective and the keeping of the Exchange Offer open for a period not less than the minimum period required pursuant to Section 3(b) hereof, and (iii) the delivery by the Issuer to the Registrar under the Indenture of Exchange Securities in the same aggregate principal amount as the aggregate principal amount of Transfer Restricted Securities that were tendered by Holders thereof pursuant to the Exchange Offer.

Exchange Act: The Securities Exchange Act of 1934, as amended.

Exchange Date: As defined in Section 3(a) hereto.

Exchange Offer: The registration by the Issuer under the Securities Act of the Exchange Securities pursuant to a Registration Statement pursuant to which the Issuer offers the Holders of all outstanding Transfer Restricted Securities the opportunity to exchange all such outstanding Transfer Restricted Securities held by such Holders for Exchange Securities in an aggregate principal amount equal to the aggregate principal amount of the Transfer Restricted Securities tendered in such exchange offer by such Holders.

Exchange Offer Registration Statement: The Registration Statement relating to the Exchange Offer, including the related Prospectus.

Exchange Securities: The 8.00% Senior Secured Second Lien Notes due 2022, of the same series under the Indenture as the Transfer Restricted Securities, to be issued to Holders in exchange for Transfer Restricted Securities pursuant to this Agreement.

Existing Exchange Securities: The Existing Securities that the Issuer registered under the Securities Act in exchange for a like principal amount of Existing Securities on August 21, 2015.

Existing Securities: The Issuer's \$200,000,000 8.00% Senior Secured Second Lien Notes due 2022.

FINRA: Financial Industry Regulatory Authority, Inc.

Guarantees: As defined in the preamble hereto.

Guarantors: As defined in the preamble hereto.

Holders: As defined in Section 2(b) hereof.

Indemnified Holder: As defined in Section 8(a) hereof.

Indenture: The Indenture, dated as of April 29, 2015, by and among the Issuer, the Guarantors and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), pursuant to which the Existing Securities were and the Securities are to be issued, as such Indenture is amended or supplemented from time to time in accordance with the terms thereof.

Initial Placement: The issuance and sale by the Issuer of the Securities to the Initial Purchaser pursuant to the Purchase Agreement.

Initial Purchaser: As defined in the preamble hereto.

Initial Securities: The Securities issued and sold by the Issuer to the Initial Purchaser pursuant to the Purchase Agreement on the Closing Date.

Issuer: As defined in the preamble hereto.

Notes: As defined in the preamble hereto.

Person: An individual, partnership, corporation, trust or unincorporated organization, or a government or agency or political subdivision thereof.

Prospectus: The prospectus included in a Registration Statement, as amended or supplemented by any prospectus supplement and by all other amendments thereto, including post-effective amendments, and all material incorporated by reference into such Prospectus.

Purchase Agreement: As defined in the preamble hereto.

Registration Actions: As defined in Section 4(c) hereof.

Registration Default: As defined in Section 5 hereof.

Registration Statement: Any registration statement of the Issuer relating to (a) an offering of Exchange Securities pursuant to an Exchange Offer or (b) the registration for resale of Transfer Restricted Securities pursuant to the Shelf Registration Statement, which is filed pursuant to the provisions of this Agreement, in each case, including the Prospectus included therein, all amendments and supplements thereto (including post-effective amendments) and all exhibits and material incorporated by reference therein.

Securities: As defined in the preamble hereto.

Securities Act: The Securities Act of 1933, as amended.

Shelf Filing Deadline: As defined in Section 4(a) hereof.

Shelf Registration Statement: As defined in Section 4(a) hereof.

Suspension Period: As defined in Section 4(c) hereof.

Transfer Restricted Securities: The Securities; *provided* that the Securities shall cease to be Transfer Restricted Securities on the earliest to occur of (i) the date on which a Registration Statement with respect to such Securities has become effective under the Securities Act and such Securities have been exchanged or disposed of pursuant to such Registration Statement or (ii) the date on which such Securities cease to be outstanding.

Trust Indenture Act: The Trust Indenture Act of 1939, as amended.

Underwritten Registration or Underwritten Offering: A registration in which securities of the Issuer are sold to an underwriter for reoffering to the public.

SECTION 2. *Securities Subject to this Agreement.*

(a) *Transfer Restricted Securities.* The securities entitled to the benefits of this Agreement are the Transfer Restricted Securities.

(b) *Holder of Transfer Restricted Securities.* A Person is deemed to be a holder of Transfer Restricted Securities (each, a “Holder”) whenever such Person owns Transfer Restricted Securities.

SECTION 3. *Registered Exchange Offer.*

(a) Unless the Exchange Offer shall not be permissible under applicable law or Commission policy (after the procedures set forth in Section 6(a) hereof have been complied with), or there are no Transfer Restricted Securities outstanding, the Issuer shall (i) cause to be filed with the Commission as soon as practicable after the Closing Date, but in no event later than 180 days after the Closing Date (or if such 180th day is not a Business Day, the next succeeding Business Day), a Registration Statement under the Securities Act relating to the Exchange Securities and the Exchange Offer, (ii) use its reasonable best efforts to cause such Registration Statement to be declared effective at the earliest possible time, (iii) in connection with the foregoing, (A) file all pre-effective amendments to such Registration Statement as may be necessary in order to cause such Registration Statement to become effective, (B) if applicable, file a post-effective amendment to such Registration Statement pursuant to Rule 430A under the Securities Act and (C) use its reasonable best efforts to cause all necessary filings in connection with the registration and qualification of the Exchange Securities to be made under the state securities or blue sky laws of such jurisdictions to permit Consummation of the Exchange Offer; *provided, however*, that neither the Issuer nor the Guarantors shall be required to (x) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(a) or (y) take any action which would subject it to general service of process or taxation in any such jurisdiction where it is not then so subject and (iv) as promptly as practicable after the effectiveness of such Registration Statement, commence the Exchange Offer. The Issuer and each of the Guarantors shall use their reasonable best efforts to Consummate the Exchange Offer not later than 270 days following the Closing Date (or if such 270th day is not a Business Day, the next succeeding Business Day) (the “*Exchange Date*”). The Exchange Offer shall be on the appropriate form permitting registration of the Exchange Securities to be offered in exchange for the Transfer Restricted Securities and to permit resales of Transfer Restricted Securities held by Broker-Dealers as contemplated by Section 3(c) hereof.

(b) The Issuer and the Guarantors shall use their reasonable best efforts to cause the Exchange Offer Registration Statement to be effective continuously and shall keep the Exchange Offer open for a period of not less than the minimum period required under applicable federal and state securities laws to Consummate the Exchange Offer; *provided, however*, that in no event

shall such period be less than 30 days after the date notice of the Exchange Offer is mailed to the Holders; provided, further, that such period shall be extended by the number of days in any Suspension Period. The Issuer shall cause the Exchange Offer to comply with all applicable federal and state securities laws. No securities other than the Exchange Securities shall be included in the Exchange Offer Registration Statement. The Issuer shall use its best efforts to cause the Exchange Offer to be Consummated by the Exchange Date.

