

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

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

For the quarterly period ended March 29, 2020

OR

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

Commission File Number: 001-33174

**CARROLS RESTAURANT GROUP, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**13203**  
(Zip Code)

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

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

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

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 every Interactive Data File required to be submitted 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 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="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>
		Emerging growth company	<input type="radio"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange 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 May 6, 2020, Carrols Restaurant Group, Inc. had 52,723,814 shares of its common stock, \$.01 par value, outstanding.

**CARROLS RESTAURANT GROUP, INC.**  
**FORM 10-Q**  
**QUARTER ENDED MARCH 29, 2020**

	<u>Page</u>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1	<a href="#"><u>Interim Condensed Consolidated Financial Statements (Unaudited):</u></a>
	<a href="#"><u>Consolidated Balance Sheets</u></a> <span style="float: right;"><a href="#"><u>3</u></a></span>
	<a href="#"><u>Consolidated Statements of Comprehensive Income (Loss)</u></a> <span style="float: right;"><a href="#"><u>4</u></a></span>
	<a href="#"><u>Consolidated Statements of Changes in Stockholders' Equity</u></a> <span style="float: right;"><a href="#"><u>5</u></a></span>
	<a href="#"><u>Consolidated Statements of Cash Flows</u></a> <span style="float: right;"><a href="#"><u>6</u></a></span>
	<a href="#"><u>Notes to Unaudited Interim Condensed Consolidated Financial Statements</u></a> <span style="float: right;"><a href="#"><u>7</u></a></span>
Item 2	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a> <span style="float: right;"><a href="#"><u>22</u></a></span>
Item 3	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a> <span style="float: right;"><a href="#"><u>39</u></a></span>
Item 4	<a href="#"><u>Controls and Procedures</u></a> <span style="float: right;"><a href="#"><u>39</u></a></span>
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1	<a href="#"><u>Legal Proceedings</u></a> <span style="float: right;"><a href="#"><u>40</u></a></span>
Item 1A	<a href="#"><u>Risk Factors</u></a> <span style="float: right;"><a href="#"><u>40</u></a></span>
Item 2	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a> <span style="float: right;"><a href="#"><u>41</u></a></span>
Item 3	<a href="#"><u>Defaults Upon Senior Securities</u></a> <span style="float: right;"><a href="#"><u>41</u></a></span>
Item 4	<a href="#"><u>Mine Safety Disclosures</u></a> <span style="float: right;"><a href="#"><u>41</u></a></span>
Item 5	<a href="#"><u>Other Information</u></a> <span style="float: right;"><a href="#"><u>41</u></a></span>
Item 6	<a href="#"><u>Exhibits</u></a> <span style="float: right;"><a href="#"><u>41</u></a></span>

**PART I—FINANCIAL INFORMATION**
**ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

	March 29, 2020	December 29, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 41,272	\$ 2,974
Trade and other receivables	11,701	13,445
Inventories	11,486	13,334
Prepaid expenses and other current assets	10,329	9,748
Refundable income taxes	278	284
Total current assets	75,066	39,785
Property and equipment, net of accumulated depreciation of \$391,764 and \$377,810, respectively	380,230	385,578
Franchise rights, net of accumulated amortization of \$123,256 and \$119,288, respectively (Note 3)	344,974	348,941
Goodwill (Note 3)	122,619	122,619
Franchise agreements, at cost less accumulated amortization of \$13,875 and \$13,365, respectively	33,211	32,690
Operating right-of-use assets, net (Note 6)	810,585	811,016
Other assets	11,449	10,831
Total assets	<u>\$ 1,778,134</u>	<u>\$ 1,751,460</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and finance lease liabilities (Notes 6 and 7)	\$ 5,437	\$ 5,866
Current portion of operating lease liabilities (Note 6)	41,027	40,805
Accounts payable	32,201	45,780
Accrued interest	761	901
Accrued payroll, related taxes and benefits	25,538	31,314
Accrued real estate taxes	6,964	8,139
Other liabilities	27,721	16,520
Total current liabilities	139,649	149,325
Long-term debt and finance lease liabilities, net of current portion (Notes 6 and 7)	520,806	455,565
Lease financing obligations	1,193	1,194
Operating lease liabilities (Note 6)	808,795	808,292
Deferred income taxes, net (Note 8)	—	6,983
Accrued postretirement benefits	2,493	2,555
Other liabilities (Note 5)	22,076	18,084
Total liabilities	1,495,012	1,441,998
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, par value \$.01; authorized 20,000,000 shares, issued and outstanding—100 shares	—	—
Voting common stock, par value \$.01; authorized—100,000,000 shares, issued—52,723,814 and 51,840,200 shares, respectively, and outstanding—51,474,340 and 51,049,377 shares, respectively	515	510
Additional paid-in capital	302,378	301,251
Retained earnings (accumulated deficit)	(11,113)	11,096
Accumulated other comprehensive income (loss)	(4,587)	622
Treasury stock, at cost	(4,071)	(4,017)
Total stockholders' equity	283,122	309,462
Total liabilities and stockholders' equity	<u>\$ 1,778,134</u>	<u>\$ 1,751,460</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 29, 2020	March 31, 2019
Revenue		
Restaurant sales	\$ 351,518	\$ 290,789
Operating expenses:		
Cost of sales	102,927	82,575
Restaurant wages and related expenses	124,575	100,192
Restaurant rent expense	29,454	21,916
Other restaurant operating expenses	57,978	45,605
Advertising expense	13,876	11,872
General and administrative (including stock-based compensation expense of \$1,132 and \$1,526 respectively)	20,787	19,724
Depreciation and amortization	21,031	15,292
Impairment and other lease charges (Note 4)	2,881	910
Other expense (income), net	56	(2,129)
Total operating expenses	373,565	295,957
Loss from operations	(22,047)	(5,168)
Interest expense	7,140	5,947
Loss before income taxes	(29,187)	(11,115)
Provision (benefit) for income taxes (Note 8)	(6,978)	354
Net loss	\$ (22,209)	\$ (11,469)
Basic and diluted net loss per share (Note 13)	\$ (0.44)	\$ (0.32)
Shares used in computing net loss per share:		
Basic and diluted weighted average common shares outstanding	50,821,101	36,045,137
Comprehensive loss, net of tax:		
Net loss	\$ (22,209)	\$ (11,469)
Change in valuation of interest rate swap (Note 7)	(5,209)	—
Comprehensive loss	\$ (27,418)	\$ (11,469)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			Other Comprehensive Income (Loss)		
<b>Balance, December 29, 2019</b>	51,049,377	\$ 510	100	\$ —	\$ 301,251	\$ 11,096	\$ 622	\$ (4,017)	\$ 309,462
Stock-based compensation	—	—	—	—	1,132	—	—	—	1,132
Vesting of non-vested shares	424,963	5	—	—	(5)	—	—	—	—
Net loss	—	—	—	—	—	(22,209)	—	—	(22,209)
Repurchase of treasury stock	—	—	—	—	—	—	—	(54)	(54)
Change in valuation of interest rate swap (Note 7)	—	—	—	—	—	—	(5,209)	—	(5,209)
<b>Balance, March 29, 2020</b>	<u>51,474,340</u>	<u>\$ 515</u>	<u>100</u>	<u>\$ —</u>	<u>\$ 302,378</u>	<u>\$ (11,113)</u>	<u>\$ (4,587)</u>	<u>\$ (4,071)</u>	<u>\$ 283,122</u>
<b>Balance, December 30, 2018</b>									
<b>Balance, December 30, 2018</b>	35,742,427	\$ 357	100	\$ —	\$ 150,459	\$ 35,511	\$ (646)	\$ (141)	\$ 185,540
Stock-based compensation	—	—	—	—	1,526	—	—	—	1,526
Vesting of non-vested shares	371,824	4	—	—	(4)	—	—	—	—
Net loss	—	—	—	—	—	(11,469)	—	—	(11,469)
Adoption of ASC 842, net of taxes (Note 6)	—	—	—	—	—	7,504	—	—	7,504
<b>Balance, March 31, 2019</b>	<u>36,114,251</u>	<u>\$ 361</u>	<u>100</u>	<u>\$ —</u>	<u>\$ 151,981</u>	<u>\$ 31,546</u>	<u>\$ (646)</u>	<u>\$ (141)</u>	<u>\$ 183,101</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

	Three Months Ended	
	March 29, 2020	March 31, 2019
Cash flows provided by (used for) operating activities:		
Net loss	\$ (22,209)	\$ (11,469)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Loss on disposals of property and equipment	50	146
Stock-based compensation	1,132	1,526
Gain on settlement agreement (Note 11)	—	(1,913)
Impairment and other lease charges	2,881	910
Depreciation and amortization	21,031	15,292
Amortization of deferred financing costs	482	299
Amortization of bond premium and discount on debt	67	(238)
Deferred income taxes	(6,983)	346
Change in refundable income taxes	6	(32)
Changes in other operating assets and liabilities	(247)	3,121
Net cash provided by (used for) operating activities	<u>(3,790)</u>	<u>7,988</u>
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(10,517)	(5,507)
Restaurant remodeling	(5,885)	(7,607)
Other restaurant capital expenditures	(3,475)	(4,474)
Corporate and restaurant information systems	(4,954)	(587)
Total capital expenditures	<u>(24,831)</u>	<u>(18,175)</u>
Properties purchased for sale-leaseback	(12,441)	—
Proceeds from sale-leaseback transactions	13,685	2,302
Proceeds from insurance recoveries	1,385	123
Proceeds from lease incentives	234	—
Net cash used for investing activities	<u>(21,968)</u>	<u>(15,750)</u>
Cash flows provided by financing activities:		
Repayments of Term Loan B Facility	(1,063)	—
Borrowings under prior revolving credit facility	—	89,250
Repayments under prior revolving credit facility	—	(83,000)
Borrowings under new revolving credit facility	190,000	—
Repayments under new revolving credit facility	(124,000)	—
Payments on finance lease liabilities	(567)	(476)
Costs associated with financing long-term debt	(314)	(358)
Net cash provided by financing activities	<u>64,056</u>	<u>5,416</u>
Net increase (decrease) in cash and cash equivalents	38,298	(2,346)
Cash and cash equivalents, beginning of period	2,974	4,014
Cash and cash equivalents, end of period	<u>\$ 41,272</u>	<u>\$ 1,668</u>
Supplemental disclosures:		
Interest paid on long-term debt	\$ 6,705	\$ 503
Interest paid on lease financing obligations	\$ 26	\$ 26
Accruals for capital expenditures	\$ 5,528	\$ 5,161
Income taxes paid	\$ —	\$ (45)

See accompanying notes to unaudited condensed consolidated financial statements.

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

## 1. Basis of Presentation

*Business Description.* At March 29, 2020 Carrols Restaurant Group, Inc. ("Carrols Restaurant Group") operated, as franchisee, 1,028 Burger King® restaurants in 23 Northeastern, Midwestern and Southeastern states and 65 Popeyes® restaurants in seven Southeastern states.

*Basis of Consolidation.* Carrols Restaurant Group, Inc. is a holding company and conducts all of its operations through its direct and indirect wholly-owned subsidiaries Carrols Corporation and New CFH, LLC and their wholly-owned subsidiaries. Carrols Corporation's material direct and indirect wholly-owned subsidiaries (collectively, "Carrols") include its wholly-owned subsidiary Carrols LLC, a Delaware limited liability company, Carrols LLC's wholly-owned subsidiary Republic Foods, Inc., a Maryland corporation ("Republic Foods"). New CFH LLC's material direct and indirect wholly-owned subsidiaries include Alabama Quality, LLC, Carolina Quality, LLC, Frayser Quality, LLC, Nashville Quality, LLC, Frayser Holdings, LLC, Louisiana Quality, LLC, CFH Real Estate, LLC, Tennessee Quality, LLC, TQ Real Estate, LLC and Mirabile Investment Corporation (and together with New CFH, LLC's immaterial direct and indirect subsidiaries, collectively, "New CFH"). Unless the context otherwise requires, Carrols Restaurant Group and its direct and indirect wholly-owned subsidiaries are collectively referred to as the "Company." All intercompany transactions have been eliminated in consolidation.

*Fiscal Year.* The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. The three months ended March 29, 2020 and March 31, 2019 each contained thirteen weeks. The 2020 fiscal year will end January 3, 2021 and will contain 53 weeks.

*Basis of Presentation.* The accompanying unaudited condensed consolidated financial statements as of and for three months ended March 29, 2020 and March 31, 2019 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such unaudited condensed consolidated financial statements have been included. The results of operations for the three months ended March 29, 2020 and March 31, 2019 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 29, 2019. The December 29, 2019 consolidated balance sheet data is derived from those audited consolidated financial statements.

*Use of Estimates.* The preparation of the accompanying unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include: accrued occupancy costs, insurance liabilities, evaluation for impairment of long-lived assets and franchise rights, lease accounting matters, the valuation of acquired assets and liabilities, valuation of interest-rate swap, and the valuation of deferred income tax assets. Actual results could differ from those estimates.

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

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

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

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

*Cash and Cash Equivalents.* The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. At both March 29, 2020 and December 29, 2019, the Company did not have any cash invested in money market funds, which are classified as cash equivalents on the condensed consolidated balance sheet.

*Fair Value of Financial Instruments.* Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect the Company's own assumptions. Financial instruments include cash and cash equivalents, trade and other receivables, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, trade and other receivables and accounts payable approximate fair value because of the short-term nature of these financial instruments. The carrying amount of the Term Loan B Facility at March 29, 2020 and outstanding borrowings on our Revolving Credit Facility approximate fair value because of their variable rates.

The Company recognizes derivatives on the balance sheet at fair value, which is considered Level 2. The Company's only derivative is an interest rate swap which is designated as a cash flow hedge; therefore, the effective portion of the changes in the fair value of this arrangement are recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of the changes in the fair value of this arrangement are immediately recognized in earnings as interest expense. The Company classifies cash inflows and outflows from derivatives within operating activities on the statement of cash flows.

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 \$1.7 million during the three months ended March 29, 2020, and \$0.9 million during the three months ended March 31, 2019, respectively.

*Recently Issued Accounting Pronouncements.* In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, to introduce new guidance for the accounting for credit losses on instruments within its scope. ASU 2016-13 requires among other things, the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial



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

assets with credit deterioration. This update was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company adopted this ASU in the first quarter of 2020 and there was no impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill by eliminating step 2 from the goodwill impairment test. Under the new ASU, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized for the amount by which the carrying amount exceeds its fair value. This update was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company adopted this ASU in the first quarter of 2020 and there was no impact on its consolidated financial statements and related disclosures.

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

## 2. Acquisitions

In 2012, as part of an acquisition of restaurants from Burger King Corporation ("BKC"), the Company was assigned BKC's right of first refusal on the sale of franchisee-operated restaurants in 20 states (the "ROFR"). Since the beginning of 2019 through the end of the first quarter of 2020, the Company has acquired an aggregate of 179 Burger King restaurants and 55 Popeyes restaurants from other franchisees in the following transactions, some of which were acquired pursuant to the exercise of the ROFR (in thousands, except number of restaurants):

Closing Date	Number of Restaurants	Purchase Price	Market Location
April 30, 2019	(1) 220	259,083	Southeastern states, primarily TN, MS, LA
June 11, 2019	13	15,788	Baltimore, Maryland
August 20, 2019	(2) 1	1,108	Pennsylvania
	<u>234</u>	<u>275,979</u>	

(1) During the second quarter of 2019, the Company completed the merger with New CFH, LLC ("Cambridge") and acquired 165 Burger King restaurants and 55 Popeyes restaurants. See further discussion below.

(2) Acquisitions resulting from the exercise of the ROFR with Burger King.

On April 30, 2019 the Company completed a merger with Cambridge ("the Cambridge Merger") for a purchase price of \$259.1 million through the issuance of shares of stock which consisted of (i) approximately 7.4 million shares of common stock, (ii) 10,000 shares of the Company's newly designated Series C Convertible Preferred Stock, which were converted into approximately 7.5 million shares of common stock on August 29, 2019, and (iii) the retirement of approximately \$113.8 million of the indebtedness of Cambridge, net of cash acquired. All shares issued are subject to a two year restriction on sale or transfer subject to certain limited exceptions. As part of the transaction, Cambridge Franchise Holdings LLC ("Cambridge Holdings") has the right to designate up to two director nominees and two Cambridge Holdings executives joined the Company's Board of Directors on April 30, 2019.

Under the purchase method of accounting, the aggregate purchase price is allocated to the net tangible and intangible assets based on their estimated fair values on the acquisition date. The purchase price allocation values the common stock at \$145.3 million based on the \$9.81 closing price of the Company's stock on the date of acquisition.

The Company allocated the aggregate purchase price to the net tangible and intangible assets acquired in the Cambridge Merger at their estimated fair values. The Company engaged a third party valuation specialist to assist with the valuation of franchise rights, leasehold improvements and favorable and unfavorable leases included in the operating right-to-use assets acquired. The fair value of other property and equipment and franchise agreements was based on the assets carrying value due to recent valuations completed by Cambridge on the acquisition of 132 restaurants and

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

construction of 33 new restaurants in the last three years. The fair value of the right-of-use liability is based upon the lease payments over the remaining lease term discounted by the Company's incremental borrowing rate.

