UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2023

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	**83-3804854**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
968 James Street	
Syracuse, New York	**13203**
(Address of principal executive office)	**(Zip Code)**

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 4, 2023, Carrols Restaurant Group, Inc. had 54,494,314 shares of its common stock, $.01 par value, outstanding.

CARROLS RESTAURANT GROUP, INC.

FORM 10-Q
QUARTER ENDED JULY 2, 2023

PART I—FINANCIAL INFORMATION

ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	July 2, 2023	January 1, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,932	$ 18,364
Trade and other receivables	23,343	19,933
Inventories	13,015	14,417
Prepaid expenses and other current assets	17,878	15,562
Total current assets	95,168	68,276
Property and equipment, net of accumulated depreciation of $555,413 and $535,359, respectively	298,643	312,346
Franchise rights, net of accumulated amortization of $167,778 and $161,426, respectively (Note 3)	305,592	312,804
Goodwill (Note 3)	107,751	107,751
Franchise agreements, at cost less accumulated amortization of $18,117 and $16,975, respectively	27,037	28,256
Operating right-of-use assets, net (Note 6)	757,678	763,935
Other assets (Note 7)	12,748	14,350
Total assets	$ 1,604,617	$ 1,607,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and finance lease liabilities (Notes 6 and 7)	$ 7,311	$ 7,341
Current portion of operating lease liabilities (Note 6)	48,512	47,408
Accounts payable	32,831	30,491
Accrued interest	9,486	9,643
Accrued payroll, related taxes and benefits	45,509	49,934
Accrued real estate taxes	8,231	8,896
Other liabilities	29,026	25,687
Total current liabilities	180,906	179,400
Long-term debt and finance lease liabilities, net of current portion (Notes 6 and 7)	464,264	479,756
Operating lease liabilities (Note 6)	772,857	776,465
Deferred income taxes, net (Note 8)	8,957	7,665
Other liabilities (Note 5)	9,601	13,590
Total liabilities	1,436,585	1,456,876
Commitments and contingencies (Note 10)		
Stockholders' equity (Note 12):		
Preferred stock, par value $.01; authorized 20,000,000 shares, issued and outstanding—100 shares	—	—
Voting common stock, par value $.01; authorized—100,000,000 shares, issued—56,746,051 and 54,928,225 shares, respectively, and outstanding—51,557,379 and 50,903,111 shares, respectively	538	530
Additional paid-in capital	294,799	292,708
Accumulated deficit	(121,150)	(136,968)
Accumulated other comprehensive income	8,270	8,702
Treasury stock, at cost	(14,425)	(14,130)
Total stockholders' equity	168,032	150,842
Total liabilities and stockholders' equity	$ 1,604,617	$ 1,607,718

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
Restaurant sales	$ 485,223	$ 441,945	$ 930,385	$ 841,421
Operating expenses:				
Food, beverage and packaging costs	136,683	140,175	262,126	263,232
Restaurant wages and related expenses	155,269	149,315	301,593	290,935
Restaurant rent expense (Note 6)	32,180	31,230	64,014	62,243
Other restaurant operating expenses	73,711	69,032	142,843	134,439
Advertising expense	19,578	17,641	37,476	33,605
General and administrative expenses (including stock-based compensation of $1,002, $936, $2,099 and $2,877, respectively)	24,588	20,827	50,328	42,844
Depreciation and amortization	18,559	20,071	37,277	39,613
Impairment and other lease charges (Note 4)	2,749	18,176	4,089	18,672
Other (income) expense, net (Note 14)	(1,319)	439	(2,825)	641
Total operating expenses	461,998	466,906	896,921	886,224
Income (loss) from operations	23,225	(24,961)	33,464	(44,803)
Interest expense	7,667	7,636	15,900	15,072
Income (loss) before income taxes	15,558	(32,597)	17,564	(59,875)
Provision (benefit) from income taxes (Note 8)	604	(6,121)	1,746	(12,130)
Net income (loss)	$ 14,954	$ (26,476)	$ 15,818	$ (47,745)
Basic and diluted net income (loss) per share (Note 13)	$ 0.23	$ (0.52)	$ 0.25	$ (0.94)
Shares used in computing net income (loss) per share:				
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding	51,535,242	50,795,328	51,479,396	50,634,008
Diluted weighted average common shares outstanding	62,123,941	50,795,328	61,772,757	50,634,008
Comprehensive income (loss), net of tax:				
Net income (loss)	$ 14,954	$ (26,476)	$ 15,818	$ (47,745)
Change in valuation of interest rate swap (Note 7)	705	595	(432)	4,877
Comprehensive income (loss)	$ 15,659	$ (25,881)	$ 15,386	$ (42,868)

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, January 1, 2023	53,010,414	$ 530	100	$ —	$ 292,708	$ (136,968)	$ 8,702	(2,107,303)	$ (14,130)	$ 150,842
Stock-based compensation	—	—	—	—	1,097	—	—	—	—	1,097
Vesting of non-vested shares and RSUs	767,359	8	—	—	(8)	—	—	—	—	—
Net income	—	—	—	—	—	864	—	—	—	864
Purchase of treasury stock	—	—	—	—	—	—	—	(144,434)	(295)	(295)
Change in valuation of interest rate swap, net of income tax expense of $260 (Note 7)	—	—	—	—	—	—	(1,137)	—	—	(1,137)
Balance, April 2, 2023	53,777,773	$ 538	100	$ —	$ 293,797	$ (136,104)	$ 7,565	(2,251,737)	$ (14,425)	$ 151,371
Stock-based compensation	—	—	—	—	1,002	—	—	—	—	1,002
Vesting of non-vested shares	31,343	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	14,954	—	—	—	14,954
Change in valuation of interest rate swap, including income tax benefit of $41 (Note 7)	—	—	—	—	—	—	705	—	—	705
Balance, July 2, 2023	53,809,116	$ 538	100	$ —	$ 294,799	$ (121,150)	$ 8,270	(2,251,737)	$ (14,425)	$ 168,032
Balance, January 2, 2022	52,037,511	$ 520	100	$ —	$ 287,816	$ (61,396)	$ 1,411	(2,104,953)	$ (14,127)	$ 214,224
Stock-based compensation	—	—	—	—	1,941	—	—	—	—	1,941
Vesting of non-vested shares and RSUs	856,039	9	—	—	(9)	—	—	—	—	—
Net loss	—	—	—	—	—	(21,269)	—	—	—	(21,269)
Change in valuation of interest rate swap, net of income tax expense of $816 (Note 7)	—	—	—	—	—	—	4,282	—	—	4,282
Balance, April 3, 2022	52,893,550	$ 529	100	$ —	$ 289,748	$ (82,665)	$ 5,693	(2,104,953)	$ (14,127)	$ 199,178
Stock-based compensation	—	—	—	—	936	—	—	—	—	936
Vesting of non-vested shares	16,864	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	(26,476)		—	—	(26,476)
Change in valuation of interest rate swap, including income tax benefit of $211 (Note 7)	—	—	—	—	—	—	595	—	—	595
Balance, July 3, 2022	52,910,414	$ 529	100	$ —	$ 290,684	$ (109,141)	$ 6,288	(2,104,953)	$ (14,127)	$ 174,233

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	July 2, 2023	**July 3, 2022**
Cash flows provided by (used in) operating activities:		
Net income (loss)	$ 15,818	$ (47,745)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Gain) loss on disposals of property and equipment, including sale-leasebacks	(2,550)	624
Stock-based compensation	2,099	2,877
Impairment and other lease charges	4,089	18,672
Depreciation and amortization	37,277	39,613
Amortization of deferred financing costs	1,084	1,083
Amortization of discount on debt	65	63
Deferred income taxes	1,593	(12,130)
Changes in other operating assets and liabilities	(6,978)	(26,090)
Net cash provided by (used in) operating activities	52,497	(23,033)
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(1,204)	(5,268)
Restaurant remodeling	(4,355)	(6,577)
Other restaurant capital expenditures	(8,688)	(8,490)
Corporate and restaurant information systems	(2,101)	(2,421)
Total capital expenditures	(16,348)	(22,756)
Proceeds from sale of other assets	—	864
Properties purchased for sale-leaseback	(680)	(2,088)
Proceeds from sale-leaseback transactions	1,321	2,085
Proceeds from insurance recoveries	2,220	58
Net cash used for investing activities	(13,487)	(21,837)
Cash flows (used in) provided by financing activities:		
Principal payments on Term B Loans	(2,125)	(2,125)
Borrowings under revolving credit facility	11,000	32,000
Repayments under revolving credit facility	(23,500)	(5,000)
Principal payments on finance lease liabilities	(1,522)	(1,088)
Purchase of treasury shares	(295)	—
Net cash (used in) provided by financing activities	(16,442)	23,787
Net increase (decrease) in cash and cash equivalents	22,568	(21,083)
Cash and cash equivalents, beginning of period	18,364	29,151
Cash and cash equivalents, end of period	$ 40,932	$ 8,068
Supplemental disclosures:		
Interest paid on long-term debt	$ 14,750	$ 22,438
Interest paid on lease financing obligations	—	52
Interest paid on finance leases	403	278
Accruals for capital expenditures	2,558	2,040
Finance lease obligations incurred	20	8,644
Gain (loss) on sale-leaseback transactions	1,217	(74)
Operating lease assets and liabilities resulting from lease modifications and new leases	20,879	9,687
Operating cash flows related to operating leases	51,561	51,141
Income taxes paid	44	—

See notes to unaudited condensed consolidated financial statements.