(c) The Issuer shall indicate in a “Plan of Distribution” section contained in the Prospectus forming a part of the Exchange Offer Registration Statement that any Broker-Dealer who holds Transfer Restricted Securities that were acquired for its own account as a result of market-making activities or other trading activities (other than Transfer Restricted Securities acquired directly from the Issuer), may exchange such Transfer Restricted Securities pursuant to the Exchange Offer; however, such Broker-Dealer may be deemed to be an “underwriter” within the meaning of the Securities Act and must, therefore, deliver a prospectus meeting the requirements of the Securities Act in connection with any resales of the Exchange Securities received by such Broker-Dealer in the Exchange Offer, which prospectus delivery requirement may be satisfied by the delivery by such Broker-Dealer of the Prospectus contained in the Exchange Offer Registration Statement. Such “Plan of Distribution” section shall also contain all other information with respect to such resales by Broker-Dealers that the Commission may require in order to permit such resales pursuant thereto, but such “Plan of Distribution” shall not name any such Broker-Dealer or disclose the amount of Transfer Restricted Securities held by any such Broker-Dealer except to the extent required by the Commission as a result of a change in policy after the date of this Agreement.

The Issuer and the Guarantors shall use their reasonable best efforts to keep the Exchange Offer Registration Statement continuously effective, supplemented and amended as required by the provisions of Section 6(c) hereof to the extent necessary to ensure that it is available for resales of Transfer Restricted Securities acquired by Broker-Dealers for their own accounts as a result of market-making activities or other trading activities, and to ensure that it conforms with the requirements of this Agreement, the Securities Act and the policies, rules and regulations of the Commission as announced from time to time, for a period ending on the earlier of (i) 180 days from the date on which the Exchange Offer Registration Statement is declared effective and (ii) the date on which a Broker-Dealer is no longer required to deliver a prospectus in connection with market-making or other trading activities.

The Issuer shall provide sufficient copies of the latest version of such Prospectus to Broker-Dealers promptly upon request at any time during such 180-day (or shorter as provided in the foregoing sentence) period in order to facilitate such resales.

SECTION 4. *Shelf Registration.*

(a) *Shelf Registration.* If (i) the Issuer is not required to file an Exchange Offer Registration Statement or to consummate the Exchange Offer solely because the Exchange Offer is not permitted by applicable law or Commission policy (after the procedures set forth in Section 6(a) hereof have been complied with), (ii) for any reason the Exchange Offer is not Consummated by the Exchange Date, or (iii) prior to the Exchange Date: (A) the Initial

Purchaser requests Transfer Restricted Securities from the Issuer that are not eligible to be exchanged for Exchange Securities in the Exchange Offer, (B) with respect to any Holder of Transfer Restricted Securities such Holder notifies the Issuer that (i) such Holder is prohibited by applicable law or Commission policy from participating in the Exchange Offer, (ii) such Holder may not resell the Exchange Securities acquired by it in the Exchange Offer to the public without delivering a prospectus and that the Prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales by such Holder or (iii) such Holder is a Broker-Dealer and holds Transfer Restricted Securities acquired directly from the Issuer or one of its affiliates or (C) the Initial Purchaser notifies the Issuer it will not receive Exchange Securities in exchange for Transfer Restricted Securities constituting any portion of the Initial Purchaser's unsold allotment, the Issuer and the Guarantors shall:

(x) cause to be filed a shelf registration statement pursuant to Rule 415 under the Securities Act, which may be an amendment to the Exchange Offer Registration Statement (in either event, the "*Shelf Registration Statement*"), on or prior to the 50th day after the date on which the Issuer receives such notice from a Holder of Transfer Restricted Securities or an Initial Purchaser (such date being the "*Shelf Filing Deadline*"), which Shelf Registration Statement shall provide for resales of all Transfer Restricted Securities the Holders of which shall have provided the information required pursuant to Section 4(b) hereof; *provided* that the Issuer and the Guarantors shall not be required to cause such Shelf Registration Statement to be filed earlier than the 180th day following the Closing Date (or if such 180th day is not a Business Day, the next succeeding Business Day); and

(y) use their reasonable best efforts to cause such Shelf Registration Statement to be declared effective as promptly as practicable, but no later than (A) 60 days (or if such 60th day is not a Business Day the next succeeding Business Day), or (B) 50 days if the Shelf Registration Statement is not reviewed by the Commission (or if such 50th day is not a Business Day, the next succeeding Business Day), after such time such obligation to file first arises; *provided* that the Issuer and the Guarantors shall not be required to cause such Shelf Registration Statement to be declared effective earlier than the 270th day following the Closing Date (or if such 270th day is not a Business Day, the next succeeding Business Day).

The Issuer and each of the Guarantors shall use their reasonable best efforts to keep such Shelf Registration Statement continuously effective, supplemented and amended as required by the provisions of Sections 6(b) and (c) hereof to the extent necessary to ensure that it is available for resales of Transfer Restricted Securities by the Holders of such Securities entitled to the benefit of this Section 4(a), and to ensure that it conforms with the requirements of this Agreement, the Securities Act and the policies, rules and regulations of the Commission as announced from time to time, from the date on which the Shelf Registration Statement is declared effective by the Commission until the expiration of the one-year period referred to in Rule 144 applicable to securities held by non-affiliates under the Securities Act (or shorter period) that will terminate when all the Transfer Restricted Securities covered by such Shelf Registration Statement have been sold pursuant to such Shelf Registration Statement.

(b) *Provision by Holders of Certain Information in Connection with the Shelf Registration Statement.* No Holder of Transfer Restricted Securities may include any of its Transfer Restricted Securities in any Shelf Registration Statement pursuant to this Agreement unless and until such Holder furnishes to the Issuer in writing, within ten (10) Business Days after receipt of a request therefor, such information as the Issuer may reasonably request for use in connection with any Shelf Registration Statement or Prospectus or preliminary Prospectus included therein. Each Holder as to which any Shelf Registration Statement is being effected agrees to furnish promptly to the Issuer all information required to be disclosed in order to make the information previously furnished to the Issuer by such Holder not materially misleading.