Goodwill recorded in connection with the Cambridge Merger represents the excess of the purchase price over the aggregate fair value of net assets acquired and is related to the benefits expected as a result of the merger, including sales, operating synergies, development and growth opportunities. We believe that Cambridge's existing Burger King and Popeyes restaurant portfolios provide the Company with significant growth and development opportunities and due to the geographic location of the restaurants mitigate the dependence on the economic performance of any one particular geographic location or restaurant concept. A deferred income tax liability of approximately \$44.3 million was recorded representing book and tax differences primarily related to the fair value of the acquired franchise rights.

The following table summarizes the final allocation of the aggregate purchase price for the Cambridge Merger reflected in the condensed consolidated balance sheets as of December 29, 2019.

Inventory	\$	2,839
Prepaid expenses		2,947
Other assets		1,846
Land and buildings		21,257
Restaurant equipment		25,358
Restaurant equipment - subject to finance leases		488
Right-of-use assets		251,431
Leasehold improvements		3,498
Franchise fees		7,300
Franchise rights		174,500
Deferred income taxes		(44,292)
Goodwill		84,060
Finance lease obligations for restaurant equipment		(568)
Operating lease liabilities		(255,897)
Accounts payable		(8,014)
Accrued payroll, related taxes and benefits		(3,133)
Other liabilities		(4,537)
Net assets acquired	\$	<u>259,083</u>

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

The Company allocated the aggregate purchase price for the 2019 acquisitions other than the Cambridge Merger at their estimated fair values. The following table summarizes the preliminary allocation of the aggregate purchase price for the 2019 acquisitions reflected in the condensed consolidated balance sheets as of March 29, 2020.

Inventory	\$	158
Restaurant equipment		743
Restaurant equipment - subject to finance leases		150
Right-of-use assets		9,515
Leasehold improvements		6,205
Franchise fees		394
Franchise rights		9,809
Deferred income taxes		29
Goodwill		86
Operating lease liabilities		(9,968)
Finance lease liabilities for restaurant equipment		(185)
Accounts payable		(40)
Net assets acquired	\$	<u>16,896</u>

Goodwill recorded in connection with the 2019 acquisitions represents costs in excess of fair values assigned to the underlying net assets of acquired restaurants. Acquired goodwill that is expected to be deductible for income tax purposes was \$47.2 million in 2019. Deferred income tax assets and liabilities are due primarily to the book and tax bases differences of franchise rights, property and equipment, net favorable and unfavorable leases.

The results of operations for the restaurants acquired are included from the closing date of the respective acquisition. The 2019 acquired restaurants contributed restaurant sales of \$68.7 million in the three months ended March 29, 2020. 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 2019 for the three months ended March 31, 2019 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:

	<b>Three Months Ended</b>	
	<b>March 31, 2019</b>	
Total revenue	\$	367,189
Net loss	\$	(7,686)
Basic and diluted net loss per share	\$	(0.21)

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

The unaudited pro forma financial results exclude transaction costs recorded as general and administrative expenses of \$2.7 million during the three months ended March 31, 2019.

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

**3. Intangible Assets**

*Goodwill.* The Company is required to review goodwill for impairment annually, or more frequently when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of goodwill is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of the last day of its fiscal year and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess the value of its goodwill. There were no recorded goodwill impairment losses during the three months ended March 29, 2020 or March 31, 2019.

*Franchise Rights.* Amounts allocated to franchise rights for each acquisition of Burger King® and Popeyes® restaurants are amortized using the straight-line method over the average remaining term of the acquired franchise agreements plus one twenty-year renewal period.

The Company assesses the potential impairment of franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. No impairment charges were recorded related to the Company's franchise rights for the three months ended March 29, 2020 and March 31, 2019. The change in franchise rights for the three months ended March 29, 2020 is summarized below:

Balance at December 29, 2019	\$	348,941
Amortization expense		(3,967)
Balance at March 29, 2020	\$	<u>344,974</u>

Amortization expense related to franchise rights was \$4.0 million and \$2.0 million for the three months ended March 29, 2020 and March 31, 2019, respectively. The Company expects annual amortization expense to be \$14.3 million in 2020 and \$13.7 million in each of the following five years.

**4. Impairment of Long-Lived Assets and Other Lease Charges**

The Company reviews its long-lived assets, principally property and equipment, for impairment at the restaurant level. If an indicator of impairment exists for any of its assets, an estimate of the undiscounted future cash flows over the life of the primary asset for each restaurant is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. For closed restaurant locations, the Company reviews the future minimum lease payments and related ancillary costs from the date of the restaurant closure to the end of the remaining lease term and records a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries.

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

During the three months ended March 29, 2020, the Company recorded impairment and other lease charges of \$2.9 million consisting of \$1.5 million of initial impairment charges for three underperforming restaurants, capital expenditures of \$0.2 million at underperforming restaurants, and \$1.2 million of other lease charges primarily from nine restaurants closed during the first quarter of 2020.

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

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

**5. Other Liabilities, Long-Term**

Other liabilities, long-term, at March 29, 2020 and December 29, 2019 consisted of the following:

	March 29, 2020	December 29, 2019
Accrued occupancy costs	\$ 8,054	\$ 8,523
Accrued workers' compensation and general liability claims	4,620	5,370
Accrued interest rate swap	5,209	—
Deferred compensation	3,905	3,902
Other	288	289
	<u>\$ 22,076</u>	<u>\$ 18,084</u>

**6. Leases**

The Company utilizes land and buildings in its operations under various lease agreements. The Company does not consider any one of these individual leases material to the Company's operations. Initial lease terms are generally for twenty years and, in many cases, provide for renewal options and in most cases rent escalations. The exercise of such renewal options are generally at the Company's sole discretion. The Company evaluates renewal options at lease commencement to determine if such options are reasonably certain to be exercised based on economic factors. Certain leases also require contingent rent, determined as a percentage of sales as defined by the terms of the applicable lease agreement. For most locations, the Company is obligated for occupancy related costs including payment of property taxes, insurance and utilities.

The right-of-use ("ROU") lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make payments in exchange for that right of use. As the rate implicit within our leases is not readily determinable, the Company uses its incremental borrowing rate which considers the Company's debt issuances and lease term in determining the present value of future payments. The ROU asset is also reduced by lease incentives and initial direct costs and is adjusted by favorable lease assets and unfavorable lease liabilities. Variable lease components represent amounts that are contractually fixed percentage of sales and are recognized in expense as incurred. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are recognized as lease expense on a straight-line basis over the lease term. The Company does not account for lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) separately from the non-lease components.

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

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

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

**Lease Cost**

The components and classification of lease expense for the three months ended March 29, 2020 and March 31, 2019 are as follows:

Lease cost	Classification	Three Months Ended	
		March 29, 2020	March 31, 2019
Operating lease cost (1)	Restaurant rent expense	\$ 25,471	\$ 18,294
Operating lease cost	General and administrative	98	74
Variable lease cost	Restaurant rent expense	4,105	3,800
Sublease income	Restaurant rent expense	(122)	(178)
<b>Finance lease cost:</b>			
Amortization of right-of-use assets	Depreciation and amortization	445	476
Interest on lease liabilities	Interest expense	46	71
Total lease cost		<u>\$ 30,043</u>	<u>\$ 22,537</u>

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

**Other Information**

Supplemental cash flow information related to leases for the three months ended March 29, 2020 and March 31, 2019 are as follows:

	Three Months Ended	
	March 29, 2020	March 31, 2019
Gain (loss) on sale-leaseback transactions	\$ (244)	\$ 93
Lease assets and liabilities resulting from lease modifications and new leases	\$ 16,759	\$ 15,952
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows from operating leases	\$ 24,733	\$ 17,366
Operating cash flows from finance leases	\$ 46	\$ 71
Financing cash flows from finance leases	\$ 567	\$ 476

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

**7. Long-Term Debt**

Long-term debt at March 29, 2020 and December 29, 2019 consisted of the following:

	<b>March 29, 2020</b>	<b>December 29, 2019</b>
Collateralized:		
Senior Credit Facility:		
Term Loan B Facility	\$ 421,813	\$ 422,875
Revolving credit borrowings	111,750	45,750
Finance lease liabilities	1,958	2,524
	<u>535,521</u>	<u>471,149</u>
Less: current portion of long-term debt and finance lease liabilities	(5,437)	(5,866)
Less: unamortized debt issuance costs	(7,395)	(7,768)
Less: unamortized original issue discount	(1,883)	(1,950)
Total Long-term debt	<u>\$ 520,806</u>	<u>\$ 455,565</u>

On April 30, 2019, the Company entered into a senior secured credit facility in an aggregate principal amount of \$550.0 million, consisting of (i) a Term Loan B Facility in an aggregate principal amount of \$425.0 million (the "Term Loan B Facility") maturing on April 30, 2026 and (ii) a revolving credit facility (including a sub-facility of \$35.0 million for standby letters of credit) in an aggregate principal amount of \$125.0 million maturing on April 30, 2024 (the "Revolving Credit Facility" and, together with the Term Loan B Facility, (as amended, the "Senior Credit Facilities"). On December 13, 2019, the Company entered into the First Amendment to Credit Agreement (the "First Amendment") which amended a financial covenant under the Senior Credit Facilities applicable solely with respect to the Revolving Credit Facility that previously required the Company to maintain quarterly a Total Net Leverage Ratio (as defined in the Senior Credit Facilities) of not greater than 4.75 to 1.00 (measured on a most recent four quarter basis), to now require that the Company maintain only a First Lien Leverage Ratio (as defined in the Senior Credit Facilities) of not greater than 5.75 to 1.00 (as measured on a most recent four quarter basis) if, and only if, on the last day of any fiscal quarter (beginning with the fiscal quarter ended December 29, 2019), the sum of the aggregate principal amount of outstanding revolving credit borrowings under the Revolving Credit Facility and the aggregate face amount of letters of credit issued under the Revolving Credit Facility (excluding undrawn letters of credit in an aggregate face amount up to \$12.0 million) exceeds 35% of the aggregate amount of the maximum revolving credit borrowings under the Revolving Credit Facility. The First Amendment also reduced the aggregate maximum revolving credit borrowings under the Revolving Credit Facility by \$10.0 million to a total of \$115.0 million.

On March 25, 2020, the Company entered into the Second Amendment to its Senior Credit Facilities (the "Second Amendment"). The Second Amendment increased the aggregate maximum commitments available for revolving credit borrowings (including standby letters of credit) under the Revolving Credit Facility (the "Revolving Committed Amount") by \$15.4 million to a total of \$130.4 million.

The Second Amendment also amended the definition of Applicable Margin (such definition and all other definitions used herein and otherwise not defined herein shall have the meanings set forth in the Senior Credit Facilities) to provide that on and after the date of the Second Amendment (the "Second Amendment Effective Date"), the Applicable Margin for borrowings under the Revolving Credit Facility (including Letter of Credit Fees) shall be at a rate per annum equal to (a) for so long as the Revolving Committed Amount is greater than \$115.0 million, (i) for the period commencing on the Second Amendment Effective Date and including the date that is 179 days after the Second Amendment Effective Date, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans, (ii) for the period commencing on the date that is 180 days after the Second Amendment Effective Date, through and including the date that is 269 days after the Second Amendment Effective Date, 4.25% for LIBOR Rate Loans and 3.25% for Alternate Base Rate Loans, (iii) for the period commencing on the date that is 270 days after the Second Amendment Effective Date, through and including the date that is 364 days after the Second Amendment Effective Date, 4.5% for LIBOR Rate Loans and 3.5% for Alternate Base Rate Loans and (iv) for the period commencing on the date that is 365 days after the Second

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

Amendment Effective Date and thereafter, 4.75% for LIBOR Rate Loans and 3.75% for Alternate Base Rate Loans and (b) for so long as the Revolving Committed Amount is equal to or less than \$115.0 million, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans.

The Second Amendment also provides that beginning on the 180th day after the Second Amendment Effective Date and for so long as the Revolving Committed Amount is greater than \$115.0 million, the Company shall pay to the Administrative Agent, for the ratable benefit of the Revolving Facility Lenders, a commitment fee (the "Ticking Fee") on the average daily amount of the Revolving Committed Amount at a rate per annum equal to (a) 0.125% for the 180th day after the Second Amendment Effective Date through and including the 269th day after the Second Amendment Effective Date, (b) 0.25% for the 270th day after the Second Amendment Effective Date through and including the 364th day after the Second Amendment Effective Date and (c) 1.00% for the 365th day after the Second Amendment Effective Date and thereafter. The Second Amendment provides that the Ticking Fee will be due and payable quarterly in arrears (calculated on a 360-day basis) on the last Business Day of each calendar quarter and will accrue from the 180th day after the Second Amendment Effective Date for so long as the Revolving Committed Amount is greater than \$115.0 million. The Second Amendment also provides that the Company shall use the proceeds of an Extension of Credit which results in the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate amount of LOC Obligations equaling an amount in excess of \$115.0 million, solely for ongoing operations of the Company and its subsidiaries and shall not be held as cash on the balance sheet. Pursuant to the Letter Agreement dated as of March 25, 2020 among the Company, Wells Fargo Securities, LLC, Wells Fargo Bank, National Association and Truist Bank, the Company agreed to defer rent payments totaling approximately \$2.4 million per month under certain real property leases for the period between April 1, 2020 through and including June 30, 2020. The Company and the lessor under each of such leases has agreed to the deferral of rent payments under such leases for such period and that any such deferred rent under such leases shall be due and payable by the Company on July 1, 2020.

On April 8, 2020, the Company entered into the Third Amendment to its Senior Credit Facilities which increased the aggregate maximum commitments available for revolving credit borrowings (including standby letters of credit) under the Revolving Credit Facility by \$15.4 million to a total of \$145.8 million.

On April 16, 2020, the Company entered into the Fourth Amendment to our Senior Credit Facilities (the "Fourth Amendment"). The Fourth Amendment permits the Company to incur and, if necessary, repay indebtedness incurred pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief and Economic Security Act, as amended (the "CARES Act"). The Company has determined that it will not be borrowing under the PPP.

The Company's obligations under the Senior Credit Facilities are 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 Senior Credit Facilities, 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 Senior Credit Facilities contain 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 Senior Credit Facilities require the Company to meet a First Lien Leverage Ratio (as defined in the Senior Credit Facilities). The Company was in compliance with the covenants under its Senior Credit Facilities at March 29, 2020.

The Senior Credit Facilities contain 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.



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

At March 29, 2020 borrowings under the Revolving Credit Facility bore interest, at a rate per annum equal to (i) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus 2.50% or (b) LIBOR Rate (as defined in the Senior Credit Facilities) plus 3.50%.

At March 29, 2020 borrowings under the Term Loan B Facility bore interest, at a rate per annum equal to (i) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus 2.25% or (b) LIBOR Rate (as defined in the Senior Credit Facilities) plus 3.25%.

The weighted average interest rate for borrowings under the Senior Credit Facilities for the three months ended March 29, 2020 was 4.9% and for the Notes and borrowings under our prior senior credit facility for three months ended March 31, 2019 was 7.9%.

The weighted average interest rate on long-term debt, excluding lease financing obligations, for the three months ended March 29, 2020 and March 31, 2019 as 4.9% and 7.9%, respectively.

In March 2020, The Company entered into an interest rate swap agreement with its lenders to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Term Loan B Facility. The interest rate swap fixes the interest rate on 50% of the outstanding term loan borrowings under the Term Loan B Facility at 0.915% plus the applicable margin in its Senior Credit Facilities. The agreement matures on February 28, 2025 and has a notional amount of \$220.0 million at March 29, 2020. The differences between the variable LIBOR rate and the interest rate swap rate of 0.915% are settled monthly. The Company has not made any payments to settle the interest rate swap during the three months ended March 29, 2020. The fair value of the Company's interest rate swap agreement was a liability of \$5.2 million as of March 29, 2020 and is included in long-term other liabilities in the accompanying consolidated balance sheets. Changes in the valuation of the Company's interest rate swap were included as a component of other comprehensive income and will be reclassified to earnings as the losses are realized. The Company expects to reclassify net losses totaling \$1.5 million into earnings in the next twelve months.

The Company's counterparties under this arrangement provided the Company with quarterly statements of the market values of these instruments based on significant inputs that were observable or could be derived principally from, or corroborated by, observable market data for substantially the full term of the asset or liability. The Company classified this within Level 2 of the valuation hierarchy described in Note 1. The impact on the derivative liabilities for the Company and the counterparties' non-performance risk to the derivative trades was considered when measuring the fair value of derivative liabilities.

The Term Loan B Facility borrowings are due and payable in quarterly installments, which began on September 30, 2019. Amounts outstanding at March 29, 2020 are due and payable as follows:

- (i) twenty-four quarterly installments of \$1.1 million;
- (ii) one final payment of \$396.3 million on April 30, 2026.