1. Business Description

At July 2, 2023, Carrols Restaurant Group, Inc. ("Carrols Restaurant Group") operated, as franchisee, 1,019 Burger King® restaurants in 23 Northeastern, Midwestern, Southcentral and Southeastern states and 62 Popeyes® restaurants in six Southeastern states. Carrols Restaurant Group, Inc. is a holding company and conducts all of its operations through its direct and indirect wholly-owned subsidiaries Carrols Corporation and New CFH, LLC and their wholly-owned subsidiaries. Carrols Corporation's material wholly-owned subsidiary is Carrols LLC, a Delaware limited liability company. New CFH LLC's material direct and indirect wholly-owned subsidiaries include Frayser Quality, LLC and Nashville Quality, LLC (and together with New CFH, LLC's immaterial direct and indirect subsidiaries, collectively, "New CFH"). Unless the context otherwise requires, Carrols Restaurant Group and its direct and indirect wholly-owned subsidiaries are collectively referred to as the "Company."

2. Significant Accounting Policies

Basis of Consolidation. The accompanying condensed consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. The three and six months ended July 2, 2023 and July 3, 2022 contained thirteen and twenty-six weeks, respectively. The 2023 fiscal year will end December 31, 2023 and will contain 52 weeks.

Basis of Presentation. The unaudited condensed consolidated financial statements as of and for the three and six months ended July 2, 2023 and July 3, 2022 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 footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such unaudited condensed consolidated financial statements have been included. The results of operations for the three and six months ended July 2, 2023 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended January 1, 2023. The January 1, 2023 consolidated balance sheet data is derived from those audited consolidated financial statements.

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

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

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. At July 2, 2023, the Company had $12.6 million of cash invested in money market funds classified as cash equivalents on the condensed consolidated balance sheets. The Company did not have any cash invested in money market funds classified as cash equivalents on the condensed consolidated balance sheets as of January 1, 2023.

Food, Beverage and Packaging Costs. The Company includes food, beverage and packaging costs and delivery charges, net of any vendor purchase discounts and rebates, in food, beverage, and packaging costs.

Fair Value of Financial Instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three-level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect the Company's own assumptions. Financial instruments include cash and cash equivalents, trade and other receivables, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, trade and other receivables and accounts payable approximate fair value because of the short-term nature of these financial instruments. Borrowings under the Company's Senior Credit Facilities (including its term B loans) accrue interest at a floating rate tied to a standard short-term borrowing index selected at the Company's option, plus an applicable margin. The Company's liability for its Senior Credit Facilities and 5.875% Senior Notes due 2029 are carried at historical cost in the accompanying balance sheets. The fair value of our term B loans and 5.875% Senior Notes due 2029 is based on recent trading activity, which are Level 2 inputs in the fair value hierarchy. As of July 2, 2023, the term B loans traded at 96.0% of par value and the 5.875% Senior Notes due 2029 traded at 82.5% of par value.

The Company recognizes its derivative arrangements on the balance sheet at fair value, which is considered a Level 2 input. The Company's only derivative is an interest rate swap (the "Swap") which is designated as a cash flow hedge. Accordingly, the entire change in the fair value of the cash flow hedges included in the assessment of hedge effectiveness is recognized in accumulated other comprehensive income. The amounts recorded in other comprehensive income will subsequently be reclassified to earnings as an increase or decrease to interest expense as realized through receipts or payments. The Company classifies cash inflows and outflows from derivatives within operating activities on the condensed consolidated statements of cash flows. The Swap had an asset value of $7.9 million as of July 2, 2023 and it is classified as Level 2 within the fair value hierarchy.

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

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analysis of long-lived assets, goodwill and intangible assets. Long-lived assets and definite-lived intangible assets are measured at fair value on a nonrecurring basis using Level 3 inputs. As described in Note 4, the Company recorded long-lived asset impairment charges of $0.2 million and $0.3 million during the three and six months ended July 2, 2023, respectively, and $1.1 million and $1.4 million during the three and six months ended July 3, 2022, respectively. The Company also recorded $16.7 million in goodwill impairment charges in the second quarter of 2022.

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 any right-of-use ("ROU") lease asset impairment or lease-related costs during the remaining term, net of any estimated sublease recoveries.

The Company determined the fair value of restaurant equipment, for those restaurants reviewed for impairment, based on current economic conditions. The Company determines the fair value of ROU lease assets based on an assessment of market rents and a discounted future cash flow model. The Company re-evaluates the ROU lease asset at the time the restaurant is no longer determined to be usable to the Company, which is generally when the restaurant is closed. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy.

Recently Issued Accounting Pronouncements. In the normal course of business, the Company evaluates all new Accounting Standards Updates ("ASU") and other accounting pronouncements issued by the Financial Accounting Standards Board ("FASB"), Securities and Exchange Commission ("SEC"), or other authoritative accounting bodies to determine the potential impact they may have on its Consolidated Financial Statements. The Company does not expect any of the recently issued accounting pronouncements, which have not already been adopted, to have a material impact on its Consolidated Financial Statements.

Subsequent Events. The Company reviewed and evaluated subsequent events through the issuance date of the Company's unaudited condensed consolidated financial statements. See "Subsequent Events" footnote 15 for the Company's evaluation.

3. Intangible Assets

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

The Company assesses the potential impairment of franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable, including as a result of closures of restaurants that were part of an acquisition, a shortfall in undiscounted operating cash flows over the projected remaining life of the franchise rights to the carrying value of such franchise rights for each acquisition group, or other indicators of impairment. If an indicator of impairment exists, an estimate of the aggregate undiscounted cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. No impairment charges were recorded related to the Company's franchise rights for the three and six months ended July 2, 2023 and July 3, 2022.

The change in franchise rights for the three and six months ended July 2, 2023 was from amortization expense during the period. Amortization expense related to franchise rights was $3.5 million for each of the three months ended July 2, 2023 and July 3, 2022, respectively, and $7.0 million for each of the six months ended July 2, 2023 and July 3, 2022, respectively. The Company expects annual amortization expense to be $13.9 million in fiscal 2023 through fiscal 2028.

(Tabular amounts in thousands, except share and per share amounts)

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 the reporting unit is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of the end of the eighth month of its fiscal year. As part of this goodwill impairment assessment, the Company considers certain qualitative factors, such as the Company's performance, business forecasts and expansion plans, a discount rate approximating the Company's weighted average cost of capital, general economic conditions, and evaluation of peer company multiples, among other factors. Given the nature of the qualitative and quantitative factors considered, there is a degree of uncertainty associated with these judgments and estimates. Notably, the business forecasts and market conditions considered within the Company's annual goodwill impairment test reflect the Company's long-standing history of operating restaurants in various business cycles. The forecasts reflect a normalization of commodity costs and restaurant labor margins, that we have addressed through recent pricing and promotional discounting changes, and reflect continued normalization of these costs over time. Using both the income approach and the market approach, the Company compares the fair value of its Burger King reporting unit to its carrying value. The Company assessed events and circumstances from the date of its annual goodwill impairment test through July 2, 2023 and there were no indicators representing a triggering event. There were no goodwill impairment losses recorded during the three and six months ended July 2, 2023 and $16.7 million of goodwill impairment losses were recorded in each of the three and six months ended July 3, 2022. The non-cash goodwill impairment charge in 2022 represented a full write-down of the goodwill for the Company's Popeyes reporting unit and is included in impairment and other lease charges on the condensed consolidated statements of comprehensive loss.

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

During the three months ended July 2, 2023, the Company recorded impairment and other lease charges of $2.7 million which consisted of capital expenditures at previously impaired restaurants of $0.2 million and $2.5 million of other lease charges related to three restaurants closed during the second quarter. During the six months ended July 2, 2023, the Company recorded impairment and other lease charges of $4.1 million, which consisted of capital expenditures at previously impaired restaurants of $0.3 million and $3.8 million of other lease charges related to six restaurants closed during the period.

During the three months ended July 3, 2022, the Company recorded impairment and other lease charges of $1.5 million, which consisted of $0.9 million of initial impairment charges for six underperforming restaurants, capital expenditures at previously impaired restaurants of $0.2 million and $0.4 million of other lease charges related to four restaurants closed during the second quarter. During the six months ended July 3, 2022, the Company recorded impairment and other lease charges of $2.0 million, which consisted of $1.0 million of initial impairment charges for seven underperforming restaurants, capital expenditures at previously impaired restaurants of $0.3 million, and lease charges related to five restaurants closed during the period of $0.7 million.

5. Other Liabilities, Long-Term

Other liabilities, long-term, at July 2, 2023 and January 1, 2023 consisted of the following:

	July 2, 2023	January 1, 2023
Accrued occupancy costs	$ 1,598	$ 1,797
Accrued workers' compensation and general liability claims	3,265	5,239
Deferred compensation	2,510	3,002
Accrued post retirement benefits	1,288	1,347
Other	940	2,205
	$ 9,601	$ 13,590

(Tabular amounts in thousands, except share and per share amounts)

6. Leases

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

Right-of-use lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make payments in exchange for that right of use. As the rate implicit within our leases is not readily determinable, the Company uses market and term-specific incremental borrowing rates which consider the rate of interest it expects to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. ROU assets are also reduced by lease incentives, increased by initial direct costs and adjusted by favorable lease assets and unfavorable lease liabilities.

Variable lease components represent amounts that are contractually fixed as a percentage of sales and are recognized in expense as incurred. Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheets and are recognized as lease expense on a straight-line basis over the lease term. The Company does not account for lease components (e.g., fixed payments including rent) separately from non-lease components (e.g. common area maintenance).

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

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

Lease Cost

The components and classification of lease expense for the three and six months ended July 2, 2023 and July 3, 2022 are as follows:

		Three Months Ended		Six Months Ended	
Lease cost	**Classification**	**July 2, 2023**	**July 3, 2022**	**July 2, 2023**	**July 3, 2022**
Operating lease cost[1]	Restaurant rent expense	$ 26,355	$ 26,352	$ 52,718	$ 52,695
Operating lease cost[2]	General and administrative	336	252	642	473
Variable lease cost	Restaurant rent expense	5,825	4,878	11,296	9,548
Finance lease cost:					
Amortization of right-of-use assets	Depreciation and amortization	822	670	1,647	1,156
Interest on lease liabilities	Interest expense	195	170	403	278
Total lease cost		$ 33,533	$ 32,322	$ 66,706	$ 64,150

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

(2) Represents operating lease costs for property and equipment not directly related to restaurant operations.

