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 October 2, 2011

OR

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

Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**16-1287774** **(I.R.S. Employer Identification No.)**
968 James Street **Syracuse, New York** **(Address of principal executive office)**	**13203** **(Zip Code)**

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer (Do not check if smaller reporting company)	☐	Smaller reporting company	☐

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 November 7, 2011, Carrols Restaurant Group, Inc. had 22,102,201 shares of its common stock, $.01 par value, outstanding.

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CARROLS RESTAURANT GROUP, INC.

FORM 10-Q
QUARTER ENDED OCTOBER 2, 2011

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PART I—FINANCIAL INFORMATION

ITEM 1—INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CARROLS RESTAURANT GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except share and per share amounts)
(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,232	$ 3,144
Trade and other receivables	6,990	5,213
Inventories	5,081	5,203
Prepaid rent	4,081	4,018
Prepaid expenses and other current assets	6,375	5,349
Refundable income taxes	—	869
Deferred income taxes	4,441	4,609
Total current assets	49,200	28,405
Property and equipment, net	189,117	186,850
Franchise rights, net (Note 4)	68,366	70,432
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	—	419
Franchise agreements, at cost less accumulated amortization of $6,447 and $6,102 respectively	5,297	5,629
Deferred income taxes	—	1,949
Other assets	15,142	7,684
Total assets	$ 452,056	$ 426,302
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	$ 6,552	$ 15,538
Accounts payable	15,496	13,944
Accrued interest	2,940	6,853
Accrued payroll, related taxes and benefits	20,228	19,504
Accrued income taxes payable	265	—
Accrued real estate taxes	5,837	4,778
Other liabilities	9,855	7,434
Total current liabilities	61,173	68,051
Long-term debt, net of current portion (Note 5)	259,605	237,914
Lease financing obligations (Note 9)	10,063	10,061
Deferred income—sale-leaseback of real estate	38,290	40,472
Accrued postretirement benefits (Note 8)	1,611	1,845
Deferred income taxes	1,347	—
Other liabilities (Note 7)	21,509	23,052
Total liabilities	393,598	381,395
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, par value $.01; authorized 20,000,000 shares, issued and outstanding—none	—	—
Voting common stock, par value $.01; authorized 100,000,000 shares, issued and outstanding—22,088,900 and 21,678,203 shares, respectively	216	216
Additional paid-in capital	5,866	3,474
Retained earnings	50,982	39,823
Accumulated other comprehensive income (Note 13)	1,535	1,535
Treasury stock, at cost	(141)	(141)
Total stockholders' equity	58,458	44,907
Total liabilities and stockholders' equity	$ 452,056	$ 426,302

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

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CARROLS RESTAURANT GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(In thousands of dollars, except share and per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Restaurant sales	$ 211,380	$ 201,272	$ 617,596	$ 600,080
Franchise royalty revenues and fees	376	353	1,242	1,165
Total revenues	211,756	201,625	618,838	601,245
Costs and expenses:				
Cost of sales	65,701	60,093	192,188	182,260
Restaurant wages and related expenses (including stock-based compensation expense of $6, $21, $27 and $49, respectively)	60,163	59,027	178,963	177,772
Restaurant rent expense	12,265	12,035	36,527	36,623
Other restaurant operating expenses	30,290	29,649	87,253	86,986
Advertising expense	8,270	8,856	23,245	23,460
General and administrative (including stock-based compensation expense of $714, $402, $2,091 and $1,183, respectively)	13,702	12,022	41,307	37,196
Depreciation and amortization	8,246	8,080	24,743	24,315
Impairment and other lease charges (Note 3)	(11)	191	2,044	4,092
Other expense (income) (Note 14)	105	(400)	(343)	(400)
Total operating expenses	198,731	189,553	585,927	572,304
Income from operations	13,025	12,072	32,911	28,941
Interest expense	5,757	4,693	14,949	14,144
Loss on extinguishment of debt (Note 5)	2,449	—	2,449	—
Income before income taxes	4,819	7,379	15,513	14,797
Provision for income taxes (Note 6)	1,414	2,786	4,354	5,455
Net income	$ 3,405	$ 4,593	$ 11,159	$ 9,342
Basic net income per share (Note 12)	$ 0.16	$ 0.21	$ 0.52	$ 0.43
Diluted net income per share (Note 12)	$ 0.15	$ 0.21	$ 0.50	$ 0.43
Basic weighted average common shares outstanding (Note 12)	21,690,753	21,623,221	21,665,551	21,618,624
Diluted weighted average common shares outstanding (Note 12)	22,232,539	21,777,325	22,153,603	21,819,696

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

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CARROLS RESTAURANT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(In thousands of dollars)
(Unaudited)

	2011	2010
Cash flows provided from operating activities:		
Net income	$ 11,159	$ 9,342
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss on disposals of property and equipment	197	525
Stock-based compensation expense	2,118	1,232
Impairment and other lease charges	2,044	4,092
Depreciation and amortization	24,743	24,315
Amortization of deferred financing costs	860	713
Amortization of deferred gains from sale-leaseback transactions	(2,482)	(2,510)
Accretion of interest on lease financing obligations	6	47
Deferred income taxes	3,464	248
Accrued income taxes	1,134	1,615
Loss on extinguishment of debt	1,455	—
Changes in other operating assets and liabilities	(4,386)	(8,985)
Net cash provided from operating activities	40,312	30,634
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(11,626)	(9,783)
Restaurant remodeling	(9,685)	(8,572)
Other restaurant capital expenditures	(8,342)	(6,995)
Corporate and restaurant information systems	(3,214)	(962)
Total capital expenditures	(32,867)	(26,312)
Properties purchased for sale-leaseback	(2,058)	(3,695)
Proceeds from sale-leaseback transactions	7,783	5,891
Proceeds from sales of properties	572	—
Net cash used for investing activities	(26,570)	(24,116)
Cash flows provided from (used for) financing activities:		
Borrowings on prior revolving credit facility	32,700	96,300
Repayments on prior revolving credit facility	(32,700)	(94,000)
Term loan borrowings from new Carrols LLC credit facility	65,000	—
Proceeds from issuance of Fiesta Restaurant Group senior secured second lien notes	200,000	—
Repayments of term loans under prior credit facility	(80,214)	—
Repayments of prior Carrols senior subordinated notes	(165,000)	—
Principal pre-payments on term loans	—	(1,023)
Scheduled principal payments on term loans under prior credit facility	(7,036)	(8,912)
Principal payments on capital leases	(44)	(61)
Proceeds from lease financing obligations	1,736	—
Financing costs associated with issuance of lease financing obligations	(89)	—
Financing costs associated with issuance of debt	(9,278)	—
Proceeds from stock option exercises	271	33
Net cash provided from (used for) financing activities	5,346	(7,663)
Net increase (decrease) in cash and cash equivalents	19,088	(1,145)
Cash and cash equivalents, beginning of period	3,144	4,402
Cash and cash equivalents, end of period	$ 22,232	$ 3,257
Supplemental disclosures:		
Interest paid on long-term debt	$ 17,232	$ 16,419
Interest paid on lease financing obligations	$ 763	$ 685
Accruals for capital expenditures	$ 1,569	$ 530
Income tax (refunds) payments, net	$ (242)	$ 3,564
Capital lease obligations incurred	$ —	$ 123
Non-cash reduction of lease financing obligations	$ 1,740	$ —

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

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars except share and per share amounts)

1. Basis of Presentation

Business Description. At October 2, 2011 the Company operated, as franchisee, 302 restaurants under the trade name “Burger King” in 12 Northeastern, Midwestern and Southeastern states. At October 2, 2011, the Company also owned and operated 91 Pollo Tropical restaurants, of which 85 were located in Florida, one was located in Georgia and five were located in New Jersey, and franchised a total of 30 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in Honduras, one in the Bahamas, one in Trinidad, one in Venezuela and three on college campuses in Florida, and 158 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico, two in Texas and one in Georgia.

Basis of Consolidation. Carrols Restaurant Group, Inc. (“Carrols Restaurant Group” or the “Company”) is a holding company and conducts all of its operations through Carrols Corporation (“Carrols”) and its wholly-owned subsidiaries. The unaudited consolidated financial statements presented herein include the accounts of Carrols Restaurant Group and its wholly-owned subsidiary Carrols. In April 2011, Fiesta Restaurant Group, Inc. (“Fiesta Restaurant Group”), a wholly owned subsidiary of Carrols Corporation, was incorporated. In May 2011, Carrols contributed all of the outstanding capital stock of Pollo Operations, Inc. and Pollo Franchise Inc. (collectively “Pollo Tropical”) and Taco Cabana Inc. and subsidiaries (collectively (“Taco Cabana”) to Fiesta Restaurant Group, Inc. in exchange for all of the outstanding capital stock of Fiesta Restaurant Group. Any reference to “Carrols LLC” refers to Carrols’ wholly-owned subsidiary, Carrols LLC, a Delaware limited liability company. Unless the context otherwise requires, Carrols Restaurant Group, Carrols and the direct and indirect subsidiaries of Carrols are collectively referred to as the “Company.” All intercompany transactions have been eliminated in consolidation.

On February 24, 2011, the Company announced its intention to split its business into two separate, publicly-traded companies through the tax-free spin-off of Fiesta Restaurant Group to its stockholders. If the spin-off is consummated, Fiesta Restaurant Group will own and operate the Pollo Tropical and Taco Cabana businesses and the Company, Carrols and Carrols LLC will continue to own and operate its franchised Burger King restaurants. In the spin-off, it is anticipated that all shares of Fiesta Restaurant Group common stock, which are currently held by Carrols, will be distributed in the form of a pro rata dividend to the stockholders of Carrols Restaurant Group.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended January 2, 2011 and January 3, 2010 will be referred to as the fiscal years ended December 31, 2010 and 2009, respectively. Similarly, all references herein to the three and nine months ended October 2, 2011 and October 3, 2010 will be referred to as the three and nine months ended September 30, 2011 and September 30, 2010, respectively. The fiscal year ended December 31, 2010 contained 52 weeks. The three and nine months ended September 30, 2011 and 2010 each contained thirteen and thirty-nine weeks, respectively.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and nine months ended September 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010 contained in the Company’s 2010 Annual Report on Form 10-K. The December 31, 2010 balance sheet data is derived from those audited financial statements.

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands of dollars except share and per share amounts)

Fair Value of Financial Instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect our own assumptions. The following methods were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the fair value:

- *Current Assets and Liabilities.* The carrying value of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities approximates fair value because of the short maturity of those instruments.
- *Carrols Senior Subordinated Notes.* The fair values of Carrols outstanding senior subordinated notes were based on quoted market prices. The fair value at December 31, 2010 was approximately $165.4 million.
- *Fiesta Restaurant Group Senior Secured Second Lien Notes due 2016.* The fair value of outstanding senior secured second lien notes is based on recent trading values, and at September 30, 2011 was approximately $199.0 million.
- *Revolving and Term Loan Credit Facilities.* Based upon the rates and other terms of the credit facilities entered into in the third quarter of 2011, the fair value of the outstanding borrowings under the Carrols LLC and Fiesta Restaurant Group credit facilities approximates market value at September 30, 2011.

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

Subsequent Events. The Company evaluated for subsequent events through the issuance date of the Company’s financial statements.

2. Stock-Based Compensation

On January 15, 2011, the Company granted in the aggregate 360,200 non-vested shares of its common stock to certain employees. In general, these shares vest 25% per year and will be expensed over their 4 year vesting period. Included in the non-vested restricted share grant were 200,000 shares granted to our Chief Executive Officer, of which 100,000 shares will be expensed over a one year period ending January 15, 2012 and 100,000 shares will be expensed through December of 2013.

Stock-based compensation expense for the three and nine months ended September 30, 2011 was $0.7 million and $2.2 million, respectively. As of September 30, 2011, the total non-vested stock-based compensation expense relating to the options and non-vested shares was approximately $3.3 million and the Company expects to record an additional $0.7 million as compensation expense in the fourth quarter of 2011. At September 30, 2011, the remaining weighted average vesting period for stock options and non-vested shares was 2.5 years and 3.0 years, respectively.

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands of dollars except share and per share amounts)

Stock Options

A summary of all option activity for the nine months ended September 30, 2011 was as follows:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value (1)
Options outstanding at January 1, 2011	2,588,017	$ 9.17	4.2	$ 2,948
Granted	—			
Exercised	(46,213)	5.86		
Forfeited	(34,134)	9.27		
Options outstanding at September 30, 2011	2,507,670	$ 9.23	3.5	$ 4,734
Vested or expected to vest at September 30, 2011	2,490,776	$ 9.25	3.5	$ 4,680
Options exercisable at September 30, 2011	1,724,062	$ 10.66	3.0	$ 2,246

(1) The aggregate intrinsic value was calculated using the difference between the market price of the Company's common stock at October 2, 2011 of $8.90 and the grant price for only those awards that had a grant price that was less than the market price of the Company's common stock at October 2, 2011.

A summary of all non-vested shares activity for the nine months ended September 30, 2011 was as follows:

	Shares	Weighted Average Grant Date Price
Nonvested at January 1, 2011	45,701	$ 6.16
Granted	368,534	7.68
Vested	(16,439)	6.01
Forfeited	(3,950)	6.67
Nonvested at September 30, 2011	393,846	$ 7.59

3. 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 and the Company's history of using these assets in the operation of its business. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. The Level 3 assets measured at fair value associated with impairment charges recorded during the nine months ended September 30, 2011 totaled $0.1 million.

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands of dollars except share and per share amounts)

Impairment of long-lived assets and other lease charges (recoveries) for the Company's segments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Burger King	$ 57	$ 98	$1,028	$ 379
Pollo Tropical	70	86	706	2,069
Taco Cabana	(138)	7	310	1,644
	$ (11)	$191	$2,044	$4,092

During the three months ended September 30, 2011, the Company recorded other lease charges of $0.1 million associated with the closure of a Pollo Tropical restaurant in the third quarter and $0.1 million of income to reduce the Company's future minimum lease payments and ancillary costs related to a non-operating Taco Cabana restaurant property. During the nine months ended September 30, 2011, the Company also recorded impairment and other lease charges of $1.0 million for underperforming Burger King restaurants, $0.6 million in other lease charges for two previously closed Pollo Tropical restaurants, $0.3 million of lease charges for a Taco Cabana restaurant that was closed in the second quarter of 2011, and $0.2 million in lease charges for two previously closed Taco Cabana restaurants.

During the nine months ended September 30, 2010, the Company recorded impairment and other lease charges of $4.1 million which included $1.4 million for an underperforming Pollo Tropical restaurant and $0.3 million to reduce the fair market value of a previously impaired Pollo Tropical restaurant. In addition, the Company recorded charges of $1.1 million for an underperforming Taco Cabana restaurant, $0.3 million to reduce the fair market value of a previously impaired Taco Cabana restaurant and $0.4 million associated with three underperforming Burger King restaurants.

4. Goodwill and Franchise Rights

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 December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values.

There have been no changes in goodwill or goodwill impairment losses during the nine months ended September 30, 2011 or the year ended December 31, 2010. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Balance, September 30, 2011	$56,307	$67,177	$1,450	$124,934

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

The Company assesses the potential impairment of Burger King 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 Burger King acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. No impairment charges were recorded related to the Company's Burger King franchise rights for the three and nine months ended September 30, 2011 and 2010.

Amortization expense related to Burger King franchise rights was $799 for both the three months ended September 30, 2011 and 2010, respectively, and $2,398 for both the nine months ended September 30, 2011 and 2010, respectively. The Company estimates the amortization expense for the year ending December 31, 2011 and for each of the five succeeding years to be $3,194.

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands of dollars except share and per share amounts)

5. Long-term Debt

Long-term debt at September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Collateralized:		
Carrols LLC Credit Facility-Term loan	$ 65,000	$ —
Prior Carrols Senior Credit Facility-Term loan	—	87,250
Fiesta Restaurant Group 8.875% Senior Secured Second Lien Notes	200,000	—
Unsecured:		
Carrols 9% Senior Subordinated Notes	—	165,000
Capital leases	1,157	1,202
	266,157	253,452
Less: current portion	(6,552)	(15,538)
	$ 259,605	$ 237,914

On August 5, 2011 Carrols LLC and Fiesta Restaurant Group each entered into a new and independent senior secured credit facility. The new Carrols LLC senior secured credit facility provides for aggregate term loan borrowings of $65.0 million and a revolving credit facility that provides for aggregate borrowings of up to $20.0 million. The new Fiesta Restaurant Group senior secured credit facility consists of a revolving credit facility that provides for aggregate borrowings of up to $25.0 million. Also on August 5, 2011, Fiesta Restaurant Group issued $200.0 million of 8.875% Senior Secured Second Lien Notes due 2016 (the "Fiesta Notes"). Carrols LLC used net proceeds from the term loan borrowings of $65.0 million under the Carrols LLC secured credit facility and Fiesta Restaurant Group used net proceeds from the sale of the Fiesta Notes to distribute funds to Carrols to enable Carrols to (i) repay all outstanding indebtedness under Carrols prior senior credit facility, (ii) repurchase its outstanding 9% Senior Subordinated Notes due 2013 (the "Carrols Notes") pursuant to a cash tender offer and related consent solicitation and to pay the related tender premium and (iii) pay related fees and expenses. On October 2, 2011, there were no outstanding revolving credit borrowings under the new Carrols LLC senior secured credit facility or the new Fiesta Restaurant Group senior secured credit facility.

In connection with these transactions, on July 22, 2011 Carrols commenced a tender offer and consent solicitation for all of its outstanding Carrols Notes. On August 5, 2011, $118.4 million were accepted for payment and paid by Carrols. Carrols LLC distributed to Carrols net proceeds from the term loan borrowings of $65.0 million under the Carrols LLC senior secured credit facility and Fiesta Restaurant Group distributed to Carrols net proceeds from the sale of $200.0 million of Fiesta Notes to enable Carrols to redeem the balance of its outstanding Carrols Notes not tendered in the tender offer, which expired on August 18, 2011. On August 22, 2011, Carrols completed the cash tender offer and consent solicitation for all of its outstanding notes and called for the redemption of the $46.2 million of the Carrols Notes that were not tendered in the tender offer and irrevocably deposited with the trustee for the Carrols Notes an amount of funds sufficient to redeem the Carrols Notes. Consequently, on August 22, 2011, each of Carrols and the subsidiary guarantors terminated its obligations under the Carrols Notes and under the indenture governing the Carrols Notes.

As a result of these refinancing transactions, Carrols recorded a loss on extinguishment of debt in the third quarter of 2011 of $2.4 million consisting of the write-off of previously deferred financing fees of $1.5 million, the tender premium paid for redemption of the Carrols Notes and other professional fees associated with the tender offer.

New Senior Secured Credit Facilities. On August 5, 2011 Fiesta Restaurant Group entered into a first lien revolving credit facility providing for aggregate borrowings of up to $25.0 million (including $10.0 million available for letters of credit). The revolving credit facility also provides for incremental increases of up to $5.0 million, in the aggregate, to the revolving credit borrowings available under the facility, and matures on February 5, 2016. Borrowings under the revolving credit facility bear interest at a per annum rate, at Fiesta Restaurant Group's option, of either (all terms as defined in the Fiesta Restaurant senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 2.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group senior secured credit facility), or

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands of dollars except share and per share amounts)

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 3.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group senior secured credit facility).

Fiesta Restaurant Group's obligations under the Fiesta Restaurant Group senior secured credit facility are secured by a first priority lien on substantially all of the assets of Fiesta Restaurant Group and its material subsidiaries, as guarantors, (including a pledge of all of the capital stock and equity interests of its material subsidiaries).

The Fiesta Restaurant Group senior secured senior credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under this facility if there is a default under any indebtedness of Fiesta Restaurant Group having an outstanding principal amount of $2.5 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. As of October 2, 2011, Fiesta Restaurant Group was in compliance with the covenants under its senior secured credit facility. After reserving $7.6 million for letters of credit guaranteed by the facility, $17.4 million was available for borrowing at October 2, 2011.

On August 5, 2011 Carrols LLC entered into a new senior secured credit facility, which provides for $65.0 million aggregate term loan borrowings and a revolving credit facility which provides for aggregate borrowings of up to $20.0 million (including $10.0 million available for letters of credit) both maturing on August 5, 2016. The Carrols LLC senior secured credit facility also provides for incremental borrowing increases of up to $25 million, in the aggregate, to the revolving credit facility and term loan borrowings available under the facility. Borrowings under the term loan and revolving credit borrowings under the facility bear interest at a per annum rate, at Carrols LLC's option, of either (all terms as defined in the Carrols LLC senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 2.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC senior secured credit facility), or

2) the LIBOR Rate plus the applicable margin of 3.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 3.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC senior secured credit facility).

Under the Carrols LLC senior secured credit facility, Carrols LLC will be required to make mandatory prepayments of principal on term loan borrowings (i) annually in an amount equal to 50% to 100% of Excess Cash Flow (as defined in the Carrols LLC senior secured credit facility) based on Carrols LLC's Adjusted Leverage Ratio and (ii) in the event of dispositions of assets, debt issuances and insurance and condemnation proceeds (all subject to certain exceptions).

The term loan borrowings under the Carrols LLC senior secured credit facility are payable in consecutive quarterly principal payments of $1.625 million beginning on the last day of the fourth quarter of 2011 through the first quarter of 2016 with the remaining outstanding principal amount of $30.75 million due on the maturity date of August 5, 2016.

Carrols LLC's obligations under the Carrols LLC senior secured credit facility are secured by a first priority lien on substantially all of the assets of Carrols LLC and by a pledge by Carrols of all of the outstanding equity interests of Carrols LLC.

The Carrols LLC senior secured credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under this facility if there is a default under any indebtedness of Carrols LLC having an outstanding principal amount of $2.5 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. As of October 2, 2011, Carrols LLC was in compliance with the covenants under its senior secured credit facility. After reserving $5.9 million for letters of credit guaranteed by the facility, $19.1 million was available for borrowing at October 2, 2011.

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
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Fiesta Restaurant Group Senior Secured Second Lien Notes. On August 5, 2011, Fiesta Restaurant Group issued $200.0 million of 8.875% Senior Secured Second Lien Notes due 2016 pursuant to an indenture dated as of August 5, 2011 governing such notes. The Fiesta Notes mature and are payable on August 15, 2016. Interest is payable semi-annually on February 15 and August 15 with the first interest payment due on February 15, 2012. The Fiesta Notes are secured by second-priority liens on substantially all of Fiesta Restaurant Group's and its material subsidiaries' assets.