(c) *Suspension.* Notwithstanding anything to the contrary and subject to the limitation set forth in the next succeeding paragraph, at any time after the effectiveness of the Shelf Registration Statement, the Issuer shall be entitled to suspend its obligation to file any amendment to the Shelf Registration Statement, furnish any supplement or amendment to a Prospectus included in the Shelf Registration Statement, make any other filing with the Commission, cause the Shelf Registration Statement or other filing with the Commission to remain effective or take any similar action (collectively, “*Registration Actions*”) upon (A) the issuance by the Commission of a stop order suspending the effectiveness of the Shelf Registration Statement or the initiation of proceedings with respect to the Shelf Registration Statement under Section 8(d) or 8(e) of the Securities Act, (B) the occurrence of any event or the existence of any fact as a result of which the Shelf Registration Statement would or shall contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or the related Prospectus would or shall contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or (C) the occurrence or existence of any corporate development that, in the good faith determination of the Board of Directors of the Issuer, makes it appropriate to postpone or suspend the availability of the Shelf Registration Statement and the related Prospectus. Upon the occurrence of any of the conditions described in clause (A), (B) or (C) above, the Issuer shall give prompt notice (a “*Suspension Notice*”) thereof to the Holders. Upon the termination of such condition, the Issuer shall give prompt notice thereof to the Holders and shall promptly proceed with all Registration Actions that were suspended pursuant to this paragraph.

The Issuer may only suspend Registration Actions pursuant to the preceding paragraph for one or more periods (each, a “*Suspension Period*”) not to exceed, in the aggregate, (x) forty-five (45) days in any three-month period or (y) ninety (90) days in any twelve-month period. Any Suspension Period will not alter the obligations of the Issuer to pay Additional Interest under the circumstances set forth in Section 5 hereof, if applicable. Each Suspension Period shall be deemed to begin on the date the relevant Suspension Notice is given to the Holders and shall be deemed to end on the earlier to occur of (1) the date on which the Issuer gives the Holders a notice that the Suspension Period has terminated and (2) the date on which the number of days during which a Suspension Period has been in effect exceeds, in the aggregate, (x) forty-five (45) days in any three-month period or (y) ninety (90) days in any twelve-month period.

SECTION 5. *Additional Interest.*

If (i) the Exchange Offer has not been Consummated on or prior to the date specified for such consummation in this Agreement, (ii) any Shelf Registration Statement, if required hereby, has not been declared effective by the Commission on or prior to the date specified for such effectiveness in this Agreement or (iii) any Registration Statement required by this Agreement has been declared effective but ceases to be effective at any time at which it is required to be effective under this Agreement (other than during a Suspension Period), as applicable (each such event referred to in clauses (i) through (iii), a “*Registration Default*”), the Issuer hereby agrees that the interest rate borne by the Transfer Restricted Securities shall be increased by 0.25% per annum during the 90-day period immediately following the occurrence of any Registration Default and shall increase by 0.25% per annum at the end of each subsequent 90-day period (such increase, “*Additional Interest*”), but in no event shall such increase exceed 1.00% per annum. Following the cure of all Registration Defaults relating to the particular Transfer Restricted Securities the interest rate borne by the relevant Transfer Restricted Securities will be reduced to the original interest rate borne by such Transfer Restricted Securities; *provided, however*, that, if after any such reduction in interest rate, a different Registration Default occurs, the interest rate borne by the relevant Transfer Restricted Securities shall again be increased pursuant to the foregoing provisions.

Notwithstanding the foregoing, (i) the amount of Additional Interest pursuant to this Section 5 shall not increase because more than one Registration Default has occurred and is continuing and (ii) a Holder of Transfer Restricted Securities who is not entitled to the benefits of the Shelf Registration Statement shall not be entitled to Additional Interest with respect to a Registration Default that pertains to the Shelf Registration Statement.

All accrued Additional Interest shall be payable to the Holders entitled thereto, in the manner provided for the payment of interest in the Indenture, as more fully set forth in the Indenture and the Securities. All obligations of the Issuer and the Guarantors set forth in the preceding paragraph that are outstanding with respect to any Transfer Restricted Security at the time such security ceases to be a Transfer Restricted Security shall survive until such time as all such obligations with respect to such security shall have been satisfied in full.

SECTION 6. *Registration Procedures.*

(a) *Exchange Offer Registration Statement.* In connection with the Exchange Offer, the Issuer and the Guarantors shall comply with all of the provisions of Section 6(c) hereof, shall use their reasonable best efforts to effect such exchange to permit the sale of Transfer Restricted Securities being sold in accordance with the intended method or methods of distribution thereof set forth in the Registration Statement, and shall comply with all of the following provisions:

(i) As a condition to its participation in the Exchange Offer pursuant to the terms of this Agreement, each Holder of Transfer Restricted Securities shall furnish, upon the request of the Issuer, prior to the Consummation thereof, a written representation to the Issuer (which may be contained in the letter of transmittal contemplated by the Exchange Offer Registration Statement) to the effect that (A) it is not an affiliate of the

Issuer, (B) it is not engaged in, and does not intend to engage in, and has no arrangement or understanding with any Person to participate in, a distribution of the Exchange Securities to be issued in the Exchange Offer and (C) it is acquiring the Exchange Securities in its ordinary course of business. In addition, all such Holders of Transfer Restricted Securities shall otherwise cooperate in the Issuer's preparations for the Exchange Offer. Each Holder hereby acknowledges and agrees that any Broker-Dealer and any such Holder using the Exchange Offer to participate in a distribution of the securities to be acquired in the Exchange Offer (1) could not under Commission policy as in effect on the date of this Agreement rely on the position of the Commission enunciated in Morgan Stanley and Co., Inc. (available June 5, 1991) and Exxon Capital Holdings Corporation (available May 13, 1988), as interpreted in the Commission's letter to Shearman & Sterling dated July 2, 1993, and similar no-action letters, and (2) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction and that such a secondary resale transaction should be covered by an effective registration statement containing the selling security holder information required by Item 507 or 508, as applicable, of Regulation S-K if the resales are of Exchange Securities obtained by such Holder in exchange for Transfer Restricted Securities acquired by such Holder directly from the Issuer.

(b) *Shelf Registration Statement.* If required pursuant to Section 4, in connection with the Shelf Registration Statement, the Issuer and each of the Guarantors shall comply with all the provisions of Section 6(c) hereof and shall use its reasonable best efforts to effect such registration to permit the sale of the Transfer Restricted Securities being sold in accordance with the intended method or methods of distribution thereof set forth in such Shelf Registration Statement, and pursuant thereto the Issuer and each of the Guarantors will as promptly as practicable prepare and file with the Commission a Registration Statement relating to the registration on any appropriate form under the Securities Act, which form shall be available for the sale of the Transfer Restricted Securities in accordance with the intended method or methods of distribution thereof set forth in such Shelf Registration Statement.