(Tabular amounts in thousands, except share and per share amounts)

7. Long-term Debt

Long-term debt at July 2, 2023 and January 1, 2023 consisted of the following:

	July 2, 2023	January 1, 2023
Senior Credit Facility:		
Term B Loans	$ 165,500	$ 167,625
Revolving credit borrowings	—	12,500
Senior Notes Due 2029	300,000	300,000
Finance lease liabilities	11,324	12,826
Total Funded debt	476,824	492,951
Less: current portion of long-term debt and finance lease liabilities	(7,311)	(7,341)
Less: unamortized debt issuance costs	(4,861)	(5,401)
Less: unamortized original issue discount	(388)	(453)
Total Long-term debt	$ 464,264	$ 479,756

Senior Credit Facilities. On April 30, 2019, the Company entered into senior secured credit facilities in an aggregate principal amount of $550.0 million, consisting of (i) a Term Loan B Facility in an aggregate principal amount of $425.0 million (the "Term Loan B Facility") maturing on April 30, 2026 and (ii) a revolving credit facility (including a sub-facility of $35.0 million for standby letters of credit) in an aggregate principal amount of $125.0 million maturing on April 30, 2024 (the "Revolving Credit Facility" and, together with the Term Loan B Facility, the "Senior Credit Facilities"). As of July 2, 2023, the Senior Credit Facilities, as amended, provide for an aggregate maximum commitment available for borrowings under the Revolving Credit Facility of $215.0 million. The Revolving Credit Facility, as amended, matures on January 29, 2026.

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

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

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

In addition, the Senior Credit Facilities require the Company to meet a First Lien Leverage Ratio (as defined in the Senior Credit Facilities) under certain circumstances. The Company is only required to maintain a First Lien Leverage Ratio (as defined in the Senior Credit Facilities) of not greater than 5.75 to 1.00 (as measured on a most recent four quarter basis) if, and only if, on the last day of any fiscal quarter, the sum of the aggregate principal amount of outstanding revolving credit borrowings under the Revolving Credit Facility and the aggregate face amount of letters of credit issued under the Revolving Credit Facility (excluding undrawn letters of credit in an aggregate face amount up to $12.0 million) exceed 35% of the aggregate borrowing capacity under the Revolving Credit Facility.

The Senior Credit Facilities contain customary default provisions, including that the lenders may terminate their obligation to advance and may declare the unpaid balance of borrowings, or any part thereof, immediately due and payable upon the occurrence and during the continuance of customary events of default which include, without limitation, payment default, covenant default, bankruptcy default, cross-default on other indebtedness, judgment default and the occurrence of a change of control.

As of July 2, 2023, there were no revolving credit borrowings outstanding and $10.5 million of letters of credit issued under the Revolving Credit Facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, $204.5 million was available for revolving credit borrowings under the Senior Credit Facilities at July 2, 2023.

The Term Loan B Facility requires quarterly installment payments, which began on September 30, 2019. Amounts outstanding at July 2, 2023 are due and payable as follows:

(i) eleven remaining quarterly installments of $1.1 million;

(ii) one final payment of $153.8 million on April 30, 2026.

At July 2, 2023, borrowings under the Revolving Credit Facility and Term Loan B Facility each bore interest at a rate per annum equal to (a) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus 2.25% or (b) Adjusted Term SOFR (as defined in the Senior Credit Facilities) plus 3.25% (subject to the interest rate swap as described below).

The weighted average interest rate for borrowings on long-term debt balances was 5.7% for both the three and six months ended July 2, 2023, and 5.2% for both the three and six months ended July 3, 2022.

Senior Notes due 2029. On June 28, 2021, the Company issued $300.0 million principal amount of 5.875% Senior Notes due 2029 (the "Notes") in a private placement.

Carrols Restaurant Group and certain of its subsidiaries (the "Guarantors") entered into the Indenture (the "Indenture") dated as of June 28, 2021 with the Bank of New York Mellon Trust Company governing the Notes. The Indenture provides that the Notes will mature on July 1, 2029 and will bear interest at the rate of 5.875% per annum, payable semi-annually on July 1 and January 1 of each year, beginning on January 1, 2022. The entire principal amount of the Notes will be due and payable in full on the maturity date. The Indenture further provides that the Company (i) may redeem some or all of the Notes at any time after July 1, 2024 at the redemption prices described therein, (ii) may redeem up to 40% of the Notes using the proceeds of certain equity offerings completed before July 1, 2024 and (iii) must offer to purchase the Notes if it sells certain of its assets or if specific kinds of changes in control occur, all as set forth in the Indenture. The Notes are senior unsecured obligations of Carrols Restaurant Group and are guaranteed on an unsecured basis by the Guarantors. The Indenture contains certain covenants that limit the ability of Carrols Restaurant Group and the Guarantors to, among other things: incur indebtedness or issue preferred stock; incur liens; pay dividends or make distributions in respect of capital stock or make certain other restricted payments or investments; sell assets; agree to payment restrictions affecting Restricted Subsidiaries (as defined in the Indenture); enter into transactions with affiliates; or merge, consolidate or sell substantially all of the assets. Such restrictions are subject to certain exceptions and qualifications all as set forth in the Indenture. The Company was in compliance with all such covenants as of July 2, 2023.

Interest Rate Swap. In March 2020, the Company entered into an interest rate swap agreement with certain of its lenders under the Senior Credit Facilities to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Senior Credit Facilities. The agreement matures on February 28, 2025. The interest rate swap originally fixed the interest rate on 50% of outstanding borrowings under the Senior Credit Facility at 0.915% plus the applicable margin in its Senior Credit Facilities with the differences settled monthly. The original notional amount of $220.0 million was reduced to a notional amount of $120.0 million and the fixed rate of interest was changed from 0.915% plus the applicable margin to 0.854% plus the applicable margin in 2022 in connection with the transition from LIBOR to SOFR as the benchmark rate on the Company's Senior Credit Facilities.

The Company received $1.3 million and $2.4 million to settle the interest rate swap during the three and six months ended July 2, 2023, respectively, and made net additional interest payments of $44 thousand and $0.3 million to settle the interest rate swap during the three and six months ended July 3, 2022, respectively.

(Tabular amounts in thousands, except share and per share amounts)

The fair value of the Company's interest rate swap agreement was an asset of $7.9 million as of July 2, 2023 which is included in other assets in the accompanying condensed consolidated balance sheets. Changes in the fair value of the cash flow hedges included in the assessment of hedge effectiveness is recognized in accumulated other comprehensive income. The amounts recorded in other comprehensive income will subsequently be reclassified to earnings as an increase or decrease to interest expense as realized through receipts or payments. The Company expects to recognize net gains totaling $5.4 million into earnings in the next twelve months.

8. Income Taxes

The provision (benefit) for income taxes for the three and six months ended July 2, 2023 and July 3, 2022 was comprised of the following:

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
Current	$ 153	$ —	$ 153	$ —
Deferred	(451)	(9,400)	2,022	(17,616)
Change in valuation allowance	902	3,279	(429)	5,486
Provision (benefit) for income taxes	$ 604	$ (6,121)	$ 1,746	$ (12,130)

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

The provision for income taxes for the three and six months ended July 2, 2023 was derived using an estimated effective annual income tax rate for all of 2023 of 5.6%, which is inclusive of the estimated change in the Company's valuation allowance on its deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2023 is primarily attributable to non-refundable business credits and also is impacted, to a lesser extent, by certain permanent non-deductible expenses, both of which are not directly related to the amount of pre-tax loss recorded in the period. This difference also includes the impact from the increase to the Company's valuation allowance on its deferred income tax assets. In periods where recorded pre-tax income (loss) is relatively small, the proportional impact of these items on the effective rate may be significant. There were no discrete adjustments for the three months ended July 2, 2023. The income tax provision for the six months ended July 2, 2023 included $0.8 million of tax expense from net discrete tax adjustments.

The benefit for income taxes for the three and six months ended July 3, 2022 was derived using an estimated effective annual income tax rate for all of 2022 of 20.3%, which is inclusive of the estimated change in the Company's valuation allowance on its deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2022 is attributed to various nondeductible tax expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in the period as well as the valuation allowance charge. There were no discrete tax adjustments during the three and six months ended July 3, 2022.

The Company's federal net operating loss carryforwards generated prior to December 31, 2017 expire beginning in 2035. Federal net operating losses generated subsequent to 2017 have no expiration date. As of July 2, 2023, the Company had federal net operating loss carryforwards of approximately $124.4 million, general business credits ("GBC") carryforwards of $43.9 million and approximately $170.5 million in state net operating loss carryforwards. The Company's GBC carryforwards begin to expire in 2032 and state net operating loss carryforwards begin to expire in 2023.

The Company performs an assessment of positive and negative evidence regarding the realization of its deferred income tax assets as required by ASC 740. Under ASC 740, the weight given to negative and positive evidence is commensurate only to the extent that such evidence can be objectively verified. ASC 740 prescribes that objective historical evidence, in particular the Company's three-year cumulative loss position at July 2, 2023, be given greater weight than subjective evidence, including the Company's forecast of future taxable income, which include assumptions that cannot be objectively verified. In determining the likelihood of future realization of the deferred income tax assets as of July 2, 2023 and January 1, 2023 the Company considered both positive and negative evidence and weighted the effect of such evidence based upon its objectivity. At July 2, 2023 and January 1, 2023, the Company determined that a valuation allowance was needed for certain federal income tax credits and state operating loss carryforwards in the amount of $43.7 million and $44.3 million, respectively, as they may expire prior to their utilization by the Company. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as projections for growth. The Company recorded an income tax expense of $0.9 million in the three months ended July 2, 2023 and an income tax benefit of $0.4 million in the six months ended July 2, 2023 relative to this valuation reserve.