The Fiesta Notes are redeemable at the option of Fiesta Restaurant Group in whole or in part at any time after February 15, 2014 at a price of 104.438% of the principal amount plus accrued and unpaid interest, if any, if redeemed before February 15, 2015, 102.219% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2015 but before February 15, 2016 and 100% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2016. Prior to February 14, 2014, Fiesta Restaurant Group may redeem some or all of the Fiesta Notes at a redemption price of 100% of the principal amount of each note plus accrued and unpaid interest, if any, and a make-whole premium. In addition, at any time prior to February 15, 2014, Fiesta Restaurant Group may redeem up to 35% of the Fiesta Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 108.875% of the principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

The indenture governing the Fiesta Notes includes certain covenants, including limitations and restrictions on Fiesta Restaurant Group and its material subsidiaries who are guarantors under such indenture to incur additional debt, issue preferred stock, pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments, incur liens, sell assets, enter into transactions with affiliates, agree to payment restrictions affecting certain of its material subsidiaries and enter into mergers, consolidations or sales of all or substantially all of Fiesta Restaurant Group's or its material subsidiaries' assets. These covenants are subject to certain exceptions and qualifications including, without limitation, permitting the spin-off transaction discussed in Note 1.

The indenture governing the Fiesta Notes contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under these notes and the indenture if there is a default under any indebtedness of Fiesta Restaurant Group having an outstanding principal amount of $15.0 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. Fiesta Restaurant group was in compliance as of October 2, 2011 with the restrictive covenants of the indenture governing the Fiesta Notes.

Carrols Prior Senior Credit Facility. Carrols' prior senior credit facility totaled $185 million, originally consisting of $120 million principal amount of term loan A borrowings and a $65.0 million revolving credit facility (including a sub limit of up to $25.0 million for letters of credit and up to $5.0 million for swingline loans), maturing on March 8, 2012.

Carrols Prior Senior Subordinated Notes. Carrols' prior senior subordinated notes consisted of issued $180 million of 9% Senior Subordinated Notes due 2013 that bore interest at a rate of 9% payable semi-annually on January 15 and July 15 and matured on January 15, 2013.

6. Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2011 and 2010 was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Current	$ 956	$ 2,620	$ 890	$5,207
Deferred	458	166	3,464	248
	$1,414	$ 2,786	$4,354	$5,455

The provision for income taxes for the three and nine months ended September 30, 2011 was derived using an estimated effective annual income tax rate for 2011 of 30.1%, which excludes any discrete tax adjustments. Discrete tax adjustments decreased the provision for income taxes by $95 and $336 in the three and nine months ended September 30, 2011, respectively.

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
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The provision for income taxes for the three and nine months ended September 30, 2010 was derived using an estimated effective annual income tax rate for 2010 of 36.6%, which excludes any discrete tax adjustments. Discrete tax adjustments increased the provision for income taxes by $108 and $38 in the three and nine months ended September 30, 2010, respectively.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2011 and December 31, 2010, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions.

The tax years 2008-2010 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 any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

7. Other Liabilities, Long-Term

Other liabilities, long-term, at September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Accrued occupancy costs	$ 13,861	$ 13,250
Accrued workers' compensation costs	3,583	3,423
Deferred compensation	901	2,937
Other	3,164	3,442
	$ 21,509	$ 23,052

Accrued occupancy costs include obligations pertaining to closed restaurant locations, contingent rent and accruals to expense operating lease rental payments on a straight-line basis over the lease term.

The following table presents the activity in the closed-store reserve included in accrued occupancy costs at September 30, 2011 and December 31, 2010:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Balance, beginning of period	$ 1,665	$ 862
Accruals for additional lease charges	987	1,279
Payments, net	(753)	(632)
Other adjustments	117	156
Balance, end of period	$ 2,016	$ 1,665

8. Postretirement Benefits

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

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The following summarizes the components of net periodic postretirement benefit income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service cost	$ 7	$ 8	$ 21	$ 23
Interest cost	24	27	73	81
Amortization of net gains and losses	25	24	74	73
Amortization of prior service credit	(90)	(90)	(269)	(270)
Net periodic postretirement benefit income	$ (34)	$ (31)	$ (101)	$ (93)

During the nine months ended September 30, 2011, the Company made contributions of $130 to its postretirement plan and expects to make additional contributions during 2011. Contributions made by the Company to its postretirement plan for the year ended December 31, 2010 were $156.

9. Lease Financing Obligations

The Company has previously entered into sale-leaseback transactions involving certain restaurant properties that did not qualify for sale-leaseback accounting and as a result were classified as financing transactions. Under the financing method, the assets remain on the consolidated balance sheet and proceeds received by the Company from these transactions are recorded as a financing liability. Payments under these leases are applied as payments of imputed interest and deemed principal on the underlying financing obligations.

During the second quarter of 2011, the Company entered into a sale-leaseback transaction for a restaurant property that did not qualify for sale-leaseback accounting and the net proceeds of $1.7 million were recorded as a lease financing obligation. In the third quarter of 2011, the condition that precluded sale-leaseback accounting was cured. As a result, the Company reduced its lease financing obligations by $1.7 million and recorded a loss of $0.1 million which is included in other income (expense) on the consolidated statement of operations.

Interest expense associated with lease financing obligations for the three months ended September 30, 2011 and 2010 was $0.3 million and $0.2 million, respectively, and was $0.8 million and $0.7 million for the nine months ended September 30, 2011 and 2010, respectively.

10. Business Segment Information

The Company is engaged in the quick-service and quick-casual restaurant industry, with three restaurant concepts: Burger King, operating as a franchisee, and Pollo Tropical and Taco Cabana, both Company-owned concepts. Pollo Tropical is a quick-casual restaurant brand offering a wide selection of tropical and Caribbean-inspired food, featuring grilled chicken marinated in a proprietary blend of tropical fruit juices and spices. Taco Cabana is a quick-casual restaurant brand offering a wide selection of fresh Tex-Mex and traditional Mexican style food, including sizzling fajitas, quesadillas, enchiladas, burritos and other Tex-Mex dishes.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The following table includes Adjusted Segment EBITDA, which is the measure of segment profit or loss reported to the chief operating decision maker for purposes of allocating resources to the segments and assessing their performance. Adjusted Segment EBITDA is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment losses and other lease charges, stock-based compensation expense, other income and expense and gains and losses on extinguishment of debt.

The "Other" column includes corporate related items not allocated to reportable segments and consists primarily of cash, certain other assets, corporate property and equipment, goodwill and deferred income taxes.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
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Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
September 30, 2011:					
Total revenues	$ 52,675	$ 68,482	$ 90,599	$ —	$ 211,756
Cost of sales	17,499	21,334	26,868	—	65,701
Restaurant wages and related expenses	12,114	20,430	27,619	—	60,163
Restaurant rent expenses	2,505	4,011	5,749	—	12,265
General and administrative expenses (1)	3,271	3,429	7,002	—	13,702
Depreciation and amortization	2,034	2,288	3,506	418	8,246
Adjusted Segment EBITDA	8,582	7,353	6,150		
Capital expenditures, including acquisitions	3,187	2,508	6,120	381	12,196
September 30, 2010:					
Total revenues	$ 47,567	$ 63,702	$ 90,356	$ —	$ 201,625
Cost of sales	15,020	18,939	26,134	—	60,093
Restaurant wages and related expenses	11,419	19,394	28,214	—	59,027
Restaurant rent expenses	2,428	3,908	5,699	—	12,035
General and administrative expenses (1)	3,306	2,424	6,292	—	12,022
Depreciation and amortization	2,004	2,226	3,394	456	8,080
Adjusted Segment EBITDA	7,489	6,483	6,394		
Capital expenditures, including acquisitions	3,842	3,395	2,658	252	10,147
Nine Months Ended					
September 30, 2011:					
Total revenues	$157,553	$200,469	$260,816	$ —	$ 618,838
Cost of sales	52,062	62,790	77,336	—	192,188
Restaurant wages and related expenses	36,721	60,228	82,014	—	178,963
Restaurant rent expenses	7,255	12,121	17,151	—	36,527
General and administrative expenses (1)	9,735	9,885	21,687	—	41,307
Depreciation and amortization	6,117	6,912	10,503	1,211	24,743
Adjusted Segment EBITDA	28,222	20,849	12,402		
Capital expenditures, including acquisitions	7,344	10,353	13,942	1,228	32,867
September 30, 2010:					
Total revenues	$139,873	$189,941	$271,431	$ —	$ 601,245
Cost of sales	44,880	56,644	80,736	—	182,260
Restaurant wages and related expenses	34,249	58,055	85,468	—	177,772
Restaurant rent expenses	7,314	11,743	17,566	—	36,623
General and administrative expenses (1)	9,184	8,277	19,735	—	37,196
Depreciation and amortization	5,876	6,744	10,344	1,351	24,315
Adjusted Segment EBITDA	22,361	20,117	15,702		
Capital expenditures, including acquisitions	7,719	8,314	9,422	857	26,312
Identifiable Assets:					
At September 30, 2011	$ 50,173	$ 59,893	$146,779	$195,211	$ 452,056
At December 31, 2010	51,125	63,061	142,922	169,194	426,302

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

CARROLS RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—Continued
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nine months ended September 30, 2011, the administrative support expenses included in the Burger King segment provided to Pollo Tropical were $1.1 million and $3.3 million, respectively, and the administrative support expenses provided to Taco Cabana were $1.4 and $4.2 million, respectively. For the three and nine months ended September 30, 2010, these administrative support expenses were $0.8 million and $2.8 million, respectively, for Pollo Tropical and $1.1 million and $3.6 million, respectively, for Taco Cabana.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Adjusted Segment EBITDA:				
Pollo Tropical	$ 8,582	$ 7,489	$28,222	$22,361
Taco Cabana	7,353	6,483	20,849	20,117
Burger King	6,150	6,394	12,402	15,702
Less:				
Depreciation and amortization	8,246	8,080	24,743	24,315
Impairment and other lease charges	(11)	191	2,044	4,092
Interest expense	5,757	4,693	14,949	14,144
Provision for income taxes	1,414	2,786	4,354	5,455
Stock-based compensation expense	720	423	2,118	1,232
Loss on extinguishment of debt	2,449	—	2,449	—
Other expense (income)	105	(400)	(343)	(400)
Net income	$ 3,405	$ 4,593	$11,159	$ 9,342

11. Commitments and Contingencies

On November 16, 1998, the Equal Employment Opportunity Commission (“EEOC”) filed suit in the United States District Court for the Northern District of New York (the “Court”), under Title VII of the Civil Rights Act of 1964, as amended, against Carrols. The complaint alleged that Carrols engaged in a pattern or practice of unlawful discrimination, harassment and retaliation against former and current female employees. The EEOC ultimately attempted to present evidence of 511 individuals that it believed constituted the “class” of claimants for which it was seeking monetary and injunctive relief from Carrols. On April 20, 2005, the Court issued a decision and order granting Carrols’ Motion for Summary Judgment that Carrols filed in January 2004, dismissing the EEOC’s pattern or practice claim. Carrols then moved for summary judgment against the claims of the 511 individual claimants. On March 2, 2011, the Court issued a decision and order granting summary judgment against the claims of all but 131 of the 511 individual claimants and dismissed 380 of the individual claimants from the case. Both the EEOC and Carrols have since filed motions for reconsideration in part of the Court’s March 2, 2011 decision and order, as a result of which the number of surviving claimants may increase to as many as 184 or decrease to as few as four. It is not possible to predict the outcome of these motions at this time.

Subject to possible appeal by the EEOC, the EEOC’s pattern or practice claim is dismissed; however, the Court has yet to determine how the claims of the individual claimants ultimately determined to survive will proceed. Although the Company believes that the EEOC’s continued class litigation argument is without merit, it is not possible to predict the outcome of that matter on an appeal, if one is taken. The Company does not believe that any of the remaining individual claims would have a material impact on its consolidated financial statements.

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

12. Net Income per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding plus the dilutive effect of outstanding stock options using the treasury stock method. To the extent such outstanding stock options are antidilutive they are excluded from the calculation of diluted net income per share.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Basic net income per share:				
Net income	$ 3,405	$ 4,593	$ 11,159	$ 9,342
Weighted average common shares outstanding	21,690,753	21,623,221	21,665,551	21,618,624
Basic net income per share	$ 0.16	$ 0.21	$ 0.52	$ 0.43
Diluted net income per share:				
Net income for diluted net income per share	$ 3,405	$ 4,593	$ 11,159	$ 9,342
Shares used in computed basic net income per share	21,690,753	21,623,221	21,665,551	21,618,624
Dilutive effect of non-vested shares and stock options	541,786	154,104	488,052	201,072
Shares used in computed diluted net income per share	22,232,539	21,777,325	22,153,603	21,819,696
Diluted net income per share	$ 0.15	$ 0.21	$ 0.50	$ 0.43
Shares excluded from diluted net income per share computation (1)	1,027,616	2,137,039	1,328,002	2,109,818

(1) These shares subject to stock options were not included in the computation of diluted net income per share because they would have been antidilutive for the periods presented.

13. Other Comprehensive Income

The items that currently impact the Company's other comprehensive income are changes in postretirement benefit obligations, net of tax.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	$3,405	$4,593	$11,159	$9,342
Change in postretirement benefit obligation, net of tax	—	—	—	10
Comprehensive income	$3,405	$4,593	$11,159	$9,352

14. Other Expense(Income)

In the nine months ended September 30, 2011, the Company recorded a gain of $0.3 million related to the sale of a non-operating Burger King property and a gain of $0.1 million related to a property insurance recovery from a fire at a Burger King restaurant and a loss of $0.1 million from the sale of a Taco Cabana property in a sale-leaseback transaction. During the three months ended September 30, 2010, the Company recorded a gain of $0.4 million related to a property insurance recovery from a fire at a Burger King restaurant.

15. Recent Accounting Developments

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance on testing goodwill for impairment. The guidance provides entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, provided that the entity has not yet performed its 2011 annual impairment test or issued its financial statements. The Company is evaluating the impact of this guidance on its annual testing for goodwill impairment.

In September 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives: (1) to present items of net income and other comprehensive income in one continuous statement; or

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(2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required. The Company is in the process of deciding which alternative it will choose upon adoption.

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

Throughout this Quarterly Report on Form 10-Q, we refer to Carrols Restaurant Group, Inc. as "Carrols Restaurant Group" and, together with its consolidated subsidiaries, as "we", "our" and "us" unless otherwise indicated or the context otherwise requires. Any reference to "Carrols" refers to our wholly-owned subsidiary, Carrols Corporation, a Delaware corporation, and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires.

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended January 2, 2011 and January 3, 2010 will be referred to as the fiscal years ended December 31, 2010 and 2009, respectively. Similarly, all references herein to the three and nine months ended October 2, 2011 and October 3, 2010 will be referred to as the three and nine months ended September 30, 2011 and 2010, respectively. The fiscal years ended December 31, 2010 and 2009 contained 52 weeks and 53 weeks, respectively, and the three and nine months ended September 30, 2011 and 2010 each contained thirteen and thirty nine weeks, respectively.

Introduction

We are a holding company and conduct all of our operations through our direct and indirect subsidiaries and have no assets other than the shares of capital stock of Carrols, our direct wholly-owned subsidiary. The following 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 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 31, 2010. 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.

Executive Summary—an executive review of our performance for the three months ended September 30, 2011.

Results of Operations—an analysis of our results of operations for the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010, 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 operating three restaurant brands in the quick-casual and quick-service restaurant segments with 551 restaurants located in 17 states as of October 2, 2011. We have been operating restaurants for more than 50 years. Through our indirect wholly-owned subsidiary, Fiesta Restaurant Group, Inc., we own and operate two restaurant brands, Pollo Tropical and Taco Cabana, which we acquired in 1998 and 2000, respectively (collectively "Fiesta Restaurant Group"). We are also the largest Burger King franchisee, based on the number of restaurants, and have operated Burger King restaurants since 1976. As of October 2, 2011, our company-owned restaurants included 91 Pollo Tropical restaurants and 158 Taco Cabana restaurants, and we operated 302 Burger King restaurants under franchise agreements.

We are franchising our Pollo Tropical restaurants primarily internationally and, as of October 2, 2011, we had 30 franchised restaurants located in Puerto Rico, Ecuador, Honduras, the Bahamas, Trinidad, Venezuela and on college campuses in Florida. We also have agreements for the future development of franchised Pollo Tropical restaurants in Panama, Tobago, Aruba, Curacao, Bonaire and Costa Rica. Although we are not actively franchising our Taco Cabana restaurants, we had five Taco Cabana franchised restaurants at October 2, 2011 located in the United States.

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

- *Restaurant sales* consist of food and beverage sales, net of discounts, at our company-owned and operated restaurants. Restaurant sales are influenced by menu price increases, new restaurant openings, closures of restaurants and changes in comparable restaurant sales. Restaurants are included in comparable restaurant sales after they have been open for 12 months for our Burger King restaurants and 18 months for our Pollo Tropical and Taco Cabana restaurants. For comparative purposes, the calculation of the changes in comparable restaurant sales is based on a 52-week year.
- *Cost of sales* consists of food, paper and beverage costs including packaging costs, less purchase discounts. Cost of sales is generally influenced by changes in commodity costs, the sales mix of items sold and the effectiveness of our restaurant-level controls to manage food and paper costs. Key commodities for our Pollo Tropical and Taco Cabana restaurants, including chicken and beef, are generally purchased under contracts for future periods up to one year.
- *Restaurant wages and related expenses* include all restaurant management and hourly productive labor costs, employer payroll taxes, restaurant-level bonuses and related benefits. Payroll and related taxes and benefits are subject to inflation, including minimum wage increases and increased costs for health insurance, workers' compensation insurance and state unemployment insurance.
- *Restaurant rent expense* includes base rent and contingent rent on our leases characterized as operating leases, reduced by the amortization of gains on sale-leaseback transactions.
- *Other restaurant operating expenses* include all other restaurant-level operating costs, the major components of which are royalty expenses for our Burger King restaurants, utilities, repairs and maintenance, real estate taxes and credit card fees.
- *Advertising expense* includes all promotional expenses including television, radio, billboards and other media for our Pollo Tropical and Taco Cabana restaurants and advertising payments based on a percentage of sales as required under our franchise agreements for our Burger King restaurants.
- *General and administrative expenses* are comprised primarily of (1) salaries and expenses associated with corporate and administrative functions that support the development and operations of all of our restaurants, (2) legal, auditing and other professional fees and (3) stock-based compensation expense.
- *Adjusted Segment EBITDA*, which is the measure of segment profit or loss used by our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance, is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense, other income and expense and gains and losses on the extinguishment of debt. Adjusted Segment EBITDA may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation.
- *Depreciation and amortization expense* primarily includes the depreciation of fixed assets, including equipment, owned buildings and leasehold improvements utilized in our restaurants, depreciation of assets under lease financing obligations and the amortization of Burger King franchise rights and franchise fees.
- *Interest expense* consists primarily of borrowings under our bank credit facilities, interest expense associated with Carrols' 9% Senior Subordinated Notes due 2013 (the "Carrols Notes")which were repurchased in a tender offer or redeemed in the third quarter of 2011, the amortization of deferred financing costs, imputed interest expense on leases entered into in connection with sale-leaseback transactions which are accounted for as lease financing obligations and any gains and losses from the settlement of lease financing obligations. Subsequent to August 5, 2011, interest expense also includes interest associated with the issuance of $200 million of Fiesta Restaurant Group 8.875% Senior Secured Second Lien Notes due 2016.

Recent and Future Events Affecting our Results of Operations

Spin-off of Fiesta Restaurant Group, Inc.

On February 24, 2011 we announced our intention to split our business into two separate, publicly-traded companies through the tax-free spin-off of Fiesta Restaurant Group, Inc. to our stockholders. If the spin-off is consummated, the common stock of Fiesta Restaurant Group will be distributed in the form of a pro rata dividend to our stockholders. Fiesta Restaurant Group would continue to operate our Pollo Tropical and Taco Cabana businesses and we would continue to own and operate our franchised Burger King restaurants through our subsidiaries Carrols and Carrols LLC.

We are implementing detailed plans for the proposed spin-off, including the separation plan, transaction structure and timing, composition of senior management and the boards of directors, capital structure and other matters. The spin-off will be subject to approval by our Board of Directors, customary regulatory and other approvals and the receipt of a favorable IRS tax ruling, among other things.

We believe that the proposed spin-off will enable each company to better focus on its respective opportunities as well as to pursue its own distinct operating plan and growth strategy including acquisition opportunities in the Burger King system. We expect to complete the spin-off in the first quarter of 2012; however there can be no assurance that we will complete the spin-off by then or at all.

Refinancing of Outstanding Indebtedness

On August 5, 2011, we completed a refinancing of our existing indebtedness. Carrols LLC and Fiesta Restaurant Group each entered into new and independent financing arrangements. The proceeds from these financings were used to repay all indebtedness outstanding under Carrols senior credit facility and the Carrols Notes, as well as to pay all related fees and expenses. Excess cash from the financings was approximately $9.5 million and is available to us for general corporate purposes.

Fiesta Restaurant Group sold $200 million of 8.875% Senior Secured Second Lien Notes due 2016 (the “Fiesta Notes”)and entered into a $25 million senior secured revolving credit facility which was undrawn at closing. Carrols LLC entered into an $85 million senior secured credit facility including term loan borrowings of $65 million and an undrawn $20 million revolving credit facility. Proceeds from these borrowings were used to repay approximately $80.2 million outstanding under Carrols’ senior credit facility, to repurchase or redeem $165.0 million of the Carrols Notes, to pay accrued interest and related fees and expenses. Total interest expense is anticipated to increase approximately $2.0 million to $2.5 million in the second half of 2011 as a result of these transactions.

Future Restaurant Closures

We evaluate the performance of our Burger King restaurants on an ongoing basis including an assessment of the current and future operating results of the restaurant, and in relation to Burger King franchise agreement renewals, the cost of required capital improvements. We may elect to close restaurants based on such evaluation. In 2010, we closed seven Burger King restaurants, not including restaurants relocated within the same market area. In the first nine months of 2011 we have closed four Burger King restaurants, not including one restaurant relocated within the same market area. We currently anticipate that we will close one or two additional Burger King restaurants in 2011, excluding any relocations.