(c) *General Provisions.* Except as otherwise provided herein, in connection with any Registration Statement and any Prospectus required by this Agreement to permit the sale or resale of Transfer Restricted Securities (including, without limitation, any Registration Statement and the related Prospectus required to permit resales of Transfer Restricted Securities by Broker-Dealers), the Issuer and each of the Guarantors shall:

(i) use its reasonable best efforts to keep such Registration Statement continuously effective and provide all requisite financial statements for the period specified in Section 3 or 4 hereof, as applicable; upon the occurrence of any event that would cause any such Registration Statement or the Prospectus contained therein (A) to contain a material misstatement or omission or (B) not to be effective and usable for resale of Transfer Restricted Securities during the period required by this Agreement, the Issuer shall file, as promptly as practicable, an appropriate amendment to such Registration Statement, in the case of clause (A), correcting any such misstatement or omission, and, in the case of either clause (A) or (B), use their best efforts to cause such

amendment to be declared effective and such Registration Statement and the related Prospectus to become usable for their intended purpose(s) as soon as practicable thereafter;

(ii) prepare and file with the Commission such amendments and post-effective amendments to the applicable Registration Statement as may be necessary to keep the Registration Statement effective for the applicable period set forth in Section 3 or 4 hereof, as applicable, or such shorter period as will terminate when all Transfer Restricted Securities covered by such Registration Statement have been sold; cause the Prospectus to be supplemented by any required Prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 under the Securities Act, and to comply fully with the applicable provisions of Rules 424 and 430A under the Securities Act in a timely manner; and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in such Registration Statement or supplement to the Prospectus;

(iii) in the case of a Shelf Registration Statement, advise the underwriter(s), if any, and the selling Holders as promptly as practicable, and, if a Prospectus is required to be delivered by any Broker-Dealer in the case of an Exchange Offer, advise the Initial Purchaser as promptly as practicable, and, in each case, if requested by such Persons, to confirm such advice in writing, (A) when the Prospectus or any Prospectus supplement or post-effective amendment has been filed, and, with respect to any Registration Statement or any post-effective amendment thereto, when the same has become effective, (B) of any request by the Commission for amendments to the Registration Statement or amendments or supplements to the Prospectus or for additional information relating thereto, (C) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement under the Securities Act or of the suspension by any state securities commission of the qualification of the Transfer Restricted Securities for offering or sale in any jurisdiction, or the initiation of any proceeding for any of the preceding purposes, (D) of the existence of any fact or the happening of any event that makes any statement of a material fact made in the Registration Statement, the Prospectus, any amendment or supplement thereto, or any document incorporated by reference therein untrue, or that requires the making of any additions to or changes in the Registration Statement or the Prospectus in order to make the statements therein not misleading. If at any time the Commission shall issue any stop order suspending the effectiveness of a Registration Statement, or any state securities commission or other regulatory authority shall issue an order suspending the qualification or exemption from qualification of the Transfer Restricted Securities under state securities or blue sky laws, the Issuer and each of the Guarantors shall use its best efforts to obtain the withdrawal or lifting of such order at the earliest practicable time;

(iv) in the case of a Shelf Registration Statement or if a Prospectus is required to be delivered by any Broker-Dealer in the case of an Exchange Offer, furnish without charge to the Initial Purchaser, each selling Holder named in any Registration Statement,

and each of the underwriter(s), if any, before filing with the Commission, copies of any Registration Statement or any Prospectus included therein, and permit one legal counsel to the Initial Purchaser and such Holders and underwriter(s), if any, with an opportunity to review and comment upon any such Registration Statement or Prospectus within a reasonable period prior to their filing with the Commission and upon all amendments and supplements thereto such lesser period prior to their filing with the Commission as shall be reasonable and appropriate under the circumstances, and the Issuer shall not file any documents to which such legal counsel to the Initial Purchaser and such Holders and underwriter(s), if any, reasonably objects in writing (it being agreed that such writing may for this purpose be in electronic format). Notwithstanding the foregoing, the Issuer shall not be required to take any actions under this Section 6(c)(iv) that are not, in the reasonable opinion of counsel for the Issuer, in compliance with applicable law or to include any disclosure which at the time would have an adverse effect on the business or operations of the Issuer and/or its subsidiaries, as determined in good faith by the Issuer;

(v) promptly prior to the filing of any document that is to be incorporated by reference into such Registration Statement or Prospectus, provide copies of such document, to the extent requested, to the Initial Purchaser, each selling Holder named in any Registration Statement, and to the underwriter(s), if any, make the Issuer's and the Guarantors' representatives available for discussion of such document and other customary due diligence matters, and include such information in such document prior to the filing thereof as such selling Holders or underwriter(s), if any, reasonably may request;

(vi) in the case of a Shelf Registration Statement, or if a Prospectus is required to be delivered by any Broker-Dealer in the case of an Exchange Offer, make available at reasonable times for inspection by the Initial Purchaser, the managing underwriter(s), if any, participating in any disposition pursuant to such Registration Statement and one firm of legal counsel or accountant retained by the Initial Purchaser or any of the underwriter(s), all financial and other records, pertinent corporate documents and properties of the Issuer and each of the Guarantors reasonably requested by any such Persons and cause the Issuer's and the Guarantors' officers, directors and employees to supply all information reasonably requested by any such Holder, underwriter, attorney or accountant in connection with such Registration Statement or any post-effective amendment thereto subsequent to the filing thereof and prior to its effectiveness and to participate in meetings with investors to the extent reasonably requested by the managing underwriter(s), if any;

(vii) in the case of a Shelf Registration Statement, if requested by any selling Holders or the underwriter(s), if any, promptly incorporate in any Registration Statement or Prospectus, pursuant to a supplement or post-effective amendment if necessary, such information as such selling Holders and underwriter(s), if any, may reasonably request to have included therein, including, without limitation, information relating to the "Plan of Distribution" of the Transfer Restricted Securities, information with respect to the principal amount of Transfer Restricted Securities being sold to such underwriter(s), the

purchase price being paid therefor and any other terms of the offering of the Transfer Restricted Securities to be sold in such offering; and make all required filings of such Prospectus supplement or post-effective amendment as soon as practicable after the Issuer is notified of the matters to be incorporated in such Prospectus supplement or post-effective amendment;

(viii) use its reasonable best efforts to cause the Transfer Restricted Securities covered by the Registration Statement to be rated with the appropriate rating agencies, if so requested by the Holders of a majority in aggregate principal amount of Securities covered thereby or the underwriter(s), if any;

(ix) in the case of a Shelf Registration Statement, furnish to each selling Holder and each of the underwriter(s), if any, without charge, at least one copy of the Registration Statement, as first filed with the Commission, and of each amendment thereto, including financial statements and schedules (without documents incorporated by reference therein or exhibits thereto, unless requested);

(x) deliver to (A) (i) in the case of an Exchange Offer, each Broker-Dealer who submits a written request to the Issuer and (ii) in the case of a Shelf Registration Statement, each selling Holder and each of the underwriter(s), if any, without charge, as many copies of the Prospectus (including each preliminary prospectus) and any amendment or supplement thereto as such Persons reasonably may request; the Issuer and each of the Guarantors hereby consent to the use of the Prospectus and any amendment or supplement thereto by each of the selling Holders and each of the underwriter(s), if any, in connection with the offering and the sale of the Transfer Restricted Securities covered by the Prospectus or any amendment or supplement thereto;