The Company's policy is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. At July 2, 2023 and January 1, 2023, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions. The tax years 2019 - 2022 remain open to examination by the major taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to the uncertainties regarding the timing of examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

9. Stock-Based Compensation

Stock-based compensation expense for the three months ended July 2, 2023 and July 3, 2022 was $1.0 million and $0.9 million, respectively, and for the six months ended July 2, 2023 and July 3, 2022 was $2.1 million and $2.9 million, respectively. The first quarter of 2022 included additional stock-based compensation expense of $0.7 million related to the accelerated vesting of certain awards upon the retirement of our former CEO.

As of July 2, 2023, the total unrecognized stock-based compensation expense relating to time-vested restricted shares, performance-based restricted stock units and stock options was approximately $14.5 million and the Company expects to record an additional $3.5 million in stock-based compensation expense related to the vesting of these awards in the remainder of 2023. The remaining weighted average vesting period for stock options and non-vested shares was 2.1 years and restricted stock units was 2.7 years.

Time-based Non-vested Shares. During the six months ended July 2, 2023, the Company granted 1,007,915 non-vested shares of common stock to certain employees and officers of the Company and 384,807 non-vested shares of common stock to the outside directors of the Company. These shares generally vest in equal installments over their three-year service period, provided the participant has continuously remained an employee, officer or director of the Company.

In addition, on May 1, 2023, the Company granted 417,320 time-vested restricted shares to its new CEO. These shares generally vest in equal installments over a three-year service period, provided the participant has continuously remained employed by the Company.

(Tabular amounts in thousands, except share and per share amounts)

A summary of all non-vested common share activity for the six months ended July 2, 2023 was as follows:

	Shares	Weighted Average Grant Date Price
Non-vested at January 1, 2023	1,767,811	$ 3.79
Granted	1,810,042	$ 2.50
Vested	(779,318)	$ 4.22
Forfeited	(11,600)	$ 2.48
Non-vested at July 2, 2023	2,786,935	$ 2.84

The fair value of time-vested shares is based on the closing price on the date of grant.

Performance-based Restricted Shares. On April 1, 2022, 600,000 performance-based restricted shares were granted to the Company's former CEO of which 450,000 shares were forfeited on December 31, 2022. The remaining shares will fully vest on the third anniversary of the grant date based on the achievement of contractually defined EBITDA and share price growth targets. The fair value of the market-based restricted shares was determined using a Monte Carlo simulation valuation model and the shares were expensed over the applicable service period based on the probability of the Company's attainment of the contractually defined performance targets. This probability of performance attainment is assessed quarterly and if the Company estimates that it is not probable that the performance conditions will be satisfied, adjustments to prior and future expense will be recorded at that time.

Performance-based Restricted Stock Units. On July 1, 2023, the Company granted 797,915 performance-based restricted stock units to its executive officers. The number of performance-based restricted stock units that will ultimately vest and be received by the participants is based on achievement of contractually defined EBITDA growth targets to be measured over the period ending fiscal 2025. The Company estimates the fair-value of performance-based restricted stock units based on the closing stock price on the date of the grant which was $5.04. The Company assesses the probability of target attainment on a quarterly basis and records the expense over the vesting period. As of July 2, 2023, the Company has assessed the probability at maximum target attainment.

Stock Options. The Company has issued options to purchase shares of its common stock to certain employees and officers of the Company. These options become exercisable and are being expensed over their three-year vesting period. The options expire seven years from the date of the grant and were issued with an exercise price equal to the fair market value of the stock price on the date of grant, or $7.12 per share.

The following is a summary of all stock option activity for the six months ended July 2, 2023:

	Options	Weighted Average Exercise Price	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value(1)
Options outstanding at January 1, 2023	975,500			
Forfeited	—	$7.12		
Options Outstanding at July 2, 2023	975,500	$7.12	4.1	$—
Vested or expected to vest at July 2, 2023	975,500	$7.12	4.1	$—
Options exercisable at July 2, 2023	868,250	$7.12	4.1	$—

(1) The aggregate intrinsic value is calculated using the difference between the market price of the Company's common stock at July 2, 2023 of $5.04 and the grant price for only those awards that have a grant price that is less than the market price of the Company's common stock at July 2, 2023. There were no awards having a grant price less than the market price of the Company's common stock at July 2, 2023.

(Tabular amounts in thousands, except share and per share amounts)

Time-Based Restricted Stock Units. The Company has issued time-based restricted stock units ("RSUs") on shares of the Company's common shares to certain officers of the Company.

The following is a summary of all RSU activity for the six months ended July 2, 2023:

	Units
Non-vested at January 1, 2023	38,770
Vested	(19,381)
Non-vested at July 2, 2023	19,389

10. Commitments and Contingencies

Lease Guarantees. Fiesta Restaurant Group, Inc. ("Fiesta"), a former wholly-owned subsidiary of the Company, was spun-off in 2012 to the Company's stockholders. As of July 2, 2023, the Company is a guarantor under 17 leases from the time when Fiesta was its subsidiary, which have lease terms expiring on various dates through 2030. As of July 2, 2023, the guarantees include eight Fiesta restaurant property leases and nine Taco Cabana leases of which all but one Fiesta-owned restaurant is still operating. Eight of these guarantees are for leases with Pollo Operations, Inc, a wholly owned subsidiary of Fiesta, and nine of the guarantees are for leases with Texas Taco Cabana, L.P., an indirect subsidiary of Taco Cabana, Inc. (together with all direct and indirect subsidiaries, "Taco"). Taco was a wholly owned subsidiary of Fiesta until August 16, 2021 when Fiesta sold all of its outstanding capital stock of Taco Cabana, Inc. to YTC Enterprises, LLC, an affiliate of Yadav Enterprises, Inc. The Company is fully liable for all obligations under the terms of the leases in the event that a tenant fails to pay any sums due under the lease, subject to indemnification provisions of the Separation and Distribution Agreement entered into in connection with the spin-off of Fiesta.

The maximum potential amount of future undiscounted rental payments the Company could be required to make under these leases at July 2, 2023 was $9.6 million. The obligations under these leases will generally continue to decrease over time as these operating leases expire, except for any execution of renewal options that exist under the original leases. No payments related to these guarantees have been made by the Company to date and none are expected to be required to be made in the future. The Company has not recorded a liability for these guarantees in accordance with ASC 460 - *Guarantees* as Fiesta has indemnified the Company for all such obligations and the Company did not believe it was probable it would be required to perform under any of the guarantees or direct obligations.

Litigation. The Company is party to various litigation matters that arise in the ordinary course of business. The Company does not believe that the outcome of any of these matters will have a material adverse effect on its consolidated financial statements.

Supplier Concentrations. The Company primarily utilizes four distributors, McLane Company Inc., Lineage Foodservice Solutions, LLC, Reinhart Food Service LLC and Performance Foodservice, to supply its Burger King restaurants with the majority of its foodstuffs. As of July 2, 2023, such distributors supplied 31%, 30%, 29% and 10%, respectively, of the Company's Burger King restaurants. Additionally, one bakery supplies the rolls used in approximately 50% of the Company's Burger King restaurants. The Company utilizes five distributors for its Popeyes restaurants, five for poultry products and two for all other products. For the Company's Popeyes restaurants, one distributor, Customized Distribution Services, supplies poultry products to 53% of its restaurants and supplies non-poultry products to 58% of its restaurants.

11. Transactions with Related Parties

In connection with an acquisition of restaurants from Burger King Corporation ("BKC"), a subsidiary of Restaurant Brands International Inc. ("RBI"), in 2012, Carrols Restaurant Group issued to BKC 100 shares of Series A Convertible Preferred Stock, which was exchanged for 100 shares of newly issued Series B Convertible Preferred Stock ("Series B Preferred Stock") in 2018. The Series B Preferred Stock was further exchanged for 100 shares of newly issued Series D Convertible Preferred Stock in 2022. These preferred shares are convertible into 9,414,580 shares of common stock, which as of July 2, 2023 represents approximately 14.7% of the outstanding shares of the Company's common stock after giving effect to the conversion of the Series D Preferred Stock and excluding shares held in treasury. Pursuant to the Certificate of Designation of the Series D Preferred Stock (the "Certificate of Designation"), the BKC Stockholders are entitled to elect two representatives on the Company's Board of Directors. The approval of the BKC Stockholders is also required before the Company can take certain actions, including, among other things, amending the Company's certificate of incorporation or bylaws, declaring or paying a special cash dividend, amending the size of the Company's Board of Directors, or engaging in any business other than the ownership and operation of Burger King restaurants, in each case as more particularly described in the Certificate of Designation.

The Company operates its Burger King restaurants under franchise agreements with BKC and its Popeyes restaurants under franchise agreements with Popeyes Louisiana Kitchen, Inc. ("PLK"), both subsidiaries of RBI. These franchise agreements generally provide for an initial term of twenty years and currently have an initial franchise fee of $50,000. With BKC's and PLK's respective approval, the Company can elect to extend franchise agreements for additional 20-year terms, provided that the restaurant meets the current restaurant image standard and the Company is not in default under terms of the franchise agreement. In addition to the initial franchise fee, the Company generally pays BKC a monthly royalty at a rate of 4.5% of Burger King restaurant sales and PLK a weekly royalty at a rate of 5.0% of Popeyes restaurant sales. Royalty expense was $21.7 million and $19.6 million in the three months ended July 2, 2023 and July 3, 2022, respectively, and $41.5 million and $37.3 million in the six months ended July 2, 2023 and July 3, 2022, respectively, and is included in other restaurant operating expenses in the condensed consolidated statements of comprehensive loss. Beginning in May of 2021, the Company also pays a monthly fee to BKC for use of its digital platform, which was $0.7 million and $1.4 million in the three and six months ended July 2, 2023, respectively, and $0.5 million and $0.9 million in the three and six months ended July 3, 2022, respectively, and is included in other restaurant operating expenses in the condensed consolidated statements of comprehensive loss.