We also closed two underperforming Taco Cabana restaurants and two underperforming Pollo Tropical restaurants in 2010 and two underperforming Pollo Tropical restaurants and one underperforming Taco Cabana restaurant in the first nine months of 2011. We currently do not anticipate closing any additional Pollo Tropical or Taco Cabana restaurants in 2011.

We do not believe that the future impact on our consolidated results of operations from such restaurant closures will be material, although there can be no assurance in this regard. Our determination of whether to close restaurants in the future is subject to further evaluation and may change.

Executive Summary—Operating Performance for the Three Months Ended September 30, 2011

Total revenues for the third quarter of 2011 increased 5.0% to $211.8 million from $201.6 million in the third quarter of 2010. Revenues from Fiesta Restaurant Group increased 8.9% in the third quarter of 2011 to $121.2 million and revenues from our Burger King restaurants increased 0.3% to $90.6 million from $90.4 million in the third quarter of 2010. Comparable restaurant sales in the third quarter of 2011 increased 7.9% at our Pollo Tropical restaurants, increased 5.3% at our Taco Cabana restaurants and increased 1.6% at our Burger King restaurants. The comparable restaurant sales increase at our Pollo Tropical restaurants was primarily a result of higher customer traffic while the comparable sales increases at our Taco Cabana and Burger King restaurants was due primarily to an increase in average check.

Restaurant operating margins in the third quarter of 2011 were negatively impacted by higher food costs at each of our three restaurant brands as cost of sales, as a percentage of total restaurant sales, increased to 31.1% from 29.9%. These increases were partially offset by favorable sales mix changes at our Burger King restaurants, and, to a lesser extent, at Pollo Tropical as well as menu price increases taken in the last twelve months. As a percentage of total restaurant sales, restaurant wages and related expenses decreased to 28.5% in the third quarter of 2011 from 29.3% in the third quarter of 2010 due to the effect of higher sales volumes at our Pollo Tropical and Taco Cabana restaurants on fixed labor costs and productive labor efficiencies at our Burger King restaurants. Advertising expense, as a percentage of total restaurant sales, decreased to 3.9% in the third quarter of 2011 from 4.4% in the third quarter of 2010 as a result of lower advertising spending for our Taco Cabana restaurants due to timing. Operating results were favorably impacted by lower utility costs which, as a percentage of total restaurant sales, decreased to 3.7% in the third quarter of 2011 from 3.9% in the third quarter of 2010.

General and administrative expenses increased to $13.7 million in the third quarter of 2011 from $12.0 million in the third quarter of 2010 due to higher administrative bonus accruals of $1.1 million and higher stock-based compensation expense of $0.3 million. General and administrative expenses in the third quarter of 2011 also included $0.2 million of costs incurred in connection with the planned spin-off of Fiesta Restaurant Group.

Total interest expense increased $1.1 million to $5.8 million in the third quarter of 2011 due to our refinancing activities in the third quarter, which increased our effective interest rates due to both the change in the composition of our total indebtedness and an increase in our LIBOR based borrowing margins in our new credit facilities.

Our effective income tax rate in the third quarter of 2011, including discrete tax items which reduced income tax expense $0.1 million, decreased to 29.3% compared to 37.8% in the third quarter of 2010 due primarily to higher employment related tax credits.

As a result of the above, our net income decreased to $3.4 million in the third quarter of 2011 from $4.6 million in the third quarter of 2010.

Results of Operations

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

The following table sets forth, for the three months ended September 30, 2011 and 2010, selected operating results as a percentage of consolidated restaurant sales:

	2011	2010
Restaurant sales:		
Pollo Tropical	24.8%	23.5%
Taco Cabana	32.3%	31.6%
Burger King	42.9%	44.9%
Total restaurant sales	100.0%	100.0%
Costs and expenses:		
Cost of sales	31.1%	29.9%
Restaurant wages and related expenses	28.5%	29.3%
Restaurant rent expense	5.8%	6.0%
Other restaurant operating expenses	14.3%	14.7%
Advertising expense	3.9%	4.4%
General and administrative	6.5%	6.0%

Since the beginning of the third quarter of 2010 through the end of the third quarter of 2011, we have opened four new Pollo Tropical restaurants, five new Taco Cabana restaurants and two new Burger King restaurants. One of the new Burger King restaurants was relocated within its market area. During the same period we closed eight Burger King restaurants, excluding relocations, three Pollo Tropical restaurants and two Taco Cabana restaurants.

Restaurant Sales. Total restaurant sales in the third quarter of 2011 increased 5.0%, to $211.4 million from $201.3 million in the third quarter of 2010. Total restaurant sales for Fiesta Restaurant Group increased 8.9% to $120.8 million in the third quarter of 2011 compared to $110.9 million in the third quarter of 2010.

Pollo Tropical restaurant sales in the third quarter of 2011 increased 10.8% to $52.4 million due primarily to an increase in comparable restaurant sales of 7.9% resulting from a 5.8% increase in customer traffic and a 2.1% increase in average check, compared to the third quarter of 2010. In addition, four restaurants opened since the beginning of the third quarter of 2010 contributed $1.9 million in additional sales in the third quarter. The effect of menu price increases taken in the last twelve months was approximately 2.0% due to price increases taken primarily in the second quarter of 2011. There were no menu price increases at our Pollo Tropical restaurants in 2010.

Taco Cabana restaurant sales in the third quarter of 2011 increased 7.5% to $68.4 million due primarily to an increase in comparable restaurant sales of 5.3% in the third quarter of 2011 resulting from a 6.4% increase in average check from menu prices increases and a shift in sales mix partially offset by a 1.1% decrease in customer traffic. The effect of menu price increases taken in the last twelve months was approximately 3.7%, including price increases taken in the second quarter of 2011 to partially offset recent increases in commodity costs. In addition, five restaurants opened since the beginning of the third quarter of 2010 contributed $1.9 million in additional sales in the third quarter.

Burger King restaurant sales in the third quarter increased 0.3% to $90.6 million due to a 1.6% increase in comparable restaurant sales resulting from an increase in average check of 7.8% from a shift in sales mix and the effect of menu price increases taken in the last twelve months of 4.8%. This was offset by lower customer traffic of 5.8% and the closure, excluding relocations, of eight Burger King restaurants since the beginning of the third quarter of 2010.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales increased to 33.4% in the third quarter of 2011 from 31.8% in the third quarter of 2010 due primarily to higher commodity prices (1.9%), including chicken (0.8%) and fuel surcharges, partially offset by the effect of menu price increases. Pollo Tropical restaurant wages and related expenses decreased to 23.1% in the third quarter of 2011 from 24.1% in the third quarter of 2010 due primarily to the effect of higher sales volumes on fixed labor costs and lower restaurant-level bonus accruals (0.4%). Pollo Tropical other restaurant operating expenses were 13.3% in both the third quarter of 2011 and 2010 as the effect of higher sales volumes on fixed operating costs was offset by higher repairs and maintenance expense and higher store opening costs. Pollo Tropical advertising expense increased slightly to 3.7% in the third quarter of 2011 from 3.6% in the third quarter of 2010.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 31.2% in the third quarter of 2011 from 29.8% in the third quarter of 2010 due primarily to higher commodity prices including beef fajita meat (2.4%) partially offset by the effect of menu price increases taken in the last twelve months and favorable sales mix changes. Taco Cabana restaurant wages and related expenses decreased to 29.9% in the third quarter of 2011 from 30.5% in the third quarter of 2010 due primarily to the effect of higher sales volumes on fixed labor costs. Taco Cabana other restaurant operating expenses decreased to 14.1% in the third quarter of 2011 from 14.7% in the third quarter of 2010 due primarily to lower utility costs (0.2%), lower operating supply costs and the effect of higher sales volumes on other fixed operating costs. Taco Cabana advertising expense decreased to 3.7% in the third quarter of 2011 from 5.2% in the third quarter of 2010 due to the timing of promotions in the prior year.

Burger King Operating Costs and Expenses (percentages stated as a percentage of Burger King restaurant sales). Burger King cost of sales increased to 29.7% in the third quarter of 2011 from 28.9% in the third quarter of 2010 due to higher commodity prices (2.7%), including beef, and higher sales discounts (0.7%). These factors were partially offset by a favorable sales mix compared to the third quarter of 2010 (1.1%), primarily from the discontinuation of the Buck Double, and the effect of menu price increases taken in the last twelve months. Burger King restaurant wages and related expenses decreased to 30.5% in the third quarter of 2011 from 31.2% in the third quarter of 2010 due to leveraging management and productive labor efficiencies (0.9%) and lower restaurant level bonus accruals, partially offset by higher workers compensation claim costs (0.4%). Burger King other restaurant operating expenses decreased to 15.1% in the third quarter of 2011 from 15.5% in the third quarter of 2010 due primarily to lower utility costs (0.3%). Burger King advertising expense was 4.2% in the both the third quarter of 2011 and of 2010.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 5.8% in the third quarter of 2011 from 6.0% in the third quarter of 2010 due primarily to the effect of sales increases in the third quarter of 2011 at our Pollo Tropical and Taco Cabana restaurants on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased $1.7 million in the third quarter of 2011 to $13.7 million and, as a percentage of total restaurant sales, increased to 6.5% compared to 6.0% in the third quarter of 2010 due primarily to an increase of $1.1 million in performance-based administrative bonus accruals, higher stock-based compensation expense of $0.3 million and $0.2 million of legal and professional fees incurred in connection with the planned spin-off of Fiesta Restaurant Group.

Adjusted Segment EBITDA. As a result of the factors set forth above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to $8.6 million in the third quarter of 2011 from $7.5 million in the third quarter of 2010. Adjusted Segment EBITDA for our Taco Cabana restaurants increased to $7.4 million in the third quarter of 2011 from $6.5 million in the third quarter of 2010. Adjusted Segment EBITDA for our Burger King restaurants decreased to $6.2 million in the third quarter of 2011 from $6.4 million in the third quarter of 2010.

Adjusted Segment EBITDA for our Burger King segment includes general and administrative expenses related directly to the Burger King segment as well as expenses associated with administrative support to our Pollo Tropical and Taco Cabana segments for executive management, information systems and certain accounting, legal and other administrative functions. For the third quarter of 2011, the administrative support expenses included in the Burger King segment provided to Pollo Tropical were $1.1 million and the administrative support expenses provided to Taco Cabana were $1.4 million. For the third quarter of 2010, these administrative support expenses included in the Burger King segment were $0.8 million for Pollo Tropical and $1.1 million for Taco Cabana.

Depreciation and Amortization Expense. Depreciation and amortization expense increased to $8.2 million in the third quarter of 2011 from $8.1 million in the third quarter of 2010.

Impairment and Other Lease Charges. Impairment and other lease charges in the third quarter consisted of lease charges of $0.1 million associated with the closure of a Pollo Tropical restaurant in the third quarter of 2011 and $0.1 million of sublease income to reduce our future minimum lease payments and ancillary costs related to a non-operating Taco Cabana restaurant property.

Interest Expense. Total interest expense increased $1.1 million to $5.8 million in the third quarter of 2011 due to rate increases on our senior secured credit facilities and a $35 million shift from senior term loan financing, which had a lower interest rate, to Fiesta Restaurant Group's high-yield debt financing, all as a result of our refinancing activities in the third quarter of 2011. The weighted average interest rate on our long-term debt, excluding lease financing obligations, increased to 7.4% in the third quarter of 2011 from 6.1% in the third quarter of 2010. Interest expense on lease financing obligations was $0.3 million in the third quarter of 2011 and $0.2 million in the third quarter of 2010.

Provision for Income Taxes. The provision for income taxes for the third quarter of 2011 was derived using an estimated effective annual income tax rate for 2011 of 30.1%, which excludes any discrete tax adjustments. Discrete tax adjustments in the third quarter of 2011 decreased the provision for income taxes by $0.1 million and resulted in an overall tax rate of 29.3%. The provision for income taxes for the third quarter of 2010 was derived using an estimated effective annual income tax rate for 2010 of 36.6%, which excluded any discrete tax adjustments. Discrete tax adjustments increased the provision for income taxes by $0.1 million in the third quarter of 2010 and resulted in an overall tax rate of 37.8%.

Net Income. As a result of the foregoing, net income was $3.4 million in the third quarter of 2011 compared to $4.6 million in the third quarter of 2010.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

The following table sets forth, for the nine months ended September 30, 2011 and 2010, selected operating results as a percentage of consolidated restaurant sales:

	2011	2010
Restaurant sales:		
Pollo Tropical	25.4%	23.2%
Taco Cabana	32.4%	31.6%
Burger King	42.2%	45.2%
Total restaurant sales	100.0%	100.0%
Costs and expenses:		
Cost of sales	31.1%	30.4%
Restaurant wages and related expenses	29.0%	29.6%
Restaurant rent expense	5.9%	6.1%
Other restaurant operating expenses	14.1%	14.5%
Advertising expense	3.8%	3.9%
General and administrative	6.7%	6.2%

Since the beginning of 2010 through the third quarter of 2011, we have opened four new Pollo Tropical restaurants, five new Taco Cabana restaurants and three new Burger King restaurants. Two of the new Burger King restaurants were relocations within their market areas. During the same period we closed four Pollo Tropical restaurants, three Taco Cabana restaurants and eleven Burger King restaurants, excluding relocations,

Restaurant Sales. Total restaurant sales in the first nine months of 2011 increased 2.9% to $617.6 million from $600.1 million in the first nine months of 2010. Restaurant sales for Fiesta Restaurant Group increased 8.6% to $356.8 million from $328.7 million in the first nine months of 2010.

Pollo Tropical restaurant sales in the first nine months of 2011 increased 12.7% to $156.5 million due primarily to an increase in comparable restaurant sales of 10.6% resulting from a 9.3% increase in customer traffic and a 1.3% increase in average check, compared to the first nine months of 2010. The effect of menu price increases in 2011 was 1.1%. In addition, four restaurants opened since the beginning of 2010 contributed $4.5 million in additional sales in the first nine months of 2011.

Taco Cabana restaurant sales in the first nine months of 2011 increased 5.5% to $200.2 million due primarily to a 4.0% increase in comparable restaurant sales resulting from an increase in average check of 3.8% and an increase in customer traffic of 0.2%, compared to the first nine months of 2010. The effect of menu price increases in 2011 was 2.8%. In addition, five restaurants opened since the beginning of 2010 contributed $3.9 million in additional sales in the first nine months of 2011.

Burger King restaurant sales in the first nine months of 2011 decreased 3.9% to $260.8 million due to a decrease in comparable restaurant sales of 2.3% from lower customer traffic and the closure, excluding relocations, of eleven Burger King restaurants since the beginning of 2010. In the first nine months of 2011, customer traffic decreased 9.1% and was partially offset by an increase in average check from sales mix changes and the effect of menu price increases in 2011 of 4.8%.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales increased to 33.3% in the first nine months of 2011 from 32.3% in the first nine months of 2010 due primarily to higher commodity prices (1.4%), including chicken (0.8%) and fuel surcharges, partially offset by favorable menu item sales mix shifts and the effect of menu price increases. Pollo Tropical restaurant wages and related expenses decreased to 23.5% in the first nine months of 2011 from 24.6% in the first nine months of 2010 due primarily to the effect of higher sales volumes on fixed labor costs and lower workers compensation claim costs (0.3%). Pollo Tropical other restaurant operating expenses decreased to 12.7% in the first nine months of 2011 from 13.2% in the first nine months of 2010 due primarily to lower real estate taxes (0.4%) and the effect of higher sales volumes on other fixed operating costs. Pollo Tropical advertising expense decreased slightly to 2.7% in the first nine months of 2011 from 2.8% in the first nine months of 2010. For all of 2011 our Pollo Tropical advertising expenses are expected to be approximately 2.6% to 2.8% of Pollo Tropical restaurant sales.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 31.4% in the first nine months of 2011 from 29.9% in the first nine months of 2010 due primarily to higher commodity prices including beef fajita cost increases (2.0%) partially offset by the effect of menu price increases taken since the beginning of 2010. Taco Cabana restaurant wages and related expenses decreased to 30.1% in the first nine months of 2011 from 30.6% in the first nine months of 2010 due primarily to the effect of higher sales volumes on fixed labor costs and lower medical claim costs (0.2%). Taco Cabana other restaurant operating expenses decreased to 13.6% in the first nine months of 2011 from 14.4% in the first nine months of 2010 due primarily to lower utility costs (0.4%), the reduction of operating supply costs and the effect of higher sales volumes on other fixed operating costs. Taco Cabana advertising expense decreased to 4.1% in the first nine months of 2011 from 4.3% in the first nine months of 2010 due to the timing of promotions. For all of 2011 our Taco Cabana advertising expenses are expected to be approximately 3.9% to 4.1% of Taco Cabana restaurant sales.

Burger King Operating Costs and Expenses (percentages stated as a percentage of Burger King restaurant sales). Burger King cost of sales was 29.7% in the both the first nine months of 2011 and 2010 as increases in commodity costs and higher promotional discounting were offset by the effect of menu price increases and a favorable sales mix as discussed above. Burger King restaurant wages and related expenses decreased to 31.4% in the first nine months of 2011 from 31.5% in the first nine months of 2010 due to the leveraging of productive labor efficiencies being substantially offset by the effect of lower sales volumes on fixed labor costs and higher workers compensation and medical claim costs (0.4%). Burger King other restaurant operating expenses increased to 15.4% in the first nine months of 2011 from 15.2% in the first nine months of 2010 due primarily to the effect of lower sales volumes on fixed operating costs. Burger King advertising expense was 4.2% in both the first nine months of 2011 and 2010. For all of 2011 our Burger King advertising expenses are expected to be approximately 4.1% to 4.3% of Burger King restaurant sales.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 5.9% in the first nine months of 2011 from 6.1% in the first nine months of 2010 due primarily to the effect of sales increases at our Pollo Tropical and Taco Cabana restaurants on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased $4.1 million in the first nine months of 2011 to $41.3 million and, as a percentage of total restaurant sales, increased to 6.7% from 6.2% in the first nine months of 2010 due primarily to an increase of $2.1 million in performance-based administrative bonus accruals, higher stock-based compensation expense of $0.9 million, higher legal and professional fees of $0.9 million including $0.7 million incurred in connection with the planned spin-off of Fiesta Restaurant Group.

Adjusted Segment EBITDA. As a result of the factors above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to $28.2 million in the first nine months of 2011 from $22.4 million in the first nine months of 2010. Adjusted Segment EBITDA for our Taco Cabana restaurants increased to $20.8 million in the first nine months of 2011 from $20.1 million in the first nine months of 2010. Adjusted Segment EBITDA for our Burger King restaurants decreased to $12.4 million in the first nine months of 2011 from $15.7 million in the first nine months of 2010.

Adjusted Segment EBITDA for our Burger King segment includes general and administrative expenses related directly to the Burger King segment as well as expenses associated with administrative support to our Pollo Tropical and Taco Cabana segments for executive management, information systems and certain accounting, legal and other administrative functions. For the first nine months of 2011, the administrative support expenses included in the Burger King segment provided to Pollo Tropical were $3.3 million and the administrative support expenses provided to Taco Cabana were $4.2 million. For the first nine months of 2010, these administrative support expenses included in the Burger King segment were $2.8 million for Pollo Tropical and $3.6 million for Taco Cabana.

Depreciation and Amortization. Depreciation and amortization expense increased to $24.7 million in the first nine months of 2011 from $24.3 million in the first nine months of 2010.

Impairment and Other Lease Charges. Impairment and other lease charges in the first nine months of 2011, in addition to the third quarter items discussed above, consisted of $1.0 million of impairment charges for underperforming Burger King restaurants, $0.6 million in other lease charges for two previously closed Pollo Tropical restaurants, $0.3 million of lease charges for a Taco Cabana restaurant that was closed in the second quarter of 2011, and $0.2 million in lease charges for two previously closed Taco Cabana restaurants.

Impairment and other lease charges in the first nine months of 2010 consisted of $1.4 million for an underperforming Pollo Tropical restaurant, $0.3 million to reduce the fair market value of a previously impaired Pollo Tropical restaurant, impairment charges of $1.1 million for an underperforming Taco Cabana restaurant, $0.3 million to reduce the fair market value of a previously impaired Taco Cabana restaurant and $0.4 million of impairment charges associated with three underperforming Burger King restaurants.

Interest Expense. Total interest expense increased $0.8 million to $14.9 million in the first nine months of 2011 due to refinancing our indebtedness in the third quarter of 2011. The weighted average interest rate on our long-term debt, excluding lease financing obligations, for the first nine months of 2011 was 6.7% compared to 6.0% in the first nine months of 2010. Interest expense on lease financing obligations was $0.8 million in the first nine months of 2011 and $0.7 in the first nine months of 2010.

Provision for Income Taxes. The provision for income taxes for the first nine months of 2011 was derived using an estimated effective annual income tax rate of for the year ending December 31, 2011 of 30.1%. Discrete tax adjustments reduced the provision for income taxes by $0.3 million in the first nine months of 2011 and resulted in an overall tax rate of 28.1%. The provision for income taxes for the first nine months of 2010 was derived using an estimated effective annual income tax rate for the year ending December 31, 2010 of 36.6%. Including discrete tax adjustments in the first nine months of 2010, the overall tax rate was 36.9%.

Net Income. As a result of the foregoing, net income was $11.2 million in the first nine months of 2011 compared to $9.3 million in the first nine months of 2010.

Liquidity and Capital Resources

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

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

Since 2009, we have limited our spending on new restaurant development in order to utilize our free cash flow to reduce our outstanding indebtedness and our financial leverage. We have continued to moderate new restaurant growth in 2011.

On August 5, 2011, we completed a refinancing of our existing indebtedness. Carrols LLC and Fiesta Restaurant Group each entered into new and independent financing arrangements. The proceeds from these financings were used to repay amounts outstanding under Carrols' senior credit facility and the Carrols Notes, as well as to pay accrued interest and all related fees and expenses. Excess cash generated from the financings was approximately $9.5 million.

Fiesta Restaurant Group sold $200 million of 8.875% Senior Secured Second Lien Notes due 2016 and entered into a $25 million senior secured revolving credit facility which was undrawn at closing. Carrols LLC entered into an $85 million secured credit facility including term loan borrowings of $65 million and an undrawn $20 million revolving credit facility. Proceeds from these borrowings were used to repay approximately $80.2 million outstanding under Carrols' senior credit facility, to repurchase $118.4 million of the Carrols Notes tendered pursuant to a cash tender offer (which ended August 18, 2011), and to pay accrued interest and related fees and expenses. In addition, the $46.6 million of Carrols Notes not tendered were repurchased upon completion of the cash tender offer or redeemed subsequent to its expiration along with payment for accrued interest and fees related to the tender offer.