As of March 29, 2020, there were \$111.8 million of revolving credit borrowings outstanding and \$9.7 million of letters of credit issued under the Revolving Credit Facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, \$9.0 million was available for revolving credit borrowings under the Senior Credit Facilities at March 29, 2020.

*8% Senior Secured Second Lien Notes due 2022.* On April 29, 2015, the Company issued \$200.0 million principal amount of 8.0% Notes and on June 23, 2017, the Company issued an additional \$75.0 million principal amount of 8.0% Notes. The 8% Notes were to mature and were payable on May 1, 2022. Interest was payable semi-annually on May 1 and November 1. The 8% Notes were guaranteed by the Company's subsidiaries and were secured by second-priority liens on substantially all of the Company's and its subsidiaries' assets (including a pledge of all of the capital stock and equity interests of its subsidiaries). The 8% notes were redeemed as part of the refinancing related to the Cambridge Acquisition on April 30, 2019.

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

*Prior Senior Credit Facility.* The Company's prior senior credit facility provided for maximum revolving credit borrowings of up to \$73.0 million (including \$20.0 million available for letters of credit). Borrowings under the prior senior credit facility bore interest at a rate per annum, at the Company's option, of:

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

All amounts outstanding under the prior senior credit facility were repaid as part of the refinancing related to the Cambridge Acquisition on April 30, 2019.

**8. Income Taxes**

The provision (benefit) for income taxes for the three months ended March 29, 2020 and March 31, 2019 was comprised of the following:

	Three Months Ended	
	March 29, 2020	March 31, 2019
Current	\$ 5	\$ 12
Deferred	(9,131)	342
Change in valuation allowance	2,148	—
Provision (benefit) for income taxes	\$ (6,978)	\$ 354

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 Company has performed an assessment of positive and negative evidence regarding the realization of its deferred income tax assets at March 29, 2020 as required by ASC 740. Under ASC 740, the weight given to negative and positive evidence is commensurate only to the extent that such evidence can be objectively verified. ASC 740 also prescribes that objective evidence, in particular the Company's three-year cumulative loss position at March 29, 2020, be given greater weight than subjective evidence, including the Company's forecasts of future taxable income, which include assumptions that cannot be objectively verified. The Company considers all available positive and negative evidence and determines, based on the required weight of the evidence under ASC 740, whether a valuation allowance is necessary for any of its deferred tax assets at each reporting period. During the first quarter of 2020, due to forecasted losses for 2020, the Company determined that an incremental valuation allowance was needed for its net deferred income tax assets at March 29, 2020.

The benefit for income taxes for the three months ended March 29, 2020 was derived using an estimated effective annual income tax rate for all of 2020 of 31.3%, which excludes any discrete tax adjustments. The difference compared to the statutory rate for 2020 is attributed to the benefits of federal employment credits which are not directly related to the amount of pre-tax loss recorded in a period. Accordingly, in periods where recorded pre-tax income (loss) is relatively small, the proportional effect of these items on the effective tax rate may be significant. There were no discrete adjustments for the three months ended March 29, 2020.

On March 27, 2020, the United States enacted the CARES Act as a response to the economic uncertainty resulting from COVID-19. The CARES Act includes modifications for net operating loss carryovers and carrybacks, limitations of business interest expense for tax, immediate refund of alternative minimum tax (AMT) credit carryovers as well as a technical correction to the Tax Cuts and Jobs Act of 2017, referred to herein as the U.S. Tax Act, for qualified improvement property. The CARES Act also provides for deferred payment of the employer portion of social security taxes through the end of 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of March 31, 2020, the Company expects that the carryback of NOL's will not have an impact on its current tax attributes.

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

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

As of March 29, 2020, the Company had federal net operating loss carryforwards of approximately \$145.0 million which expire beginning in 2033. The Company's state net operating loss carryforwards expire beginning in 2021 through 2038.

The Company's policy is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. At March 29, 2020 and December 29, 2019, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions. The tax years 2014 - 2019 remain open to examination by the major taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to the uncertainties regarding the timing of examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

### 9. Stock-Based Compensation

Stock-based compensation expense for the three months ended March 29, 2020 and March 31, 2019 was \$1.1 million and \$1.5 million, respectively. During the three months ended March 29, 2020, the Company granted 790,000 non-vested restricted shares to certain employees and officers of the Company and 73,128 non-vested restricted shares to outside directors of the Company. These shares vest, become non-forfeitable and are being expensed over their three-year vesting period.

A summary of all non-vested shares activity for the three months ended March 29, 2020 was as follows:

	Shares	Weighted Average Grant Date Price
Non-vested at December 29, 2019	790,823	\$ 11.35
Granted	863,128	\$ 5.42
Vested	(404,477)	\$ 12.16
Non-vested at March 29, 2020	<u>1,249,474</u>	<u>\$ 6.99</u>

The fair value of non-vested shares is based on the closing price on the date of grant. As of March 29, 2020, the total non-vested unrecognized stock-based compensation expense was approximately \$8.0 million and the remaining weighted average vesting period for non-vested shares was 2.4 years. The Company expects to record an additional \$3.2 million in stock-based compensation expense related to the vesting of these awards for the remainder of 2020.

The Company has issued restricted stock units ("RSUs") on shares of the Company's common shares to certain eligible employees. During the three months ended March 29, 2020, 20,486 RSUs vested at a weighted average price of \$2.92 per share into shares of the Company's common stock.

A summary of all RSU activity for the three months ended March 29, 2020 was as follows:

	Units
Non-vested at December 29, 2019	57,942
Vested	(20,486)
Non-vested at March 29, 2020	<u>37,456</u>

### 10. Commitments and Contingencies

*Lease Guarantees.* Fiesta Restaurant Group, Inc. ("Fiesta"), a former wholly-owned subsidiary of the Company, was spun-off in 2012 to the Company's stockholders. As of March 29, 2020, the Company is a guarantor under 27 Fiesta restaurant property leases, of which all except for one is still operating, with lease terms expiring on various dates through 2030. 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 a Separation and Distribution Agreement entered into in connection with the spin-off of Fiesta.

The maximum potential amount of future undiscounted rental payments the Company could be required to make under these leases at March 29, 2020 was \$10.3 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 \$10.3 million of these guarantees in accordance with ASC 460 - *Guarantees* as Fiesta has indemnified the Company for all such obligations and the Company did not believe it was probable it would be required to perform under any of the guarantees or direct obligations.

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

### 11. Transactions with Related Parties

In connection with an acquisition of restaurants from BKC in 2012, the Company issued to BKC 100 shares of Series A Convertible Preferred Stock, which was exchanged for 100 shares of newly issued Series B Convertible Preferred Stock ("Series B Preferred Stock") in 2018, and as of March 29, 2020 is convertible into approximately 15.2% of the outstanding shares of the Company's common stock after giving effect to the conversion of the Series B Preferred Stock. Pursuant to the terms of the Series B Preferred Stock, BKC together with certain other entities that are both affiliates of BKC and either Restaurant Brands International or Restaurant Brands International Limited Partnership (collectively "RBI") are entitled to elect two representatives on the Company's board of directors.

The Company operates its Burger King® restaurants under franchise agreements with BKC and its Popeyes® restaurants under franchise agreements with Popeyes Louisiana Kitchen, Inc. ("PLK"). These franchise agreements generally provide for an initial term of twenty years and currently have an initial franchise fee of fifty thousand dollars. Any franchise agreement, including renewals, can be extended at the Company's discretion for an additional 20 year term, with BKC's and PLK's approval, provided that, among other things, the restaurant meets the current restaurant 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 Burger King restaurant sales and PLK a weekly royalty at a rate of 5.0% of Popeyes restaurant sales. Royalty expense was \$15.1 million and \$12.4 million in the three months ended March 29, 2020 and March 31, 2019, respectively.

The Company is also generally required to contribute 4% of restaurant sales from its restaurants to an advertising fund utilized by BKC and PLK for its advertising, promotional programs and public relations activities, and additional amounts for additional local advertising in markets that approve such advertising. Advertising expense associated with these expenditures was \$13.4 million and \$11.5 million in the three months ended March 29, 2020 and March 31, 2019, respectively.

As of March 29, 2020, the Company leased 244 of its restaurant locations from BKC and 111 of these locations are subleased by BKC from various third party lessors. Aggregate rent under these BKC leases was \$6.7 million and \$6.8 million for the three months ended March 29, 2020 and March 31, 2019, respectively. The Company does not believe that such lease terms have been significantly affected by the fact that the Company and BKC are deemed to be related parties.

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

As of March 29, 2020 and December 29, 2019, the Company owed BKC and PLK \$12.7 million and \$14.0 million, respectively, related to the payment of advertising, royalties, rent and real estate taxes, which is remitted on a monthly basis.

The Company and BKC have entered into an Area Development and Remodeling Agreement ("Area Development Agreement") commencing on April 30, 2019 and ending on September 30, 2024, which supersedes the Operating Agreement dated as of May 30, 2012, as amended, between Carrols LLC and BKC. Pursuant to the Area Development Agreement, BKC assigned its right of first refusal under its franchise agreements with its franchisees to purchase all of the assets of a Burger King restaurant on the same terms proposed between such franchisee and a third party purchaser (the "ADA ROFR"), in 16 states and a limited number of counties in four additional states, and granted franchise pre-approval to acquire Burger King restaurants until the date that Carrols LLC has acquired more than an aggregate of an additional 500 Burger King restaurants excluding those restaurants the Company acquired in the Cambridge Merger. The continued assignment of the ADA ROFR is potentially subject to suspension at BKC's discretion in the event of non-compliance by Carrols LLC with certain terms as set forth in the Area Development Agreement. In 2019 Carrols LLC paid to BKC the total consideration of \$3.0 million for the ADA ROFR.

The Company has assumed Cambridge's development agreement for Popeyes<sup>®</sup>, which includes a right of first refusal for acquisitions in two southern states, as well as a development commitment to open, build and operate approximately 80 new Popeyes<sup>®</sup> restaurants over six years.

In the first quarter of 2019, the Company received \$1.9 million, recorded as other income, related to a settlement with BKC for their approval of new restaurant development by other franchisees which unfavorably impacted the Company's restaurants.

## **12. Stockholders' Equity**

### ***Stock Repurchase Program***

On August 2, 2019, the Company's Board of Directors approved a stock repurchase plan ("Repurchase Program") under which the Company may repurchase up to \$25 million of its outstanding common stock. The authorization became effective August 2, 2019, and will expire 24 months thereafter, unless terminated earlier by the Company's Board of Directors. Purchases under the Repurchase Program may be made from time to time in open market transactions at prevailing market prices or in privately negotiated transactions (including, without limitation, the use of Rule 10b5-1 plans) in compliance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company has no obligation to repurchase stock under the Repurchase Program, and the timing, actual number and value of shares purchased will depend on the Company's stock price, trading volume, general market and economic conditions, and other factors.

At March 29, 2020, \$21.0 million was available to repurchase shares under the Repurchase Program. Shares repurchased are being held in treasury until they are retired at the discretion of the Board of Directors.

## **13. Net Loss per Share**

The Company applies the two-class method to calculate and present net loss per share. The Company's non-vested share awards and Series B Preferred Stock contain non-forfeitable rights to dividends and are considered participating securities for purposes of computing net loss per share pursuant to the two-class method. Under the two-class method, net earnings are reduced by the amount of dividends declared (whether paid or unpaid) and the remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. As the Company incurred a net loss for the three months ended March 29, 2020, and losses are not allocated to participating securities under the two-class method, such method is not applicable for the aforementioned interim reporting periods.

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

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

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

	<b>Three Months Ended</b>	
	<b>March 29, 2020</b>	<b>March 31, 2019</b>
<b>Basic net loss per share:</b>		
Net loss	\$ (22,209)	\$ (11,469)
Weighted average common shares outstanding	50,821,101	36,045,137
Basic net loss per share	<u>\$ (0.44)</u>	<u>\$ (0.32)</u>
<b>Diluted net loss per share:</b>		
Net loss	\$ (22,209)	\$ (11,469)
Shares used in computing diluted net loss per share	50,821,101	36,045,137
Diluted net loss per share	<u>\$ (0.44)</u>	<u>\$ (0.32)</u>
Shares excluded from diluted net loss per share computations (1)	<u>10,664,054</u>	<u>10,307,431</u>

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

#### **14. Other Expense (Income)**

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

#### **15. Subsequent Events**

In March 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic, which continues to spread throughout the United States. The COVID-19 has significantly impacted the communities the Company's restaurants operate in as federal, state and local governments have taken a series of actions to contain its spread. Customer traffic declined at our restaurants as social distancing policies have impacted consumer behavior. In March 2020, the Company closed its dining rooms in all restaurants, temporarily closed 46 restaurants that were geographically close to other restaurants, and modified operating hours in line with local ordinances and day-part sales trends.

Throughout the course of this evolving COVID-19 outbreak, the Company has been adapting its business in order continue operating safely. To support the health and safety of our employees and customers, the Company mandated the use of masks and contactless procedures in its restaurants, the use of sanitizers and requiring team members' temperatures be taken at the beginning of each shift. The Company also implemented a work-from-home policy for all non-restaurant personnel.

Additionally, the Company has strengthened and preserved its liquidity in light of the emerging economic conditions. The Company has been in contact with its major suppliers and at this point, has not experienced any material disruption in its supply chains. The Company has contacted each of its landlords to potentially negotiate accommodations to preserve cash. Further, the Company increased the borrowing capacity under its Senior Credit Facilities as described in Note 7.

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

While the COVID-19 pandemic has negatively impacted the Company's customer traffic in March and April of 2020, the immediate actions taken to continue drive-thru and carry-out business operations and secure liquidity have minimized the financial impact on the Company's results of operations, financial condition and cash flows.

However, given the uncertainty as to when or the manner in which the conditions surrounding the COVID-19 pandemic will change and the related continued economic uncertainty, including but not limited to stock price volatility, lower customer traffic and governmental restrictions on restaurant businesses, in the future the Company may determine that non-cash impairment adjustments to the carrying value of its assets, including goodwill and other intangible assets, could be required. The likelihood or the amount of an impairment charge cannot be reasonably estimated at this time.

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

We operate on a 52 or 53 week fiscal year ending on the Sunday closest to December 31. Our fiscal quarters are comprised of 13 weeks, with the exception of the fourth quarter of a 53 week year, which contains 14 weeks. Our fiscal year ended December 29, 2019 contained 52 weeks and our fiscal year ending January 3, 2021 will contain 53 weeks.

**Introduction**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (or "MD&A") is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and the accompanying financial statement notes appearing elsewhere in this report and our Annual Report on Form 10-K for the year ended December 29, 2019. The overview provides our perspective on the individual sections of MD&A, which include the following:

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

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

*Results from Operations*—an analysis of our results of operations for the three months ended March 29, 2020 compared to the three months ended March 31, 2019 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. Carrols Restaurant Group, Inc. and our consolidated subsidiaries (collectively, "Carrols Restaurant Group", the "Company", "we", "our" or "us") operated, as franchisee, excluding restaurants temporarily closed at March 29, 2019 due to COVID-19, a total of 1,093 restaurants in 23 states as of March 29, 2020 under the trade names of Burger King® and Popeyes®. As of March 29, 2020, we operated, as franchisee, 1,028 Burger King restaurants in 23 Northeastern, Midwestern and Southeastern states and operated, as franchisee, 65 Popeyes restaurants in 7 Southeastern states.

Any reference to "BKC" refers to Burger King Corporation and its indirect parent company, Restaurant Brands International Inc. ("RBI"). Any reference to "PLK" refers to Popeyes Louisiana Kitchen, Inc. and its indirect parent company, RBI.

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 sales discounts and excluding sales tax collected. Restaurant sales are influenced by changes in comparable restaurant sales, menu price increases, new restaurant development, and acquisitions and closures of restaurants of restaurants. Comparable restaurant sales reflect the change in year-over-year sales for a comparable restaurant base. Restaurants we acquire are included in comparable restaurant sales after they have been owned for 12 months and immediately after they re-open following a remodel. Newly developed restaurants are included in comparable restaurant sales after they have been open for 15 months. For comparative purposes, where applicable, the calculation of the changes in comparable restaurant sales is based either on a 53-week or 52-week year.
- *Other revenue* consists of fuel sales, food sales and sales of other convenience merchandise and services from the six convenience stores acquired as part of the Cambridge Acquisition. The six convenience stores were closed in the fourth quarter of 2019.
- *Cost of sales* consists of food, paper and beverage costs including packaging costs, less purchase discounts and vendor rebates. Cost of sales is generally influenced by changes in commodity costs, the mix of items sold and the level of promotional discounting and the effectiveness of our restaurant-level controls to manage food and paper costs. In 2019 cost of sales also included lower margin fuel costs, relative to our restaurant cost of sales for the six convenience stores acquired as part of the Cambridge Acquisition.
- *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 variable rent on our leases characterized as operating leases.
- *Other restaurant operating expenses* include all other restaurant-level operating costs, the major components of which are royalty expenses paid to BKC and PLK, utilities, repairs and maintenance, real estate taxes and credit card fees.
- *Advertising expense* includes advertising payments to BKC and PLK 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, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss)*. EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are non-GAAP financial measures. EBITDA represents net income (loss) before income taxes, interest expense and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted to exclude impairment and other lease charges, acquisition costs, loss on extinguishment of debt, stock compensation expense and other income or expense. Adjusted Restaurant-Level EBITDA represents income (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 (Loss) represents net income (loss) adjusted to exclude loss on extinguishment of debt, impairment and other lease charges, acquisition costs, pre-opening and litigation costs, legal settlement gains and other income and expense and the related income tax effect of these adjustments.