(xi) in the case of a Shelf Registration Statement, enter into such agreements (including an underwriting agreement), and make such customary representations and warranties, and take all such other customary and appropriate actions in connection therewith in order to expedite or facilitate the disposition of the Transfer Restricted Securities pursuant to any Shelf Registration Statement contemplated by this Agreement, all to such extent as may be reasonably requested by a majority in aggregate principal amount of Holders of Transfer Restricted Securities covered by such Shelf Registration Statement or underwriter in connection with any sale or resale pursuant to any Shelf Registration Statement contemplated by this Agreement; and whether or not an underwriting agreement is entered into and whether or not the registration is an Underwritten Registration, the Issuer and each of the Guarantors shall:

(A) furnish to the Initial Purchaser, each selling Holder and each underwriter, if any, in such substance and scope as they may reasonably request and as are customarily made by issuers to underwriters in primary underwritten offerings, upon the effectiveness of the Shelf Registration Statement:

(1) a certificate, dated the date of effectiveness of the Shelf Registration Statement signed by (y) the President or any Vice President

and (z) a principal financial or accounting officer of the Issuer and each of the Guarantors, confirming, as of the date thereof, the matters set forth in paragraphs (e), (g) and (h) of Section 6 of the Purchase Agreement and such other matters as such parties may reasonably request;

(2) an opinion of counsel for the Issuer and the Guarantors, covering substantially the subject matter of the opinion delivered pursuant to Section 6(a) of the Purchase Agreement, dated the date of effectiveness of the Shelf Registration Statement; and

(3) a customary comfort letter, dated the date of effectiveness of the Shelf Registration Statement, from the Issuer's independent accountants, in the customary form and covering matters of the type customarily requested to be covered in comfort letters by underwriters in connection with primary underwritten offerings, and covering or affirming the matters set forth in the comfort letters delivered pursuant to Section 6(d) of the Purchase Agreement;

(B) set forth in full or incorporate by reference in the underwriting agreement, if any, the indemnification provisions and procedures of Section 8 hereof with respect to all parties to be indemnified pursuant to said Section; and

(C) deliver such other documents and certificates as may be reasonably requested by such parties and as are customarily delivered in similar offerings to evidence compliance with Section 6(c)(xi)(A) hereof and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Issuer or any of the Guarantors pursuant to this Section 6(c)(xi), if any.

If at any time the representations and warranties of the Issuer and the Guarantors contemplated by the certificate furnished pursuant to Section 6(c)(xi)(A)(1) hereof cease to be true and correct, the Issuer or the Guarantors shall so advise the Initial Purchaser and the underwriter(s), if any, and each selling Holder promptly and, if requested by such Persons, shall confirm such advice in writing;

(xii) in the case of a Shelf Registration Statement, prior to any public offering of Transfer Restricted Securities, use its reasonable best efforts to cooperate with the selling Holders, the underwriter(s), if any, and their respective counsel in connection with the registration and qualification of the Transfer Restricted Securities under the state securities or blue sky laws of such jurisdictions as the selling Holders or underwriter(s), if any, may reasonably request in writing by the time the Shelf Registration Statement is declared effective by the Commission, and use its best efforts to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Transfer Restricted Securities covered by the Shelf Registration Statement; *provided, however*, that neither the Issuer nor the Guarantors shall be required to register or qualify as a foreign corporation where it is not then so qualified or to take any action that would

subject it to the service of process in suits or to taxation in any jurisdiction where it is not then so subject;

(xiii) in the case of a Shelf Registration Statement, issue, upon the request of any Holder of Transfer Restricted Securities covered by the Shelf Registration Statement, Exchange Securities having an aggregate principal amount equal to the aggregate principal amount of Transfer Restricted Securities surrendered to the Issuer by such Holder in exchange therefor or being sold by such Holder; such Exchange Securities to be registered in the name of such Holder or in the name of the purchaser(s) of such Securities, as the case may be; in return, the Transfer Restricted Securities held by such Holder shall be surrendered to the Issuer for cancellation;

(xiv) cooperate with the selling Holders and the underwriter(s), if any, to facilitate the timely preparation and delivery of certificates representing Transfer Restricted Securities to be sold and not bearing any restrictive legends; and enable such Transfer Restricted Securities to be in such denominations and registered in such names as the Holders or the underwriter(s), if any, may request at least three (3) Business Days prior to any sale of Transfer Restricted Securities made by such Holders or underwriter(s);

(xv) use its reasonable best efforts to cause the Transfer Restricted Securities covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof or the underwriter(s), if any, to consummate the disposition of such Transfer Restricted Securities, subject to the proviso contained in Section 6(c)(xii) hereof;

(xvi) if any fact or event contemplated by Section 6(c)(iii)(D) hereof shall exist or have occurred, use its best efforts to prepare a supplement or post-effective amendment to the Registration Statement or related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of Transfer Restricted Securities, the Prospectus will not contain at the time of such delivery any untrue statement of any material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(xvii) provide a CUSIP number for all Securities not later than the effective date of the Registration Statement covering such Securities and use its best efforts to cause the CUSIP number to be the same as the CUSIP number for the Existing Exchange Notes and provide the Trustee under the Indenture with printed certificates for such Securities which are in a form eligible for deposit with the Depository Trust Company and take all other action necessary to ensure that all such Securities are eligible for deposit with the Depository Trust Company;

(xviii) reasonably cooperate and assist in any filings required to be made with FINRA and in the performance of any due diligence investigation by any underwriter

(including any “qualified independent underwriter”) that is required to be retained in accordance with the rules and regulations of FINRA;

(xix) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make generally available to its security holders, as soon as practicable, a consolidated earnings statement meeting the requirements of Rule 158 under the Securities Act (which need not be audited) for the twelve-month period (A) commencing at the end of any fiscal quarter in which Transfer Restricted Securities are sold to underwriters in a firm commitment or best efforts Underwritten Offering or (B) if not sold to underwriters in such an offering, beginning with the first month of the Issuer’s first fiscal quarter commencing after the effective date of the Registration Statement; and

(xx) cause the Indenture to continue to be qualified under the Trust Indenture Act not later than the effective date of the first Registration Statement required by this Agreement, and, in connection therewith, cooperate with the Trustee and the Holders of Securities to effect such changes to the Indenture as may be required for such Indenture to remain so qualified in accordance with the terms of the Trust Indenture Act; and to execute and use its reasonable best efforts to cause the Trustee to execute, all documents that may be required to effect such changes and all other forms and documents required to be filed with the Commission to enable such Indenture to continue to be so qualified in a timely manner.