Interest payments under our debt obligations, capital expenditures and payments related to our lease obligations represent significant liquidity requirements for us. We believe cash generated from our operations, availability of borrowing under our revolving credit facilities and proceeds from anticipated sale-leaseback transactions will provide sufficient cash availability to cover our anticipated working capital needs, capital expenditures and debt service requirements for the next twelve months.

Operating Activities. Net cash provided from operating activities for the first nine months of 2011 increased $9.7 million to $40.3 million from $30.6 million in the first nine months of 2010, due primarily to a reduction in the changes in the components of net working capital, including deferred income taxes, of $7.3 million, and an increase in net income, adjusted for non-cash items including depreciation and amortization, impairment and other lease charges, loss on extinguishment of debt and stock-based compensation expense.

Investing Activities. Net cash used for investing activities in the first nine months of 2011 and 2010 was $26.6 million and $24.1 million, respectively. Capital expenditures are the largest 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 Burger King franchise renewals; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants; and (4) corporate and restaurant information systems, including expenditures in 2011 for new point-of-sale systems for our Burger King restaurants.

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

	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
Nine Months Ended September 30, 2011					
New restaurant development	$3,075	$ 6,932	$ 1,619	$ —	$ 11,626
Restaurant remodeling	2,281	1,211	6,193	—	9,685
Other restaurant capital expenditures (1)	1,567	2,117	4,658	—	8,342
Corporate and restaurant information systems	421	93	1,472	1,228	3,214
Total capital expenditures	$7,344	$10,353	$13,942	$1,228	$ 32,867
Number of new restaurant openings (2)	2	4	2		8
Nine Months Ended September 30, 2010					
New restaurant development	$4,331	$ 3,183	$ 2,269	$ —	$ 9,783
Restaurant remodeling	1,573	2,819	4,180	—	8,572
Other restaurant capital expenditures (1)	1,763	2,259	2,973	—	6,995
Corporate and restaurant information systems	52	53	—	857	962
Total capital expenditures	$7,719	$ 8,314	$ 9,422	$ 857	$ 26,312
Number of new restaurant openings (2)	—	1	1		2

1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the first nine months of 2011 and 2010, total restaurant repair and maintenance expenses were approximately $14.1 million and $13.5 million, respectively.
2) Includes a Burger King restaurant which was relocated within the same market area under a new franchise agreement.

For 2011 we anticipate that total capital expenditures will range from $49 million to $51 million, although the actual amount of capital expenditures may differ from these estimates. In 2011 we plan to have opened a total of six new Pollo Tropical and Taco Cabana restaurants, one new Burger King restaurant and a relocation of one Burger King restaurant, all of which were open at the end of the third quarter. Capital expenditures for all of 2011 are expected to include approximately $12 million to $13 million for the development of new restaurants and purchase of related real estate. Capital expenditures in 2011 also are expected to include expenditures of approximately $32 million to $33 million for the ongoing reinvestment in our three restaurant concepts for remodeling costs and capital maintenance expenditures and approximately $5 million of other expenditures, including expenditures for new point-of-sale systems at our Burger King restaurants.

Investing activities also include sale-leaseback transactions related to our restaurant properties, the net proceeds from which were $7.8 million and $5.9 million in the first nine months of 2011 and 2010, respectively. The net proceeds from these sales in the first and second quarter of 2011 were used to reduce outstanding borrowings under Carrols' prior senior credit facility. In the first nine months of 2011 we purchased one restaurant property for $2.1 million for future sale in a sale-leaseback transaction. In the first nine months of 2010 we also purchased three of our restaurant properties for $3.7 million for future sales in sale-leaseback transactions.

Financing Activities. Net cash provided by financing activities in the third quarter of 2011, including our refinancing activities previously discussed above, was $5.3 million. Prior to the refinancing, in the first nine months of 2011 we made scheduled principal payments under Carrols' prior senior credit facility of $7.0 million. During the second quarter of 2011, we entered into a sale-leaseback transaction for a restaurant property that did not qualify for sale-leaseback accounting and the net proceeds of $1.7 million were recorded as a lease financing obligation. During the third quarter of 2011 the condition that precluded sale-leaseback accounting was cured. In 2011 we also deferred $9.3 million of financing costs pertaining to our refinancing discussed above.

Net cash used for financing activities in the first nine months of 2010 was $7.7 million, including total principal payments on our term loan under Carrols' prior senior credit facility of $9.9 million. We also had net revolver borrowings of $2.3 million in the first nine months of 2010.

New Senior Secured Credit Facilities. On August 5, 2011 Fiesta Restaurant Group entered into a new first lien revolving credit facility providing for aggregate borrowings of up to $25.0 million (including $10.0 million available for letters of credit). The senior secured credit facility also provides for incremental increases of up to $5.0 million, in the aggregate, to the revolving credit borrowings available under the facility, and matures on February 5, 2016. Borrowings under the revolving credit facility bear interest at a per annum rate, at Fiesta Restaurant Group's option, of either (all terms as defined in the Fiesta Restaurant senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 2.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group senior secured credit facility), or

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 3.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group senior secured credit facility).

Fiesta Restaurant Group's obligations under the Fiesta Restaurant Group secured credit facility are secured by a first priority lien on substantially all of the assets of Fiesta Restaurant Group and its material subsidiaries, as guarantors, (including a pledge of all of the capital stock and equity interests of its material subsidiaries).

The Fiesta Restaurant Group senior secured senior credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under this facility if there is a default under any indebtedness of Fiesta Restaurant Group having an outstanding principal amount of $2.5 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. As of October 2, 2011, Fiesta Restaurant Group was in compliance with the covenants under its senior secured credit facility. After reserving $7.6 million for letters of credit guaranteed by the facility, $17.4 million was available for borrowing at October 2, 2011.

On August 5, 2011 Carrols LLC entered into a new senior secured credit facility, which provides for $65.0 million aggregate principal amount of term loan borrowings and a revolving credit facility which provides for aggregate borrowings of up to $20.0 million (including $10.0 million available for letters of credit) both maturing on August 5, 2016. The Carrols LLC secured credit facility also provides for incremental borrowing increases of up to $25 million, in the aggregate, to the revolving credit facility and term loan borrowings available under facility. Borrowings under the term loan and revolving credit borrowings under the facility bear interest at a per annum rate, at Carrols LLC's option, of either (all terms as defined in the Carrols LLC senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 2.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC senior secured credit facility), or

2) the LIBOR Rate plus the applicable margin of 3.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 3.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC senior secured credit facility).

Under the Carrols LLC senior secured credit facility, Carrols LLC will be required to make mandatory prepayments of revolving credit facility borrowings and principal on term loan borrowings (i) annually in an amount equal to 50% to 100% of Excess Cash Flow (as defined in the Carrols LLC senior secured credit facility) based on Carrols LLC's Adjusted Leverage Ratio and (ii) in the event of dispositions of assets, debt issuances and insurance and condemnation proceeds (all subject to certain exceptions). The term loan borrowings under the Carrols LLC senior secured credit facility are payable in consecutive quarterly principal payments of $1.625 million beginning on the last day of the fourth quarter of 2011 through the first quarter of 2016 with the remaining outstanding principal amount of $35.75 million due on the maturity date of August 5, 2016.

Carrols LLC's obligations under the Carrols LLC senior secured credit facility are secured by a first priority lien on substantially all of the assets of Carrols LLC and by a pledge by Carrols of all of the outstanding equity interests of Carrols LLC.

The Carrols LLC secured senior credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under this facility if there is a default under any indebtedness of Carrols LLC having an outstanding principal amount of $2.5 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. As of October 2, 2011, Carrols LLC was in compliance with the covenants under its senior secured credit facility. After reserving $5.9 million for letters of credit guaranteed by the facility, $19.1 million was available for borrowing at October 2, 2011.

Fiesta Restaurant Group Senior Secured Second Lien Notes. On August 5, 2011, Fiesta Restaurant Group issued $200.0 million of 8.875% Senior Secured Second Lien Notes due 2016 pursuant to an indenture dated as of August 5, 2011 governing such notes. The Fiesta Notes mature and are payable on August 15, 2016. Interest is payable semi-annually on February 15 and August 15 with the first interest payment due on February 15, 2012. The Fiesta Notes are secured by second-priority liens on substantially all of Fiesta Restaurant Group's and its material subsidiaries' assets.

The Fiesta Notes are redeemable at the option of Fiesta Restaurant Group in whole or in part at any time after February 15, 2014 at a price of 104.438% of the principal amount plus accrued and unpaid interest, if any, if redeemed before February 15, 2015, 102.219% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2015 but before February 15, 2016 and 100% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2016. Prior to February 14, 2014, Fiesta Restaurant Group may redeem some or all of the Fiesta Notes at a redemption price of 100% of the principal amount of each note plus accrued and unpaid interest, if any, and a make-whole premium. In addition, at any time prior to February 15, 2014, Fiesta Restaurant Group may redeem up to 35% of the Fiesta Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 108.875% of the principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

The indenture governing the Fiesta Notes includes certain covenants, including limitations and restrictions on Fiesta Restaurant Group and its material subsidiaries who are guarantors under such indenture to incur additional debt, issue preferred stock, pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments, incur liens, sell assets, enter into transactions with affiliates, agree to payment restrictions affecting certain of its material subsidiaries and enter into mergers, consolidations or sales of all or substantially all of Fiesta Restaurant Group's or its material subsidiaries' assets. These covenants are subject to certain exceptions and qualifications including, without limitation, permitting the spin-off transaction discussed in Note 1.

The indenture governing the Fiesta Notes contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under these notes and the indenture if there is a default under any indebtedness of Fiesta Restaurant Group having an outstanding principal amount of $15.0 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. At October 2, 2011 Fiesta Restaurant Group was in compliance with the covenants contained in the indenture governing the Fiesta Notes.

Carrols Prior Senior Credit Facility. Carrols' prior senior credit facility totaled $185 million, originally consisting of $120 million principal amount of term loan A borrowings and a $65.0 million revolving credit facility (including a sub limit of up to $25.0 million for letters of credit and up to $5.0 million for swingline loans), maturing on March 8, 2012.

Carrols Prior Senior Subordinated Notes. Carrols' prior senior subordinated notes consisted of issued $180 million of 9% Senior Subordinated Notes due 2013 that bore interest at a rate of 9% payable semi-annually on January 15 and July 15 and matured on January 15, 2013.

Indebtedness. At October 2, 2011, we had total debt outstanding (including current portion) of 200.0 million of the Fiesta Notes, $65.0 million of outstanding term loan borrowings under Carrols LLC senior secured credit facility, $10.1 million of lease financing obligations and $1.2 million of capital lease obligations.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of September 30, 2011 (in thousands):

	Payments due by period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Contractual Obligations					
Long-term debt obligations, including interest (1)	$362,072	$26,503	$ 52,225	$283,344	$ —
Capital lease obligations, including interest (2)	2,044	131	297	271	1,345
Operating lease obligations (3)	537,601	50,110	94,982	86,962	305,547
Lease financing obligations, including interest (4)	19,906	966	1,961	2,027	14,952
Total contractual obligations	$921,623	$77,710	$149,465	$372,604	$321,844

(1) Our long term debt included $200.0 million of Fiesta Notes and $65.0 million of Carrols LLC term loan borrowings. Total interest payments on our Fiesta Notes of $87.5 million for all year presented are included at the coupon rate of 8.875%. Total interest payments included above of $9.6 million for all years presented on our Carrols LLC term loan under its senior secured credit facility are variable in nature and have been calculated using an assumed effective interest rate of 4.0% for each year. (See Item 3 -Quantitative and Qualitative Disclosures about Market Risk – Interest Rate Risk).

(2) Includes total interest of $0.9 million in total for all years presented.

(3) Represents the aggregate minimum lease payments under operating leases. Many of our leases also require contingent rent in addition to the minimum base rent on a percentage of sales and require expenses incidental to the use of the property all of which are excluded from this table.

(4) Includes total interest of $9.8 million for all years presented.

Off-Balance Sheet Arrangements

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

Application of Critical Accounting Policies

Our unaudited interim consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the "Significant Accounting Policies" footnote in the notes to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. 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 31, 2010 during the nine months ended September 30, 2011.

Effects of New Accounting Standards

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance on testing goodwill for impairment. The guidance provides entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, provided that the entity has not yet performed its 2011 annual impairment test or issued its financial statements. We are evaluating the impact of this guidance on its annual testing for goodwill impairment.

In September 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives: (1) to present items of net income and other comprehensive income in one continuous statement; or (2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required. We are in the process of deciding which alternative we will choose upon adoption.

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, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 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 Quarterly Report on Form 10-Q for the quarter ended July 3, 2011:

- *The effect of the proposed tax-free spin-off by Carrols Restaurant Group of Fiesta Restaurant Group, Inc. ;*
- *The potential tax liability associated with the proposed tax-free spin-off of Fiesta Restaurant Group;*
- *Increases in food costs;*

- *Competitive conditions;*
- *Regulatory factors;*
- *Environmental conditions and regulations;*
- *General economic conditions, particularly in the retail sector;*
- *Weather conditions;*
- *Increases in commodity costs;*
- *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;*
- *The outcome of pending or future legal claims and proceedings;*
- *Our ability to manage our growth and successfully implement our business strategy ;*
- *The risks associated with the expansion of our business;*
- *Our ability to integrate any businesses we acquire;*
- *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;*
- *The risk of an act of terrorism or escalation of any insurrection or armed conflict involving the United States or any other national or international calamity; and*
- *Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations, reports of cases of "mad cow" disease and avian flu, and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as negative publicity regarding food quality, illness, injury or other health concerns.*

Inflation

The inflationary factors that have historically affected our results of operations include increases in food and paper costs, labor and other operating expenses and energy costs. Labor costs in our restaurants are impacted by changes in the Federal and state hourly minimum wage rates as well as changes in payroll related taxes, including Federal and state unemployment taxes. 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 fully offset such inflationary cost increases in the future.

ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with fluctuations in interest rates, primarily limited to our senior secured credit facilities. At September 30, 2011, there were $65.0 million of Carrols LLC term loan borrowings outstanding under its senior secured credit facility. Borrowings under the term loan and revolving credit borrowings under the Carrols LLC senior secured credit facility bear interest at a per annum rate, at Carrols LLC's option, of either (all terms as defined in the Carrols LLC senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 2.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC senior secured credit facility), or

2) the LIBOR Rate plus the applicable margin of 3.25% to 4.0% based on Carrols LLC's Adjusted Leverage Ratio (with an initial applicable margin set at 3.75% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Carrols LLC senior secured credit facility).

Borrowings under the Fiesta Restaurant Group senior secured credit facility bear interest at a per annum rate, at our option, of either (all terms as defined in the Fiesta Restaurant senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 2.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group senior secured credit facility), or

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on Fiesta Restaurant Group's Adjusted Leverage Ratio (with an initial applicable margin set at 3.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Fiesta Restaurant Group senior secured credit facility).

A 1% change in interest rates would have resulted in an increase or decrease in interest expense of approximately $0.6 million for the nine months ended September 30, 2011.

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 Securities Exchange Act of 1934, as amended (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 October 2, 2011.

No change occurred in our internal control over financial reporting during the third quarter of 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Part II-Item 1A of our Quarterly Report on Form 10-Q for the quarter ended July 3, 2011 describes important factors that could materially adversely affect our business, consolidated financial condition or results of operations or cause our operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time-to-time. There have been no material changes from the risk factors previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended July 3, 2011.

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

None

Item 3. Default Upon Senior Securities

None

Item 4. Reserved

Item 5. Other Information

None

Item 6. Exhibits

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

Exhibit No.	
10.1	Form of Employment Agreement among Carrols Restaurant Group, Inc., Carrols LLC and Daniel T. Accordino.+
10.2	Letter dated as of November 1, 2011 between Carrols Restaurant Group, Inc. and Alan Vituli.+
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.1	Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.2	Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
99.1	The unaudited consolidated balance sheets as of October 2, 2011 and January 2, 2011 and the unaudited consolidated statements of operations for the three and nine months ended October 2, 2011 and cash flows for the nine months ended October 2, 2011 and accompanying financial statement footnotes of Fiesta Restaurant Group, Inc.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended October 2, 2011 of Fiesta Restaurant Group, Inc.
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document

Exhibit No.	
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+ Management contract or compensatory plan or arrangement identified pursuant to this report.
* As provided in Rule 406T of Regulation S-T, this information is deemed furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

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: November 14, 2011	/S/ ALAN VITULI
	(Signature) **Alan Vituli** **Chairman of the Board and** **Chief Executive Officer**
Date: November 14, 2011	/S/ PAUL R. FLANDERS
	(Signature) **Paul R. Flanders** **Vice President – Chief Financial Officer and Treasurer**

Exhibit 10.1

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), dated as of , 2011 by and among CARROLS RESTAURANT GROUP, INC., a Delaware corporation ("Parent") with an address at 968 James Street, Syracuse, New York 13203, CARROLS LLC ("Employer"), a Delaware limited liability company and a wholly-owned subsidiary of Parent with an address at 968 James Street, Syracuse, New York 13203, and DANIEL T. ACCORDINO whose principal residence is 6556 Ridgewood Drive, Naples, Florida 34108 ("Employee"):

W I T N E S S E T H:

WHEREAS, Employee is presently employed by Employer as its President and Chief Operating Officer pursuant to the terms of the Amended and Restated Employment Agreement, dated as of December 13, 2008, between Employer and Employee, as amended by Letter Agreement dated October 27, 2010, (collectively the "Prior Employment Agreement");

WHEREAS, Parent will split its business into two separate, publicly traded companies through the tax-free spin-off of Parent's subsidiary Fiesta Restaurant Group, Inc. (together with its subsidiaries, "Fiesta"), to the Parent's stockholders (the "Spin-Off"), which will result in Parent owning and operating its franchised Burger King® restaurants and related assets as an independent publicly traded company and Fiesta owning and operating the Pollo Tropical® and Taco Cabana® businesses as an independent publicly traded company;

WHEREAS, the parties have agreed that Parent, Employer and Employee shall enter into this Agreement to become effective as of January 1, 2011 (the "Effective Date");

WHEREAS, as of the Effective Date, Parent and Employer desire to continue to engage Employee to perform services for Employer, Parent, and any present or future parent, subsidiary or affiliate of Employer or Parent, and their successors and assigns (the "Companies") and Employee desires to perform such services, on the terms and conditions hereinafter set forth;

WHEREAS, the parties have agreed that as of the Effective Date this Agreement shall supersede in its entirety the Prior Employment Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein set forth and other good and valuable consideration, the receipt and adequacy of which is mutually acknowledged, it is agreed by and between the parties as follows:

1. DEFINITIONS

For purposes of this Agreement, unless the context requires otherwise, the following words and phrases shall have the meanings indicated below:

"Change of Control" shall mean and shall have occurred or be deemed to have occurred only if any of the following events occurs:

(a) The acquisition, directly or indirectly, by any person or group (as those terms are defined in Sections 3(a)(9), 13(d) and 14(d) of the Securities Exchange Act and the rules thereunder) of beneficial ownership (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors (voting securities) of Parent that represent 50% or more of the combined voting power of Parent's then outstanding voting securities, other than:

(i) An acquisition by a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by Parent or any person controlled by Parent or by any employee benefit plan (or related trust) sponsored or maintained by Parent or any person controlled by Parent; or

(ii) An acquisition of voting securities by Parent or a corporation owned, directly or indirectly by all of the stockholders of Parent in substantially the same proportions as their ownership of the stock of Parent.

Notwithstanding the foregoing, the following event shall not constitute an acquisition by any person or group for purposes of this subsection (a): an acquisition of Parent's securities by Parent which causes Parent's voting securities beneficially owned by a person or group to represent 50% or more of the combined voting power of Parent's then outstanding voting securities; *provided*, *however*, that if a person or group shall become the beneficial owner of 50% or more of the combined voting power of Parent's then outstanding voting securities by reason of share acquisitions by Parent as described above and shall, after such share acquisitions by Parent, become the beneficial owner of any additional voting securities of Parent, then such acquisition shall constitute a Change of Control; or

(b) individuals who, as of the Effective Date, constitute the Board of Directors of Parent (as of the Effective Date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of Parent, provided that any person becoming a director subsequent to the Effective Date whose election, or nomination for election by Parent's stockholders, was approved by a vote of at least a two-thirds of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Parent) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(c) The consummation by Parent (whether directly involving Parent or indirectly involving Parent through one or more intermediaries) of (i) a merger, consolidation, reorganization, or business combination, or (ii) the acquisition of assets or stock of another entity, in each case other than a transaction:

(A) Which results in Parent's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Parent or the person that, as a result of the transaction, controls, directly or indirectly, Parent or owns, directly or indirectly, all or substantially all of Parent's assets or otherwise succeeds to the business of Parent (Parent or such person, the "Successor Entity")) directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction; and

(B) After which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; *provided, however*, that no person or group shall be treated for purposes of this clause (B) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in Parent prior to the consummation of the transaction; or

(d) a sale or disposition of all or substantially all of Parent's assets; or

(e) The Parent's stockholders approve a liquidation or dissolution of the Parent.

"Cause" shall mean: (i) the commission by Employee of a felony; (ii) the unauthorized disclosure of confidential proprietary information of Parent, Employer or any of the Companies which disclosure Employee knows or reasonably should have known would be reasonably likely to result in material damage to Parent or Employer; (iii) the breach by Employee of any material provision of this Agreement, which breach, if curable, is not remedied within thirty (30) days after Employee's receipt of written notice thereof provided, however, that Employer need not permit Employee to cure any breach which has been the subject of a prior written notice; (iv) the engagement in material self dealing in breach of fiduciary duties with respect to Parent's or Employer's assets or properties unless disclosed to and approved by the disinterested members of the Board of Directors of Parent; (v) an act of gross misconduct in connection with Employee's duties hereunder; or (vi) chronic alcohol or drug abuse rendering Employee incapable of carrying out his duties hereunder as determined in good faith by the Board of Directors of Parent continuing after Employee is given a reasonable opportunity to obtain medical or other appropriate treatment or rehabilitation.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Good Reason" shall mean (i) the material failure of Employer to comply with the provisions of this Agreement which failure shall not cease promptly and in no event more than thirty (30) days after Employer's receipt of written notice from Employee objecting to such conduct; (ii) any termination by Parent or Employer of Employee's employment other than as expressly permitted in this Agreement; or (iii) the assignment to Employee of duties and responsibilities materially inconsistent with those duties and responsibilities customarily assigned to individuals holding the position of President and Chief Executive Officer of a company of comparable size or the substantial reduction by Parent or Employer of Employee's duties and responsibilities and, if curable, not remedied by Employer within 30 days after receipt of written notice.