The Company is also generally required to contribute 4.0% of restaurant sales from its restaurants to an advertising fund utilized by BKC and PLK for advertising, promotional programs and public relations activities, and additional amounts for local advertising in markets that approve such advertising. Advertising expense associated with these expenditures was $19.2 million and $17.3 million in the three months ended July 2, 2023 and July 3, 2022, respectively, and $36.4 million and $33.0 million in the six months ended July 2, 2023 and July 3, 2022, respectively.

As of July 2, 2023 and July 3, 2022, the Company leased 218 and 222 of its restaurant locations from BKC, respectively. As of July 2, 2023 and July 3, 2022, the terms and conditions of the leases with BKC are identical to those between BKC and their third party lessors for 96 and 95 restaurants, respectively. Aggregate rent under these BKC leases was $7.3 million and $6.8 million for the three months ended July 2, 2023 and July 3, 2022, respectively, and $14.3 million and $13.5 million for the six months ended July 2, 2023 and July 3, 2022, respectively. The Company does not believe that such lease terms have been significantly affected by the fact that the Company and BKC are deemed to be related parties.

As of July 2, 2023 and January 1, 2023, the Company owed BKC and PLK $20.0 million and $16.0 million, respectively, related to the payment of advertising, royalties, digital fees, rent and real estate taxes, which is normally remitted on a monthly basis. These costs are included in accounts payable, other current liabilities, and accrued real estate taxes on the accompanying consolidated balance sheets.

The Company, Carrols Corporation, Carrols LLC, and BKC entered into an Amended Area Development Agreement on January 4, 2021 (the "Amended ADA"). Under the Amended ADA, Carrols LLC has agreed to open, build and operate a total of 50 new Burger King restaurants, 80% of which must be in Kentucky, Tennessee and Indiana. This includes four Burger King restaurants by September 30, 2021 (which were completed in 2021), 10 additional Burger King restaurants by September 30, 2022 (of which six were completed in 2022), 12 additional Burger King restaurants by September 30, 2023, 12 additional Burger King restaurants by September 30, 2024 and 12 additional Burger King restaurants by September 30, 2025. There is a 90-day cure period to meet the required restaurant development each development year. The Company is in ongoing discussions with BKC regarding its development plans, and does not believe the penalties, if any, associated with not meeting these commitments will be material.

In addition, pursuant to the Amended ADA, BKC granted Carrols LLC franchise pre-approval to build new Burger King restaurants or acquire Burger King restaurants from Burger King franchisees with respect to 500 Burger King restaurants in the aggregate in (i) Kentucky, Tennessee and Indiana (excluding certain geographic areas in Indiana) and (ii) (a) 16 states, which include Arkansas, Indiana, Kentucky, Louisiana, Maine, Maryland, Michigan, Mississippi, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont and Virginia (subject to certain exceptions for certain limited geographic areas within certain states) and (b) any other geographic locations that Carrols LLC enters after the commencement date of the Amended ADA pursuant to BKC procedures subject to certain limitations. This pre-approval may be suspended as long as the Company is not in compliance with its development commitments described above.

In 2022, the Company entered an agreement with BKC in connection with their "Reclaim the Flame" investment plan. Pursuant to this initiative, BKC has agreed to fund $120 million in additional advertising expenditures over the period October 1, 2022 through December 31, 2024. Following the franchisor's investment period in 2023 and 2024, participating franchisees have agreed to increase their advertising fund contributions by 50 basis points through 2026 if a restaurant-level profitability threshold for the Burger King system is met for the full fiscal year 2024, and further through 2028 if a secondary restaurant-level profitability threshold is met for the full fiscal year 2026.

In May 2023, certain subsidiaries of the Company entered into an agreement and related documentation with BKC related to its Royal Reset program. Pursuant to this program, BKC will provide the Company with the use of certain restaurant technology equipment worth approximately $12.2 million in 2023, conditioned upon the Company completing certain repairs, replacements and improvements with respect to its restaurant assets at a cost of approximately $12.2 million by March 31, 2024. As of July 2, 2023, $1.2 million in equipment has been received by the Company related to this arrangement and $7.3 million in qualified repairs, replacements and improvements have been completed by the Company.

12. Stockholders' Equity

Stock Repurchase Program. On August 2, 2019, the Company's Board of Directors approved a stock repurchase plan ("Repurchase Program") under which the Company may repurchase up to $25.0 million of its outstanding common stock. The authorization became effective August 2, 2019.

On August 10, 2021, the Company's Board of Directors approved an extension of the Company's Repurchase Program with approximately $11.0 million of its original $25.0 million in capacity remaining. The authorization was set to expire in August 2023, unless terminated earlier by the Board of Directors. Purchases under the Repurchase Program may be made from time to time in open market transactions at prevailing market prices or in privately negotiated transactions (including, without limitation, the use of Rule 10b5-1 plans) in compliance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company has no obligation to repurchase stock under the Repurchase Program, and the timing, actual number and value of shares purchased will depend on the Company's stock price, trading volume, general market and economic conditions, and other factors.

(Tabular amounts in thousands, except share and per share amounts)

At July 2, 2023, $11.0 million was available to repurchase shares under the Repurchase Program. Shares repurchased are being held in treasury until they are retired at the discretion of the Board of Directors.

13. Net Income (Loss) per Share

The Company applies the two-class method to calculate and present net income (loss) per share. The Company's non-vested restricted share awards and Series D Convertible Preferred Stock contain non-forfeitable rights to dividends and are considered participating securities for purposes of computing net loss per share pursuant to the two-class method. Under the two-class method, net earnings are reduced by the amount of dividends declared (whether paid or unpaid) and the remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. As the Company incurred a net loss for the three and six months ended July 3, 2022, and losses are not allocated to participating securities under the two-class method, such method is not applicable for the aforementioned interim reporting period.

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

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

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
Basic net income (loss) per share:				
Net income (loss)	$ 14,954	$ (26,476)	$ 15,818	$ (47,745)
Less: Income attributable to non-vested shares	(636)	—	(668)	—
Less: Income attributable to preferred stock	(2,212)	—	(2,340)	—
Net income (loss) available to common stockholders	$ 12,106	$ (26,476)	$ 12,810	$ (47,745)
Weighted average common shares outstanding	51,535,242	50,795,328	51,479,396	50,634,008
Basic net income (loss) per share	$ 0.23	$ (0.52)	$ 0.25	$ (0.94)
Diluted net income (loss) per share:				
Net income (loss)	$ 14,954	$ (26,476)	$ 15,818	$ (47,745)
Shares used in computing diluted net income (loss) per share	51,535,242	50,795,328	51,479,396	50,634,008
Dilutive effect of preferred stock and non-vested shares	10,588,699	—	10,293,361	—
Shares used in computing diluted net income (loss) per share	62,123,941	50,795,328	61,772,757	50,634,008
Diluted net income (loss) per share	$ 0.23	$ (0.52)	$ 0.25	$ (0.94)
Shares excluded from diluted net income (loss) per share computations[1]	—	11,951,161	—	11,951,161

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

14. Other (Income) Expense, net

The three months ended July 2, 2023 included other income, net, of $1.3 million, which was comprised of net gains from insurance recoveries of $0.9 million, a gain of $0.4 million from a sale leaseback transaction, loss on disposal of assets of $0.3 million, and a gain from condemnation of $0.3 million. The six months ended July 2, 2023 included other income, net, of $2.8 million, which was comprised of net gains from insurance recoveries of $1.8 million, a gain of $0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction, a gain of $0.4 million from a sale leaseback transaction, a gain from condemnation of a property of $0.3 million and a loss on disposal of assets of $0.5 million. The three months ended July 3, 2022 included other expense, net, of $0.4 million, which was comprised of a loss on disposal of assets of $0.5 million and net gain from insurance proceeds of $0.1 million. The six months ended July 3, 2022 included other expense, net, of $0.6 million, which was comprised of a loss on disposal of assets of $0.8 million, net gain from insurance proceeds of $0.1 million and net gains on previous sale-leaseback transactions of $0.1 million.

15. Subsequent Events

In August 2023, the Company's Board of Directors approved an extension of the Company's Repurchase Program, with approximately $11.0 million of its original $25 million in capacity remaining. The authorization will expire on August 2, 2025, unless terminated earlier by the Board of Directors. Purchases under the Repurchase Program may be made from time to time in open market transactions at prevailing market prices or in privately negotiated transactions (including, without limitation, the use of Rule 10b5-1 plans) in compliance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company has no obligation to repurchase stock under the Repurchase Program, and the timing, actual number and value of shares purchased will depend on the Company's stock price, trading volume, general market and economic conditions, and other factors.

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

We operate on a 52 or 53 week fiscal year ending on the Sunday closest to December 31. Our fiscal quarters are comprised of 13 weeks, with the exception of the fourth quarter of a 53 week year, which contains 14 weeks. Our fiscal years ended January 1, 2023 and December 31, 2023 each contain 52 weeks.

Introduction

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (or "MD&A") is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited Condensed Consolidated Financial Statements appearing elsewhere in this report and our Annual Report on Form 10-K for the year ended January 1, 2023. The overview provides our perspective on the individual sections of MD&A, which include the following:

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

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

Results from Operations—an analysis of our results of operations for the three and six months ended July 2, 2023 compared to the three and six months ended July 3, 2022, including a review of material items and known trends and uncertainties.

Liquidity and Capital Resources—an analysis of our cash flows, including capital expenditures, the existence and timing of commitments and contingencies, changes in capital resources and a discussion of known trends that may impact liquidity.

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

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

Company Overview

Carrols Restaurant Group, Inc. and its consolidated subsidiaries (collectively, "Carrols Restaurant Group", the "Company", "we", "our" or "us") is one of the largest restaurant companies in the United States and has been operating restaurants for more than 60 years. We are the largest Burger King franchisee in the United States based on number of restaurants, and have operated Burger King restaurants since 1976. As of July 2, 2023 we operated, as franchisee, a total of 1,081 restaurants in 23 states under the trade names of Burger King and Popeyes. This included 1,019 Burger King restaurants in 23 Northeastern, Midwestern, Southcentral and Southeastern states and 62 Popeyes restaurants in six Southeastern states.