Each Holder agrees by acquisition of a Transfer Restricted Security that, upon receipt of any notice from the Issuer of (i) the existence of any fact of the kind described in Section 6(c)(iii)(D) hereof or (ii) the commencement a Suspension Period, such Holder will forthwith discontinue disposition of Transfer Restricted Securities pursuant to the applicable Registration Statement until such Holder’s receipt of the copies of the supplemented or amended Prospectus contemplated by Section 6(c)(xvi) hereof, or until it is advised in writing (the “*Advice*”) by the Issuer that the use of the Prospectus may be resumed, and has received copies of any additional or supplemental filings that are incorporated by reference in the Prospectus. If so directed by the Issuer, each Holder will deliver to the Issuer (at the Issuer’s expense) all copies, other than permanent file copies then in such Holder’s possession, of the Prospectus covering such Transfer Restricted Securities that was current at the time of receipt of such notice. In the event the Issuer shall give any such notice, the time period regarding the effectiveness of such Registration Statement set forth in Section 3 or 4 hereof, as applicable, shall be extended by the number of days during the period from and including the date of the giving of such notice pursuant to Section 6(c)(iii)(D) or Section 4(c) hereof, as the case may be, to and including the date when each selling Holder covered by such Registration Statement shall have received the copies of the supplemented or amended Prospectus contemplated by Section 6(c)(xvi) hereof or shall have received the *Advice*.

SECTION 7. *Registration Expenses.*

(a) All expenses incident to the Issuer’s and the Guarantors’ performance of or compliance with this Agreement will be borne by the Issuer and the Guarantors, jointly and

severally, regardless of whether a Registration Statement becomes effective, including, without limitation: (i) all registration and filing fees and expenses (including filings made by the Initial Purchaser or any Holder with FINRA (and, if applicable, the fees and expenses of any “qualified independent underwriter” and its counsel that may be required by the rules and regulations of FINRA)); (ii) all fees and expenses of compliance with federal securities and state securities or blue sky laws; (iii) all expenses of printing (including printing certificates for the Exchange Securities to be issued in the Exchange Offer and printing of Prospectuses), messenger and delivery services and telephone; (iv) all fees and disbursements of counsel for the Issuer and the Guarantors and, subject to Section 7(b) hereof, the Holders of Transfer Restricted Securities; (v) all application and filing fees in connection with listing the Exchange Securities on a securities exchange or automated quotation system pursuant to the requirements thereof; and (vi) all fees and disbursements of independent certified public accountants of the Issuer and the Guarantors (including the expenses of any special audit and comfort letters required by or incident to such performance).

The Issuer and each of the Guarantors will, in any event, bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit and the fees and expenses of any Person, including special experts, retained by the Issuer or the Guarantors.

(b) In connection with any Registration Statement required by this Agreement (including, without limitation, the Exchange Offer Registration Statement and the Shelf Registration Statement), the Issuer and the Guarantors, jointly and severally, will reimburse the Initial Purchaser and the Holders of Transfer Restricted Securities being tendered in the Exchange Offer and/or resold pursuant to the “Plan of Distribution” contained in the Exchange Offer Registration Statement or registered pursuant to the Shelf Registration Statement, as applicable, for the reasonable and documented fees and disbursements of not more than one counsel, who shall be Cahill Gordon & Reindel LLP or such other counsel as may be chosen by the Holders of a majority in principal amount of the Transfer Restricted Securities for whose benefit such Registration Statement is being prepared.

Each Holder shall pay all underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of such Holder’s Transfer Restricted Securities pursuant to a Shelf Registration Statement.

SECTION 8. *Indemnification.*

(a) The Issuer and the Guarantors, jointly and severally, agree to indemnify and hold harmless (i) each Holder and (ii) each Person, if any, who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) any Holder (any of the Persons referred to in this clause (ii) being hereinafter referred to as a “controlling person”) and (iii) the officers, directors, partners, employees, representatives and agents of any Holder or any controlling person (any Person referred to in clause (i), (ii) or (iii) may hereinafter be referred to as an “Indemnified Holder”) from and against any and all losses, claims, damages, liabilities, judgments, actions and expenses (including, without limitation, and as incurred, reimbursement of all reasonable costs of investigating, preparing, pursuing, settling, compromising, paying or

defending any claim or action, or any investigation or proceeding by any governmental agency or body, commenced or threatened, including the reasonable fees and expenses of counsel to any Indemnified Holder), joint or several, directly or indirectly caused by, related to, based upon, arising out of or in connection with any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement or Prospectus (or any amendment or supplement thereto), or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that the indemnification provided for in this Section 8 does not apply to any loss, claim, damage, liability or expense to the extent arising out of an untrue statement or omission or alleged untrue statement or omission that is made in reliance upon and in conformity with information furnished in writing to the Issuer or the Guarantors by any Holder or any underwriter, expressly for use therein. This indemnity agreement shall be in addition to any liability which the Issuer or any of the Guarantors may otherwise have.

In case any action or proceeding (including any governmental or regulatory investigation or proceeding) shall be brought or asserted against any of the Indemnified Holders with respect to which indemnity may be sought against the Issuer or the Guarantors, such Indemnified Holder (or the Indemnified Holder controlled by such controlling person) shall promptly notify the Issuer and the Guarantors in writing; *provided, however*, that the failure to give such notice shall not relieve the Issuer or any of the Guarantors of its obligations pursuant to this Agreement to the extent it is not materially prejudiced as a result of such failure. If such Indemnified Holder is entitled to indemnification under this Section 8 with respect to any action or proceeding brought by a third party, the Issuer and the Guarantors shall be entitled to assume the defense of any such action or proceeding with counsel reasonably satisfactory to such Indemnified Holder. Upon assumption by the Issuer and the Guarantors of the defense of any such action or proceeding, such Indemnified Holder shall have the right to participate in such action or proceeding and to retain its own counsel, but the Issuer and the Guarantors shall not be liable for any legal fees and expenses of other counsel subsequently incurred by the Indemnified Holder in connection with the defense thereof unless (i) the Issuer and the Guarantors have agreed to pay such fees and expenses, (ii) the Issuer and the Guarantors shall have failed to employ counsel satisfactory to such Indemnified Holder in a timely manner or (iii) such Indemnified Holder shall have been advised by counsel that there are actual or potential conflicting interests between the Issuer, the Guarantors and the Indemnified Holder, including situations in which there are one or more legal defenses available to the Indemnified Holder that are inconsistent with or additional to those available to the Issuer and the Guarantors; *provided, however*, that the Issuer and the Guarantors shall not, in connection with any one such action or proceeding or separate but substantially similar or related actions or proceedings arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for such Indemnified Holders. The Issuer and the Guarantors shall not consent to the terms of any compromise or settlement of any action defended by the Issuer and the Guarantors in accordance with the foregoing without the prior written consent of the Indemnified Holder unless such compromise or settlement (i) includes an unconditional release of the Indemnified Holder from all liability arising out of such action,

claim, litigation or proceeding and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of the Indemnified Holder.