2. REPRESENTATIONS AND WARRANTIES

Employee represents and warrants that he is not subject to any restrictive covenants or other agreements or legal restrictions in favor of any person which would in any way preclude, inhibit, impair, limit or be violated by his employment hereunder or the performance of his duties, as contemplated herein.

3. EMPLOYMENT

Employer hereby employs Employee and Employee accepts such employment as President and Chief Executive Officer of Employer. Employee shall also serve as President and Chief Executive Officer of Parent. As its President and Chief Executive Officer, Employee shall render such services to Parent and Employer as are customarily rendered by the President and Chief Executive Officer of comparable companies and as required by the certificate of incorporation and by-laws of Parent. During the Term, Employee shall be elected to and shall serve, if so elected, as a member of the Board of Directors of Parent and Employer and may be elected and shall serve, if so elected, as a member of the Board of Directors of any of the other Companies as may from time to time be prescribed by the Board of Directors of Parent or Employer. Employee accepts such employment and, consistent with fiduciary standards which exist between an employer and an employee shall perform and discharge the duties that may be assigned to him from time to time by Parent or Employer in an efficient, trustworthy and businesslike manner. It is specifically agreed that nothing in this Agreement shall prohibit Employee from (i) serving on corporate, civic or charitable boards or committees; (ii) engaging directly or indirectly, in activities with other public or private companies or ventures; or (iii) making investments in any capacity whatsoever, provided only that, such activities or any of them do not impair Employee's performance of his duties or otherwise violate or result in a breach of the terms and provisions of Section 11 hereof.

4. PLACE OF EMPLOYMENT

During the Term, Employee shall render services where and as reasonably required by Parent or Employer. In conformance with the foregoing and not in limitation thereof, Employee agrees to take such trips as shall be consistent with or reasonably necessary in connection with his duties. Employer shall furnish Employee at Employer's principal office with an office and secretarial help and such other assistance, facilities and services consistent with Employee's position and necessary for the adequate performance of his duties.

5. TERM

Subject to the provisions of Section 10 hereof, the term of this Agreement shall commence on the Effective Date and shall expire on February 28, 2013 (the "Initial Term"). This Agreement shall be automatically renewed for successive twelve (12) month periods on all the remaining terms and conditions set forth herein, unless either party elects not to renew this Agreement by giving written notice to the other at least thirty (30) days before a scheduled expiration date. The Initial Term of this Agreement together with any such renewals are collectively referred to herein as the "Term."

6. COMPENSATION

(a) As compensation for all services rendered and to be rendered by Employee hereunder and the fulfillment by Employee of all of his obligations herein, Employer shall pay Employee, during the term, a base salary (the "Base Salary") at the rate of $544,000 per annum (prorated for periods that are less than one year) payable in accordance with Employer's customary payroll practices. Employee's base salary shall be subject to an annual increase at the sole discretion of the Compensation Committee of the Board of Directors of Parent.

(b) Employee will participate in the Executive Bonus Plan of Employer (the "Executive Bonus Plan"). Notwithstanding any provision contained herein or in the Executive Bonus Plan to the contrary, no amendment to the Executive Bonus Plan shall have a material adverse impact on Employee. If the Executive Bonus Plan is discontinued, Employer agrees to establish a plan which will provide similar potential benefits based upon similar performance measurements to Employee.

(c) Employee will also be eligible to participate in all phantom and/or actual stock option or other equity incentive programs applicable to executive employees as determined by the Compensation Committee of the Board of Directors of Parent in its sole discretion.

(d) Employer shall deduct from the compensation described in (a), (b) and (c) above, any federal, state or city withholding taxes, social security contributions and any other amounts which may be required to be deducted or withheld by Employer pursuant to any federal, state or city laws, rules or regulations.

(e) Any compensation otherwise payable to Employee pursuant to this Section in respect of any period during which Employee is disabled (as contemplated in Section 10) shall be reduced by any amounts payable to Employee for loss of earnings or the like under any insurance plan or policy the premiums for which are paid for in their entirety by Employer.

7. BUSINESS EXPENSES

(a) Employer shall pay, on behalf of Employee, or reimburse Employee, for all dues to professional societies and other organizations as are customarily joined by individuals holding the position of President and Chief Executive Officer of businesses similar to Parent and Employer. Such dues shall be paid or reimbursed no later than March 15th of the calendar year immediately following the calendar year in which such dues are payable. Employer will require and shall reimburse Employee for his out of pocket cost of one complete physical examination per fiscal year of the Term; provided that such out of pocket costs shall be reimbursed no later than March 15th of the calendar year immediately following the calendar year in which such cost is incurred.

(b) Each of Parent and Employer agrees that Employee is authorized to incur reasonable expenses in the performance of his duties hereunder and agrees that all reasonable expenses incurred by Employee in the discharge and fulfillment of his duties, as set forth in Section 3, will be promptly reimbursed or paid by Employer upon written substantiation signed by Employee, itemizing said expenses and containing all applicable vouchers. Employee shall be entitled to receive prompt reimbursement for all reasonable travel and entertainment expenses and the costs of attending conferences and seminars, so long as such expenses relate to Employee's ability to serve the best interests of Parent or Employer. In addition, within 30 days of the rendition of the applicable invoices, Employer shall reimburse Employee annually for the reasonable costs incurred by Employee in tax planning and tax return preparation in an annual amount not to exceed $10,000. Notwithstanding anything herein to the contrary, expenses that are reimbursable under this Section 7(b) shall be reimbursed no later than March 15th of the calendar year immediately following the calendar year in which such expenses are incurred.

8. BENEFITS AND INSURANCE

(a) Employer agrees that, during the Term, Employee shall be insured under all insurance policies and shall receive all benefits under all pension and welfare benefit plans (including, without limitation group life, medical, major medical and disability insurance) that Employer may maintain and keep in force during the Term for the benefit of Employer's or any of the Companies' employees, subject to the terms, provisions and conditions of such pension and welfare benefit plans or insurance and the agreements with underwriters relating to same. In addition, Employer will provide medical and major medical insurance for Employee and his spouse during the Term and for the remainder of their respective lives and during such period such benefit shall also provide coverage to Employee's eligible dependents, notwithstanding the termination of Employee's employment hereunder, whether voluntary or involuntary (other than pursuant to Section 10(d) hereof) or following non-renewal of the Term of this Agreement, or his Disability or death, consistent with the level and type of coverage provided to Employee by Employer's policy at March 1, 1996, provided however, that the provisions of this Section 8(a) will not require Employer to continue post retirement or post employment medical coverage for Employee or his spouse in the event Employer terminates its post retirement and/or post employment coverage on a company-wide basis. In the event of such termination of coverage or otherwise at the election of Employer, Employee shall be entitled to obtain a replacement policy consistent with the level and type of coverage described in the preceding sentence covering Employee and his spouse and Employer shall reimburse Employee on an annual basis with respect to the cost of the same.

(b) Employer and Employee agree that neither Employer nor Employee shall have any future obligations related to ITT Hartford life insurance policy No. U01731692 (the "Policy") owned by Lucinda Accordino and Lawrence Accordino as Trustees under the Daniel T. Accordino Insurance Trust, dated February 20, 1995, except that any cash value accumulated with respect to the Policy as of the Effective Date shall be used to pay for and fund future annual premiums; provided, however, that at such time as the remaining cash value of the Policy becomes insufficient to fund such annual premiums, Employee may, but shall not be obligated to, continue to pay for and fund such annual premiums and keep such Policy in effect.

9. VACATION

Employee shall be entitled to an aggregate of four (4) weeks paid vacation during each year of the Term at time or times reasonably agreeable to both Employee and Employer, it being understood that any portion of such vacation not taken in such year shall not be available to be taken during any other year.

10. TERMINATION; CHANGE OF CONTROL; DEATH; DISABILITY

(a) Subject to the provisions of this Agreement, either Parent or Employer, on the one hand, or Employee, on the other hand, may terminate the employment of Employee after receipt of written notice by the other party hereto provided that all applicable cure periods have expired if Parent or Employer terminates the employment of Employee for Cause or Employee terminates his employment with Good Reason.

(b) If within twelve (12) months following a Change of Control occurring during the Term, the employment of Employee hereunder is terminated without Cause or Employee terminates his employment for Good Reason, Employee shall be paid: (1) 30 days after such termination of employment, his accrued but unpaid Base Salary and vacation as of the date of termination; (2) any amounts the Employee may be entitled to pursuant to the Carrols Corporation & Subsidiaries Amended and Restated Deferred Compensation Plan then in effect (the "Deferred Compensation Plan") at such times as provided under the Deferred Compensation Plan; (3) continue any and all benefits and insurance policies as required by Section 8 hereof and (4) a lump sum cash payment on the six-month anniversary of such termination of employment, in an amount equal to 2.99 multiplied by the average of the sum of the Base Salary and the annual bonus paid under the Executive Bonus Plan or deferred in accordance with the Deferred Compensation Plan in the five calendar years prior to the date of termination (the "Five-Year Compensation Average").

(c) If Parent or Employer (1) during the Term enters into a binding written agreement to engage in a transaction which, if consummated, would result in a Change of Control; (2) such transaction is consummated within twelve (12) months after the last date of the Term; and (3) subsequent to entering into such agreement Parent or Employer terminates employment of Employee without Cause or Employee terminates his employment for Good Reason, Employer shall pay to Employee an amount equal to the payment set forth in Section 10(b) hereof.

(d) If Employee terminates his employment pursuant to Section 10(a) hereof without Good Reason or Parent or Employer terminates the employment of Employee hereunder for Cause, Employer's only obligations hereunder shall be to pay to Employee (1) 30 days after such termination of employment, his accrued but unpaid Base Salary and vacation pay as of the date of termination plus (2) any amounts Employee is entitled to under the Deferred Compensation Plan at such times as provided under the Deferred Compensation Plan. In the event of such termination, Employee shall have no further obligation to perform services for Parent, Employer or any of the Companies.

(e) Other than in the case of Employee receiving benefits under paragraph (b) above following a Change of Control, if Parent or Employer terminates employment of Employee hereunder without Cause, or Employee terminates his employment for Good Reason, Parent or Employer shall pay to Employee (1) 30 days after such termination of employment, his accrued but unpaid Base Salary and vacation pay as of the date of termination; (2) on the six-month anniversary of such termination of employment, a lump sum cash payment in an amount equal to 2.00 multiplied by Employee's Five Year Compensation Average; (3) any amounts Employee is entitled to under the Deferred Compensation Plan at such times as provided under the Deferred Compensation Plan; (4) not later than March 15th of the calendar year following the year in which the Employee's employment terminates, a pro rata portion of the annual bonus for the year in which Employee's employment is terminated payable under the terms of the Executive Bonus Plan; and (5) continue any and all such benefits and insurance policies as required by Section 8 hereof.

(f) If Employee becomes physically or mentally disabled during the Term so that he is unable to perform the services required of him pursuant to this Agreement for a period of six (6) successive months, or an aggregate of six (6) months in any twelve (12) month period, Parent or Employer may give Employee written notice of its intention to terminate the services of Employee hereunder. In such event, Employee's employment shall terminate effective on the thirtieth (30th) day after receipt of such notice by Employee (the "Disability Effective Date") provided Employee shall not have returned to the performance of Employee's duties. In the event Employee's employment is terminated by reason of disability, Employer's only obligations hereunder shall be (1) to continue the Base Salary (at the rate in effect on the Disability Effective Date) for a period of three (3) years; (2) to pay, no later than March 15th of the calendar year following the year in which the Disability Effective Date occurs, a pro rata portion of the annual bonus for the year in which Employee's employment is terminated payable under the terms of the Executive Bonus Plan; (3) any amounts Employee is entitled to under the Deferred Compensation Plan at such times as provided under the Deferred Compensation Plan; and (4) to continue any and all such benefits and insurance policies as required by Section 8 hereof.

(g) In the event of Employee's death during the Term, Employer shall pay to his spouse, if he is survived by a spouse, or if not, to the estate of Employee, (1) 30 days after Employee's death, Employee's accrued and unpaid Base Salary (at the rate in effect on the date of death) as of the date of death; (2) no later than March 15th of the calendar year following the calendar year of Employee's death, a pro rata share of the annual bonus for the year of his death payable under the terms of the Executive Bonus Plan; (3) any amounts Employee is entitled to under the Deferred Compensation Plan at such times as provided under the Deferred Compensation Plan in the manner prescribed by the executor of Employee's estate and (4) continue any and all such benefits and insurance policies as required by Section 8 hereof.

(h) Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any payment or distribution by Employer or any other person or entity to or for the benefit of Employee is a "parachute payment" (within the meaning of Section 280G(b)(2) of the Code), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his employment with Employer, Parent or any of the Companies or a change in ownership or effective control of the Parent or a substantial portion of its assets (a "Payment"), and would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), concurrent with the making of such Payment, Employer shall pay to Employee an additional payment (the "Gross-Up Payment") in an amount such that the net amount retained by Employee, after deduction of any Excise Tax on such Payment and any federal, state or local income tax and Excise Tax on the Gross-Up Payment shall equal the amount of such Payment. All determinations concerning the application of this paragraph shall be made by Parent's independent accountants, whose determination shall be conclusive and binding on all parties. The fees and expenses of such accountants shall be borne by Employer. All payments under this Section 10(h) shall be made by the end of the Employee's taxable year following the year in which the Employee or the Employer, on the Employee's behalf, remits the related taxes and, in the event of an audit or litigation where the result of such audit or litigation no taxes are remitted, then all such payments shall be made by the end of the Employee's taxable year following the year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation. All payments made under this Section 10(h) shall be made in a manner and time satisfying the requirements of Treasury Regulation 1.409A-3(i)(1)(v).

(i) In the event that Employee is a “specified employee” then, with respect to amounts payable or benefit provided pursuant to this Section 10 which constitute payments under a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, then all such payments and benefits which are due within six-months of a “separation from service” within the meaning of Section 409A of the Code shall be delayed until the six-month anniversary of the Employee’s “separation from service”.

(j) The Employer may, in its sole discretion, accelerate any “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code as permitted by Treasury Regulation 1.409A-3(j)(4).

11. RESTRICTIVE COVENANTS

(a) During the Term and for a period of two years following termination of this Agreement, Employee (i) will not violate or cause Parent, Employer or any of the Companies to violate the terms of any agreement, including any franchise agreement, which Employer is obligated under, except with the express written consent of the duly empowered officer of Parent or Employer or pursuant to an order of a court of competent jurisdiction; (ii) will not divulge or use any confidential information the effect of which would be injurious to Parent, Employer or any of the Companies without the prior written consent of a duly empowered officer of Parent or Employer; and (iii) will not divulge or use any confidential information the effect of which would be injurious to Fiesta Restaurant Group, Inc., or any of the its subsidiaries (collectively “Fiesta”) without the prior written consent of a duly empowered officer of Fiesta. Employee shall have the right to approve the provisions of any such franchise or other agreement which restricts Employee’s future employment or business interests. During the Term and for a period of two years following termination of Employee’s employment hereunder (the “Restricted Period”), Employee will not solicit or employ any person, who was employed by Parent, Employer or any of the Companies within six months prior to the termination of Employee’s employment, in any business in which Employee has a material interest, direct or indirect, as an officer, partner, shareholder or beneficial owner. The preceding sentence shall not prohibit Employee from hiring any person whose employment is terminated involuntarily by Parent or Employer or any of the Companies during the Term or at any time thereafter provided that such hiring shall not occur until after Employee’s termination of employment hereunder. In addition, during the Restricted Period, Employee will not solicit or employ any person, who was employed by Fiesta within six months prior to the termination of Employee’s employment, in any business in which Employee has a material interest, direct or indirect, as an officer, partner, shareholder or beneficial owner unless such hiring or solicitation is approved in advance and in writing by Fiesta. The preceding sentence shall not prohibit Employee from hiring any person whose employment is terminated involuntarily by Fiesta during the Term or at any time thereafter provided that such hiring shall not occur until after Employee’s termination of employment hereunder.

(b) In view of the unique and valuable services it is expected Employee will render to Parent, Employer and the Companies, and in consideration of the compensation to be received hereunder, Employee agrees (i) that he will not, during the period he is employed by Employer under this Agreement or otherwise, Participate In (as defined below) any other business or organization, which is engaged in the Retail Fast-Food Restaurant Business (as defined below), and (ii) for a period of two years after he ceases to be employed by Employer under this Agreement, he will not compete with or be engaged in the Retail Fast-Food Restaurant Business or Participate In any other business or organization which during such two year period is engaged in the Retail Fast-Food Restaurant Business within the Area (as defined below), except that in each case the provisions of this Section 11(b) will not be deemed breached merely because Employee owns not more than 5% of the outstanding common stock of a corporation, if, at the time of its acquisition by Employee, such stock is listed on a national securities exchange, is listed or reported on NASDAQ, or is regularly traded in the over-the-counter market by a member of a national securities exchange.

(c) As used in this Agreement, the term “Participate In” shall mean: “directly or indirectly, for his own benefit or for, with, or through any other person, firm, or corporation, own, manage, operate, control, loan money to, or participate in the ownership, management, operation, or control of, or be connected as a director, officer, employee, partner, consultant, agent, independent contractor, or otherwise with, or acquiesce in the use of his name in.”

(d) As used in this Agreement, the term “Retail Fast-Food Restaurant Business” shall mean any restaurant which either does not offer waiter or waitress table service or which has a drive-thru or walk-up service window.

(e) As used in this Agreement, the term “Area” shall mean, at any particular time, any location within a 100 mile radius of any site at which any of the Companies is engaging in the retail fast-food business or, at the time of termination of employment, intends to engage in the retail fast-food business.

(f) The parties hereto, recognizing that irreparable injury will result to Parent, Employer and the Companies, their respective business and property in the event of Employee’s breach of this Employee covenant and non-competition provision, agree that in the event of any such breach by Employee, Parent or Employer will be entitled, in addition to any other remedies and damages available, to an injunction to restrain the violation hereof by Employee, Employee’s partners, agents, servants, employers, employees, and all persons acting for or with Employee. Employee represents and admits that in the event of termination of this Agreement, Employee’s experience and capabilities are such that Employee can obtain employment in a business engaged in other lines and/or of a different nature than the business of Parent, Employer or the Companies, and that the enforcement of a remedy by way of injunction will not prevent Employee from earning a livelihood.

12. INDEMNIFICATION

To the fullest extent permitted by Section 145 of the General Corporation Law of Delaware, as the same may be amended and supplemented (“Section 145”) and Article Eighth of Parent’s Restated Certificate of Incorporation as in effect as of the Effective Date, each of Parent and Employer shall indemnify Employee and hold him harmless from and against any and all of the expenses, liabilities or other matters referred to or covered in said section and certificate of incorporation (collectively, "Liabilities") if any of such Liabilities are incurred or suffered by Employee as a result of, arising out of or in connection with his employment by Parent, Employer or any of the Companies, provided however, that Employee acknowledges that he is not entitled to the indemnity referred to above (either as set forth in Parent's certificate of incorporation or in this Agreement), to the extent a dispute arises between Parent or Employer and Employee with respect to his conduct as an Employee, or any claim that may arise either directly or indirectly with respect to the breach of any terms and conditions of this Agreement. In addition to the indemnification, as provided in Section 145, Employer shall advance expenses, including reasonable attorneys' fees, of Employee. The indemnification and advancement of expenses provided for herein shall continue after Employee has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of Employee.

13. BINDING EFFECT

This Agreement shall inure to the benefit of and be binding upon each of Parent and Employer and its successors. Each of Parent and Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of its assets to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Parent or Employer would be required to perform it if no such succession had taken place or with or into which Parent or Employer may consolidate or merge. Employee agrees that this Agreement is personal to him and may not be assigned by him otherwise than by will or laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Employee's legal representatives.

14. MISCELLANEOUS

(a) If any provision of this Agreement, or portion thereof, shall be held invalid or unenforceable by a court of competent jurisdiction, such invalidity or unenforceability shall attach only to such provision or portion thereof, and this Agreement shall be carried out as if any such invalid or unenforceable provision or portion thereof were not contained herein. In addition, any such invalid or unenforceable provision or portion thereof shall be deemed, without further action on the part of the parties hereto, modified, amended or limited to the extent necessary to render the same valid and enforceable.

(b) This Agreement, and all of the rights and obligations of the parties in connection with the employment relationship established hereby shall be construed and enforced in accordance with the laws of New York applicable to contracts made and fully to be performed therein, and without giving effect to any rules of conflicts of law.

(c) All notices, requests, demands, and other communications provided for hereunder shall be in writing and shall be given or made when (i) delivered personally; (ii) three (3) business days following mailing by first class postage prepaid, registered or certified mail, return receipt requested, to the party to be notified at its or his address set forth herein; or (iii) on the date sent by telecopier, if the addressee has compatible receiving equipment and provided the transmittal is made on a business day during the hours of 9:00 a.m. to 6:00 p.m. of the receiving party and if sent at other times, on the immediately succeeding business day, or (iv) on the first business day immediately succeeding delivery to an express overnight carrier for the next business day delivery.

(d) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Each of the parties shall deliver such further instruments and take such further action as may be reasonably requested by the other in order to carry out the provisions and purposes of this Agreement. This Agreement represents the entire understanding of the parties with reference to the subject matter hereof, supersedes in its entirety the provisions of the Prior Employment Agreement, and neither this Agreement nor any provisions hereof may be modified, discharged or terminated except by an agreement in writing signed by the party against whom the enforcement of any waiver, charge, discharge or termination is sought. Any waiver by either party of a breach of any provision of this Agreement must be in writing and no waiver of a particular breach shall operate as or be construed as waiver of any subsequent breach thereof.

(e) In the event of any inconsistency between any provision of this Agreement and Section 409A of the Code, including any regulatory and administrative guidance issued from time to time thereunder, the provisions of Section 409A shall control. It is the intention of the parties hereto that this Agreement satisfy the requirements of Code Section 409A, and the parties hereby agree to amend this Agreement as and when necessary or desirable to conform to or otherwise properly reflect any guidance issued under Code Section 409A after the date hereof without violating Code Section 409A. In case any one or more provisions of this Agreement fails to comply with the provisions of Code Section 409A, the remaining provisions of this Agreement shall remain in effect, and this Agreement shall be administered and applied as if the non-complying provisions were not part of this Agreement. The parties in that event shall endeavor to agree upon a reasonable substitute for the non-complying provisions, to the extent that a substituted provision would not cause this Agreement to fail to comply with Code Section 409A, and, upon so agreeing, shall incorporate such substituted provisions into this Agreement.