- We are presenting Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) 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 Adjusted 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 Adjusted Restaurant-Level EBITDA, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations on page 34, 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 Adjusted 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, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income, 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 (Loss) and the reconciliation of income from operations to Adjusted Restaurant-Level EBITDA, see page 34.

EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) have important limitations as analytical tools. These limitations include the following:

- EBITDA, Adjusted EBITDA and Adjusted 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 Adjusted 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 Adjusted Restaurant-Level EBITDA do not reflect the cash required to fund such replacements; and
- EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) do not reflect the effect of earnings or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges (such as impairment and other lease charges and acquisition 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 restaurants and the amortization of franchise fees paid to BKC and PLK.
- *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. Lease charges are recorded for our obligations under the related leases for closed locations net of estimated sublease recoveries.
- *Interest expense* consists of interest expense associated with our \$425.0 million Term Loan B Facility, amortization of deferred financing costs, amortization of original issue discount, interest on revolving credit borrowings and, through April 30, 2019, interest on the \$275.0 million of 8% Senior Secured Second Lien Notes due 2022 (the "8% Notes") and unamortized bond premium.

## Recent and Future Events Affecting our Results of Operations

### *Impact of the COVID-19 Pandemic*

In response to the COVID-19 pandemic and the impact it has had on significantly reducing restaurant sales beginning in March 2020 and to the deterioration of the economy in general, we have taken several steps to adapt our business and strengthen and preserve our liquidity:

- The impact of the COVID-19 pandemic on restaurant sales at our Burger King restaurants began during the week ended March 15, 2020 and during the week ended March 29, 2020 comparable restaurant sales decreased 33.8% compared to the prior year week. Comparable restaurant sales at our Burger King restaurants have improved since the week ended March 29, 2020 and decreased 6.4% for the week ended May 3, 2020 compared to the prior year week. In general our restaurant sales declined at our restaurants as the various states where we operate issued shelter-at-home orders.
- Operationally we temporarily closed 46 restaurants in late March 2020 and early April 2020 that were geographically close to another of our restaurants. All of our other restaurants are open and we are continuing to serve all of our drive-thru and take-out customers, which comprised 75% of our restaurant sales in 2019, and we launched delivery services in March and April at a majority of our restaurants. We also modified our operating hours and appropriate levels of labor in line with local ordinances and based on day-part sales trends.
- As discussed below we increased revolving credit borrowing capacity under our Revolving Credit Facility by \$30.8 million to a total of \$145.8 million. In the first quarter of 2020 we borrowed on our Revolving Credit Facility to protect against the potential for a prolonged pandemic coupled with financial market illiquidity.
- We have also reduced our planned capital expenditures to only the completion of restaurant development previously started in the fourth quarter of 2019, of which approximately \$25 million was incurred in the first quarter of 2020, and to critical restaurant maintenance issues.
- We have taken steps to reduce regional and corporate overhead by \$5 million to \$7 million annually by streamlining our regional management and support structure, instituting a 10% reduction in all non-restaurant wages and enacting a company-wide hiring freeze.
- As allowed under the Coronavirus Aid, Relief and Economic Security Act, as amended (the "CARES Act"), we are deferring payment of the employer portion of Social Security taxes through the end of 2020. The amount of the cumulative deferral at the end of 2020 is currently estimated to be \$17 million to \$19 million, of which 50% is payable on each of December 31, 2021 and December 31, 2022.
- We are working with our landlords to negotiate reduced or deferred 2020 cash rent obligations.
- We have optimized ongoing payment terms with our key vendors and suppliers and have utilized deferral opportunities with our utility vendors in the short term.
- We suspended any acquisition activity and share repurchases.

To support the health and safety of our employees, beginning in March 2020 we have mandated the use of masks, and contactless procedures in our restaurants, the use of sanitizers and requiring team members' temperatures be taken at the beginning of each shift. We also suspended all non-essential travel for our employees and implemented a work-from-home policy for all non-restaurant personnel.

### *Cambridge Merger*

On April 30, 2019, we completed the merger with New CFH, LLC, a former subsidiary of Cambridge Franchise Holdings, LLC ("Cambridge") and acquired 165 Burger King® restaurants, 55 Popeyes® restaurants and six convenience stores (the "Cambridge Acquisition"). Cambridge received a total of approximately 14.9 million shares of our common stock, after conversion of all of the preferred stock initially issued to Cambridge in the Cambridge Acquisition. All shares of common stock issued to Cambridge are subject to a two year restriction on sale or transfer subject to certain limited exceptions.

### *Area Development and Remodeling Agreement*

The Company, Carrols Corporation, Carrols LLC, and BKC entered into the Area Development and Remodeling Agreement (the "ADA") which commenced on April 30, 2019 and ends on September 30, 2024, and which superseded

the Operating Agreement dated as of May 30, 2012, as amended, between Carrols LLC and BKC. Pursuant to the ADA, BKC assigned to Carrols LLC, for a cost of \$3.0 million, the right of first refusal on the sale of franchisee-operated restaurants in 16 states and a limited number of counties in four additional states, and granted franchise pre-approval to acquire Burger King restaurants until the date that we have acquired more than an aggregate of an additional 500 Burger King restaurants excluding those restaurants we acquired in the Cambridge Acquisition ("ADA ROFR").

Carrols LLC agreed to open, build and operate a total of 200 new Burger King restaurants including 32 additional Burger King restaurants by September 30, 2020 (which has been extended by 90 days), 41 additional Burger King restaurants by September 30, 2021, 41 additional Burger King restaurants by September 30, 2022, 40 additional Burger King restaurants by September 30, 2023 and 39 additional Burger King restaurants by September 30, 2024, subject to and in accordance with the terms of the ADA. In addition, Carrols LLC agreed to remodel or upgrade a total of 748 Burger King restaurants to BKC's Burger King of Tomorrow restaurant image, including 130 additional Burger King restaurants by September 30, 2020 (which has been extended by 90 days), 118 additional Burger King restaurants by September 30, 2021, 131 additional Burger King restaurants by September 30, 2022, 138 additional Burger King restaurants by September 30, 2023 and 141 additional Burger King restaurants by September 30, 2024, subject to and in accordance with the terms of the ADA.

The continued assignment of the ADA ROFR is subject to suspension at the discretion of BKC in the event of non-compliance by Carrols LLC with the new restaurant development and restaurant remodel obligations and certain other terms in the ADA. For 2020, we have reduced our planned spending for new restaurant development and the remodeling of restaurants below the requirements in the ADA. In the event we do not meet our new restaurant development and/or restaurant remodel requirements in the ADA, BKC may elect to suspend the ADA ROFR. In the case of a suspension of the ADA ROFR by BKC, any benefits available to us from the ADA may be suspended until such time that we are in compliance with the terms of the ADA.

BKC agreed to contribute \$10 million to \$12 million for upgrades of approximately 50 to 60 Burger King restaurants in 2019 and 2020, most of which have already been remodeled to the 20/20 image and where BKC is the landlord on the lease for such Burger King restaurants operated by Carrols LLC or an affiliate. In 2019 we received \$10.0 million from BKC under this arrangement.

On October 1 of each year following the commencement date of the ADA, Carrols LLC will pay BKC pre-paid franchise fees in the following remaining amounts which will be applied to new Burger King restaurants opened and operated by Carrols LLC; (a) \$2,050,000 on October 1, 2020, (b) \$2,050,000 on October 1, 2021, (c) \$2,000,000 on October 1, 2022 and (d) \$1,950,000 on October 1, 2023.

Through the Cambridge Acquisition, we have also assumed a development agreement for Popeyes®, which includes an assignment by PLK of its right of first refusal under its franchise agreements with its franchisees for acquisitions in two southern states, as well as a development commitment to open, build and operate approximately 80 new Popeyes® restaurants over six years.

### **Restaurant Acquisitions**

From the beginning of 2019 through March 29, 2020, we acquired 234 restaurants (including the Cambridge Acquisition) from other franchisees in the following transactions (in thousands, except number of restaurants):

<b>Closing Date</b>	<b>Number of Restaurants</b>	<b>Purchase Price</b>	<b>Market Location</b>
April 30, 2019 (1)	220	259,083	Southeastern states, primarily TN, MS, LA
June 11, 2019	13	15,788	Baltimore, Maryland
August 20, 2019 (2)	1	1,108	Pennsylvania
	<u>234</u>	<u>275,979</u>	

(1) During the second quarter of 2019, the Company completed the Cambridge Acquisition and acquired 165 Burger King restaurants and 55 Popeyes restaurants.

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

The 2019 acquired restaurants included 14 fee-owned properties, of which 6 were subsequently sold in sale-leaseback transactions in 2019 for net proceeds of \$8.3 million.

The pro forma impact on the results of operations for the three months ended March 31, 2019 from the 2019 acquired restaurants is included below. The pro forma results of operations are not necessarily indicative of the results that would have occurred had the acquisitions been consummated at the beginning of the periods presented, nor are they necessarily indicative of any future consolidated operating results. This pro forma financial information does not give effect to any anticipated synergies, operating efficiencies or cost savings or any transaction costs related to the 2019 acquired restaurants.

The following table summarizes certain pro forma financial information related to our operating results for the three months ended March 31, 2019 (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2019</b>	
Total revenue	\$	367,189
Loss from operations	\$	(124)
Adjusted EBITDA	\$	18,310

### **Capital Expenditures**

In light of the economic conditions resulting from the COVID-19 pandemic as discussed above, we are managing our levels of capital expenditures and delaying the start of new projects other than critical restaurant capital and maintenance needs. We estimate our capital expenditures in 2020 will be approximately \$35 million to \$40 million, net of estimated sale-leaseback proceeds. We incurred \$24.8 million of capital expenditures in the first quarter of 2020.

We have opened five Burger King restaurants as of May 1, 2020 where construction was started in 2019, including three restaurants in the first quarter of 2020.

### **Refinancing of Indebtedness and Amendments to our Senior Credit Facilities**

On April 30, 2019, we entered into a new senior secured credit facility which provides for senior secured credit facilities in an aggregate principal amount of \$550.0 million (as amended the "Senior Credit Facilities"), consisting of (i) a term loan B facility in an aggregate principal amount of \$425.0 million (the "Term Loan B Facility"), the entire amount of which was borrowed by us on April 30, 2019 and (ii) a revolving credit facility (including a sub-facility of \$35.0 million for standby letters of credit) in an aggregate principal amount of \$125.0 million (the "Revolving Credit Facility"). Borrowings under the Term Loan B Facility and the Revolving Credit Facility bear interest at a rate per annum, at our option, of (i) the Alternate Base Rate (such definition and all other definitions used herein and otherwise not defined herein shall have the meanings set forth in the Senior Credit Facilities) plus the applicable margin of 2.25% or (ii) the LIBOR Rate plus a margin of 3.25% (as defined in the Senior Credit Facilities). The Term Loan B Facility matures on April 30, 2026 and the Revolving Credit Facility matures on April 30, 2024.

On December 13, 2019, we entered into the First Amendment to our Senior Credit Facilities which amended a financial covenant under the Senior Credit Facilities applicable solely with respect to the Revolving Credit Facility that previously required the Company to maintain quarterly a Total Net Leverage Ratio of not greater than 4.75 to 1.00 (measured on a most recent four quarter basis), to now require that the Company maintain only a First Lien Leverage Ratio of not greater than 5.75 to 1.00 (as measured on a most recent four quarter basis) if, and only if, on the last day of any fiscal quarter (beginning with the fiscal quarter ended December 29, 2019), the sum of the aggregate principal amount of outstanding revolving credit borrowings under the Revolving Credit Facility and the aggregate face amount of letters of credit issued under the Revolving Credit Facility (excluding undrawn letters of credit in an aggregate face amount up to \$12.0 million) exceeds 35% of the aggregate amount of the maximum revolving credit borrowings under the Revolving Credit Facility. The First Amendment also reduced the aggregate maximum revolving credit borrowings under the Revolving Credit Facility by \$10.0 million to a total of \$115.0 million.

On March 25, 2020, we entered into the Second Amendment to our Senior Credit Facilities (the "Second Amendment"). The Second Amendment increased the aggregate maximum commitments available for revolving credit borrowings (including standby letters of credit) under the revolving credit facility (the "Revolving Committed Amount") by \$15.4 million to a total of \$130.4 million.

The Second Amendment also amended the definition of Applicable Margin in the Credit Agreement to provide that on and after the date of the Second Amendment (the "Second Amendment Effective Date"), the Applicable Margin for borrowings under the Revolving Credit Facility (including Letter of Credit Fees) shall be at a rate per annum equal to (a) for so long as the Revolving Committed Amount is greater than \$115.0 million, (i) for the period commencing on the Second Amendment Effective Date and including the date that is 179 days after the Second Amendment Effective Date, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans, (ii) for the period commencing on the date that is 180 days after the Second Amendment Effective Date, through and including the date that is 269 days after the Second Amendment Effective Date, 4.25% for LIBOR Rate Loans and 3.25% for Alternate Base Rate Loans, (iii) for the period commencing on the date that is 270 days after the Second Amendment Effective Date, through and including the date that is 364 days after the Second Amendment Effective Date, 4.5% for LIBOR Rate Loans and 3.5% for Alternate Base Rate Loans and (iv) for the period commencing on the date that is 365 days after the Second Amendment Effective Date and thereafter, 4.75% for LIBOR Rate Loans and 3.75% for Alternate Base Rate Loans and (b) for so long as the Revolving Committed Amount is equal to or less than \$115.0 million, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans.

The Second Amendment also provides that beginning on the 180th day after the Second Amendment Effective Date and for so long as the Revolving Committed Amount is greater than \$115.0 million, we shall pay to the Administrative Agent, for the ratable benefit of the Revolving Facility Lenders, a commitment fee (the "Ticking Fee") on the average daily amount of the Revolving Committed Amount at a rate per annum equal to (a) 0.125% for the 180th day after the Second Amendment Effective Date through and including the 269th day after the Second Amendment Effective Date, (b) 0.25% for the 270th day after the Second Amendment Effective Date through and including the 364th day after the Second Amendment Effective Date and (c) 1.00% for the 365th day after the Second Amendment Effective Date and thereafter. The Second Amendment provides that the Ticking Fee will be due and payable quarterly in arrears (calculated on a 360-day basis) on the last Business Day of each calendar quarter and will accrue from the 180th day after the Second Amendment Effective Date for so long as the Revolving Committed Amount is greater than \$115.0 million. The Second Amendment also provides that we shall use the proceeds of an Extension of Credit which results in the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate amount of LOC Obligations equaling an amount in excess of \$115.0 million, solely for our ongoing operations and our subsidiaries and shall not be held as cash on the balance sheet. Pursuant to the Letter Agreement, (the "Letter Agreement") dated as of March 25, 2020 among the Company, Wells Fargo Securities, LLC, Wells Fargo Bank, National Association and Truist Bank, we agreed to defer rent payments totaling approximately \$2.4 million per month under certain real property leases for the period between April 1, 2020 through and including June 30, 2020. We and the lessor under each of such leases has agreed to the deferral of rent payments under such leases for such period and that any such deferred rent under such leases shall be due and payable by the Company on July 1, 2020.

On April 8, 2020, we entered into the Third Amendment to our Senior Credit Facilities which increased the aggregate maximum commitments available for revolving credit borrowings (including standby letters of credit) under the Revolving Credit Facility by \$15.4 million to a total of \$145.8 million.

On April 16, 2020, we entered into the Fourth Amendment to our Senior Credit Facilities (the "Fourth Amendment"). The Fourth Amendment permits us to incur and, if necessary, repay indebtedness incurred pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act. We have decided that we will not be borrowing under the PPP.

As of March 29, 2020, there were \$111.8 million of revolving credit borrowings outstanding and \$9.7 million of letters of credit were issued under the Revolving Credit Facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, \$9.0 million was available for revolving credit borrowings under our Senior Credit Facilities at March 29, 2020.

## ***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 2019, excluding two restaurants relocated within their trade area, we closed eleven Burger King restaurants. In the first quarter of 2020, we permanently closed eleven Burger King restaurants and we currently anticipate closing an additional 10 to 12 Burger King restaurants in 2020, excluding any restaurants being relocated within their trade area.