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

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

- *Restaurant sales* consists of food and beverage sales at our restaurants, net of sales discounts and refunds and excluding sales tax. Restaurant sales are influenced by changes in comparable restaurant sales, our franchisors' marketing and promotional activities, menu price changes, guest traffic, new restaurant development, restaurant acquisitions and closures of restaurants. Comparable restaurant sales reflect the change in year-over-year sales for a comparable restaurant base. Restaurants we acquire are included in comparable restaurant sales after they have been owned for 12 months and newly developed restaurants are included in comparable restaurant sales after they have been open for 15 months. Restaurants are excluded from comparable restaurant sales during extended periods of closure, which primarily occur due to restaurant remodeling activity. For comparative purposes, where applicable, the calculation of the changes in comparable restaurant sales is based either on a 53-week or 52-week year and compares against the respective 52-week prior period.
- *Food, beverage, and packaging costs* consists of food, beverage and packaging costs and delivery commissions, less purchase discounts and vendor rebates. Food, beverage, and packaging costs are generally influenced by changes in commodity costs, the mix of items sold, the level of promotional discounting, menu price changes, the effectiveness of our restaurant-level controls to manage food and paper costs, and the relative contribution of delivery sales.
- *Restaurant wages and related expenses* include all restaurant management and hourly productive labor costs and related benefits, employer payroll taxes and restaurant-level bonuses. Payroll and related benefits are subject to inflation, including minimum wage increases as well as competitive wage increases required to adequately staff our restaurants and increased costs for health insurance, workers' compensation insurance and federal and state unemployment insurance.
- *Restaurant rent expense* includes straight-lined lease costs and variable rent on our restaurant leases characterized as operating leases.
- *Other restaurant operating expenses* include all other restaurant-level operating costs, the major components of which are royalty expenses paid to BKC and PLK, utilities, repairs and maintenance, operating supplies, real estate taxes and credit card fees.
- *Advertising expense* includes advertising payments to BKC and PLK based on a percentage of sales as required under our franchise and operating agreements and additional local marketing and promotional expenses in certain of our markets.
- *General and administrative expenses* are comprised primarily of salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees, acquisition costs and stock-based compensation expense.
- *EBITDA*, *Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss)* are non-GAAP financial measures. EBITDA represents net income (loss) before income taxes, interest expense, and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted to exclude impairment and other lease charges, stock-based compensation expense, restaurant pre-opening costs, executive transition, non-recurring litigation and other professional expenses, and other (income) and expense, net. Adjusted Restaurant-Level EBITDA represents income (loss) from operations as adjusted to exclude general and administrative expenses, depreciation and amortization, impairment and other lease charges, restaurant pre-opening costs and other (income) and expense, net. Adjusted Net Income (Loss) represents net income (loss) as adjusted, net of tax, to exclude impairment and other lease charges, restaurant pre-opening costs, executive transition, non-recurring litigation and other professional expenses, other (income) and expense, net, and the change in the valuation allowance for deferred taxes.

- We are presenting Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) because we believe that they provide a more meaningful comparison than EBITDA and net income (loss) of our core business operating results, as well as with those of other similar companies. Additionally, we present Adjusted Restaurant-Level EBITDA because it excludes restaurant pre-opening costs, other (income) and expense, net, and the impact of general and administrative expenses such as salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees. Although these costs are not directly related to restaurant-level operations, these costs are necessary for the profitability of our restaurants. Management believes that Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss), when viewed with our results of operations in accordance with U.S. GAAP and the accompanying reconciliations on page 36, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Adjusted Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced.

  However, EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are not measures of financial performance or liquidity under U.S. GAAP and, accordingly, should not be considered as alternatives to net income (loss), income (loss) from operations or cash flow from operating activities as indicators of operating performance or liquidity. Also, these measures may not be comparable to similarly titled captions of other companies. For the reconciliation between Net Income (loss) to EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss) and the reconciliation of income from operations to Adjusted Restaurant-Level EBITDA, see page 36.

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

  - EBITDA, Adjusted EBITDA and Adjusted Restaurant-Level EBITDA do not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments to purchase capital equipment;
  - EBITDA, Adjusted EBITDA and Adjusted Restaurant-Level EBITDA do not reflect the interest expense or the cash requirements necessary to service principal or interest payments on our debt;
  - Although depreciation and amortization are non-cash charges, the assets that we currently depreciate and amortize will likely have to be replaced in the future, and EBITDA, Adjusted EBITDA and Adjusted Restaurant-Level EBITDA do not reflect the cash required to fund such replacements; and
  - EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) do not reflect the effect of earnings or charges resulting from matters that our management does not consider to be indicative of our ongoing operations. However, some of these charges (such as impairment and other lease charges, litigation costs and changes in the valuation allowance for deferred taxes) have recurred and may reoccur.

- *Depreciation and amortization* primarily includes the depreciation of fixed assets, including equipment, owned buildings and leasehold improvements utilized in our restaurants, the amortization of franchise rights from our acquisitions of restaurants and the amortization of franchise fees paid to BKC and PLK.
- *Impairment and other lease charges* include non-operating charges resulting from the following circumstances:
  - For property and equipment and finite-lived intangible assets, a potential impairment charge is evaluated whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value.

    - For indefinite lived intangible assets including goodwill, a potential impairment charge is evaluated whenever events or changes in circumstances indicate that the carrying amount may be impaired. Impairment charges are determined by a comparison of the carrying value of a reporting unit to its fair value.
    - For restaurant closures prior to their lease or franchise end dates, lease charges are recorded for our obligations under the related leases and franchise agreements for closed locations that are not otherwise recoverable.
- *Interest expense* consists of interest expense associated with our Term B Loans under our Senior Credit Facilities, our 5.875% Senior Notes Due 2029 (the "Notes"), our revolving credit borrowings under our Senior Credit Facilities, finance lease liabilities, amortization of deferred financing costs, amortization of original issue discount, and payments and receipts made in connection with our interest rate swap arrangement.

Recent and Future Events Affecting our Results of Operations

BKC's "Reclaim the Flame" Plan

In September 2022, BKC announced its "Reclaim the Flame" plan, which was developed in collaboration with its franchisees to accelerate sales growth and drive restaurant-level profitability. The plan includes Burger King investing $400 million through 2024, comprised of $150 million in advertising and digital investments to "Fuel the Flame" and $250 million for a "Royal Reset" involving investments in restaurant technology, kitchen equipment, building enhancements and high-quality remodels and relocations.

In the third quarter of 2022, we entered into an agreement with BKC in connection with their "Reclaim the Flame" investment plan. Pursuant to this initiative, BKC has agreed to fund $120 million in additional advertising expenditures over the period October 1, 2022 through December 31, 2024. Following the investment period in 2023 and 2024, participating franchisees, including us, have agreed to increase our advertising fund contributions by 0.5% of restaurant sales through 2026 if a restaurant-level profitability threshold for the Burger King system is met for the full fiscal year 2024, and further through 2028 if a secondary restaurant-level profitability threshold is met for the full fiscal year 2026.

Under BKC's "Royal Reset" program, BKC will make certain contributions towards franchisee remodel costs, which increase in value if BKC owns the property and/or if the franchisee agrees to pay higher royalty rates over the 20-year franchise term renewal. The "Royal Reset" program also includes a $50 million co-investment with its franchisees in a restaurant refresh program, whereby BKC will match certain restaurant improvement spending by franchisees by providing them with restaurant technology equipment at no cost. In May 2023, we entered into an agreement and related documentation with BKC that will provide us with approximately $12.2 million of restaurant technology equipment in 2023, conditioned upon us completing certain repairs, replacements and improvements to our restaurant assets at a cost of approximately $12.2 million by March 31, 2024. As of July 2, 2023, $1.2 million in equipment has been received by us related to this arrangement and $7.3 million in qualified repairs, replacements and improvements have been completed by us.

Capital Expenditures

We continue to review on an ongoing basis our future development and remodel plans in relation to our available capital resources, construction materials and restaurant equipment availability, and our expected return on investment. We expect that our capital expenditures in 2023 will be approximately $45 million to $50 million.

We incurred $14.1 million of capital expenditures in the first six months of 2023, net of insurance recoveries. In the first six months of 2023, we completed remodels of one Burger King restaurant and two Popeyes restaurants. In all of 2023, we expect to complete development of two new Burger King restaurants and to remodel twelve Burger King restaurants and three Popeyes restaurants.

Area Development and Remodeling Agreement

The Company, Carrols Corporation, Carrols LLC, and BKC entered into an Amended Area Development on January 4, 2021 (the "Amended ADA"). Under the Amended ADA, Carrols LLC has agreed to open, build and operate a total of 50 new Burger King restaurants, 80% of which must be in Kentucky, Tennessee and Indiana. This included four Burger King restaurants by September 30, 2021 (which were completed in 2021), 10 additional Burger King restaurants by September 30, 2022 (of which six were completed in 2022), 12 additional Burger King restaurants by September 30, 2023, 12 additional Burger King restaurants by September 30, 2024 and 12 additional Burger King restaurants by September 30, 2025. There is a 90-day cure period to meet the required restaurant development each development year. We are in ongoing discussions with BKC regarding our development plans, and do not believe that the penalties, if any, associated with not meeting these commitments will be material.

In addition, pursuant to the Amended ADA, BKC granted Carrols LLC franchise pre-approval to build new Burger King restaurants or acquire Burger King restaurants from Burger King franchisees with respect to 500 Burger King restaurants in the aggregate in (i) Kentucky, Tennessee and certain geographic areas in Indiana and (ii) (a) 16 states, which include Arkansas, Indiana, Kentucky, Louisiana, Maine, Maryland, Michigan, Mississippi, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont and Virginia (subject to certain exceptions for certain limited geographic areas within certain states) and (b) any other geographic locations that Carrols LLC enters after the commencement date of the Amended ADA pursuant to BKC procedures subject to certain limitations. This pre-approval may be suspended as long as the Company is not in compliance with its development commitments described above.