(b) Each Holder of Transfer Restricted Securities agrees, severally and not jointly, to indemnify and hold harmless the Issuer, the Guarantors and their respective directors, officers of the Issuer and the Guarantors who sign a Registration Statement, and any Person controlling (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) the Issuer or any of the Guarantors, and the respective officers, directors, partners, employees, representatives and agents of each such Person, to the same extent as the foregoing indemnity from the Issuer and the Guarantors to each of the Indemnified Holders, but only with respect to claims and actions based on information furnished in writing by such Holder expressly for use in any Registration Statement. In case any action or proceeding shall be brought against the Issuer, the Guarantors or their respective directors or officers or any such controlling person in respect of which indemnity may be sought against a Holder of Transfer Restricted Securities, such Holder shall have the rights and duties given the Issuer and the Guarantors, and the Issuer, the Guarantors, their respective directors and officers and any such controlling person shall have the rights and duties given to each Holder by the preceding paragraph.

(c) If the indemnification provided for in this Section 8 is unavailable to an indemnified party under Section 8(a) or (b) hereof (other than by reason of exceptions provided in those Sections) in respect of any losses, claims, damages, liabilities, judgments, actions or expenses referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative benefits received by the Issuer and the Guarantors, on the one hand, and the Holders, on the other hand, from the Initial Placement (which in the case of the Issuer and the Guarantors shall be deemed to be equal to the total gross proceeds to the Issuer and the Guarantors from the Initial Placement), the amount of Additional Interest which did not become payable as a result of the filing of the Registration Statement resulting in such losses, claims, damages, liabilities, judgments actions or expenses, and such Registration Statement, or if such allocation is not permitted by applicable law, the relative fault of the Issuer and the Guarantors, on the one hand, and the Holders, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of the Issuer, on the one hand, and of the Indemnified Holder, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Issuer or any of the Guarantors, on the one hand, or the Indemnified Holders, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in the second paragraph of Section 8(a) hereof, any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim.

The Issuer, the Guarantors and each Holder of Transfer Restricted Securities agree that it would not be just and equitable if contribution pursuant to this Section 8(c) were determined by pro rata allocation (even if the Holders were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities or expenses referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8, none of the Holders (and the related Indemnified Holders) shall be required to contribute, in the aggregate, any amount in excess of the amount by which the total discount received by such Holder with respect to the Initial Securities exceeds the amount of any damages which such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. The Holders' obligations to contribute pursuant to this Section 8(c) are several in proportion to the respective principal amount of Initial Securities held by each of the Holders hereunder and not joint.

SECTION 9. *Rule 144A.*

The Issuer and each of the Guarantors hereby agree with each Holder, for so long as any Transfer Restricted Securities remain outstanding, to make available to any Holder or beneficial owner of Transfer Restricted Securities in connection with any sale thereof and any prospective purchaser of such Transfer Restricted Securities from such Holder or beneficial owner, the information required by Rule 144A(d)(4) under the Securities Act in order to permit resales of such Transfer Restricted Securities pursuant to Rule 144A under the Securities Act.

SECTION 10. *Participation in Underwritten Registrations.*

No Holder may participate in any Underwritten Registration hereunder unless such Holder (a) agrees to sell such Holder's Transfer Restricted Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all reasonable questionnaires, powers of attorney, indemnities, underwriting agreements, lock-up letters and other documents required under the terms of such underwriting arrangements.

SECTION 11. *Selection of Underwriters.*

The Holders of Transfer Restricted Securities covered by the Shelf Registration Statement who desire to do so may sell such Transfer Restricted Securities in an Underwritten Offering. In any such Underwritten Offering, the investment banker(s) and managing underwriter(s) that will administer such offering will be selected by the Holders of a majority in aggregate principal amount of the Transfer Restricted Securities included in such offering; *provided, however*, that such investment banker(s) and managing underwriter(s) must be reasonably satisfactory to the Issuer.

SECTION 12. *Miscellaneous.*

(a) *Remedies.* The Issuer, each of the Guarantors and the Initial Purchaser hereby agree that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and hereby agree to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) *No Inconsistent Agreements.* The Issuer and each of the Guarantors will not on or after the date of this Agreement enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Neither the Issuer nor any of the Guarantors have previously entered into any agreement granting any registration rights with respect to its securities to any Person, other than the Registration Rights Agreement dated as of April 29, 2015 with respect to the Existing Securities. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of an Issuer's or any of the Guarantors' securities under any agreement in effect on the date hereof.

(c) *Adjustments Affecting the Securities.* The Issuer will not take any action, or permit any change to occur, with respect to the Securities that would materially and adversely affect the ability of the Holders to Consummate any Exchange Offer.

(d) *Amendments and Waivers.* The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to or departures from the provisions hereof may not be given unless the Issuer has (i) in the case of Section 5 hereof and this Section 12(d)(i), obtained the written consent of Holders of all outstanding Transfer Restricted Securities and (ii) in the case of all other provisions hereof, obtained the written consent of Holders of a majority of the outstanding principal amount of Transfer Restricted Securities (excluding any Transfer Restricted Securities held by the Issuer or its respective Affiliates). Notwithstanding the foregoing, a waiver or consent to departure from the provisions hereof that relates exclusively to the rights of Holders whose securities are being tendered pursuant to the Exchange Offer and that does not affect directly or indirectly the rights of other Holders whose securities are not being tendered pursuant to such Exchange Offer may be given by the Holders of a majority of the outstanding principal amount of Transfer Restricted Securities being tendered or registered; *provided, however*, that, with respect to any matter that directly or indirectly affects the rights of the Initial Purchaser hereunder, the Issuer shall obtain the written consent of the Initial Purchaser with respect to which such amendment, qualification, supplement, waiver, consent or departure is to be effective.

(e) *Notices.* All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail (registered or certified, return receipt requested), telex, telecopier, or air courier guaranteeing overnight delivery:

(i) if to a Holder, at the address set forth on the records of the Registrar under the Indenture, with a copy to the Registrar under the Indenture; and

(ii) if to the Issuer or the Guarantors:

Carrols Restaurant Group, Inc.
968 James Street
Syracuse, NY 13203
Attention: General Counsel
Telecopy: (315) 475-9616

(iii) with a copy to (which shall not constitute notice or service of process pursuant to this Agreement):

Akerman LLP
666 Fifth Avenue
New York, NY 10103
Attention: Wayne Wald, Esq.
Telecopy: (212) 880-8965
E-mail: wayne.wald@akerman.com

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five (5) Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if telecopied; and on the next Business Day, if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all such notices, demands or other communications shall be concurrently delivered by the Person giving the same to the Trustee at the address specified in the Indenture.

(f) *Successors and Assigns.* This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, including, without limitation, and without the need for an express assignment, subsequent Holders of Transfer Restricted Securities; *provided, however,* that this Agreement shall not inure to the benefit of or be binding upon a successor or assign of a Holder unless and to the extent such successor or assign acquired Transfer Restricted Securities from such Holder. Nothing herein shall be deemed to permit any assignment, transfer or other disposition of Transfer Restricted Securities in violation of the terms of the Purchase Agreement or the Indenture.