In response to restaurant sales declines resulting from the COVID-19 pandemic we temporarily closed, in the last week of March 2020 and first week of April 2020, 42 Burger King restaurants and four Popeyes Restaurants that were geographically close to another of our restaurants. As of May 6, two Burger King restaurants temporarily closed have reopened and all four Popeyes temporarily closed have reopened.

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

## ***Effect of Minimum Wage Increases***

Certain of the states and municipalities in which we operate have increased their minimum wage rates for 2020 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 \$13.75 an hour in 2020 from \$12.75 per hour in 2019 and \$11.75 per hour in 2018, with subsequent annual increases reaching \$15.00 per hour by July 1, 2021. New York State does have an Urban Youth Credit through 2022 which we have receiving approximately \$500,000 per year since 2016. We had 126 restaurants in New York State at December 30, 2019. We also have 46 total restaurants in Illinois and Maryland that also have annual minimum wage increases reaching \$15.00 per hour in 2025. 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.

## ***Stock Repurchase Program***

On August 2, 2019, our Board of Directors approved a stock repurchase plan (the "Repurchase Program") under which we may repurchase up to \$25 million of our outstanding common stock. The authorization became effective August 2, 2019, and expires 24 months thereafter, unless terminated earlier by the Board of Directors. Purchases under the Repurchase Program may be made from time to time in open market transactions at prevailing market prices or in privately negotiated transactions (including, without limitation, the use of Rule 10b5-1 plans) in compliance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

During the year ended December 29, 2019, we repurchased in open market transactions 553,112 shares at an average share price of \$7.26 for a total cost of \$4.0 million under the Repurchase Program. There were no repurchases in the first quarter of 2020. We have no obligation to repurchase additional shares of stock under the Repurchase Program, and the timing, actual number and value of shares purchased will depend on our stock price, trading volume, general market and economic conditions and other factors. Due to the impact of the COVID-19 pandemic we have suspended any repurchases under the Repurchase Program.

## ***Interest Rate Swap Agreement***

We entered into a five year interest rate swap agreement commencing March 3, 2020 and ending February 28, 2025 with a notional amount of \$220.0 million to swap variable rate interest payments (one-month LIBOR plus the applicable margin) under our Senior Credit Facilities for fixed interest payments bearing an interest rate of 0.915% plus the applicable margin in our Senior Credit Facilities.

## Results of Operations

### Three Months Ended March 29, 2020 Compared to Three Months Ended March 31, 2019

The following table highlights the key components of sales and the number of restaurants in operation for the quarter ended March 29, 2020 (inclusive of restaurants that were temporarily closed due to COVID-19 at March 29, 2020) as compared to the quarter ended March 31, 2019:

	Three Months Ended	
	March 29, 2020	March 31, 2019
Restaurant Sales	351,518	290,789
Change in Comparable Restaurant Sales %	(5.7)%	2.4%
Burger King Restaurants operating at beginning of year	1,036	849
New restaurants opened, including relocations	3	2
Restaurants closed	(11)	(6)
Restaurants operating at end of period	1,028	845
Popeyes Restaurants operating at beginning of year	65	—
New restaurants opened, including relocations	—	—
Restaurants acquired	—	—
Restaurants closed	—	—
Restaurants operating at end of period	65	—

**Restaurant Sales.** Total restaurant sales in the first quarter of 2020 increased 20.9% to \$351.5 million from \$290.8 million in the first quarter of 2019. Our comparable restaurant sales decreased 5.7% over the first quarter of 2019 from a decrease in customer traffic of 11.1% partially offset by an increase in average check of 5.4%, which included a 2.2% effective price increase compared to the first quarter of 2019. Our comparable restaurant sales in March 2020 decreased 16.8% compared to the prior year period which included the impact of the COVID-19 pandemic. Restaurant sales also increased due to restaurants acquired since the end of the first quarter of 2019 which added \$68.7 million of restaurant sales in the first quarter of 2020.

**Operating Costs and Expenses (percentages stated as a percentage of total restaurant sales).** The following table sets forth, for the three months ended March 29, 2020 and March 31, 2019, selected operating results as a percentage of total restaurant sales:

	Three Months Ended	
	March 29, 2020	March 31, 2019
Costs and expenses (all restaurants):		
Cost of sales	29.3%	28.4%
Restaurant wages and related expenses	35.4%	34.5%
Restaurant rent expense	8.4%	7.5%
Other restaurant operating expenses	16.5%	15.7%
Advertising expense	3.9%	4.1%
General and administrative	5.9%	6.8%

Cost of sales increased to 29.3% in the first quarter of 2020 from 28.4% in the first quarter of 2019 due primarily to an increase in commodity costs (1.6%) which included a 10.9% increase in ground beef prices compared to the first quarter of 2019 partially offset by the impact of menu price increases taken since the end of the first quarter of 2019

and to a lesser extent a lower level of promotional discounting. Promotional sales discounts in the first quarter of 2020 were 21.2% of total restaurant sales compared to 23.3% in the first quarter of 2019.

Restaurant wages and related expenses increased to 35.4% in the first quarter of 2020 from 34.5% in the first quarter of 2019 due primarily to the effect of lower comparable restaurant sales on fixed labor costs (0.8%). The impact, as a percentage of restaurant sales, of hourly labor rate increases of 3.8% compared to the first quarter of 2019, including minimum wage increases, was substantially offset through effective labor hour management during the decline in restaurant sales in the first quarter due to COVID-19.

Restaurant rent expense increased to 8.4% in the first quarter of 2020 from 7.5% in the first quarter of 2019 due to higher rent as a percentage of sales for the 220 Cambridge restaurants acquired in 2019 and the effect of lower sales volumes on fixed rental costs.

Other restaurant operating expenses increased to 16.5% in the first quarter of 2020 from 15.7% in the first quarter of 2019 due primarily to the effect of lower sales volumes on fixed operating costs (0.4%) and higher utility and credit card costs.

Advertising expense decreased to 3.9% in the first quarter of 2020 from 4.1% in the first quarter of 2019 due to advertising incentives received for certain remodeled Burger King restaurants including restaurants acquired from Cambridge in 2019.

*Adjusted Restaurant-Level EBITDA.* As a result of the factors discussed above, Adjusted Restaurant-Level EBITDA decreased \$5.9 million, or 20.6%, to \$22.8 million in the first quarter of 2020, and as a percentage of total restaurant sales, decreased to 6.5% in the first quarter of 2020 from 9.9% in the first quarter of 2019. For a reconciliation between Adjusted Restaurant-Level EBITDA and loss from operations see page 34.

*General and Administrative Expenses.* General and administrative expenses increased \$1.1 million in the first quarter of 2020 to \$20.8 million, however, as a percentage of total restaurant sales, decreased to 5.9% in the first quarter of 2020 from 6.8% in the first quarter of 2019. The \$1.1 million increase was due to incremental field management salaries and other restaurant oversight costs related to the 2019 acquisitions partially offset by \$2.6 million of higher acquisition costs due to the Cambridge acquisition in 2019 and \$1.4 million of lower administrative bonus accruals in the first quarter of 2020.

*Adjusted EBITDA.* As a result of the factors above, Adjusted EBITDA decreased to \$4.0 million in the first quarter of 2020 from \$13.3 million in the first quarter of 2019, and as a percentage of total restaurant sales, decreased to 1.1% in the first quarter of 2020 from 4.6% in the first quarter of 2019. For a reconciliation between net loss and EBITDA and Adjusted EBITDA see page 34.

*Depreciation and Amortization Expense.* Depreciation and amortization expense increased \$5.7 million to \$21.0 million in the first quarter of 2020 from \$15.3 million in the first quarter of 2019 due primarily to our new restaurant development, remodeling initiatives and acquisition of restaurants in 2019.

*Impairment and Other Lease Charges.* Impairment and other lease charges were \$2.9 million in the first quarter of 2020 consisting of \$1.5 million related to initial impairment charges for three underperforming restaurants, capital expenditures of \$0.2 million at previously impaired restaurants, and \$1.2 million of other lease charges primarily due to nine restaurants closed during the first quarter of 2020.

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

*Other Expense (Income), net.* Other income in the first quarter of 2019 included income of \$1.9 million related to a settlement with BKC for their approval of new restaurant development by other franchisees which unfavorably impacted the Company's restaurants.



*Interest Expense.* Interest expense increased to \$7.1 million in the first quarter of 2020 from \$5.9 million in the first quarter of 2019 due to higher debt levels attributable to our 2019 acquisitions (including the Cambridge Acquisition) and 2019 capital expenditures. The weighted average interest rate on our long-term debt, excluding lease financing obligations, decreased to 4.9% in the first quarter of 2020 from 7.9% in the first quarter of 2019 due primarily to the refinancing in the second quarter of 2019 which included the redemption of our 8% Senior Secured Second Lien Notes.

*Provision (benefit) for Income Taxes.* For the three months ended March 29, 2020 the provision for income taxes was derived using an estimated effective annual income tax rate for all of 2020 of 31.3%. There were no discrete tax adjustments in the first quarter of 2020. We performed an assessment of positive and negative evidence regarding the realization of our deferred income tax assets at March 29, 2020. ASC 740 prescribes that objective evidence, in particular our three-year cumulative loss position at March 29, 2020, be given greater weight than subjective evidence, including our forecasts of future taxable income. As a result during the first quarter of 2020 we determined that an incremental valuation allowance of \$2.1 million was needed for all of our net deferred income tax assets at March 29, 2020.

*Net Loss.* As a result of the above, the net loss for the first quarter of 2020 was \$22.2 million, or \$0.44 per diluted share, compared to the net loss in the first quarter of 2019 of \$11.5 million, or \$0.32 per diluted share.

Reconciliations of net loss to EBITDA, Adjusted EBITDA and Adjusted net loss, and loss from operations to Restaurant-Level EBITDA for the three months ended March 29, 2020 and March 31, 2019 are as follows (in thousands, except for per share data):

	<b>Three Months Ended</b>	
	<b>March 29, 2020</b>	<b>March 31, 2019</b>
<b>Reconciliation of EBITDA and Adjusted EBITDA:</b>		
Net loss	\$ (22,209)	\$ (11,469)
Provision (benefit) for income taxes	(6,978)	354
Interest expense	7,140	5,947
Depreciation and amortization	21,031	15,292
<b>EBITDA</b>	<b>(1,016)</b>	<b>10,124</b>
Impairment and other lease charges	2,881	910
Acquisition and integration costs (1)	81	2,656
Abandoned development costs (2)	688	57
Pre-opening costs (3)	89	68
Litigation costs (4)	61	136
Other expense (income), net (5)	56	(2,129)
Stock-based compensation expense	1,132	1,526
<b>Adjusted EBITDA</b>	<b>\$ 3,972</b>	<b>\$ 13,348</b>
<b>Reconciliation of Restaurant-Level EBITDA:</b>		
Loss from operations	\$ (22,047)	\$ (5,168)
Add:		
General and administrative expenses	20,787	19,724
Pre-opening costs (3)	89	68
Depreciation and amortization	21,031	15,292
Impairment and other lease charges	2,881	910
Other expense (income), net (5)	56	(2,129)
<b>Restaurant-Level EBITDA</b>	<b>\$ 22,797</b>	<b>\$ 28,697</b>
<b>Reconciliation of Adjusted net loss:</b>		
Net loss	\$ (22,209)	\$ (11,469)
Add:		
Impairment and other lease charges	2,881	910
Acquisition and integration costs (1)	81	2,656
Abandoned development costs (2)	688	57
Pre-opening costs (3)	89	68
Litigation costs (4)	61	136
Other expense (income), net (5)	56	(2,129)
Income tax effect on above adjustments (6)	(964)	(425)
<b>Adjusted Net Loss</b>	<b>\$ (19,317)</b>	<b>\$ (10,196)</b>
<b>Adjusted diluted net loss per share (7)</b>	<b>\$ (0.38)</b>	<b>\$ (0.28)</b>

(1) Acquisition and integration costs for the three months ended March 31, 2019 of \$2.7 million mostly include legal and professional fees incurred in connection with restaurant acquisitions and corporate payroll, and other costs related to the integration of the Cambridge Acquisition and one-time repair costs which are included in Restaurant-Level EBITDA.

(2) Abandoned development costs for the three months ended March 29, 2020 and March 31, 2019 represent the write off capitalized costs due to the abandoned development of future restaurant locations.

- (3) Pre-opening costs for the three months ended March 29, 2020 and March 31, 2019 include training, labor and occupancy costs incurred during the construction of new restaurants prior to their opening.
- (4) Litigation costs for the three months ended March 29, 2020 and March 31, 2019 include litigation expenses pertaining to an ongoing lawsuit with one of the Company's former vendors.
- (5) Other income, net for the three months ended March 31, 2019 included a \$1.9 million gain related to a settlement with BKC for the approval of new restaurant development by other franchisees which unfavorably impacted our restaurants.
- (6) The income tax effect related to the adjustments to Adjusted Net Loss during the periods presented was calculated using an incremental income tax rate of 25% for the three months ended March 29, 2020 and March 31, 2019.
- (7) Adjusted diluted net loss per share is calculated based on Adjusted net loss and the dilutive weighted average common shares outstanding for the respective periods, where applicable.

## **Liquidity and Capital Resources**

As is common in the restaurant industry, we maintain relatively low levels of accounts receivable and inventories and receive trade credit based upon negotiated terms for purchasing food products and other supplies. As a result, we may at times maintain current liabilities in excess of current assets, which results in a working capital deficit. 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 become due.

Interest payments under our debt obligations, capital expenditures including our remodeling initiatives, payments of royalties and advertising to BKC and PLK and payments related to our lease obligations represent significant liquidity requirements for us, as well as any discretionary expenditures for the acquisition or development of additional Burger King and Popeyes restaurants.

In response to the COVID-19 pandemic and the impact it is having on restaurant sales beginning in March 2020 and to the economy in general, we have taken several steps to adapt our business and strengthen and preserve our liquidity during these uncertain times as follows:

- Operationally we temporarily closed 46 restaurants in late March 2020 and early April 2020 that were geographically close to another of our restaurants. All of our other restaurants are open and we are continuing to serve all of our drive-thru and take-out customers, which comprised 75% of our restaurant sales in 2019, and we have launched delivery services in March and April at a majority of our restaurants. We also have modified our operating hours and appropriate levels of labor in line with local ordinances and based on day-part sales trends.
- As discussed above we have increased revolving credit borrowing capacity under our Revolving Credit Facility by \$30.8 million to a total of \$145.8 million. In the first quarter of 2020 we borrowed on our Revolving Credit Facility to protect against a prolonged pandemic coupled with financial market illiquidity.
- We have also reduced our planned capital expenditures to only the completion of restaurant development previously started in the fourth quarter of 2019, of which approximately \$25 million was incurred in the first quarter, and to critical restaurant maintenance issues.
- We have taken steps to reduce regional and corporate overhead by \$5 million to \$7 million annually by streamlining our regional management and support structure, a 10% reduction in all non-restaurant wages and instituting a company-wide hiring freeze.
- As allowed under the CARES Act we are deferring payment of the employer portion of Social Security taxes through the end of 2020. The amount of the cumulative deferral is currently estimated to be \$17 million to \$19 million, of which 50% is payable on each of December 31, 2021 and December 31, 2022.
- We are working with our landlords to negotiate reduced or deferred 2020 cash rent obligations.
- We have optimized ongoing payment terms with our key vendors and suppliers as well as utilizing deferral opportunities with our utility vendors in the short term.
- We also have suspended any acquisition activity and share repurchases.

Based on current expectations, we believe that our projected cash flows provided by operations, available cash and cash equivalents and borrowings under our Revolving Credit Facility are sufficient to meet our working capital, debt service and capital expenditure requirements for the next twelve months. If our future financing needs increase, we may need to arrange additional debt or equity financing. We continually evaluate and consider various financing alternatives to enhance or supplement our existing financial resources, including our Senior Credit Facilities. However, there can be no assurance that we will be able to enter into any such arrangements on acceptable terms or at all. In addition, the recent COVID-19 pandemic, which has caused disruption in the capital markets, could make any such financing more difficult and/or expensive.

In additions to the items outlined above, we believe our cash balances, cash generated from our operations and availability of revolving credit borrowings under our Senior Credit Facilities will provide sufficient cash availability to cover our anticipated working capital needs, capital expenditures and debt service requirements for the next twelve months.

*Operating Activities.* Net cash used for operating activities was \$3.8 million in the first quarter of 2020 compared to net cash provided by operating activities of \$8.0 million in the first quarter of 2019. The decrease was due primarily to a reduction of \$9.4 million in Adjusted EBITDA combined with a decrease in working capital of \$3.4 million.

*Investing Activities.* Net cash used for investing activities in the first quarter of 2020 and 2019 was \$22.0 million and \$15.8 million, respectively. In the first quarter of 2020, we purchased certain restaurant properties to be sold in sale-leaseback transactions for \$12.4 million and completed sale-leaseback transactions of seven restaurant properties with proceeds of \$13.7 million. Investing activities in the first quarter of 2020 also included the receipt of insurance proceeds of \$1.4 million for fires at four of our restaurants.