****BALANCE OF PAGE INTENTIONALLY LEFT BLANK ****

****SIGNATURE PAGE TO FOLLOW ****

IN WITNESS WHEREOF, the parties hereto have executed and have caused this Amended and Restated Employment Agreement to be executed as of the date first written above.

CARROLS RESTAURANT GROUP, INC.

By: ______________________________
Name: Joseph Zirkman
Title: Vice President

CARROLS CORPORATION

By: ______________________________
Name: Joseph Zirkman
Title: Vice President

____
DANIEL T. ACCORDINO

Exhibit 10.2

November 1, 2011

Alan Vituli
789 Crandon Blvd., Suite 1201
Key Biscayne, Florida 33149

Re: Non-renewal of Employment Agreement

Dear Alan:

As you are aware, Carrols Restaurant Group, Inc. ("CRG") intends to spin-off Fiesta Restaurant Group, Inc. ("Fiesta") to its shareholders on or after December 31, 2011 (the "Spin-off"). You have advised us that you intend to retire as CEO of CRG on December 31, 2011 and that you intend to resign from the Board of CRG upon the Board electing your successor Chairman.

Your Amended and Restated Employment Agreement, dated December 13, 2008, as amended by Letter Agreement dated October 27, 2010 and Letter Agreements dated November 1, 2010 (collectively the "Employment Agreement") is due to automatically renew under its terms on January 1, 2012, unless you or CRG sends written notice of non-renewal on or prior to November 1, 2011.

CRG and you agree as follows:

- The Employment Agreement shall not be renewed, and this letter shall serve as mutual written notice of such non-renewal.
- As of December 31, 2011, you shall resign as CEO of CRG, and upon the naming of a successor Chairman of the Board of CRG, you shall resign from the Board of CRG.
- You shall have the right, for a period of 2 years from the date of this letter to attend, as an observer only, all CRG Board of Directors meetings. You shall be reimbursed for your expenses (airfare, hotel) in traveling to such meetings, subject to CRG's Directors reimbursement policy then in effect.

- As of January 1, 2012, you shall be the non-executive Chairman of the Board of Directors of Fiesta.

Sincerely,

CARROLS RESTAURANT GROUP, INC.

By: /s/ Joseph A. Zirkman
Name: Joseph A. Zirkman
Title: Vice President and General Counsel

Agreed to by:

/s/ Alan Vituli
Alan Vituli

Exhibit 31.1

CERTIFICATIONS

I, Alan Vituli, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 2, 2011 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 changes 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: November 14, 2011

/s/ ALAN VITULI

Alan Vituli
Chairman of the Board and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Paul R. Flanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 2, 2011 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 changes 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: November 14, 2011

/s/ PAUL R. FLANDERS

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

Exhibit 32.1

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Alan Vituli, 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 October 2, 2011, 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/ ALAN VITULI

Alan Vituli
Chairman of the Board and Chief Executive Officer

November 14, 2011

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Paul R. Flanders, Chief Financial 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 October 2, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ PAUL R. FLANDERS

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

November 14, 2011

Exhibit 99.1

Fiesta Restaurant Group, Inc.

Consolidated Financial Statements
As of September 30, 2011 and December 31, 2010 and
For the three and nine months ended September 30, 2011 and 2010

FIESTA RESTAURANT GROUP, INC.
CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED OCTOBER 2, 2011

FIESTA RESTAURANT GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except share and per share amounts)
(unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,107	$ 2,583
Trade receivables	4,948	3,481
Inventories	2,093	2,067
Prepaid rent	2,395	2,320
Prepaid expenses and other current assets	3,454	2,292
Deferred income taxes	2,122	2,300
Total current assets	24,119	15,043
Property and equipment, net	196,374	202,412
Goodwill (Note 2)	123,484	123,484
Intangible assets, net	330	419
Deferred income taxes	10,952	11,091
Deferred financing costs	7,231	—
Other assets	5,215	5,437
Total assets	$ 367,705	$ 357,886
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 58	$ 56
Due to parent company (Note 5)	4,819	—
Accounts payable	8,159	5,892
Accrued interest	2,764	—
Accrued payroll, related taxes and benefits	11,727	10,436
Accrued real estate taxes	4,353	3,172
Other liabilities	5,402	3,940
Total current liabilities	37,282	23,496
Long-term debt, net of current portion (Note 6)	200,964	1,008
Due to parent company (Note 5)	—	138,756
Lease financing obligations (Note 7)	123,008	122,975
Deferred income—sale-leaseback of real estate	4,137	3,890
Other liabilities (Note 4)	10,201	9,850
Total liabilities	375,592	299,975
Commitments and contingencies (Note 10)		
Stockholder's equity (deficit):		
Common stock, par value $.01; authorized, issued and outstanding 1,000 shares	—	—
Retained earnings (deficit) (Note 5)	(7,887)	57,911
Total stockholder's equity (deficit)	(7,887)	57,911
Total liabilities and stockholder's equity (deficit)	$ 367,705	$ 357,886

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

FIESTA RESTAURANT GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(In thousands of dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Restaurant sales	$ 120,781	$ 110,917	$ 356,780	$ 328,650
Franchise royalty revenues and fees	376	352	1,242	1,164
Total revenues	121,157	111,269	358,022	329,814
Costs and expenses:				
Cost of sales	38,833	33,959	114,852	101,524
Restaurant wages and related expenses (including stock-based compensation expense of $3, $6, $15 and $22, respectively)	32,544	30,813	96,949	92,304
Restaurant rent expense	4,232	4,125	12,526	12,473
Other restaurant operating expenses	16,604	15,674	47,091	45,683
Advertising expense	4,468	5,038	12,361	12,046
General and administrative (including stock-based compensation expense of $437, $248, $1,284 and $718, respectively)	9,118	7,580	27,086	23,895
Depreciation and amortization	4,837	4,810	14,583	14,361
Impairment and other lease charges (Note 3)	(68)	93	1,016	3,713
Other expense (Note 7)	107	—	107	—
Total operating expenses	110,675	102,092	326,571	305,999
Income from operations	10,482	9,177	31,451	23,815
Interest expense	6,651	4,925	16,338	14,918
Income before income taxes	3,831	4,252	15,113	8,897
Provision for income taxes (Note 8)	1,409	1,514	5,442	3,033
Net income	$ 2,422	$ 2,738	$ 9,671	$ 5,864

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

FIESTA RESTAURANT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(In thousands of dollars)
(Unaudited)

	2011	2010
Cash flows provided from operating activities:		
Net income	$ 9,671	$ 5,864
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss on disposals of property and equipment	237	248
Stock-based compensation	1,299	740
Impairment and other lease charges	1,016	3,713
Depreciation and amortization	14,583	14,361
Amortization of deferred financing costs	407	184
Amortization of deferred gains from sale-leaseback transactions	(202)	(172)
Accretion of interest on lease financing obligations	37	313
Deferred income taxes	317	(848)
Changes in other operating assets and liabilities	3,886	188
Net cash provided from operating activities	31,251	24,590
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(10,007)	(7,514)
Restaurant remodeling	(3,492)	(4,392)
Other restaurant capital expenditures	(3,684)	(4,022)
Corporate and restaurant information systems	(514)	(105)
Total capital expenditures	(17,697)	(16,033)
Properties purchased for sale-leaseback	—	(1,345)
Proceeds from sale-leaseback transactions	7,783	1,782
Net cash used for investing activities	(9,914)	(15,596)
Cash flows used for financing activities:		
Proceeds from issuance of senior secured second lien notes	200,000	—
Payments to parent company, net	(133,492)	(12,429)
Dividend to parent company	(75,469)	—
Principal payments on capital leases	(42)	(33)
Financing costs associated with associated with issuance of debt	(7,457)	—
Proceeds from lease financing obligations	1,736	2,429
Financing costs associated with issuance of lease financing obligations	(89)	(110)
Net cash used for financing activities	(14,813)	(10,143)
Net increase (decrease) in cash and cash equivalents	6,524	(1,149)
Cash and cash equivalents, beginning of period	2,583	3,854
Cash and cash equivalents, end of period	$ 9,107	$ 2,705
Supplemental disclosures:		
Interest paid on lease financing obligations	$ 8,259	$ 7,706
Accruals for capital expenditures	$ 515	$ 399
Capital lease obligations incurred	$ —	$ 123
Non-cash reduction of lease financing obligations	$ 1,740	$ —

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

FIESTA RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

1. Basis of Presentation

Business Description. At October 2, 2011 the Company operated 91 Pollo Tropical restaurants, of which 85 were in Florida, one was in Georgia and five were in New Jersey, and franchised a total of 30 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in Honduras, one in the Bahamas, one in Trinidad, one in Venezuela and three on college campuses in Florida. At October 2, 2011, the Company also owned and operated 158 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico, two in Texas and one in Georgia.

Basis of Consolidation. The consolidated financial statements presented herein reflect the consolidated financial position, results of operations and cash flows of Fiesta Restaurant Group, Inc. (“Fiesta Restaurant Group”) and its wholly-owned subsidiaries Pollo Operations, Inc. and Pollo Franchise, Inc., (collectively “Pollo Tropical”) and Taco Cabana, Inc. and its subsidiaries, (collectively “Taco Cabana”). Fiesta Restaurant Group was incorporated in April 2011. In May 2011, Carrols Corporation (“Carrols” or “Parent Company”) contributed all of the outstanding capital stock of Pollo Tropical and Taco Cabana to Fiesta Restaurant Group in exchange for all of the outstanding capital stock of Fiesta Restaurant Group and Fiesta Restaurant Group became a wholly-owned subsidiary of Carrols. Unless the context otherwise requires, Fiesta Restaurant Group and its subsidiaries, Pollo Tropical and Taco Cabana, are collectively referred to as the “Company”. Carrols is a wholly owned subsidiary of Carrols Restaurant Group, Inc., a publicly traded company (“Carrols Restaurant Group”). The consolidated financial statements have been prepared as if the Company was in existence for all periods presented.

On February 24, 2011, Carrols Restaurant Group announced its intention to split its restaurant businesses into two separate, publicly-traded companies through a tax-free spin-off of the Company’s common stock to Carrols Restaurant Group’s stockholders. If the spin-off is consummated, the Company will continue to own and operate its Pollo Tropical and Taco Cabana businesses. Carrols Restaurant Group, through its subsidiaries Carrols and Carrols LLC, will continue to own and operate its franchised Burger King restaurants. In the spin-off, it is anticipated that all shares of the Company’s common stock, which are currently held by Carrols, will be distributed in the form of a pro rata dividend to the stockholders of Carrols Restaurant Group.

The unaudited consolidated financial statements reflect certain general corporate overhead and interest expense allocated by Carrols to the Company. Effective with the refinancing discussed in Note 6, on August 5, 2011 the Company secured its own financing and interest allocations from Carrols ceased. Management believes that such allocations are reasonable and based on a systematic rational method; however, they are not necessarily indicative of the actual financial results of the Company, including such expenses that would have been incurred by the Company had it been operating as a separate, stand-alone entity for the periods presented. All intercompany transactions between the Company’s subsidiaries have been eliminated in consolidation. As a stand-alone entity, the Company expects to incur expenses that may not be comparable in future periods to what is presented for the historical periods presented in the consolidated financial statements. Consequently, the financial information herein may not reflect the financial position, results of operations and cash flows of the Company in the future or if the Company had been an independent stand-alone entity during the periods presented. Carrols’ and the Company’s management believe that the consolidated financial statements include all adjustments necessary for a fair presentation of the businesses.

The accompanying unaudited consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 have been prepared without an audit pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three and nine months ended September 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010. The December 31, 2010 balance sheet data is derived from those audited financial statements.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to fiscal year ended January 2, 2011 will be referred to as fiscal years ended December 31, 2010. Similarly, all references herein to the three and nine months ended October 2, 2011 and October 3, 2010 will be referred to as the three and nine months ended September 30, 2011 and September 30, 2010, respectively. The fiscal year ended December 31, 2010 contained 52 weeks. The three and nine months ended September 30, 2011 and 2010 each contained thirteen and thirty-nine weeks, respectively.

Allocations. Carrols provides administrative support to the Company for executive management, information systems and certain accounting, legal and other administrative functions. See Note 5 - Due to parent company for a listing and amount of such transactions. For the three and nine months ended September 30, 2011 and 2010, these costs were allocated to the Company based primarily on a pro-rata share of either the Company's revenues, number of restaurants or number of employees. The accompanying consolidated financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the results of operations or cash flows that would have resulted had these and other related-party transactions been consummated with unrelated parties or had the Company been a stand-alone company.

Fair Value of Financial Instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect our own assumptions. The following methods were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the fair value:

- *Current Assets and Liabilities.* The carrying values of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of those instruments.
- *Fiesta Restaurant Group Senior Secured Second Lien Notes.* The fair value of outstanding senior secured second lien notes is based on recent trading values, and at September 30, 2011, was approximately $199.0 million.
- *Revolving Credit Facility.* There were no outstanding borrowings under the revolving credit facility at September 30, 2011.

See Note 3 for discussion of the fair value measurement of non-financial assets.

Use of Estimates. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include: allocations of Carrols general and administrative expenses and interest expense on amounts due to Carrols, accrued occupancy costs, insurance liabilities, income taxes, evaluation for impairment of goodwill and long-lived assets and lease accounting matters. Actual results could differ from those estimates.

Earnings Per Share Presentation. Presentation of earnings per share is required for all entities that have issued common stock or potential common stock if those securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market. The Company's common stock is not publicly traded and therefore, earnings per share amounts are not presented.

Subsequent Events. The Company reviewed and evaluated subsequent events through November 14, 2011, the issuance date of the Company's financial statements.

(In thousands of dollars)

2. Goodwill

On July 9, 1998, Carrols purchased Pollo Tropical for a cash purchase price of $96.6 million and on December 19, 2000, Carrols acquired Taco Cabana for $154.7 million. The excess purchase price over net assets acquired, or goodwill, for Pollo Tropical was approximately $64.0 million and for Taco Cabana was approximately $70.5 million. Such goodwill was amortized prior to January 1, 2002. There have been no impairment charges related to goodwill. All assets and liabilities acquired, including initial goodwill amounts, were recorded in the Company's consolidated balance sheet.

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 December 31 and has determined its reporting units to be at the brand level for Pollo Tropical and Taco Cabana. The Company does not believe circumstances have changes since the last assessment date which would make it necessary to reassess their values.

There have been no changes in goodwill or goodwill impairment losses during the nine months ended September 30, 2011 or the year ended December 31, 2010. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Total
Goodwill, balance September 30, 2011	$56,307	$67,177	$123,484

3. 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 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 and the Company's history of using these assets in the operation of its business. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. There were no Level 3 assets measured at fair value during the nine months ended September 30, 2011.

Impairment and other lease charges (recoveries) recorded on long-lived assets for the Company's segments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Pollo Tropical	$ 70	$ 86	$ 706	$2,069
Taco Cabana	(138)	7	310	1,644
	$ (68)	$ 93	$1,016	$3,713

During the three months ended September 30, 2011, the Company recorded other lease charges of $0.1 million associated with the closure of a Pollo Tropical restaurant in the third quarter and $0.1 million of income to reduce the Company's future minimum lease payment and ancillary costs related to a non-operating Taco Cabana restaurant property. During the nine months ended September 30, 2011, the Company also recorded impairment and other lease charges of $1.0 million consisting of $0.6 million in other lease charges for two previously closed Pollo Tropical restaurants, $0.3 million of lease charges for a Taco Cabana restaurant that was closed in the second quarter of 2011, and $0.2 million in lease charges for two previously closed Taco Cabana restaurants.

(In thousands of dollars)

During the nine months ended September 30, 2010, the Company recorded impairment and other lease charges of $3.7 million which included impairment charges of $1.4 million for an underperforming Pollo Tropical restaurant, $0.3 million to reduce the fair market value of a previously impaired Pollo Tropical restaurant, $1.1 million for an underperforming Taco Cabana restaurant and $0.3 million to reduce the fair market value of a previously impaired Taco Cabana restaurant.

4. Other Liabilities, Long-Term

Other liabilities, long-term, consisted of the following:

	September 30, 2011	December 31, 2010
Accrued occupancy costs	$ 7,139	$ 6,865
Accrued workers' compensation costs	1,670	1,480
Deferred compensation	658	673
Other	734	832
	$ 10,201	$ 9,850

Accrued occupancy costs include obligations pertaining to closed restaurant locations, contingent rent and accruals to expense operating lease rental payments on a straight-line basis over the lease term.

The following table presents the activity in the closed-store reserve, included in accrued occupancy costs, for the nine months ended September 30, 2011 and the year ended December 31, 2010:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Balance, beginning of period	$ 1,665	$ 862
Accruals for additional lease charges	987	1,279
Payments, net	(753)	(632)
Other adjustments	117	156
Balance, end of period	$ 2,016	$ 1,665

5. Due To Parent Company

The balance due to parent company at December 31, 2010 reflects the amounts funded by Carrols for its acquisitions of Pollo Tropical and Taco Cabana reduced by the net cash flows remitted by the Company to Carrols since that time. Amounts due to parent company also include certain allocated administrative and corporate costs incurred by Carrols, interest expense on the amount due to parent company and income taxes payable. Prior to the Company's new debt financings on August 5, 2011, funding required by the Company to cover its cash needs has been provided directly by Carrols which had secured all third-party financing.

Amounts due to the parent company of $116.8 million were repaid on August 5, 2011 in connection with the Company's debt financings discussed in Note 6. In addition, the proceeds were used to pay a dividend of $75.5 million to Carrols which has been reflected as a financing activity on the consolidated statement of cash flows. Amounts due to the parent company subsequent to August 5, 2011, represent amounts related to administrative support provided by Carrols and taxes payable by the Company to Carrols due to the Company's inclusion in Carrols' consolidated federal and certain state income tax returns.

(In thousands of dollars)

Allocated Expenses. The administrative support provided by Carrols to the Company has been allocated based on estimates and a pro-rata percentage of Pollo Tropical and Taco Cabana revenues, number of restaurants or number of employees. These administrative support expenses include executive management, information systems, finance, legal, accounting, internal audit, human resources and certain other administrative functions. The allocated administrative expenses included in general and administrative expenses in the accompanying consolidated statements of operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Allocated financial services	$ 526	$ 454	$1,795	$1,484
Allocated information systems services	521	700	1,497	2,038
Allocated executive management and other administrative services	1,371	698	4,174	2,917
Allocated stock-based compensation	437	248	1,284	718
	$2,855	$2,100	$8,750	$7,157

As discussed in Note 1, the Company believes the assumptions and methodologies underlying the allocation of administrative expenses and stock-based compensation are reasonable. However, such expenses may not be indicative of the actual expenses that would have been or could be incurred by the Company if it was to operate as a stand-alone company. As such, the financial information herein may not necessarily reflect the consolidated financial position, results of operations, and cash flows of the Company in the future or if the Company had been a stand-alone entity during the periods presented.

Stock-based compensation includes equity awards granted to employees of the Company as well as allocated stock-based compensation expense associated with Carrols employees that provide administrative support to the Company. Effective August 15, 2011, Tim Taft was hired as the new Chief Executive Officer and President of the Company. On the one month anniversary of the date that the shares of the Company's common stock ("Fiesta Common Stock") begin trading publicly, the Company's Chief Executive Officer will receive a grant of restricted Fiesta Common Stock with an aggregate value of $2.0 million, based upon the average trading price of Fiesta Common Stock for the first four weeks the shares commence trading publicly. The restricted shares of Fiesta Common Stock to be granted to Mr. Taft will vest over four years at the rate of 25% per annum beginning on the first anniversary of the date of grant and will be subject to the provisions of the stock incentive plan to be adopted by the Company following the consummation of the spin-off. Stock-based compensation expense for this award will be recorded by Fiesta Restaurant Group upon completion of the spin-off.

6. Long-term Debt

Long term debt at September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Collateralized:		
Fiesta Restaurant Group 8.875% Senior Secured Second Lien Notes	$ 200,000	$ —
Capital leases	1,022	1,064
	201,022	1,064
Less: current portion of long-term debt	(58)	(56)
	$ 200,964	$ 1,008

On August 5, 2011, Carrols LLC (a wholly owned subsidiary of Carrols that operates the Company's Burger King restaurants) and the Company each entered into new and independent financing arrangements. The proceeds from these financings were used by Carrols to repay amounts outstanding under Carrols senior credit facility and Carrols 9% senior subordinated notes due 2013, as well as to pay all related fees and expenses.

New Senior Secured Revolving Credit Facility. On August 5, 2011 the Company entered into a new first lien senior secured revolving credit facility providing for aggregate borrowings of up to $25.0 million (including $10.0 million available for letters of credit). The facility also provides for incremental increases of up to $5.0 million, in the aggregate, to the revolving credit borrowings available under facility, and matures on February 5, 2016. On October 2, 2011, there were no outstanding borrowings under the Company's senior secured revolving credit facility.

Borrowings under the Company's senior secured credit facility bear interest at a per annum rate, at the Company's option, of either (all terms as defined in the senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on the Company's Adjusted Leverage Ratio (with an initial applicable margin set at 2.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Company's senior secured credit facility), or

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on the Company's Adjusted Leverage Ratio (with an initial applicable margin set at 3.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the Company's senior secured credit facility).

The Company's obligations under its senior secured credit facility are secured by a first priority lien on substantially all of the Company's assets and its material subsidiaries, as guarantors, (including a pledge of all of the capital stock and equity interests of its material subsidiaries).

The Company's senior secured credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under this facility if there is a default under any indebtedness of the Company having an outstanding principal amount of $2.5 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due.

As of October 2, 2011, the Company was in compliance with the covenants under its senior secured credit facility. After reserving $7.6 million for letters of credit guaranteed by the senior secured credit facility, $17.4 million was available for borrowing at October 2, 2011.

Senior Secured Second Lien Notes. On August 5, 2011, the Company issued $200.0 million of 8.875% Senior Secured Second Lien Notes due 2016 pursuant to an indenture dated as of August 5, 2011 governing such notes. The senior secured second lien notes mature and are payable on August 15, 2016. Interest is payable semi-annually on February 15 and August 15 with the first interest payment due on February 15, 2012. The notes are secured by second-priority liens on substantially all of the Company's and its material subsidiaries assets.