Issuance of Senior Notes and Amendments to our Senior Credit Facilities

Senior Credit Facilities. On April 30, 2019, we entered into senior secured credit facilities in an aggregate principal amount of $550.0 million, consisting of (i) a term loan B facility in an aggregate principal amount of $425.0 million (the "Term Loan B Facility") maturing on April 26, 2026, and (ii) a revolving credit facility (including a sub-facility of $35.0 million for standby letters of credit) in an aggregate principal amount of $125.0 million originally maturing on April 30, 2024 (the "Revolving Credit Facility" and, together with the Term Loan B Facility, the "Senior Credit Facilities"). As of July 2, 2023, as amended, we had $165.5 million of aggregate principal amount of our Term Loan B Facility outstanding. As of July 2, 2023 the Senior Credit Facilities, as amended, provide for an aggregate maximum commitment available for borrowings and issuances of letters of credit under the Revolving Credit Facility of $215.0 million. The Revolving Credit Facility, as amended, matures on January 29, 2026.

As of July 2, 2023, there were no revolving credit borrowings outstanding and $10.5 million of letters of credit were issued under our Revolving Credit Facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, $204.5 million was available for revolving credit borrowings under the Revolving Credit Facility on July 2, 2023.

Senior Notes due 2029. On June 28, 2021, the Company issued $300.0 million principal amount of 5.875% Senior Notes due 2029 (the "Notes") in a private placement.

Interest Rate Swap Agreement

In March 2020 we entered into an interest rate swap agreement with certain of our lenders under the Senior Credit Facilities to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Senior Credit Facilities. The agreement matures on February 28, 2025. The interest rate swap originally fixed the interest rate on 50% of outstanding borrowings under the Senior Credit Facility at 0.915% plus the applicable margin in our Senior Credit Facilities with the difference settled monthly. The original notional amount of $220.0 million was reduced to $120.0 million in 2021 and the fixed rate of interest was changed from 0.915% plus the applicable margin to 0.854% plus the applicable margin in 2022 in connection with the transition from LIBOR to SOFR as the benchmark rate on the our Senior Credit Facilities.

The Company received $1.3 million and $2.4 million to settle the interest rate swap during the three and six months ended July 2, 2023. We expect to recognize net gains totaling $5.4 million related to the interest rate swap agreement during the next twelve months.

Stock Repurchase Program

In August 2, 2019, our Board of Directors approved a stock repurchase plan (the "Repurchase Program") under which we may repurchase up to $25 million of our outstanding common stock. The authorization became effective August 2, 2019, and has since been extended through August 2, 2025. Purchases under the Repurchase Program may be made from time to time in open market transactions at prevailing market prices or in privately negotiated transactions (including, without limitation, the use of Rule 10b5-1 plans) in compliance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

We did not repurchase any shares in the three and six months ended July 2, 2023 or July 3, 2022. As of July 2, 2023, $11.0 million was available to repurchase shares under the Repurchase Program. We have no obligation to repurchase additional shares of stock under the Repurchase Program, and the timing, actual number and value of shares purchased will depend on our stock price, trading volume, general market and economic conditions and other factors.

Restaurant Closures

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

In 2022, we permanently closed ten Burger King restaurants. In the first six months of 2023, we permanently closed three Burger King restaurants and three Popeyes restaurants. We currently anticipate approximately ten restaurant closures in total in all of 2023, outside of any restaurants being relocated within their trade area.

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

Effect of Minimum Wage Increases

Certain of the states and municipalities in which we operate have increased their minimum wage rates over the past few years and in many cases have also approved additional increases for future periods. As of July 2, 2023, we had ten restaurants in New Jersey that have annual minimum wage increases reaching $15.13 per hour in 2024, and 45 total restaurants in Illinois and Maryland that have annual minimum wage increases reaching $15.00 per hour in 2025.

New York State has a Youth Jobs Program tax credit extending through 2027 from which we have received tax credits annually. We expect to receive approximately $0.6 million and $0.7 million from New York State related to these credits for 2022 and 2023, respectively. On July 2, 2023 we had 124 restaurants in New York State.

We typically attempt to offset the effects of wage inflation, at least in part, through periodic menu price increases. However, no assurance can be given that we will be able to offset these wage increases in the future.

Three Months Ended July 2, 2023 Compared to Three Months Ended July 3, 2022

The following table highlights the key components of sales and the number of restaurants in operation for our second quarter ended July 2, 2023 as compared to the second quarter ended July 3, 2022:

	Three Months Ended	
	July 2, 2023	**July 3, 2022**
Restaurant Sales	$ 485,223	$ 441,945
Burger King	461,119	419,758
Popeyes	24,104	22,187
Change in Comparable Restaurant Sales[a]	10.5 %	2.8 %
Change in comparable Burger King restaurant sales[a]	10.4 %	2.8 %
Change in comparable Popeyes restaurant sales[a]	11.6 %	2.0 %
Burger King Restaurants operating at beginning of period:	1,019	1,026
New restaurants opened, including relocations[b]	—	1
Restaurants closed, including relocations[b]	—	(4)
Burger King restaurants at end of period	1,019	1,023
Average number of operating Burger King restaurants	1,014.7	1,024.9
Popeyes Restaurants operating at beginning and end of period:	65	65
Restaurants closed, including relocations[b]	(3)	—
Popeyes Restaurants operating at end of period	62	65
Average number of operating Popeyes restaurants	62.1	65.0

(a) Restaurants we acquire are included in comparable restaurant sales after they have been operated by us for 12 months. Sales from restaurants that we develop are included in comparable restaurant sales after they have been open for 15 months. The calculation of changes in comparable restaurant sales is based on a comparison to the comparable 13-week period 52 weeks prior.

(b) There were no restaurant relocations during the periods presented.

Restaurant Sales. Total restaurant sales in the second quarter of 2023 increased $43.3 million to $485.2 million from the second quarter of 2022. Our comparable restaurant sales increased 10.5% compared to the second quarter of 2022, which reflected an increase in average check of 12.5% which was partially offset by a decrease in customer traffic of 1.8%. The change in average check included a 9.0% effective price increase compared to the second quarter of 2022 for our Burger King restaurants and 13.0% for our Popeyes restaurants. Promotional sales discounts in the second quarter of 2023 were 10.8% of restaurant sales at our Burger King restaurants compared to 17.1% in the second quarter of 2022. Hours of operation increased 3.6% in the second quarter of 2023 at our Burger King restaurants. Restaurant sales were also impacted by the three new Burger King restaurants built since the end of the second quarter of 2022 and the seven Burger King restaurants and three Popeyes restaurants closed since the end of the second quarter of 2022.

Operating Costs and Expenses (percentages stated as a percentage of total revenue). The following table sets forth, for the three months ended July 2, 2023 and July 3, 2022, selected operating results as a percentage of total revenue:

	Three Months Ended (13 weeks)	
	July 2, 2023	**July 3, 2022**
Costs and expenses (all restaurants):		
Food, beverage and packaging costs	28.2 %	31.7 %
Restaurant wages and related expenses	32.0 %	33.8 %
Restaurant rent expense	6.6 %	7.1 %
Other restaurant operating expenses	15.2 %	15.6 %
Advertising expense	4.0 %	4.0 %
General and administrative	5.1 %	4.7 %

Food, beverage and packaging costs decreased to 28.2% of restaurant sales in the second quarter of 2023 from 31.7% of restaurant sales in the second quarter of 2022. This decrease reflects the impact of menu price increases taken at our Burger King restaurants since the end of the second quarter of 2022 (2.5%) and lower promotional discounting in the second quarter of 2023 at our Burger King restaurants (1.6%), which were partially offset by increased commodity pricing at our Burger King restaurants (0.4%) and Popeyes restaurants (0.1%).

Restaurant wages and related expenses decreased to 32.0% of restaurant sales in the second quarter of 2023 from 33.8% in the second quarter of 2022. The hourly labor rate, inclusive of minimum wage increases, increased 4.4% in the second quarter of 2023 from the second quarter of 2022 compared to an increase of 9.8% in the second quarter of 2022 from the second quarter of 2021. This was mostly offset by a decrease in restaurant team member hours of 3.5% in the second quarter of 2023 from the second quarter of 2022.

Restaurant rent expense decreased to 6.6% in the second quarter of 2023 from 7.1% in the second quarter of 2022 due to the impact of higher sales volumes on our rental costs, which are approximately 80% fixed.

Other restaurant operating expenses decreased as a percentage of restaurant sales to 15.2% in the second quarter of 2023 from 15.6% of restaurant sales in the second quarter of 2022, and increased $4.7 million. The margin improvement was primarily driven by the impact of 12.5% higher average ticket prices on our operating costs, which include royalty expense and credit card fees which directly increase with selling prices, but also include other costs not directly tied to sales. In the second quarter of 2023 the increased expense was primarily related to higher royalty costs of $2.1 million, higher repairs and maintenance costs of $1.4 million, higher credit card fees of $0.7 million, higher utilities of $0.7 million, and lower insurance claims costs of $1.1 million.

Advertising expense was 4.0% of restaurant sales in both the second quarter of 2023 and the second quarter of 2022.

Adjusted Restaurant-Level EBITDA. As a result of the factors discussed above, Adjusted Restaurant-Level EBITDA increased $33.2 million, or 96.0%, to $67.8 million in the second quarter of 2023 compared to $34.6 million in the second quarter of 2022. As a percentage of total restaurant sales, Adjusted Restaurant-Level EBITDA increased to 14.0% in the second quarter of 2023 from 7.8% in the second quarter of 2022. For a reconciliation between Adjusted Restaurant-Level EBITDA and Income (loss) from operations see page 36.

General and Administrative Expenses. General and administrative expenses increased $3.8 million in the second quarter of 2023 to $24.6 million, and increased to 5.1% as a percentage of total restaurant sales in the second quarter of 2023 from 4.7% in the second quarter of 2022. The $3.8 million increase was due to higher incentive compensation accruals of $3.3 million and higher salaries of $0.6 million.