In the first quarter of 2019 we received net proceeds of \$2.3 million from one sale-leaseback transaction and received \$0.1 million of proceeds from an insurance recovery related to a fire at one of our restaurants in 2019.

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 and PLK's initiatives; and (4) corporate and restaurant information systems, including expenditures for our point-of-sale systems for restaurants that we acquire.

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

**Three Months Ended March 29, 2020**

New restaurant development	\$	10,517
Restaurant remodeling		5,885
Other restaurant capital expenditures		3,475
Corporate and restaurant information systems		4,954
Total capital expenditures	\$	<u>24,831</u>

**Three Months Ended March 31, 2019**

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

*Financing Activities.* Net cash provided by financing activities in the first quarter of 2020 was \$64.1 million and included net revolving credit borrowings of \$66.0 million and principal payments of \$1.1 million on the Term Loan B Facility. We also incurred \$0.3 million of costs associated with amendments of our Senior Credit Facilities and made principal payments on finance leases of \$0.6 million.

Net cash provided by financing activities in the first quarter of 2019 was \$5.4 million and included net revolving credit borrowings of \$6.3 million, principal payments on finance leases of \$0.5 million and costs associated with the new Senior Credit Facilities of \$0.4 million.

*New Senior Credit Facility.* On April 30, 2019, we entered into a senior secured credit facility in an aggregate principal amount of \$550.0 million, consisting of (i) a Term Loan B Facility in an aggregate principal amount of \$425.0 million (the "Term Loan B Facility") maturing on April 30, 2026 and (ii) a revolving credit facility (including a sub-facility of \$35.0 million for standby letters of credit) in an aggregate principal amount of \$125.0 million maturing on April 30, 2024 (the "Revolving Credit Facility" and, together with the Term Loan B Facility, the "Senior Credit Facilities"). On December 13, 2019, we entered into the First Amendment to Credit Agreement (the "First Amendment") which amended a financial covenant under the Senior Credit Facilities applicable solely with respect to the Revolving Credit Facility that previously required us to maintain quarterly a Total Net Leverage Ratio (as defined in the Senior Credit Facilities) of not greater than 4.75 to 1.00 (measured on a most recent four quarter basis), to now require that we maintain only a First Lien Leverage Ratio (as defined in the Senior Credit Facilities) of not greater than 5.75 to 1.00 (as measured on a most recent four quarter basis) if, and only if, on the last day of any fiscal quarter (beginning with the fiscal quarter ended December 29, 2019), the sum of the aggregate principal amount of outstanding revolving credit borrowings under the Revolving Credit Facility and the aggregate face amount of letters of credit issued under the Revolving Credit Facility (excluding undrawn letters of credit in an aggregate face amount up to \$12.0 million) exceeds 35% of the aggregate amount of the maximum revolving credit borrowings under the Revolving Credit Facility. The First Amendment also reduced the aggregate maximum revolving credit borrowings under the Revolving Credit Facility by \$10.0 million to a total of \$115.0 million.

On March 25, 2020, we entered into the Second Amendment to our Senior Credit Facilities (the "Second Amendment"). The Second Amendment increased the aggregate maximum commitments available for revolving credit borrowings (including standby letters of credit) under the revolving credit facility (the "Revolving Committed Amount") by \$15.4 million to a total of \$130.4 million.

The Second Amendment also amended the definition of Applicable Margin in the Credit Agreement to provide that on and after the date of the Second Amendment (the "Second Amendment Effective Date"), the Applicable Margin for borrowings under the Revolving Credit Facility (including Letter of Credit Fees) shall be at a rate per annum equal to (a) for so long as the Revolving Committed Amount is greater than \$115.0 million, (i) for the period commencing on the Second Amendment Effective Date and including the date that is 179 days after the Second Amendment Effective Date, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans, (ii) for the period commencing on the date that is 180 days after the Second Amendment Effective Date, through and including the date that is 269 days after the Second Amendment Effective Date, 4.25% for LIBOR Rate Loans and 3.25% for Alternate Base Rate Loans, (iii) for the period commencing on the date that is 270 days after the Second Amendment Effective Date, through and including the date that is 364 days after the Second Amendment Effective Date, 4.5% for LIBOR Rate Loans and 3.5% for Alternate Base Rate Loans and (iv) for the period commencing on the date that is 365 days after the Second Amendment Effective Date and thereafter, 4.75% for LIBOR Rate Loans and 3.75% for Alternate Base Rate Loans and (b) for so long as the Revolving Committed Amount is equal to or less than \$115.0 million, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans.

The Second Amendment also provides that beginning on the 180th day after the Second Amendment Effective Date and for so long as the Revolving Committed Amount is greater than \$115.0 million, we shall pay to the Administrative Agent, for the ratable benefit of the Revolving Facility Lenders, a commitment fee (the "Ticking Fee") on the average daily amount of the Revolving Committed Amount at a rate per annum equal to (a) 0.125% for the 180th day after the Second Amendment Effective Date through and including the 269th day after the Second Amendment Effective Date, (b) 0.25% for the 270th day after the Second Amendment Effective Date through and including the 364th day after the Second Amendment Effective Date and (c) 1.00% for the 365th day after the Second Amendment Effective Date and thereafter. The Second Amendment provides that the Ticking Fee will be due and payable quarterly in arrears (calculated on a 360-day basis) on the last Business Day of each calendar quarter and will accrue from the 180th day after the Second Amendment Effective Date for so long as the Revolving Committed Amount is greater than \$115.0 million. The Second Amendment also provides that the Company shall use the proceeds of an Extension of Credit which results in the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate amount of LOC Obligations equaling an amount in excess of \$115.0 million, solely for ongoing operations of the

Company and its subsidiaries and shall not be held as cash on the balance sheet. Pursuant to the Letter Agreement, the Company agreed to defer rent payments totaling approximately \$2.4 million per month under certain real property leases for the period between April 1, 2020 through and including June 30, 2020. We and the lessor under each of such leases have agreed to the deferral of rent payments under such leases for such period and that any such deferred rent under such leases shall be due and payable by us on July 1, 2020.

On April 8, 2020, we entered into the Third Amendment to our Senior Credit Facilities which increased the aggregate maximum commitments available for revolving credit borrowings (including standby letters of credit) under the Revolving Credit Facility by \$15.4 million to a total of \$145.8 million.

On April 16, 2020, we entered into the Fourth Amendment to our Senior Credit Facilities (the "Fourth Amendment"). The Fourth Amendment permits us to incur and, if necessary, repay indebtedness incurred pursuant to the PPP under the CARES Act. We have determined that we will not be borrowing under the PPP.

Our obligations under the Senior Credit Facilities are guaranteed by our subsidiaries and are secured by first priority liens on substantially all of our assets and our subsidiaries, including a pledge of all of the capital stock and equity interests of its subsidiaries.

Under the Senior Credit Facilities, 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 Senior Credit Facilities contain certain covenants, including without limitation, those limiting our and our subsidiaries' ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of its business in all material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends. In addition, the Senior Credit Facilities require us to meet a First Lien Leverage Ratio (as defined in the Senior Credit Facilities). We were in compliance with the covenants under our Senior Credit Facilities at March 29, 2020.

The Senior Credit Facilities contain 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.

At March 29, 2020 borrowings under the Revolving Credit Facility bore interest, at a rate per annum equal to (i) the Alternate Base Rate (as defined in the Senior Credit Facilities, as amended) plus 2.50% or (b) LIBOR Rate (as defined in the Senior Credit Facilities, as amended) plus 3.50%.

At March 29, 2020 borrowings under the Term Loan B Facility bore interest, at a rate per annum equal to (i) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus 2.25% or (b) LIBOR Rate (as defined in the Senior Credit Facilities) plus 3.25%.

The weighted average interest rate on long-term debt, excluding lease financing obligations, for the three months ended March 29, 2020 and March 31, 2019 as 4.9% and 7.9%, respectively.

In March 2020, we entered into an interest rate swap agreement with our lenders to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Term Loan B Facility. The interest rate swap fixes the interest rate on 50% of the outstanding term loan borrowings under the Term Loan B Facility at 0.915% plus the applicable margin in its Senior Credit Facilities. The agreement matures on February 28, 2025 and has a notional amount of \$220.0 million at March 29, 2020. The differences between the variable LIBOR rate and the interest rate swap rate of 0.915% are settled monthly. We have not made any payments to settle the interest rate swap during the three months ended March 29, 2020. The fair value of our interest rate swap agreement was a liability of \$5.2 million as of March 29, 2020 and is included in long-term other liabilities in the accompanying consolidated balance sheets. Changes in the valuation of our interest rate swap were included as a component of other comprehensive income, and will be reclassified to earnings as the losses are realized. We expect to reclassify net losses totaling \$1.5 million into earnings in the next twelve months.

The Term Loan B Facility borrowings are due and payable in quarterly installments, which began on September 30, 2019. Amounts outstanding at March 29, 2020 are due and payable as follows:

- (i) twenty-four quarterly installments of \$1.1 million;
- (ii) one final payment of \$396.3 million on April 30, 2026.

As of March 29, 2020, there were \$111.8 million of revolving credit borrowings outstanding and \$9.7 million of letters of credit issued under the Revolving Credit Facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, \$9.0 million was available for revolving credit borrowings under the Senior Credit Facilities at March 29, 2020.

### **Contractual Obligations**

A table of our contractual obligations as of December 29, 2019 was included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended December 29, 2019. There have been no significant changes to our contractual obligations during the three months ended March 29, 2020 other than an increase in revolving credit borrowings under our Revolving Credit Facility in the first quarter of 2020 of \$66.0 million.

### **Inflation**

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

### **Application of Critical Accounting Policies**

Our unaudited condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the “Significant Accounting Policies” footnote in the notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2019. 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 December 29, 2019.

### **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 period ended December 29, 2019:*

- *Negative publicity regarding food quality, illness, injury or other health concerns (such as the current COVID-19 pandemic);*
- *Effectiveness of the Burger King® advertising programs and the overall success of the Burger King® brand;*
- *Increases in food costs and other commodity costs;*
- *Competitive conditions, including pricing pressures, discounting, aggressive marketing and the potential impact of competitors' new unit openings and promotions on sales of our restaurants;*
- *Our ability to integrate any restaurants we acquire;*
- *Regulatory factors;*
- *Environmental conditions and regulations;*
- *General economic conditions, particularly in the retail sector;*
- *Weather conditions;*
- *Fuel prices;*
- *Significant disruptions in service or supply by any of our suppliers or distributors;*
- *Changes in consumer perception of dietary health and food safety;*
- *Labor and employment benefit costs, including the effects of minimum wage increases, healthcare reform and changes in the Fair Labor Standards Act;*
- *The outcome of pending or future legal claims or proceedings;*
- *Our ability to manage our growth and successfully implement our business strategy;*
- *Our inability to service our indebtedness;*
- *Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;*
- *The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties; 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.*

### **ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There were no material changes from the information presented in Item 7A included in our Annual Report on Form 10-K for the year ended December 29, 2019 with respect to our market risk sensitive instruments.

A 1% change in interest rates would have resulted in a \$1.4 million change to interest expense for the three months ended March 29, 2020 and a nominal change to the three months ended March 31, 2019.

### **ITEM 4—CONTROLS AND PROCEDURES**

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

*Evaluation of Disclosure Controls and Procedures.* We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 29, 2020.

*Changes in Internal Control.* During the three months ended March 29, 2020, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

All of our administrative employees and employees of our outsourcing partners and other service providers worked remotely beginning in March 2020 as our corporate office was closed in response to the COVID-19 outbreak. Despite working remotely, there were no material changes in our internal control over financial reporting as we were able to continue to maintain our existing controls and procedures over our financial reporting during the quarter ended March 29, 2020. We are continually monitoring and assessing the effect of the COVID-19 pandemic on our internal controls to minimize the impact on its design and operating effectiveness.



## 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 the Annual Report on Form 10-K for the period ended December 29, 2019 describes important risk factors that could materially affect our business, consolidated financial condition or results of operations or cause our operating results to differ materially from the indicated 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. Our risk factor disclosure has been updated to add the following:

***We could be adversely affected by health concerns such as the current COVID-19 pandemic, food-borne illnesses, as well as widespread negative publicity regarding food quality, illness, injury or other health concerns.***

The United States and most other countries have experienced the widespread outbreak of the COVID-19 pandemic and in the past the Avian Flu or “SARS,” or H1N1. If a virus is transmitted by human contact, our employees or customers may become infected, or may choose, or be advised, to avoid gathering in public places, any of which may adversely affect our restaurant customer traffic and our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We also may be adversely affected if jurisdictions in which we have restaurants impose or continue to impose mandatory closures, seek or continue to seek voluntary closures or impose or continue to impose restrictions on operations. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may adversely affect our business.

A health pandemic such as COVID-19 is a disease outbreak that has spread rapidly and widely by infection and has affected many individuals in an areas of population density. Our restaurants are places where people can gather together for human connection. Customers might avoid or be advised to not gather in public places in the event of a health pandemic, and local, regional or national governments might continue or further limit or ban public gatherings to halt or delay the spread of disease. The impact of a health pandemic on us might be disproportionately greater than on other quick-service concepts that have lower customer traffic and that depend less on the gathering of people. In addition, we will incur incremental costs for an indefinite period of time to provide safety to our guests and our employees in the form of masks, sanitizers and thermometers as well as additional labor to continuously sanitize our restaurants.

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

Our financial performance depends on our continuing ability to offer fresh, quality food at competitive prices. If a significant disruption in service or supply by our suppliers or distributors were to occur due to employees at these facilities contracting the COVID-19 virus, it could create disruptions in the operations of our restaurants, which could have a material adverse effect on our business.

In addition, we cannot guarantee that changes to our operational policies and training will be effective to keep our employees and customers safe from the COVID-19 virus as well as being effective in preventing food-borne illnesses, food tampering and other food safety issues that may affect our restaurants. Food-borne illness or food tampering incidents could be caused by customers, employees or food suppliers and transporters and, therefore, could be outside of our control. Any publicity relating to health concerns or the perceived or specific outbreaks of food-borne illnesses, food tampering or other food safety issues attributed to one or more of our restaurants, could result in a significant decrease in guest traffic in all of our restaurants and could have a material adverse effect on our results of operations. In addition, similar publicity or occurrences with respect to other restaurants or restaurant chains could also decrease our guest traffic and have a similar material adverse effect on our business.

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

On January 15, 2020, the Company accepted the surrender of 9,318 shares of the Company in connection with the payment of taxes upon the vesting of restricted stock.

## **Item 3. Defaults Upon Senior Securities**

None

## **Item 4. Mine Safety Disclosures**

Not applicable

## **Item 5. Other Information**

None

## **Item 6. Exhibits**

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

### **Exhibit No.**

10.1	<a href="#">Second Amendment to Credit Agreement dated as of March 25, 2020 among Carrols Restaurant Group, Inc., certain subsidiaries party thereto, Wells Fargo Bank, National Association and the lenders party thereto.</a>
10.2	<a href="#">Third Amendment to Credit Agreement dated as of April 8, 2020 among Carrols Restaurant Group, Inc., certain subsidiaries party thereto, Wells Fargo Bank, National Association and the lenders party thereto.</a>
10.3	<a href="#">Form of Fourth Amendment to Credit Agreement dated as of April 16, 2020 among Carrols Restaurant Group, Inc., certain subsidiaries party thereto, Wells Fargo Bank, National Association and the lenders party thereto.</a>
10.4	<a href="#">Letter Agreement dated as of March 25, 2020 among Carrols Restaurant Group, Inc., Wells Fargo Securities LLC, Wells Fargo Bank, National Association and Trust Bank.</a>
31.1	<a href="#">Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.</a>
31.2	<a href="#">Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.</a>
32.1	<a href="#">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.</a>
32.2	<a href="#">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.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## SIGNATURES

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

### CARROLS RESTAURANT GROUP, INC.

Date: May 7, 2020

/s/ Daniel T. Accordino

---

(Signature)

**Daniel T. Accordino**  
**Chief Executive Officer**

Date: May 7, 2020

/s/ Anthony E. Hull

---

(Signature)

**Anthony E. Hull**  
**Vice President, Chief Financial Officer and Treasurer**

**SECOND AMENDMENT TO CREDIT AGREEMENT**

**THIS SECOND AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), dated as of March 25, 2020, is by and among **CARROLS RESTAURANT GROUP, INC.**, a Delaware corporation formerly known as Carrols Holdco Inc. (the "Borrower"), certain domestic Subsidiaries of the Borrower party hereto (collectively, the "Guarantors"), **TRUIST BANK**, as successor by merger to SunTrust Bank ("Truist") 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 referred to below.