(g) *Counterparts.* This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart hereof by facsimile or other electronic transmission shall be as effective as delivery of any original executed counterpart hereof.

(h) *Headings.* The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) *Governing Law.* THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW RULES THEREOF.

(j) *Severability.* In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) *Entire Agreement.* This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted by the Issuer with respect to the Transfer Restricted Securities. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

CARROLS RESTAURANT GROUP, INC.

By: /s/ William E. Myers
Name: William E. Myers
Title: VP, Secretary & General Counsel

CARROLS CORPORATION

By: /s/ William E. Myers
Name: William E. Myers
Title: VP, Secretary & General Counsel

CARROLS LLC

By: /s/ William E. Myers
Name: William E. Myers
Title: VP, Secretary & General Counsel

The foregoing Registration Rights Agreement is hereby confirmed and accepted as of the date first above written:

WELLS FARGO SECURITIES, LLC,
as Initial Purchaser

By: /s/ Robert C. Rechkemmer
Name: Robert C. Rechkemmer
Title: Director

SCHEDULE I
GUARANTORS

<u>Name</u>	<u>Jurisdiction of Incorporation / Organization</u>	<u>Chief Executive Office Location</u>
Carols Corporation	Delaware	968 James St. Syracuse, NY 13203
Carols LLC	Delaware	968 James St. Syracuse, NY 13203

SUPPLEMENTAL INDENTURE IN RESPECT OF GUARANTEE

SUPPLEMENTAL INDENTURE, dated as of July 6, 2017 (this "Supplemental Indenture"), among Republic Foods, Inc., a Maryland corporation (the "Guarantor"), Carrols Restaurant

Group, Inc., a Delaware corporation (the "Issuer") and The Bank of New York Mellon Trust Company, N.A., a national banking association, as Trustee (the "Trustee") under the Indenture referred to below.

WITNESSETH:

WHEREAS, the Issuer, the guarantors party thereto and the Trustee are parties to an Indenture, dated as of April 29, 2015 (as amended, supplemented, waived or otherwise modified, the "Indenture"), providing for the issuance of 8.00% Senior Secured Second Lien Notes due 2022 of the Issuer (the "Notes");

WHEREAS, Section 11.8 of the Indenture provides that the Issuer is required to cause the Guarantor to execute and deliver to the Trustee a supplemental indenture pursuant to which the Guarantor shall guarantee the Notes and the obligations of the Issuer to the Holders and the Trustee pursuant to a Guarantee on the terms and conditions set forth herein and in Article XI of the Indenture;

WHEREAS, the Guarantor desires to enter into this Supplemental Indenture for good and valuable consideration, including substantial economic benefit in that the financial performance and condition of such Guarantor is dependent on the financial performance and condition of the Issuer;

WHEREAS, pursuant to Section 9.1 of the Indenture, the parties hereto are authorized to execute and deliver this Supplemental Indenture to amend the Indenture, without the consent of any Holder; and

WHEREAS, all things necessary to make this a legal, valid and binding agreement of the Issuer have been done.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guarantor, the Issuer and the Trustee mutually covenant and agree for the benefit of the Holders of the Notes as follows:

1. Defined Terms. As used in this Supplemental Indenture, terms defined in the Indenture or in the preamble or recital hereto are used herein as therein defined. The words "herein," "hereof" and "hereby" and other words of similar import used in this Supplemental Indenture refer to this Supplemental Indenture as a whole and not to any particular section hereof.

2. Agreement to Guarantee. The Guarantor hereby agrees, jointly and severally with all other Guarantors, fully and unconditionally, to guarantee the Notes and the obligations of the Issuer to the Holders and the Trustee under the Indenture and the Notes on the terms and subject to the conditions set forth in Article XI of the Indenture and to be bound by (and shall be entitled to the benefits of) all other applicable provisions of the Indenture as a Guarantor.

3. Termination, Release and Discharge. The Guarantor's Guarantee shall terminate and be of no further force or effect, and the Guarantor shall be released and discharged from all obligations in respect of its Guarantee, only as and when provided in Section 11.6 of the Indenture.

4. Parties. Nothing in this Supplemental Indenture is intended or shall be construed to give any Person, other than the Holders and the Trustee, any legal or equitable right, remedy or claim under or in respect of the Guarantor's Guarantee or any provision contained herein or in Article XI of the Indenture.

5. Governing Law. THIS SUPPLEMENTAL INDENTURE, THE INDENTURE, THE GUARANTEES AND THE NOTES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT SUCH PRINCIPLES ARE NOT MANDATORILY APPLICABLE BY STATUTE AND THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. THE ISSUER AND EACH GUARANTOR HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE INDENTURE, THE GUARANTEES AND THE NOTES, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE ISSUER AND EACH GUARANTOR IRREVOCABLY WAIVES, TO THE FULLEST EXTENT THAT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, TRIAL BY JURY AND ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE TRUSTEE OR ANY HOLDER OF THE NOTES TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE ISSUER OR ANY GUARANTOR IN ANY OTHER JURISDICTION.

6. Ratification of Indenture: Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby. The Trustee makes no representation or warranty as to the validity or sufficiency of this Supplemental Indenture.

7. Counterparts. The parties hereto may sign one or more copies of this Supplemental Indenture in counterparts, all of which together shall constitute one and the same agreement.

8. Headings. The section headings herein are for convenience of reference only and shall not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

9. Trustee. The Trustee accepts the amendment of the Indenture effected by this Supplemental Indenture and agrees to execute the trust created by the Indenture as hereby amended, but only upon the terms and conditions set forth in the Indenture, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities and responsibilities in the performance of the trust created by the Indenture as hereby amended. Without limiting the generality of the foregoing, the Trustee shall not be responsible in any manner whatsoever

for or with respect to any of the recitals or statements contained herein, all of which recitals or statements are made solely by the Issuer or for or with respect to (i) the validity, efficacy, or sufficiency of this Supplemental Indenture or any of the terms or provisions hereof, (ii) the proper authorization hereof by the Issuer or Guarantors, as applicable, by corporate action or otherwise, or (iii) the due execution hereof by the Issuer or Guarantors, as applicable, and the Trustee makes no representation with respect to any such matters.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

REPUBLIC FOODS, INC., as Guarantor

By: /s/ William E. Myers

Name: William E. Myers

Title: Vice President, Secretary & General Counsel

CARROLS RESTAURANT GROUP, INC.

By: /s/ William E. Myers

Name: William E. Myers

Title: Vice President, Secretary & General Counsel

THE BANK OF NEW YORK MELLON TRUST COMPANY, NA., as Trustee

By: /s/ Valere Boyd

Name: Valere Boyd

Title: Vice President

CERTIFICATIONS

I, Daniel T. Accordino, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended July 2, 2017 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: August 9, 2017

/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 July 2, 2017 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: August 9, 2017

/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 July 2, 2017, 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

August 9, 2017

**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 July 2, 2017, 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

August 9, 2017