The notes are redeemable at the Company's option in whole or in part at any time after February 15, 2014 at a price of 104.438% of the principal amount plus accrued and unpaid interest, if any, if redeemed before February 15, 2015, 102.219% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2015 but before February 15, 2016 and 100% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2016. Prior to February 14, 2014, the Company may redeem some or all of the notes at a redemption price of 100% of the principal amount of each note plus accrued and unpaid interest, if any, and a make-whole premium. In addition, at any time prior to February 15, 2014, the Company may redeem up to 35% of the notes with the net cash proceeds from specified equity offerings at a redemption price equal to 108.875% of the principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

The notes are jointly and severally guaranteed, unconditionally and in full by the Company's material subsidiaries which are directly or indirectly wholly-owned by the Company. Separate condensed consolidating information is not included because the Company is a holding company with all of its operations conducted through the guarantor subsidiaries. There are no significant restrictions on the ability of the Company or any of the guarantor subsidiaries to obtain funds from its respective subsidiaries. All consolidated amounts in the Company's financial statements are representative of the combined guarantors.

The indenture governing the notes includes certain covenants, including limitations and restrictions on the Company and its material subsidiaries who are guarantors under such indenture to incur additional debt, issue preferred stock, pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments, incur liens, sell assets, enter into transactions with affiliates, agree to payment restrictions affecting certain of its material subsidiaries and enter into mergers, consolidations or sales of all or substantially all of the Company's or its material subsidiaries' assets. These covenants are subject to certain exceptions and qualifications including, without limitation, permitting the spin-off transaction discussed in Note 1.

The indenture governing the notes contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under these notes and the indenture if there is a default under any indebtedness of the Company having an outstanding principal amount of $15.0 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due.

(In thousands of dollars)

7. Lease Financing Obligations

The Company entered into sale-leaseback transactions in various years that did not qualify for sale-leaseback accounting due to certain forms of continuing involvement and, as a result, the leases were classified as financing transactions in both the Carrols consolidated financial statements and the Company's consolidated financial statements. During the second quarter of 2011, the Company entered into a sale-leaseback transaction for a restaurant property that did not qualify for sale-leaseback accounting and the net proceeds of $1.7 million were recorded as a lease financing obligation. In the third quarter of 2011, the condition that precluded sale-leaseback accounting was cured. As a result, the Company reduced its lease financing obligations by $1.7 million and recorded a loss of $0.1 million which is included in other expense on the consolidated statement of operations. At both September 30, 2011 and December 31, 2010, the balance of these lease financing obligations was $8,871.

In addition, for certain of the Company's sale-leaseback transactions, Carrols has guaranteed the lease payments on an unsecured basis or is the primary lessee on the leases associated with certain of the Company's sale-leaseback transactions. In the Company's consolidated financial statements, ASC 840-40 "Sale-Leaseback Transactions", requires the Company to classify these leases as lease financing transactions because the guarantee from a related party constitutes continuing involvement and causes the sale to not qualify for sale-leaseback accounting. The accompanying consolidated balance sheets include lease financing obligations associated with these transactions of $114,137 and $114,104 at September 30, 2011 and December 31, 2010, respectively.

Under the financing method, the assets remain on the consolidated balance sheet and the net proceeds received by the Company from these transactions are recorded as a lease financing liability. Payments under these leases are applied as payments of imputed interest and deemed principal on the underlying financing obligations.

These leases generally provide for an initial term of 20 years plus renewal options. The rent payable under such leases includes a minimum rent provision and in some cases, includes rent based on a percentage of sales. These leases also require payment of property taxes, insurance and utilities.

The interest rates on lease financing obligations ranged from 7.1% to 10.8% at September 30, 2011. Interest expense associated with lease financing obligations for the three months ended September 30, 2011 and 2010 was $2.8 million and $2.8 million, respectively, and for the nine months ended September 30, 2011 and 2010 was $8.5 million and $8.3 million, respectively.

8. Income Taxes

The Company's taxable income has historically been included in the consolidated U.S. federal income tax return of Carrols and in income tax returns filed by Carrols with certain state taxing jurisdictions. The Company's income tax provision has been computed and presented in these consolidated financial statements as if it were a separate taxpaying entity and was comprised of the following for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Current	$ 610	$1,665	$5,125	$3,881
Deferred	799	(151)	317	(848)
	$1,409	$1,514	$5,442	$3,033

The provision for income taxes for the three and nine months ended September 30, 2011 was derived using an estimated effective annual income tax rate for 2011 of 37.1%, which excludes any discrete tax adjustments. Discrete tax adjustments decreased the provision for income taxes by $18 and $188 in the three and nine months ended September 30, 2011, respectively.

The provision for income taxes for the three and nine months ended September 30, 2010 was derived using an estimated effective annual income tax rate for 2010 of 37.7%, which excludes any discrete tax adjustments. Discrete tax adjustments decreased the provision for income taxes by $106 and $338 in the three and nine months ended September 30, 2010, respectively.

The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expense. As of September 30, 2011 and December 31, 2010, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions.

The tax years 2008-2010 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 uncertainties regarding the timing of any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

9. Business Segment Information

The Company is engaged in the quick-casual restaurant industry, with two restaurant concepts: Pollo Tropical and Taco Cabana. Pollo Tropical is a quick-casual restaurant brand offering a wide selection of tropical and Caribbean inspired food, featuring grilled chicken marinated in a proprietary blend of tropical fruit juices and spices. Taco Cabana is a quick-casual restaurant brand offering a wide selection of fresh Tex-Mex and traditional Mexican food, including sizzling fajitas, quesadillas, enchiladas, burritos and other Tex-Mex dishes.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies included in the Carrols Restaurant Group's Annual Report on Form 10-K for the year ended December 31, 2010. The following table includes Adjusted Segment EBITDA which is the measure of segment profit or loss reported to the chief operating decision maker for purposes of allocating resources to the segments and assessing their performance. Adjusted Segment EBITDA is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense and other income and expense and gains and losses on extinguishment of debt.

Adjusted Segment EBITDA for Pollo Tropical and Taco Cabana differs from the amounts shown in the Carrols Restaurant Group Form 10-Q for the quarterly period ended July 3, 2011 due to lower rent expense resulting from the lease financing obligations required by ASC 840-40, as discussed in Note 7, and higher general and administrative expense, due to the allocation of administrative support expenses.

The "Other" column includes items not allocated to the reportable segments and at September 30, 2011 consisted primarily of deferred financing costs associated with issuance of indebtedness as discussed in Note 5.

(In thousands of dollars)

Three months ended	Pollo Tropical	Taco Cabana	Other	Combined
September 30, 2011:				
Revenues	$ 52,675	$ 68,482	$ —	$ 121,157
Cost of sales	17,499	21,334	—	38,833
Restaurant wages and related expenses	12,114	20,430	—	32,544
Restaurant rent expense	1,560	2,672	—	4,232
General and administrative expense (1)	4,324	4,794	—	9,118
Depreciation and amortization	2,264	2,573	—	4,837
Adjusted Segment EBITDA	8,472	7,326		
Capital expenditures	3,187	2,508	—	5,695
September 30, 2010:				
Revenues	$ 47,567	$ 63,702	$ —	$ 111,269
Cost of sales	15,020	18,939	—	33,959
Restaurant wages and related expenses	11,419	19,394	—	30,813
Restaurant rent expense	1,483	2,642	—	4,125
General and administrative expense (1)	4,077	3,503	—	7,580
Depreciation and amortization	2,279	2,531	—	4,810
Adjusted Segment EBITDA	7,663	6,671		
Capital expenditures	3,842	3,395	—	7,237
Nine Months Ended				
September 30, 2011:				
Total revenues	$157,553	$200,469	$ —	$358,022
Cost of sales	52,062	62,790	—	114,852
Restaurant wages and related expenses	36,721	60,228	—	96,949
Restaurant rent expense	4,419	8,107	—	12,526
General and administrative expense (1)	12,986	14,100	—	27,086
Depreciation and amortization	6,813	7,770	—	14,583
Adjusted Segment EBITDA	27,809	20,647		
Capital expenditures	7,344	10,353	—	17,697
September 30, 2010:				
Total revenues	$139,873	$189,941	$ —	$329,814
Cost of sales	44,880	56,644	—	101,524
Restaurant wages and related expenses	34,249	58,055	—	92,304
Restaurant rent expense	4,510	7,963	—	12,473
General and administrative expense (1)	12,051	11,844	—	23,895
Depreciation and amortization	6,708	7,653	—	14,361
Adjusted Segment EBITDA	22,380	20,249		
Capital expenditures	7,719	8,314	—	16,033
Identifiable Assets:				
At September 30, 2011	$156,731	$203,492	$7,482	$367,705
At December 31, 2010	158,627	199,259	—	357,886

(1) Such amounts include general and administrative expenses related directly to each segment as well as allocated expenses associated with administrative support provided by Carrols for executive management, information systems, finance, legal, accounting, internal audit, human resources and certain other administrative functions. See Note 5 for additional information.

(In thousands of dollars)

A reconciliation of Adjusted Segment EBITDA to consolidated net income follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Adjusted Segment EBITDA:				
Pollo Tropical	$8,472	$7,663	$27,809	$22,380
Taco Cabana	7,326	6,671	20,647	20,249
Less:				
Depreciation and amortization	4,837	4,810	14,583	14,361
Impairment and other lease charges	(68)	93	1,016	3,713
Interest expense	6,651	4,925	16,338	14,918
Provision for income taxes	1,409	1,514	5,442	3,033
Stock-based compensation	440	254	1,299	740
Other expense	107	—	107	—
Net income	$2,422	$2,738	$ 9,671	$ 5,864

10. Commitments and Contingencies

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

11. Recent Accounting Developments

In September 2011, the Financial Accounting Standards Board issued guidance on testing goodwill for impairment. The guidance provides entities an option to perform a “qualitative” assessment to determine whether further impairment testing is necessary. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, provided that the entity has not yet performed its 2011 annual impairment test or issued its financial statements. The Company is evaluating the impact of this guidance on its annual testing for goodwill impairment.

Exhibit 99.2

FIESTA RESTAURANT GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011

Introduction

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD & A") we refer to Fiesta Restaurant Group, Inc. as "Fiesta Restaurant Group" and together with its consolidated subsidiaries as "we", "our" and "us" unless otherwise indicated or the context otherwise requires.

We own and operate two quick-casual restaurant brands, Pollo Tropical and Taco Cabana, through our wholly-owned subsidiaries Pollo Operations, Inc. and Pollo Franchise, Inc., (collectively "Pollo Tropical") and Taco Cabana, Inc. and its subsidiaries (collectively "Taco Cabana"). We were incorporated in April 2011. In May 2011, Carrols Corporation ("Carrols" or "Parent Company") contributed all of the outstanding capital stock of Pollo Tropical and Taco Cabana to Fiesta Restaurant Group in exchange for all of its outstanding capital stock and Fiesta Restaurant Group became a wholly-owned subsidiary of Carrols. Carrols is a wholly owned subsidiary of Carrols Restaurant Group, Inc., a publicly traded company ("Carrols Restaurant Group"). The management's discussion and analysis of financial condition and results of operations discussed below has been prepared as if Fiesta Restaurant Group was in existence for all periods presented.

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal year ended January 2, 2011 will be referred to as the fiscal year ended December 31, 2010. Similarly, all references herein to the three and nine months ended October 2, 2011 and October 3, 2010 will be referred to as the three and nine months ended September 30, 2011 and 2010, respectively. The fiscal year ended December 31, 2010 contained 52 weeks, and the three and nine months ended September 30, 2011 and 2010 each contained thirteen and thirty nine weeks, respectively.

The following 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 Consolidated Financial Statements and the accompanying financial statement notes. 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.

Executive Summary—an executive review of our performance for the three months ended September 30, 2011.

Results of Operations—an analysis of our results of operations for the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010, 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.

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 own and operate two quick-casual restaurant brands, Pollo Tropical® and Taco Cabana®. Our Pollo Tropical restaurants offer a wide selection of tropical and Caribbean-inspired food, while our Taco Cabana restaurants offer a wide selection of fresh Tex-Mex and traditional Mexican food. Our differentiated brands are positioned within the quick-casual restaurant segment, which combines the convenience and value of quick-service restaurants with the menu variety, use of fresh ingredients, food quality, decor and service more typical of casual dining restaurants. As of October 2, 2011, we owned and operated a total of 249 restaurants across six states, which included 91 Pollo Tropical and 158 Taco Cabana restaurants.

We are franchising our Pollo Tropical restaurants primarily internationally and, as of October 2, 2011, we had 30 franchised restaurants located in Puerto Rico, Ecuador, Honduras, the Bahamas, Trinidad, Venezuela and on college campuses in Florida. We also have agreements for the future development of franchised Pollo Tropical restaurants in Panama, Tobago, Aruba, Curacao, Bonaire and Costa Rica. Although we are not actively franchising our Taco Cabana restaurants, we had five Taco Cabana franchised restaurants at October 2, 2011 located in the United States.

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

- *Restaurant sales* consist of food and beverage sales, net of discounts, at our company-owned and operated restaurants. Restaurant sales are influenced by menu price increases, new restaurant openings, closures of restaurants and changes in comparable restaurant sales. Restaurants are included in comparable restaurant sales after they have been open for 18 months. For comparative purposes, the calculation of the changes in comparable restaurant sales is based on a 52-week year.
- *Cost of sales* consists of food, paper and beverage costs including packaging costs, less purchase discounts. Cost of sales is generally influenced by changes in commodity costs, the sales mix of items sold and the effectiveness of our restaurant-level controls to manage food and paper costs. Key commodities, including chicken and beef, are generally purchased under contracts for future periods up to one year.
- *Restaurant wages and related expenses* include all restaurant management and hourly productive labor costs, employer payroll taxes, restaurant-level bonuses and related benefits. Payroll and related taxes and benefits are subject to inflation, including minimum wage increases and increased costs for health insurance, workers’ compensation insurance and state unemployment insurance.
- *Restaurant rent expense* includes base rent and contingent rent on our leases characterized as operating leases, reduced by the amortization of gains on sale-leaseback transactions.
- *Other restaurant operating expenses* include all other restaurant-level operating costs, the major components of which are utilities, repairs and maintenance, real estate taxes and credit card fees.
- *Advertising expense* includes all promotional expenses including television, radio, billboards and other sponsorships and promotional activities.
- *General and administrative expenses* are comprised primarily of (1) salaries and expenses associated with the development and support of our brands and the management oversight of the operation of our restaurants;

(2) legal, auditing and other professional fees and stock-based compensation expense; and (3) allocated costs based on our pro-rata share of Carrols' expenses for executive management, administrative support services and stock-based compensation expense.

- *Adjusted Segment EBITDA*, which is the measure of segment profit or loss used by our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance, is defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment and other lease charges, stock-based compensation expense, other income and expense and gains and losses on the extinguishment of debt. Adjusted Segment EBITDA may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation.
- *Depreciation and amortization expense* primarily includes the depreciation of fixed assets, including equipment, owned buildings and leasehold improvements utilized in our restaurants and the depreciation of assets under lease financing obligations.
- *Interest expense*, subsequent to August 5, 2011 consists of interest expense associated with our $200 million of 8.875% Senior Secured Second Lien Notes due 2016 (the "Fiesta Notes"), borrowings under our senior secured bank credit facility, the amortization of deferred financing costs, imputed interest expense on leases entered into in connection with sale-leaseback transactions which are accounted for as lease financing obligations and any gains and losses from the settlement of lease financing obligations. Prior to August 5, 2011, interest expense included an allocation of interest expense due to Carrols, based on amounts due to Carrols in each respective period.

Recent and Future Events Affecting our Results of Operations

Spin-off of Fiesta Restaurant Group

On February 24, 2011 Carrols Restaurant Group announced its intention to split its businesses into two separate, publicly-traded companies through the tax-free spin-off of our company to its stockholders. If the spin-off is consummated, our common stock will be distributed in the form of a pro rata dividend to the stockholders of Carrols Restaurant Group, and we would continue to own and operate our Pollo Tropical and Taco Cabana businesses. Carrols Restaurant Group would continue to own and operate its franchised Burger King restaurants through its subsidiaries Carrols and Carrols LLC.

We are implementing detailed plans for the proposed spin-off, including the separation plan, transaction structure and timing, composition of senior management and the boards of directors, capital structure and other matters. The spin-off will be subject to approval by our Board of Directors, customary regulatory and other approvals and the receipt of a favorable IRS tax ruling, among other things.

We believe that the proposed spin-off will enable each company to better focus on its respective opportunities as well as to pursue its own distinct operating plan and growth strategy. We expect to complete the spin-off in the first quarter of 2012; however there can be no assurance that we will complete the spin-off by then or at all.

Refinancing of Outstanding Indebtedness of Carrols and Consummation of Fiesta Restaurant Group Debt Agreements

On August 5, 2011, we and Carrols LLC each entered into new and independent financing arrangements, the proceeds from which were used to distribute funds to Carrols to enable Carrols to repay its existing indebtedness, as well as to pay all related fees and expenses.

On August 5, 2011 we sold $200 million of Fiesta Notes and entered into a $25 million senior secured revolving credit facility which was undrawn at closing. Effective with the issuance of the Fiesta Notes, amounts due to Carrols at August 5, 2011 were repaid and we will be independently funding our operations including payment to Carrols for our pro-rata share for executive management and administrative support provided by Carrols to us.

Lease Financing Obligations

We have previously entered into sale-leaseback transactions where Carrols Restaurant Group or Carrols guaranteed our related lease payments on an unsecured basis for 66 restaurants, or is the primary lessee on five of our restaurant leases. Such leases have been accounted for as financing leases in our standalone consolidated financial statements because the Carrols guarantees are considered guarantees from a related party, a form of continuing involvement under ASC 840-40, which precludes sale-leaseback accounting in our consolidated standalone financial statements. Under the financing method, the assets remain on our balance sheet and continue to be depreciated and the proceeds we received from these transactions are recorded as a lease financing liability. Rental payments under these leases are recorded as payments of imputed interest and deemed principal on the underlying financing obligations, rather than rent expense.

Upon the spin-off, we expect that a significant number of these financing leases will qualify for sale-leaseback accounting treatment by either the termination of Carrols' guarantee of our lease payments upon the completion of the spin-off or, with respect to the leases in which guarantees remain, or where Carrols is the primary lessee on a limited number of our restaurant leases, the elimination of the conditions that resulted in the treatment as financing leases. Upon the spin-off, any remaining guarantees will no longer disqualify these transactions for sale-leaseback accounting due to the elimination, in accordance with ASC 840-40, of the related party relationship with Carrols.

On a pro forma basis as if the qualification of these as sale-leaseback transactions (and the treatment as operating leases) occurred as of January 1, 2010, restaurant rent expense would have been $6.4 million and $6.2 million for the three months ended September 30, 2011 and 2010, respectively, and $18.8 million and $18.6 million for the nine months ended September 30, 2011 and 2010, respectively; interest expense would have been $4.4 million and $2.5 million for the three months ended September 30, 2011 and 2010, respectively, and $8.8 million and $7.6 million for the nine months ended September 30, 2011 and 2010 respectively; and depreciation expense would have been $4.3 million for both the three months ended September 30, 2011 and 2010, and $13.0 million and $12.9 million for the nine months ended September 30, 2011 and 2010, respectively. Such pro forma financial information is included for informational purposes only, and may not be indicative of what actual financial information would have been had the lease accounting adjustments in connection with the spin-off occurred on January 1, 2010. In addition, such pro forma financial information does not purport to present our financial information or financial results for future periods.

Executive Summary—Operating Performance for the Three Months Ended September 30, 2011

Total revenues increased 8.9% in the third quarter of 2011 to $121.2 million from $111.3 million in the third quarter of 2010. Comparable restaurant sales in the third quarter of 2011 increased 7.9% at our Pollo Tropical restaurants and increased 5.3% at our Taco Cabana restaurants. The comparable restaurant sales increase at our Pollo Tropical restaurants was primarily a result of higher customer traffic while the comparable sales increases at our Taco Cabana restaurants were due primarily to an increase in average check.

Restaurant operating margins in the third quarter of 2011 were negatively impacted by higher food costs at each of our restaurant brands as cost of sales, as a percentage of total restaurant sales, increased to 32.2% from 30.6%. These increases were partially offset by favorable sales mix changes as well as menu price increases taken in the last twelve months. As a percentage of total restaurant sales, restaurant wages and related expenses decreased to 26.9% in the third quarter of 2011 from 27.8% in the third quarter of 2010 due to the effect of higher sales volumes on fixed labor costs. Advertising expense, as a percentage of total restaurant sales, decreased to 3.7% in the third quarter of 2011 from 4.5% in the third quarter of 2010 as a result of lower advertising spending for our Taco Cabana restaurants due to timing. Operating results were favorably impacted by lower utility costs which, as a percentage of total restaurant sales, decreased to 3.8% in the third quarter of 2011 from 4.1% in the third quarter of 2010.

General and administrative expenses increased to $9.1 million in the third quarter of 2011 from $7.6 million in the third quarter of 2010 due primarily to higher administrative bonus accruals and higher stock-based compensation expense.

Total interest expense increased $1.7 million to $6.7 million in the third quarter of 2011 due to our refinancing activities in the third quarter which included our issuance of the Fiesta Notes.

Our effective income tax rate in the third quarter of 2011, including discrete tax adjustments, increased to 36.8% from 35.6% in the third quarter of 2010 due primarily to discrete tax adjustments of $0.1 million which reduced the provision for income taxes in the third quarter of 2010.

As a result of the above, our net income decreased to $2.4 million in the third quarter of 2011 from $2.7 million in the third quarter of 2010.

Results of Operations

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

The following table sets forth, for the three months ended September 30, 2011 and 2010, selected operating results as a percentage of consolidated restaurant sales:

	2011	2010
Restaurant sales:		
Pollo Tropical	43.4%	42.6%
Taco Cabana	56.6%	57.4%
Total restaurant sales	100.0%	100.0%
Costs and expenses:		
Cost of sales	32.2%	30.6%
Restaurant wages and related expenses	26.9%	27.8%
Restaurant rent expense	3.5%	3.7%
Other restaurant operating expenses	13.7%	14.1%
Advertising expense	3.7%	4.5%
General and administrative	7.5%	6.8%

Since the beginning of the fourth quarter of 2010 through the end of the third quarter of 2011, we have opened four new Pollo Tropical restaurants and four new Taco Cabana restaurants. During the same period we closed three Pollo Tropical restaurants and two Taco Cabana restaurants.