**W I T N E S S E T H**

**WHEREAS**, the Borrower, the Guarantors, the Lenders party thereto from time to the time (the "Lenders") and the Administrative Agent are parties to that certain Credit Agreement dated as of April 30, 2019 (as amended, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement");

**WHEREAS**, pursuant to Section 9.1(ix) of the Credit Agreement, the Borrower, the Administrative Agent and the Required Revolving Lenders may make certain amendments to the Credit Agreement which solely affects those Lenders under the Revolving Commitments;

**WHEREAS**, pursuant to Section 2.22 of the Credit Agreement, the Borrower may incur a Revolving Facility Increase in the form of an increase to the Revolving Committed Amount;

**WHEREAS**, the Borrower desires to incur a Revolving Facility Increase of \$15,400,000, which shall increase the Revolving Committed Amount to \$130,400,000;

**WHEREAS**, the Borrower and the Second Amendment Revolving Increase Lenders (collectively constituting the Required Revolving Lenders immediately after giving effect to the Revolving Facility Increase on the Second Amendment Effective Date) desire the proceeds of such Revolving Facility Increase to be limited to the ongoing operations of the Borrower, and not held as cash on the balance sheet;

**WHEREAS**, the Credit Parties have requested Truist Bank, a Revolving Lender, to become an "Issuing Lender" under the Credit Agreement, with a maximum LOC Commitment of \$10,000,000;

**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. Increase of Revolving Committed Amount.** Effective as of the Second Amendment Effective Date (as defined below), the Revolving Committed Amount is hereby increased by \$15,400,000 to \$130,400,000 and accordingly the reference to "ONE HUNDRED FIFTEEN MILLION DOLLARS (\$115,000,000)" contained in Section 2.1(a) of the Credit Agreement shall read "ONE HUNDRED THIRTY MILLION FOUR HUNDRED THOUSAND DOLLARS (\$130,400,000)", with (i) \$10,000,000 of such Revolving Facility Increase to be held by Truist Bank and (ii) the remaining \$5,400,000 of such Revolving Facility Increase to be held by Wells Fargo Bank, National Association.

**1.2. Amendment to Schedule 1.1(f) to the Credit Agreement.** For the avoidance of doubt, after giving effect to this Amendment, the Revolving Commitment of each Revolving Lender set forth on Schedule 1.1(f) to the Credit Agreement shall read as follows:

<u>Revolving Lender</u>	<u>Revolving Commitment</u>	<u>Revolving Commitment Percentage</u>
Wells Fargo Bank, National Association	\$33,000,000.00	25.306748%
Coöperatieve Rabobank U.A., New York Branch	\$23,000,000.00	17.638037%
Manufacturers and Traders Trust Company	\$23,000,000.00	17.638037%
Truist Bank, as successor by merger to SunTrust Bank	\$33,000,000.00	25.306748%
Fifth Third Bank	\$18,400,000.00	14.110429%
<b>Total</b>	\$130,400,000.00	100.00%

**1.3. Amendments to Credit Agreement.** Effective as of the Second Amendment Effective Date,

(a) clause (a) of the definition of "Applicable Margin" is hereby amended and restated in its entirety to read as follows:

"(a) in the case of the Revolving Facility and the Letter of Credit Fees, (x) prior to the Second Amendment Effective Date, 3.25% for LIBOR Rate Loans and 2.25% for Alternate Base Rate Loans and (y) on or after the Second Amendment Effective Date, (A) for so long as the Revolving Committed Amount is greater than \$115,000,000, (i) for the period commencing on the Second Amendment Effective Date, through and including the date that is 179 days after the Second Amendment

Effective Date, 3.50% for LIBOR Rate Loans and 2.50% for Alternate Base Rate Loans, (ii) for the period commencing on the date that is 180 days after the Second Amendment Effective Date, through and including the date that is 269 days after the Second Amendment Effective Date, 4.25% for LIBOR Rate Loans and 3.25% for Alternate Base Rate Loans, (iii) for the period commencing on the date that is 270 days after Second Amendment Effective Date, through and including the date that is 364 days after the Second Amendment Effective Date, 4.50% for LIBOR Rate Loans and 3.50% for Alternate Base Rate Loans and (iv) for the period commencing on the date that is 365 days after Second Amendment Effective Date and thereafter, 4.75% for LIBOR Rate Loans and 3.75% for Alternate Base Rate Loans and (B) for so long as the Revolving Committed Amount is equal to or less than \$115,000,000, 3.50% for LIBOR Rate Loans and 2.50% for Alternate Base Rate Loans;”

(b) the definition of “Issuing Lender” is hereby amended and restated in its entirety to read as follows:

“Issuing Lender” shall mean Wells Fargo and Truist Bank, each in their respective capacity, together with any successor and any other Revolving Lender identified by the Borrower and reasonably acceptable to the Administrative Agent (such consent not to be unreasonably withheld, conditioned or delayed) who agrees to issue Letters of Credit.”

(c) the first proviso set forth in Section 2.3(a) of the Credit Agreement is hereby amended by replacing “and” at the end of clause (iii) thereof with “,” and by inserting the following at the end of clause (iv) thereof: “and (v) the aggregate amount of Letters of Credit issued by Truist Bank shall not at any time exceed \$10,000,000”.

(d) Section 1.01 of the Credit Agreement is hereby amended by adding the following definitions in proper alphabetical sequence:

“Second Amendment” means the Second Amendment to the Credit Agreement, dated as of March 25, 2020, among the Borrower, the Credit Parties, the Lenders party thereto and the Administrative Agent.”

“Second Amendment Effective Date” means March 25, 2020, the date on which all conditions precedent set forth in Section 2.1 of Amendment No. 2 are satisfied.”

“Second Amendment Revolving Increase Lenders” means Wells Fargo Bank, National Association and Truist Bank.”

“Ticking Fee Rate” means a per annum equal to (a) 0.125% for the 180th day after the Second Amendment Effective Date through and including the 269th day after the Second Amendment Effective Date, (b) 0.25% for the 270th day after the Second Amendment Effective Date through and including the 364th day after the Second Amendment Effective Date and (c) 1.00% for the 365th day after the Second Amendment Effective Date and thereafter.”

(e) Section 2.5 of the Credit Agreement is hereby amended by adding the following clause (e):

“(e) Second Amendment Revolving Facility Commitment Fee. Beginning on the 180th day after Second Amendment Effective Date and for so long as the Revolving Committed Amount is greater than \$115,000,000, and subject to Section 2.21, in consideration of the Revolving Commitments, the Borrower agrees to pay to the Administrative Agent, for the ratable benefit of the Revolving Facility Lenders, a commitment fee (the “Ticking Fee”) which shall accrue at a rate per annum equal to the Ticking Fee Rate on the average daily amount of the Revolving Committed Amount. The Second Amendment Revolving Facility Commitment Fee shall be calculated quarterly in arrears and will accrue from the 180th day after the Second Amendment Effective Date. The Second Amendment Revolving Facility Commitment Fee shall be fully earned and due and payable quarterly in arrears (calculated on a 360-day basis) on the last Business Day of each calendar quarter.”

(f) Section 5.16(a) of the Credit Agreement is hereby amended by adding the following proviso to the end thereof:

”; provided that solely to the extent any Extension of Credit which would result in the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate amount of LOC Obligations equaling an amount in excess of \$115,000,000, the proceeds of such Extension of Credit shall be promptly used solely for ongoing operations of the Borrower and its Restricted Subsidiaries and shall not be held as cash on the balance sheet.”

**1.4. Agreements of the Second Amendment Revolving Increase Lenders.** Truist Bank and Wells Fargo Bank, National Association, hereby agree, subject to the occurrence of the Second Amendment Effective Date, to provide their applicable share of the Revolving Facility Increase set forth in Section 1.1 of this Amendment. In addition, Truist Bank hereby agrees to act, and the Administrative Agent consents to Truist Bank acting, in each case, subject to the occurrence of the Second Amendment Effective Date, as Issuing Lender as set forth in this Amendment.

## 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 (such date, the “Second 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, Truist Bank, Wells Fargo Bank, National Association and Lenders constituting (immediately after giving effect to the Revolving Facility Increase) the Required Revolving Lenders.

(b) Fees and Expenses. The Administrative Agent shall have received from or on behalf of the Borrower all expenses that are payable to the Administrative Agent and the Lenders in connection with the consummation of the transactions contemplated

hereby and Cahill Gordon & Reindel 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, in each case, to the extent the Borrower receives an invoice therefor at least one Business Day prior to the date hereof.

(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.

(d) Credit Agreement Conditions. All of the conditions specified in Sections 2.22(b)(ii) and 4.2(b) of the Credit Agreement with respect to the incurrence of a Revolving Facility Increase thereunder shall have been satisfied.

(e) Officer's Certificate. The Administrative Agent shall have received a certificate signed by a responsible officer of the Borrower certifying as to the satisfaction of the conditions set forth in clause (d) of this Section 2.1.

Without limiting the generality of the provisions of Section 8.4 of the Credit Agreement, for purposes of determining compliance with the conditions specified in this Section 2.1, the Administrative Agent, upon its execution hereof, and each Lender that has signed this Amendment shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Administrative Agent or a Lender (unless the Administrative Agent shall have received notice from such Lender prior to the Second Amendment Effective Date) specifying its objection thereto.

### ARTICLE III MISCELLANEOUS

**3.1. Amended Terms**. On and after the Second 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 limited liability company, partnership or corporate 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 (other than those that have been obtained);

(d) The representations and warranties set forth in Article III of the Credit Agreement, in the other Credit Documents and which are contained in any certificate furnished at any time under or in connection therewith are (i) with respect to representations and warranties that contain a materiality qualification, true and correct and (ii) with respect to representations and warranties that do not contain a materiality qualification, true and correct in all material respects, in each case on the date hereof as if made on and as of such date except for any representation or warranty made as of an earlier date, which representation and warranty remain true and correct as of such 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 (and to the extent required by) the terms of the Credit Agreement and the Security Documents and prior to all Liens other than Permitted Liens; and

(g) Except as expressly set forth herein, 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 and documented out-of-pocket 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*.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

GUARANTORS:

**CARROLS HOLDCO INC.,**  
a Delaware corporation

By: /s Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CARROLS CORPORATION,**  
a Delaware corporation

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CARROLS LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**REPUBLIC FOODS, INC.,**  
a Maryland corporation

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**NEW CFH, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief  
Financial Officer  
and Treasurer

**CAMBRIDGE FRANCHISE REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief  
Financial Officer  
and Treasurer

**CAROLINA QUALITY PROPERTIES, LLC,**  
a North Carolina limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief  
Financial Officer  
and Treasurer

**CAROLINA QUALITY, LLC,**  
a North Carolina limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief  
Financial Officer  
and Treasurer

**ALABAMA QUALITY, L.L.C.,**  
an Alabama limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief  
Financial Officer  
and Treasurer

**LOUISIANA QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull



Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**MIRABILE INVESTMENT CORPORATION,**  
a Tennessee corporation

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**TENNESSEE QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**LQ REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**TQ REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**NASHVILLE QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**CAMBRIDGE QUALITY CHICKEN, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**FRAYSER HOLDINGS, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**FRAYSER QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**CAMBRIDGE SOUTHEASTERN REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**CFH REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**CAMBRIDGE CHICKEN HOLDINGS, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**CAMBRIDGE REAL ESTATE DEVELOPMENT, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull

Name: Anthony E. Hull  
Title: Vice President, Chief

Financial Officer  
and Treasurer

**WELLS FARGO BANK, NATIONAL ASSOCIATION,**  
as Revolving Lender, Issuing Lender and Administrative Agent

By: /s/ Darcy McLaren

Name: Darcy McLaren  
Title: Director

**TRUIST BANK**, as successor by merger to SunTrust Bank,  
as a Revolving Lender and Issuing Lender

By:     /s/ Max N. Greer III      
Name: Max N. Greer III  
Title: Senior Vice President

**THIRD AMENDMENT TO CREDIT AGREEMENT**

**THIS THIRD AMENDMENT TO CREDIT AGREEMENT** (this “Amendment”), dated as of April 8, 2020, is by and among **CARROLS RESTAURANT GROUP, INC.**, a Delaware corporation formerly known as Carrols Holdco Inc. (the “Borrower”), certain domestic 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 referred to below.

**WITNESSETH**

**WHEREAS**, the Borrower, the Guarantors, the Lenders party thereto from time to time (the “Lenders”) and the Administrative Agent are parties to that certain Credit Agreement dated as of April 30, 2019 (as amended, modified, extended, restated, replaced, or supplemented from time to time, the “Credit Agreement”);

**WHEREAS**, pursuant to Section 2.22 of the Credit Agreement, the Borrower may incur a Revolving Facility Increase in the form of an increase to the Revolving Committed Amount;

**WHEREAS**, the Borrower desires to incur a Revolving Facility Increase of \$15,414,296, which shall increase the Revolving Committed Amount to \$145,814,296;

**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. Increase of Revolving Committed Amount.** Effective as of the Third Amendment Effective Date (as defined below), the Revolving Committed Amount is hereby increased by \$15,414,296 to \$145,814,296 and accordingly the reference to “ONE HUNDRED THIRTY MILLION FOUR HUNDRED THOUSAND DOLLARS (\$130,400,000) contained in Section 2.1(a) of the Credit Agreement shall read “ONE HUNDRED FORTY FIVE MILLION EIGHT HUNDRED FOURTEEN THOUSAND TWO HUNDRED NINETY SIX DOLLARS (\$145,814,296)”, with (i) \$6,000,000 of such Revolving Facility Increase to be held by Coöperatieve Rabobank U.A., New York Branch, (ii) \$5,214,296 of such Revolving Facility Increase to be held by Manufacturers and Traders Trust Company and (iii) the remaining \$4,200,000 of such Revolving Facility Increase to be held by Fifth Third Bank (collectively, the “Third Amendment Revolving Increase Lenders”).

**1.2. Amendment to Schedule 1.1(f) to the Credit Agreement.** For the avoidance of doubt, after giving effect to this Amendment, the Revolving Commitment of each Revolving Lender set forth on Schedule 1.1(f) to the Credit Agreement shall read as follows:

<u>Revolving Lender</u>	<u>Revolving Commitment</u>	<u>Revolving Commitment Percentage</u>
Wells Fargo Bank, National Association	\$33,000,000.00	22.63152579000000%
Truist Bank, as successor by merger to SunTrust Bank	\$33,000,000.00	22.63152579000000%
Coöperatieve Rabobank U.A., New York Branch	\$29,000,000.00	19.88831054000000%
Manufacturers and Traders Trust Company	\$28,214,296.00	19.34947174000000%
Fifth Third Bank	\$22,600,000.00	15.49916614000000%
<b>Total</b>	\$145,814,296.00	100.00%

**1.3. Agreements of the Third Amendment Revolving Increase Lenders.** Coöperatieve Rabobank U.A., New York Branch, Manufacturers and Traders Trust Company and Fifth Third Bank, hereby agree, subject to the occurrence of the Third Amendment Effective Date, to provide their applicable share of the Revolving Facility Increase set forth in Section 1.1 of this Amendment.

**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 (such date, the “Third 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 and Lenders constituting the Third Amendment Revolving Increase Lenders.

(b) **Fees and Expenses.** The Administrative Agent shall have received from or on behalf of the Borrower all expenses that are payable to the Administrative Agent and the Lenders in connection with the consummation of the transactions contemplated hereby and Cahill Gordon & Reindel 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, in each case, to the extent the Borrower receives an invoice therefor at least one Business Day prior to the date hereof.

(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.

(d) **Credit Agreement Conditions.** All of the conditions specified in Sections 2.22(b)(ii) and 4.2(b) of the Credit Agreement with respect to the incurrence of a Revolving Facility Increase thereunder shall have been satisfied.

(e) **Officer's Certificate.** The Administrative Agent shall have received a certificate signed by a responsible officer of the Borrower certifying as to the satisfaction of the conditions set forth in clause (d) of this Section 2.1.

Without limiting the generality of the provisions of Section 8.4 of the Credit Agreement, for purposes of determining compliance with the conditions specified in this Section 2.1, the Administrative Agent, upon its execution hereof, and each Lender that has signed this Amendment shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Administrative Agent or a Lender (unless the Administrative Agent shall have received notice from such Lender prior to the Third Amendment Effective Date) specifying its objection thereto.