Restaurant Sales. Total restaurant sales increased 8.9% to $120.8 million in the third quarter of 2011 compared to $110.9 million in the third quarter of 2010.

Pollo Tropical restaurant sales in the third quarter of 2011 increased 10.8% to $52.4 million due primarily to an increase in comparable restaurant sales of 7.9% resulting from a 5.8% increase in customer traffic and a 2.1% increase in average check, compared to the third quarter of 2010. In addition, four restaurants opened since the beginning of the third quarter of 2010 contributed $1.9 million in additional sales in the third quarter. The effect of menu price increases taken in the last twelve months, compared to the third quarter of 2010, was approximately 2.0% due to price increases taken primarily in the second quarter of 2011. There were no menu price increases at our Pollo Tropical restaurants in 2010.

Taco Cabana restaurant sales in the third quarter of 2011 increased 7.5% to $68.4 million due primarily to an increase in comparable restaurant sales of 5.3% in the third quarter of 2011 resulting from a 6.4% increase in average check from menu prices increases and a shift in sales mix partially offset by a 1.1% decrease in customer traffic. The effect of menu price increases taken in the last twelve months, compared to the third quarter of 2010, was approximately 3.7%, including price increases taken in the second quarter of 2011 to partially offset recent increases in commodity costs. In addition, five restaurants opened since the beginning of the third quarter of 2010 contributed $1.9 million in additional sales in the third quarter.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales increased to 33.4% in the third quarter of 2011 from 31.8% in the third quarter of 2010 due primarily to higher commodity prices (1.9%), including chicken (0.8%) and fuel surcharges, partially offset by the effect of menu price increases. Pollo Tropical restaurant wages and related expenses decreased to 23.1% in the third quarter of 2011 from 24.1% in the third quarter of 2010 due primarily to the effect of higher sales volumes on fixed labor costs and lower restaurant-level bonus accruals (0.4%). Pollo Tropical other restaurant operating expenses were 13.3% in both the third quarter of 2011 and 2010 as the effect of higher sales volumes on fixed operating costs was offset by higher repairs and maintenance expense and higher store opening costs. Pollo Tropical advertising expense increased slightly to 3.7% in the third quarter of 2011 from 3.6% in the third quarter of 2010.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 31.2% in the third quarter of 2011 from 29.8% in the third quarter of 2010 due primarily to higher commodity prices including beef fajita meat (2.4%) partially offset by the effect of menu price increases taken in the last twelve months. Taco Cabana restaurant wages and related expenses decreased to 29.9% in the third quarter of 2011 from 30.5% in the third quarter of 2010 due primarily to the effect of higher sales volumes on fixed labor costs. Taco Cabana other restaurant operating expenses decreased to 14.1% in the third quarter of 2011 from 14.7% in the third quarter of 2010 due primarily to lower utility costs (0.2%), lower operating supply costs and the effect of higher sales volumes on other fixed operating costs. Taco Cabana advertising expense decreased to 3.7% in the third quarter of 2011 from 5.2% in the third quarter of 2010 due to the timing of promotions in the prior year.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 3.5% in the third quarter of 2011 from 3.7% in the third quarter of 2010 due to the effect of higher sales volumes on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased $1.5 million in the third quarter of 2011 to $9.1 million and, as a percentage of total restaurant sales, increased to 7.5% compared to 6.8% in the third quarter of 2010 due primarily to an increase of $0.4 million in performance-based administrative bonus accruals and higher allocated stock-based compensation expense of $0.2 million. General and administrative expenses included total allocated Carrols' corporate expenses for executive management, information systems, stock-based compensation expense and certain accounting, legal and other administrative functions of $2.5 million and $1.9 million in the third quarter of 2011 and 2010, respectively.

Adjusted Segment EBITDA. As a result of the factors set forth above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to $8.5 million in the third quarter of 2011 from $7.7 million in the third quarter of 2010. Adjusted Segment EBITDA for our Taco Cabana restaurants increased to $7.3 million in the third quarter of 2011 from $6.7 million in the third quarter of 2010.

Depreciation and Amortization Expense. Depreciation and amortization expense was $4.8 million in both the third quarter of 2011 and 2010.

Impairment and Other Lease Charges. Impairment and other lease charges in the third quarter consisted of lease charges of $0.1 million associated with the closure of a Pollo Tropical restaurant in the third quarter of 2011 and $0.1 million of sublease income to reduce our future minimum lease payments and ancillary costs related to a non-operating Taco Cabana restaurant property.

Interest Expense. Total interest expense increased $1.7 million to $6.7 million in the third quarter of 2011 due to interest expense associated with the issuance of $200.0 million of the Fiesta Notes in the third quarter of 2011. Interest expense associated with lease financing obligations was $2.8 million in both the third quarter of 2011 and 2010.

Provision for Income Taxes. The provision for income taxes for the third quarter of 2011 was derived using an estimated effective annual income tax rate for 2011 of 37.1%, which excludes any discrete tax adjustments. Discrete tax adjustments in the third quarter of 2011 decreased the provision for income taxes by $18,000 and resulted in an overall tax rate of 36.8%. The provision for income taxes for the third quarter of 2010 was derived using an estimated effective annual income tax rate for 2010 of 37.7%, which excluded any discrete tax adjustments. Discrete tax adjustments decreased the provision for income taxes by $0.1 million in the third quarter of 2010 and resulted in an overall tax rate of 35.6%.

Net Income. As a result of the foregoing, net income was $2.4 million in the third quarter of 2011 compared to $2.7 million in the third quarter of 2010.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

The following table sets forth, for the nine months ended September 30, 2011 and 2010, selected operating results as a percentage of consolidated restaurant sales:

	2011	2010
Restaurant sales:		
Pollo Tropical	43.9%	42.3%
Taco Cabana	56.1%	57.7%
Total restaurant sales	100.0%	100.0%
Costs and expenses:		
Cost of sales	32.2%	30.9%
Restaurant wages and related expenses	27.2%	28.1%
Restaurant rent expense	3.5%	3.8%
Other restaurant operating expenses	13.2%	13.9%
Advertising expense	3.5%	3.7%
General and administrative	7.6%	7.3%

Since the beginning of 2010 through the third quarter of 2011, we have opened four new Pollo Tropical restaurants and five new Taco Cabana restaurants. During the same period we closed four Pollo Tropical restaurants and three Taco Cabana restaurants.

Restaurant Sales. Total restaurant sales in the first nine months of 2011 increased 8.6% to $356.8 million from $328.7 million in the first nine months of 2010.

Pollo Tropical restaurant sales in the first nine months of 2011 increased 12.7% to $156.5 million due primarily to an increase in comparable restaurant sales of 10.6% resulting from a 9.3% increase in customer traffic and a 1.3% increase in average check, compared to the first nine months of 2010. The effect of menu price increases in 2011 compared to the first nine months of 2010 was 1.1%. In addition, four restaurants opened since the beginning of 2010 contributed $4.5 million in additional sales in the first nine months of 2011.

Taco Cabana restaurant sales in the first nine months of 2011 increased 5.5% to $200.2 million due primarily to a 4.0% increase in comparable restaurant sales resulting from an increase in average check of 3.8% and an increase in customer traffic of 0.2%, compared to the first nine months of 2010. The effect of menu price increases in 2011 compared to the first nine months of 2010 was 2.8%. In addition, five restaurants opened since the beginning of 2010 contributed $3.9 million in additional sales in the first nine months of 2011.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales increased to 33.3% in the first nine months of 2011 from 32.3% in the first nine months of 2010 due primarily to higher commodity prices (1.4%), including chicken (0.8%) and fuel surcharges, partially offset by favorable menu item sales mix shifts and the effect of menu price increases. Pollo Tropical restaurant wages and related expenses decreased to 23.5% in the first nine months of 2011 from 24.6% in the first nine months of 2010 due primarily to the effect of higher sales volumes on fixed labor costs and lower workers compensation claim costs (0.3%). Pollo Tropical other restaurant operating expenses decreased to 12.7% in the first nine months of 2011 from 13.2% in the first nine months of 2010 due primarily to lower real estate taxes (0.4%) and the effect of higher sales volumes on other fixed operating costs. Pollo Tropical advertising expense decreased slightly to 2.7% in the first nine months of 2011 from 2.8% in the first nine months of 2010. For all of 2011 our Pollo Tropical advertising expenses are expected to be approximately 2.6% to 2.8% of Pollo Tropical restaurant sales.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 31.4% in the first nine months of 2011 from 29.9% in the first nine months of 2010 due primarily to higher commodity prices including beef fajita cost increases (2.0%) partially offset by the effect of menu price increases taken since the beginning of 2010. Taco Cabana restaurant wages and related expenses decreased to 30.1% in the first nine months of 2011 from 30.6% in the first nine months of 2010 due primarily to the effect of higher sales volumes on fixed labor costs and lower medical claim costs (0.2%). Taco Cabana other restaurant operating expenses decreased to 13.6% in the first nine months of 2011 from 14.4% in the first nine months of 2010 due primarily to lower utility costs (0.4%), the reduction of operating supply costs and the effect of higher sales volumes on other fixed operating costs. Taco Cabana advertising expense decreased to 4.1% in the first nine months of 2011 from 4.3% in the first nine months of 2010 due to the timing of promotions. For all of 2011 our Taco Cabana advertising expenses are expected to be approximately 3.9% to 4.1% of Taco Cabana restaurant sales.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 3.5% in the first nine months of 2011 from 3.8% in the first nine months of 2010 due primarily to the effect of higher sales volumes on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased $3.2 million in the first nine months of 2011 to $27.1 million and, as a percentage of total restaurant sales, increased to 7.6% from 7.3% in the first nine months of 2010 due primarily to an increase of $0.9 million in performance-based administrative bonus accruals and higher allocated stock-based compensation expense of $0.6 million. General and administrative expenses included total allocated Carrols' corporate expenses for executive management, information systems, stock-based compensation expense and certain accounting, legal and other administrative functions of $7.4 million and $6.4 million for the first nine months of 2011 and 2010, respectively.

Adjusted Segment EBITDA. As a result of the factors above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to $27.8 million in the first nine months of 2011 from $22.4 million in the first nine months of 2010. Adjusted Segment EBITDA for our Taco Cabana restaurants increased to $20.6 million in the first nine months of 2011 from $20.2 million in the first nine months of 2010.

Depreciation and Amortization. Depreciation and amortization expense increased to $14.6 million in the first nine months of 2011 from $14.4 million in the first nine months of 2010.

Impairment and Other Lease Charges. Impairment and other lease charges in the first nine months of 2011, in addition to the third quarter items discussed above, consisted of $0.6 million in other lease charges for two previously closed Pollo Tropical restaurants, $0.3 million of lease charges for a Taco Cabana restaurant that was closed in the second quarter of 2011, and $0.2 million in lease charges for two previously closed Taco Cabana restaurants.

Impairment and other lease charges in the first nine months of 2010 included $1.4 million of impairment charges for an underperforming Pollo Tropical restaurant, $0.3 million to reduce the fair market value of a previously impaired Pollo Tropical restaurant, impairment charges of $1.1 million for an underperforming Taco Cabana restaurant and $0.3 million to reduce the fair market value of a previously impaired Taco Cabana restaurant.

Interest Expense. Total interest expense increased $1.4 million to $16.3 million in the first nine months of 2011 due to the factors discussed above. Interest expense on lease financing obligations was $8.5 million in the first nine months of 2011 and $8.3 in the first nine months of 2010.

Provision for Income Taxes. The provision for income taxes for the first nine months of 2011 was derived using an estimated effective annual income tax rate for 2011, excluding discrete tax adjustments, of 37.1%. Discrete tax adjustments reduced the provision for income taxes by $0.2 million in the first nine months of 2011 and resulted in an overall tax rate of 36.0%. The provision for income taxes for the first nine months of 2010 was derived using an estimated effective annual income tax rate for 2010, excluding discrete tax adjustments, of 37.7%. Including discrete tax adjustments in the first nine months of 2010 the overall tax rate was 34.1%.

Net Income. As a result of the foregoing, net income increased to $9.7 million in the first nine months of 2011 from $5.9 million in the first nine months of 2010.

Liquidity and Capital Resources

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

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

Since 2009, our spending on new restaurant development was limited in order to utilize our free cash flow to reduce Carrols outstanding indebtedness and financial leverage as well as reduce our amounts due to Carrols. We have continued to moderate new restaurant growth in 2011.

On August 5, 2011, we and Carrols LLC each entered into new and independent financing arrangements, the proceeds from which were used to distribute funds to Carrols to enable Carrols to repay its existing indebtedness, as well as to pay accrued interest and all related fees and expenses. On August 5, 2011 we sold $200 million of the Fiesta Notes and entered into a $25 million senior secured revolving credit facility which was undrawn at closing.

Interest payments under our debt obligations, capital expenditures and payments related to our lease obligations represent significant liquidity requirements for us. We believe cash generated from our operations, availability of borrowing under our revolving credit facility and proceeds from anticipated sale-leaseback transactions will provide sufficient cash availability to cover our anticipated working capital needs, capital expenditures and debt service requirements for the next twelve months.

Operating Activities. Net cash provided from operating activities for the first nine months of 2011 increased $6.6 million to $31.3 million from $24.6 million in the first nine months of 2010, due primarily to a reduction in the changes in the components of net working capital, including deferred income taxes, of $4.8 million, and an increase in net income, adjusted for non-cash items including depreciation and amortization, impairment and other lease charges and stock-based compensation expense.

Investing Activities. Net cash used for investing activities in the first nine months of 2011 and 2010 was $9.9 million and $15.6 million, respectively. Capital expenditures are the largest 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; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants; and (4) corporate and restaurant information systems.

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

	Pollo Tropical	Taco Cabana	Consolidated
Nine Months Ended September 30, 2011			
New restaurant development	$3,075	$ 6,932	$ 10,007
Restaurant remodeling	2,281	1,211	3,492
Other restaurant capital expenditures (1)	1,567	2,117	3,684
Corporate and restaurant information systems	421	93	514
Total capital expenditures	$7,344	$10,353	$ 17,697
Number of new restaurant openings	2	4	6
Nine Months Ended September 30, 2010			
New restaurant development	$4,331	$ 3,183	$ 7,514
Restaurant remodeling	1,573	2,819	4,392
Other restaurant capital expenditures (1)	1,763	2,259	4,022
Corporate and restaurant information systems	52	53	105
Total capital expenditures	$7,719	$ 8,314	$ 16,033
Number of new restaurant openings	—	1	1

1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the first nine months of 2011 and 2010, total restaurant repair and maintenance expenses were approximately $8.0 million and $7.2 million, respectively.

For 2011 we anticipate that total capital expenditures will range from $22 million to $23 million, although the actual amount of capital expenditures may differ from these estimates. In 2011 we plan to have opened a total of six new Pollo Tropical and Taco Cabana restaurants, all of which were open at the end of the third quarter. Capital expenditures for all of 2011 are expected to include approximately $12 million for the development of new restaurants and purchase of related real estate. Capital expenditures in 2011 also are expected to include expenditures of approximately $9 million to $10 million for the ongoing reinvestment in our restaurant concepts for remodeling costs and capital maintenance expenditures and approximately $1 million of other expenditures.

Investing activities also include sale-leaseback transactions related to our restaurant properties, the net proceeds from which were $7.8 million and $1.8 million in the first nine months of 2011 and 2010, respectively. The net proceeds from these sales in the first and second quarter of 2011 were used to reduce amounts due to Carrols. In the first nine months of 2010 we also purchased one restaurant property for $1.3 million for future sale in a sale-leaseback transaction.

Financing Activities. Net cash used for financing activities in the first nine months of 2011 and 2010 was $14.8 million and $10.1 million, respectively. As discussed above, as a result of our issuance of the Fiesta Notes, we made repayments of indebtedness to Carrols of $133.5 million in the first nine months of 2011 and a dividend payment to Carrols of $75.5 million in the third quarter of 2011. During the first nine months of 2011 we deferred $7.5 million of financing costs pertaining to our financing transactions discussed above.

During the second quarter of 2011, we entered into a sale-leaseback transaction for a restaurant property that did not qualify for sale-leaseback accounting and the net proceeds of $1.7 million were recorded as a lease financing obligation. During the third quarter of 2011 the condition that precluded sale-leaseback accounting was cured. During the first nine months of 2010 we also had proceeds from lease financing obligations of $2.4 million.

New Senior Secured Credit Facility. On August 5, 2011 we entered into a new first lien senior secured revolving credit facility providing for aggregate borrowings of up to $25.0 million (including $10.0 million available for letters of credit). Our new revolving credit facility also provides for incremental increases of up to $5.0 million, in the aggregate, to the revolving credit borrowings available under the facility, and matures on February 5, 2016. Borrowings under the facility bear interest at a per annum rate, at our option, of either (all terms as defined in the senior secured credit facility):

1) the Alternate Base Rate plus the applicable margin of 2.0% to 2.75% based on our Adjusted Leverage Ratio (with an initial applicable margin set at 2.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the facility), or

2) the LIBOR Rate plus the applicable margin of 3.0% to 3.75% based on our Adjusted Leverage Ratio (with an initial applicable margin set at 3.5% until the delivery of financial statements for the fourth fiscal quarter of 2011 to the agent and lenders under the facility).

Our obligations under the facility are guaranteed by all of our material subsidiaries and are secured by a first priority lien on substantially all of our assets and those of our material subsidiaries (including a pledge of all of the capital stock and equity interests of our material subsidiaries).

The senior secured credit facility contains certain covenants, including, without limitation, those limiting our and our guarantor 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 secured credit facility requires us to meet certain financial ratios, including a Fixed Charge Coverage Ratio and Adjusted Leverage Ratio (all as defined under the senior secured credit facility).

Our senior secured senior credit facility contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under this facility if there is a default under any of our indebtedness having an outstanding principal amount of $2.5 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. As of October 2, 2011, we were in compliance with the covenants under our senior secured credit facility. After reserving $7.6 million for letters of credit guaranteed by the facility, $17.4 million was available for borrowing at October 2, 2011.

Fiesta Notes. On August 5, 2011, we issued $200.0 million of 8.875% Senior Secured Second Lien Notes Due 2016 pursuant to an indenture dated as of August 5, 2011 governing such notes. The Fiesta Notes mature and are payable on August 15, 2016. Interest is payable semi-annually on February 15 and August 15 with the first interest payment due on February 15, 2012. The Fiesta Notes are guaranteed by all of our material subsidiaries and are secured by second-priority liens on substantially all of our material subsidiaries assets (including a pledge of all of the capital stock and equity interests of our material subsidiaries).

The Fiesta Notes are redeemable at our option in whole or in part at any time after February 15, 2014 at a price of 104.438% of the principal amount plus accrued and unpaid interest, if any, if redeemed before February 15, 2015, 102.219% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2015 but before February 15, 2016 and 100% of the principal amount plus accrued and unpaid interest, if any, if redeemed after February 15, 2016. Prior to February 14, 2014, we may redeem some or all of the Fiesta Notes at a redemption price of 100% of the principal amount of each note plus accrued and unpaid interest, if any, and a make-whole premium. In addition, at any time prior to February 15, 2014, we may redeem up to 35% of the Fiesta Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 108.875% of the principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

The indenture governing the Fiesta Notes includes certain covenants, including limitations and restrictions on us and our material subsidiaries who are guarantors under such indenture to incur additional debt, issue preferred stock, pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments, incur liens, sell assets, enter into transactions with affiliates, agree to payment restrictions affecting certain of its material subsidiaries and enter into mergers, consolidations or sales of all or substantially all of our or our material subsidiaries' assets. These covenants are subject to certain exceptions and qualifications including, without limitation, permitting the spin-off transaction discussed above.

The indenture governing the Fiesta Notes contains customary default provisions, including without limitation, a cross default provision pursuant to which it is an event of default under the Fiesta Notes and the indenture if there is a default under any of our indebtedness having an outstanding principal amount of $15.0 million or more which results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. We were in compliance as of October 2, 2011 with the restrictive covenants of the indenture governing the Fiesta Notes.

Until the consummation of the spin-off, the indenture governing the Fiesta Notes requires us to provide certain financial information and ratios for the last twelve months in this MD & A, all as defined in the indenture. For the twelve month period ended September 30, 2011, Consolidated EBITDAR was $80.0 million; Consolidated EBITDA was $53.4 million; the Consolidated Lease Adjusted Secured Leverage Ratio was 5.18x; and the Consolidated Fixed Charge Coverage Ratio was 1.77x.

Indebtedness. At October 2, 2011, we had total long-term debt outstanding (including current portion) of $324.0 million consisting of $200.0 million of Fiesta Notes, $123.0 million of lease financing obligations and $1.0 million of capital lease obligations.

Contractual Obligations

The following table summarizes our contractual obligations and commitments as of September 30, 2011 (in thousands):

	Payments due by period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Contractual Obligations					
Long-term debt obligations, including interest (1)	287,500	17,500	35,000	235,000	—
Capital lease obligations, including interest (2)	1,754	142	281	261	1,070
Operating lease obligations (3)	200,495	17,603	34,290	31,619	116,983
Lease financing obligations, including interest (4)	250,547	10,972	22,085	22,582	194,908
Total contractual obligations	740,296	46,217	91,656	289,462	312,961

(1) Our long-term debt included $200.0 million of Fiesta Notes. Total interest payments on our Fiesta Notes of $87.5 million for all years presented are included at the coupon rate of 8.875%.

(2) Includes total interest of $0.7 million for all years presented.

(3) Represents aggregate minimum lease payments under operating leases. Many of our leases also require contingent rent in addition to the minimum base rent on a percentage of such sales and require expenses incidental to the use of the property, all of which are excluded from this table.

(4) Includes total interest of $127.5 million for all years presented.

Off-Balance Sheet Arrangements

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

Inflation

The inflationary factors that have historically affected our results of operations include increases in food and paper costs, labor and other operating expenses and energy costs. Wages paid in our restaurants are impacted by changes in the Federal and state hourly minimum wage rates. Accordingly, changes in the Federal and state hourly minimum wage rates 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.

Effects of New Accounting Standards

In September 2011, the Financial Accounting Standards Board issued guidance on testing goodwill for impairment. The guidance provides entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, provided that the entity has not yet performed its 2011 annual impairment test or issued its financial statements. We are evaluating the impact of this guidance on our annual testing for goodwill impairment.