### **ARTICLE III MISCELLANEOUS**

**3.1. Amended Terms.** On and after the Third 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 limited liability company, partnership or corporate 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 (other than those that have been obtained);

(d) The representations and warranties set forth in Article III of the Credit Agreement, in the other Credit Documents and which are contained in any certificate furnished at any time under or in connection therewith are (i) with respect to representations and warranties that contain a materiality qualification, true and correct and (ii) with respect to representations and warranties that do not contain a materiality qualification, true and correct in all material respects, in each case on the date hereof as if made on and as of such date except for any representation or warranty made as of an earlier date, which representation and warranty remain true and correct as of such 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 (and to the extent required by) the terms of the Credit Agreement and the Security Documents and prior to all Liens other than Permitted Liens; and

(g) Except as expressly set forth herein, 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 and documented out-of-pocket 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*.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

GUARANTORS:

**CARROLS HOLDCO INC.,**  
a Delaware corporation

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CARROLS CORPORATION,**  
a Delaware corporation

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CARROLS LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**REPUBLIC FOODS, INC.,**  
a Maryland corporation

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**NEW CFH, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CAMBRIDGE FRANCHISE REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CAROLINA QUALITY PROPERTIES, LLC,**  
a North Carolina limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CAROLINA QUALITY, LLC,**  
a North Carolina limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**ALABAMA QUALITY, L.L.C.,**  
an Alabama limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**LOUISIANA QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**MIRABILE INVESTMENT CORPORATION,**  
a Tennessee corporation

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**TENNESSEE QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**LQ REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**TQ REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**NASHVILLE QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CAMBRIDGE QUALITY CHICKEN, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**FRAYSER HOLDINGS, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**FRAYSER QUALITY, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull



Title: Vice President, Chief Financial Officer  
and Treasurer

**CAMBRIDGE SOUTHEASTERN REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CFH REAL ESTATE, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CAMBRIDGE CHICKEN HOLDINGS, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**CAMBRIDGE REAL ESTATE DEVELOPMENT, LLC,**  
a Delaware limited liability company

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer

**WELLS FARGO BANK, NATIONAL ASSOCIATION,**  
as Administrative Agent

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

**COÖPERATIEVE RABOBANK U.A., NEW YORK BRANCH,**  
as a Revolving Lender

By: /s/ Sarah Fleet  
Name: Sarah Fleet  
Title: Executive Director

By: /s/ Michalene Donegan  
Name: Michalene Donegan  
Title: Managing Director

**MANUFACTURERS AND TRADERS TRUST COMPANY,**  
as a Revolving Lender

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

**FIFTH THIRD BANK,**  
as a Revolving Lender

By: /s/ John A. Marian  
Name: John A. Marian  
Title: SVP

## FOURTH AMENDMENT TO CREDIT AGREEMENT

**THIS FOURTH AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), dated as of April 16, 2020, is by and among **CAROLS RESTAURANT GROUP, INC.**, a Delaware corporation formerly known as Carols Holdco Inc. (the "Borrower"), certain domestic 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 referred to below.

### W I T N E S S E T H

**WHEREAS**, the Borrower, the Guarantors, the Lenders party thereto from time to time (the "Lenders") and the Administrative Agent are parties to that certain Credit Agreement dated as of April 30, 2019 (as amended, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement");

**WHEREAS**, pursuant to Section 9.1 of the Credit Agreement, the Borrower and the Required Lenders may amend Section 6.1 of the Credit Agreement without any other consents;

**WHEREAS**, the Credit Parties have requested that the Lenders party hereto, constituting the Required Lenders, amend Section 6.1 of the Credit Agreement;

**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;

**WHEREAS**, pursuant to Section 9.1 of the Credit Agreement, the Credit Parties and the Administrative Agent, without the consent of any Lender, may enter into an amendment to correct any obvious error or omission of a technical nature in any provision of any Credit Document; and

**WHEREAS**, the Credit Parties and the Administrative Agent have identified an obvious omission of a technical nature in Section 7.1 of the Credit Agreement and therefore desire to amend the Credit Agreement in order to remedy such omission on the terms 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 1.1 of the Credit Agreement.** Effective as of the Fourth Amendment Effective Date, Section 1.1 of the Credit Agreement is hereby amended by inserting the following new definitions in their respective proper alphabetical orders:

"CARES Act" means the Coronavirus Aid, Relief and Economic Security Act, as amended.

"PPP Indebtedness" means Indebtedness of the Credit Parties incurred under, or pursuant to, the Paycheck Protection Program contemplated by Section 1102 of the CARES Act.

**1.2. Amendment to Section 1.1 of the Credit Agreement.** Effective as of the Fourth Amendment Effective Date, Section 1.1 of the Credit Agreement is hereby amended by replacing the definition of "Debt Issuance" in its entirety with the following:

"Debt Issuance" shall mean the issuance of any Indebtedness by any Credit Party or any of its Restricted Subsidiaries (excluding any issuance by the Borrower of its Equity Interests or any Indebtedness of any Credit Party and its Restricted Subsidiaries permitted to be incurred pursuant to Sections 6.1(a) through (r) hereof).

**1.3. Amendment to Article V of the Credit Agreement.** Effective as of the Fourth Amendment Effective Date, Article V of the Credit Agreement is hereby amended by adding the following new Section 5.22 thereto.

"SECTION 5.22 PPP Indebtedness.

(a) Deliver to the Administrative Agent, (i) promptly following the incurrence thereof, notice of the incurrence of any PPP Indebtedness and copies of the definitive loan documents evidencing such PPP Indebtedness, (ii) promptly upon, and in any event within five (5) Business Days of a Responsible Officer of any Credit Party becoming aware of, the occurrence (or alleged occurrence) of any default or event of default with respect to any PPP Indebtedness, a written notice setting forth the details of such default or event of default and the action that the applicable Credit Parties have taken and propose to take with respect thereto, (iii) promptly following the forgiveness or repayment of any PPP Indebtedness, notice of such forgiveness or repayment and (iv) promptly following any request therefor, such other information requested by the Administrative Agent with respect to the PPP Indebtedness (including, without limitation, the use of the proceeds thereof and the status of the forgiveness thereof).

(b) To the extent any Credit Party incurs PPP Indebtedness, comply in all material respects with all requirements of the CARES Act applicable to such PPP Indebtedness, in each case solely to the extent satisfaction of such requirements does not otherwise cause, directly or indirectly, a Default or Event of Default under the Credit Documents to occur, or otherwise cause a breach of the terms of the Credit Documents to arise."

**1.4. Amendment to Section 6.1 of the Credit Agreement.** Effective as of the Fourth Amendment Effective Date, Section 6.1 of the Credit Agreement is hereby amended by (i) deleting the word “and” at the end of clause (p) thereof, (ii) replacing the period at the end of clause (q) thereof with “; and” and (iii) adding the following new clause (r) thereto:

“(r) PPP Indebtedness.”

**1.5. Amendment to Section 6.11(b) of the Credit Agreement.** Effective as of the Fourth Amendment Effective Date, Section 6.11(b) of the Credit Agreement is hereby amended by (i) deleting the word “and” at the end of clause (v) thereof, (ii) replacing the period at the end of clause (vi) thereof with “; and” and (iii) adding the following new clause (vii) thereto:

“(vii) Restricted Junior Debt Payments in respect of PPP Indebtedness permitted to be incurred hereunder.”

**1.6. Correction of Obvious Omission in Section 7.1(c) of the Credit Agreement.** Effective as of the Fourth Amendment Effective Date, Section 7.1(c) of the Credit Agreement is hereby amended by adding the following new clause (ii) thereto:

“(ii) Any Credit Party shall fail to comply with any other covenant contained in this Agreement or the other Credit Documents (other than as described in Section 7.1(a) or 7.1(c)(i) above) and, with respect to this clause (ii) only, such breach or failure to comply is not cured or waived within thirty (30) days after receipt by the Borrower of written notice thereof from the Administrative Agent; or”

## **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 (such date, the “Fourth 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 and Lenders constituting the Required Lenders.

(b) Fees and Expenses. The Administrative Agent shall have received from or on behalf of the Borrower all expenses that are payable to the Administrative Agent and the Lenders in connection with the consummation of the transactions contemplated hereby and Cahill Gordon & Reindel 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, in each case, to the extent the Borrower receives an invoice therefor at least one Business Day prior to the date hereof.

(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.

Without limiting the generality of the provisions of Section 8.4 of the Credit Agreement, for purposes of determining compliance with the conditions specified in this Section 2.1, the Administrative Agent, upon its execution hereof, and each Lender that has signed this Amendment shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Administrative Agent or a Lender (unless the Administrative Agent shall have received notice from such Lender prior to the Fourth Amendment Effective Date) specifying its objection thereto.

## **ARTICLE III MISCELLANEOUS**

**3.1. Amended Terms.** On and after the Fourth 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 limited liability company, partnership or corporate 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 (other than those that have been obtained);

(d) The representations and warranties set forth in Article III of the Credit Agreement, in the other Credit Documents and which are contained in any certificate furnished at any time under or in connection therewith are (i) with respect to representations and warranties that contain a materiality qualification, true and correct and (ii) with respect to representations and warranties that do not contain a materiality qualification, true and correct in all material respects, in each case on the date hereof as if made on and as of such date except for any representation or warranty made as of an earlier date, which representation and warranty remain true and correct as of such 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 (and to the extent required by) the terms of the Credit Agreement and the Security Documents and prior to all Liens other than Permitted Liens; and

(g) Except as expressly set forth herein, 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 and documented out-of-pocket 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*.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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: \_\_\_\_  
Name:  
Title:

GUARANTORS:

**CARROLS HOLDCO INC.,**  
a Delaware corporation

By: \_\_\_\_  
Name:  
Title:

**CARROLS CORPORATION,**  
a Delaware corporation

By: \_\_\_\_\_  
Name:  
Title:

**CARROLS LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_  
Name:  
Title:

**REPUBLIC FOODS, INC.,**  
a Maryland corporation

By: \_\_\_\_\_  
Name:  
Title:

**NEW CFH, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CAMBRIDGE FRANCHISE REAL ESTATE, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CAROLINA QUALITY PROPERTIES, LLC,**  
a North Carolina limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CAROLINA QUALITY, LLC,**  
a North Carolina limited liability company

By: \_\_\_\_\_

Name:  
Title:

**ALABAMA QUALITY, L.L.C.,**  
an Alabama limited liability company

By: \_\_\_\_\_

Name:  
Title:

**LOUISIANA QUALITY, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**MIRABILE INVESTMENT CORPORATION,**  
a Tennessee corporation

By: \_\_\_\_\_

Name:  
Title:

**TENNESSEE QUALITY, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**LQ REAL ESTATE, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**TQ REAL ESTATE, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**NASHVILLE QUALITY, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CAMBRIDGE QUALITY CHICKEN, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**FRAYSER HOLDINGS, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**FRAYSER QUALITY, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CAMBRIDGE SOUTHEASTERN REAL ESTATE, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CFH REAL ESTATE, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CAMBRIDGE CHICKEN HOLDINGS, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**CAMBRIDGE REAL ESTATE DEVELOPMENT, LLC,**  
a Delaware limited liability company

By: \_\_\_\_\_

Name:  
Title:

**WELLS FARGO BANK, NATIONAL ASSOCIATION,**  
as Administrative Agent

By: \_\_\_\_\_

Name:  
Title:

[ ],  
as a Required Lender

By: \_\_\_\_\_

Name:  
Title:





WELLS FARGO BANK, NATIONAL ASSOCIATION  
1808 Aston Avenue, Suite 250  
Carlsbad, CA 92008

WELLS FARGO SECURITIES, LLC  
550 South Tryon Street  
Charlotte, North Carolina 28202

TRUIST BANK  
303 Peachtree Road  
Atlanta, GA 30308

CONFIDENTIAL

March 25, 2020

Carrols Restaurant Group, Inc.  
968 James Street  
Syracuse, NY 13203

Attention: Tony Hull, Chief Financial Officer

Re: Carrols Side Letter  
Second Amendment to Credit Agreement

Ladies and Gentlemen:

Reference is made to (i) that certain Credit Agreement, dated as of April 30, 2019, as amended by the First Amendment on December 13, 2019 (the "Credit Agreement"), by and among Carrols Restaurant Group, Inc. ("Carrols" or "you"), the lenders party thereto (collectively, the "Existing Lenders"), Wells Fargo Bank, National Association ("Wells Fargo Bank"), as administrative agent and the other persons party thereto and (ii) the Second Amendment to the Credit Agreement, dated as of the date hereof, among you, Wells Fargo Bank, Wells Fargo Securities, LLC and Truist Bank (Wells Fargo Bank, Wells Fargo Securities, LLC and Truist Bank, collectively, "we" or "us"), as successor by merger to SunTrust Bank (the "Second Amendment"). All capitalized terms used but not defined herein have the meanings given to them in the Credit Agreement or the Second Amendment, as applicable. Reference is also made to each agreement, dated as of the date hereof, between you and each Person separately identified by you to us prior to the date hereof as a "Specified Lessor".

In connection with the agreements of Wells Fargo Bank and Truist Bank under the Second Amendment, you hereby agree with us that you shall not, and you shall not permit any of your Subsidiaries to, make or cause to be made any rent payments to any Specified Lessor or any subsidiary or affiliate of any Specified Lessor, in each case, during the period commencing on April 1, 2020, and ending on June 30, 2020 (such period, the "Restricted Period"). On the first Business Day of each month during the Restricted Period, you agree to provide us with (i) a certificate executed by a Responsible Officer certifying as to your compliance with this letter and (ii) a projection of cash flow for the next succeeding thirteen weeks as of such date in form reasonably satisfactory to us.

This letter and its terms or substance shall not be disclosed, directly or indirectly, to any other person or entity by any person party hereto without the consent of each of the other parties hereto except pursuant to the order of any court or administrative agency in any pending legal or administrative proceeding, or otherwise as required by applicable law or compulsory legal process or, to the extent requested or required by governmental and/or regulatory authorities or to the extent necessary in connection with the exercise of any remedy or enforcement of any rights hereunder.

Section 9.5(b) of the Credit Agreement is incorporated herein, *mutatis mutandis*, with respect to the agreements set forth in this letter as if this letter were a Loan Document, with references to Indemnitee in such Section 9.5(b) meaning each of us and each of our respective Related Parties.

**THIS LETTER, AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED THERETO (INCLUDING, WITHOUT LIMITATION, ANY CLAIMS SOUNDING IN CONTRACT LAW OR TORT LAW ARISING OUT OF THE SUBJECT MATTER HEREOF OR THEREOF), SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTION 5-1401 AND SECTION 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REFERENCE TO ANY OTHER CONFLICTS OR CHOICE OF LAW PRINCIPLES THEREOF. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM ARISING OUT OF THIS LETTER OR THE PERFORMANCE OF SERVICES THEREUNDER.** With respect to any suit, action or proceeding arising in respect of this letter or any of the matters contemplated hereby or thereby, the parties hereto hereby irrevocably and unconditionally submit to the exclusive jurisdiction of any state or federal court located in the Borough of Manhattan, and irrevocably and unconditionally waive any objection to the laying of venue of such suit, action or proceeding brought in such court and any claim that such suit, action or proceeding has

been brought in an inconvenient forum. The parties hereto hereby agree that service of any process, summons, notice or document by registered mail addressed to you or each of us will be effective service of process against such party for any action or proceeding relating to any such dispute. A final judgment in any such action or proceeding may be enforced in any other courts with jurisdiction over you or each of us.

This letter embodies the entire agreement and understanding among us and you and your affiliates with respect to the specific matters set forth above and supersede all prior agreements and understandings relating to the subject matter hereof. No person has been authorized by any of us to make any oral or written statements inconsistent with this letter. This letter shall not be assignable by any party hereto. This letter is not intended to benefit or create any rights in favor of any person other than the parties hereto. This letter may be executed in separate counterparts and delivery of an executed signature page of this letter by facsimile, electronic mail or other electronic means shall be effective as delivery of manually executed counterpart hereof; provided that, upon the request of any party hereto, such facsimile transmission or electronic mail transmission shall be promptly followed by the original thereof. This letter may only be amended, modified or superseded by an agreement in writing signed by each of you and us, and shall remain in full force and effect and not be superseded by any other documentation unless such other documentation is signed by each of the parties hereto and expressly states that this letter is superseded thereby. Each of the parties hereto agrees that this letter is a binding and enforceable agreement with respect to the subject matter contained herein.

[Signature Pages Follow]

If you are in agreement with the foregoing, please indicate acceptance of the terms hereof by signing the enclosed counterpart of this letter and returning it to us.

Sincerely,

WELLS FARGO BANK, NATIONAL ASSOCIATION

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

WELLS FARGO SECURITIES, LLC

By: /s/ Kevin A. Wright  
Name: Kevin A. Wright  
Title: Director

Sincerely,

TRUIST BANK

By: /s/ Max N. Greer III  
Name: Max N. Greer III  
Title: Senior Vice President

Agreed to and accepted as of the date first above written:

CARROLS RESTAURANT GROUP, INC.

By: /s/ Anthony E. Hull  
Name: Anthony E. Hull  
Title: Vice President, Chief Financial Officer  
and Treasurer



## CERTIFICATIONS

I, Daniel T. Accordino, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 29, 2020 of Carrols Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

/s/ Daniel T. Accordino

---

Daniel T. Accordino  
Chief Executive Officer

## CERTIFICATIONS

I, Anthony E. Hull, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 29, 2020 of Carrols Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

/s/ Anthony E. Hull

---

Anthony E. Hull  
Vice President, Chief Financial Officer and Treasurer

**CERTIFICATE PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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

(1) The Company's Quarterly Report on Form 10-Q for the period ended March 29, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel T. Accordino

---

Daniel T. Accordino

Chief Executive Officer

May 7, 2020

**CERTIFICATE PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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

- (1) The Company's Quarterly Report on Form 10-Q for the period ended March 29, 2020, 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/ Anthony E. Hull

---

Anthony E. Hull

Vice President, Chief Financial Officer and Treasurer

May 7, 2020