Adjusted EBITDA. As a result of the factors above, Adjusted EBITDA increased to $44.3 million in the second quarter of 2023 from $15.1 million in the second quarter of 2022. As a percentage of total restaurant sales, Adjusted EBITDA increased to 9.1% in the second quarter of 2023 from 3.4% in the second quarter of 2022. For a reconciliation between net loss and EBITDA and Adjusted EBITDA see page 36.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased $1.5 million to $18.6 million in the second quarter of 2023 from $20.1 million in the second quarter of 2022.

Impairment and Other Lease Charges. During the second quarter of 2023, impairment and other lease charges were $2.7 million, consisting of capital expenditures at previously impaired restaurants of $0.2 million and $2.5 million of other lease charges related to three restaurants closed during the quarter.

During the second quarter of 2022, we recorded impairment and other lease charges of $18.2 million consisting of $16.7 million in goodwill impairment charges, $0.9 million of initial impairment charges for six underperforming restaurants, capital expenditures at previously impaired restaurants of $0.2 million and $0.4 million of other lease charges including charges related to four locations closed during the second quarter of 2022. The non-cash goodwill impairment charge in the second quarter of 2022 represented a full write-down of the goodwill for the Company's Popeyes reporting unit.

Other (Income) expense, net. Other income, net, was $1.3 million in the second quarter of 2023 and included net gains from insurance recoveries of $0.9 million, a gain of $0.4 million from a sale leaseback transaction, a gain from condemnation of $0.3 million and a loss on disposal of assets of $0.3 million. Other expense, net, in the second quarter of 2022 was $0.4 million consisting primarily of a loss on disposal of assets of $0.5 million.

Interest Expense. Interest expense increased to $7.7 million in the second quarter of 2023 from $7.6 million in the second quarter of 2022. Our weighted average interest rate for long-term borrowings increased to 5.7% in the second quarter of 2023 from 5.2% in the second quarter of 2022, due to the higher variable rates on the borrowings under our Senior Credit Facilities that are not subject to the interest rate swap. Variable rate increases on our Senior Credit Facilities have and will be offset by our interest rate swap which, until its expiration in February 2025, fixes the interest rate on $120.0 million of debt outstanding under our Senior Credit Facilities. At the end of the second quarter of 2023, after consideration of our interest rate swap, approximately 90% of our long-term debt (including current portion) was at a fixed rate.

Provision (benefit) for Income Taxes. The provision for income taxes for the three months ended July 2, 2023, was derived using an estimated effective annual income tax rate for all of 2023 of 5.6%, which is inclusive of the estimated change in our valuation allowance on our deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2023 is primarily attributable to non-refundable business credits and also is impacted, to a lesser extent, by certain permanent non-deductible expenses, both of which are not directly related to the amount of pre-tax loss recorded in the period. The impact from the increase to our valuation allowance on our deferred income tax assets was $0.9 million. There were no discrete tax expenses in the second quarter of 2023.

For the three months ended July 3, 2022, the benefit for income taxes was derived using an estimated effective annual income tax rate for all of 2022 of 20.3%, which is inclusive of the estimated change in our valuation allowance on our deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2022 is attributable to various permanent non-deductible expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in the period as well as the impact of an increase to our valuation allowance on our deferred income tax assets of $3.3 million. There were no discrete tax expenses in the second quarter of 2022.

Net Income (Loss). As a result of the above, net income for the second quarter of 2023 was $15.0 million, or $0.23 per diluted share, compared to net loss in the second quarter of 2022 of $26.5 million, or $0.52 per diluted share.

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Six Months Ended July 2, 2023 Compared to Six Months Ended July 3, 2022

The following table highlights the key components of sales for the six-month period ended July 2, 2023 as compared to the six-month period ended July 3, 2022:

	Six Months Ended	
	July 2, 2023	**July 3, 2022**
Restaurant Sales	$ 930,385	$ 841,421
Burger King	883,056	797,587
Popeyes	47,329	43,834
Change in Comparable Restaurant Sales[a]	11.0 %	2.2 %
Change in Comparable Burger King Restaurant Sales [a]	11.0 %	2.2 %
Change in Comparable Popeyes Restaurant Sales [a]	10.6 %	2.1
Burger King Restaurants operating at beginning of period:	1,022	1,026
New restaurants opened, including relocations [b]	—	3
Restaurants closed, including relocations [b]	(3)	(6)
Burger King restaurants at end of period	1,019	1,023
Average number of operating Burger King restaurants	1,018.3	1,024.3
Popeyes Restaurants operating at beginning and end of period:	65	65
Restaurants closed, including relocations[b]	(3)	—
Popeyes Restaurants operating at end of period	62	65
Average number of operating Popeyes restaurants	63.5	65.0

(a) Restaurants we acquire are included in comparable restaurant sales after they have been operated by us for 12 months. Sales from restaurants that we develop are included in comparable restaurant sales after they have been open for 15 months. The calculation of changes in comparable restaurant sales is based on a comparison to the comparable 26-week period 52-weeks prior.

(b) There were no restaurant relocations during the periods presented.

Restaurant Sales. Total restaurant sales in the first six months of 2023 increased 10.6% to $930.4 million from $841.4 million in the first six months of 2022. Comparable restaurant sales increased 11.0% in the first six months of 2023 due to an increase in average check of 12.7% which was partially offset by a decrease in customer traffic of 1.5%. The effect in the first six months of 2023 from menu price increases taken since the beginning of 2022 was approximately 9.3% at our Burger King restaurants and 14.0% at our Popeyes restaurants. Promotional sales discounts in the first six months of 2023 were 11.0% of restaurant sales at our Burger King restaurants compared to 17.7% in the first six months of 2022. Hours of operation increased 4.0% in the first six months of 2023 at our Burger King restaurants and 2.1% at our Popeyes restaurants compared to the first six months of 2022. Restaurant sales were also impacted by the three new Burger King restaurants built since the end of the second quarter of 2022 and the seven Burger King restaurants and three Popeyes restaurants closed since the end of the second quarter of 2022.

Operating Costs and Expenses (percentages stated as a percentage of total revenue unless otherwise noted). The following table sets forth, for the six months ended July 2, 2023 and July 3, 2022, selected operating results as a percentage of total revenue:

	Six Months Ended	
	July 2, 2023	**July 3, 2022**
Costs and expenses (all restaurants):		
Food, beverage and packaging costs	28.2 %	31.3 %
Restaurant wages and related expenses	32.4 %	34.6 %
Restaurant rent expense	6.9 %	7.4 %
Other restaurant operating expenses	15.4 %	16.0 %
Advertising expense	4.0 %	4.0 %
General and administrative	5.4 %	5.1 %

Food, beverage and packaging costs decreased to 28.2% in the first six months of 2023 from 31.3% in the first six months of 2022. This decrease reflects the impact of menu price increases taken at our Burger King restaurants since the end of the second quarter of 2022 (2.6%) and lower promotional discounting in the second quarter of 2023 at our Burger King restaurants (1.8%), which were partially offset by increased commodity pricing at our Burger King restaurants (1.0%) and increased commodity pricing at our Popeyes restaurants (0.1%).

Restaurant wages and related expenses was 32.4% in the first six months of 2023 and 34.6% the first six months of 2022. The hourly labor rate, inclusive of minimum wage increases, increased 4.8% in the first six months of 2023 from the first six months of 2022 compared to an increase of 11.9% in the first six months of 2022 from the first six months of 2021. The increase in 2023 was mostly offset by a decrease in restaurant team member hours of 3.3% in the first six months of 2023 from the first six months of 2022.

Restaurant rent expense decreased to 6.9% in the first six months of 2023 from 7.4% in the first six months of 2022 due to the impact of higher sales volumes on our rental costs which are approximately 80% fixed.

Other restaurant operating expenses decreased as a percentage of restaurant sales to 15.4% in the first six months of 2023 from 16.0% of restaurant sales in the first six months of 2022, and increased $8.4 million. The margin improvement was primarily driven by the impact of 12.7% higher average ticket prices on our operating costs, which include royalty expense and credit card fees which directly increase with selling prices, but also include other costs not directly tied to sales. In the first six months of 2023, the increased expense was primarily related to higher royalty costs of $4.2 million, higher repairs and maintenance costs of $2.0 million, higher utilities of $2.0 million, higher credit card fees of $1.3 million, and lower insurance claims costs of $2.2 million.

Advertising expense was 4.0% restaurant sales in both the first six months of 2023 and the first six months of 2022.

Adjusted Restaurant-Level EBITDA. As a result of the factors above, Adjusted Restaurant-Level EBITDA increased $65.3 million, or 114.4%, to $122.3 million in the first six months of 2023 compared to $57.1 million in the prior year period, and, as a percentage of total revenue, was 13.1% in the first six months of 2023 and 6.8% in the first six months of 2022. For a reconciliation between Adjusted Restaurant-Level EBITDA and Income (loss) from operations see page 36.

General and Administrative Expenses. General and administrative expenses increased $7.5 million in the first six months of 2023 to $50.3 million and increased to 5.4% as a percentage of total restaurant sales from 5.1% in the first six months of 2022. The $7.5 million increase was primarily due to higher incentive compensation accruals of $7.4 million and increased professional fees of $1.2 million which were partially offset by $0.8 million of lower stock compensation expense.

Adjusted EBITDA. As a result of the factors above, Adjusted EBITDA increased to $75.0 million in the first six months of 2023 from $19.4 million in the first six months of 2022 and as a percentage of total revenue, increased to 8.1% in the first six months of 2023 from 2.3% in the first six months of 2022. For a reconciliation between net income (loss) and EBITDA and Adjusted EBITDA see page 36.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased to $37.3 million in the first six months of 2023 from $39.6 million in the first six months of 2022.

Impairment and Other Lease Charges. Impairment and other lease charges were $4.1 million in the first six months of 2023, which consisted of capital expenditures at previously impaired restaurants of $0.3 million and $3.8 million of other lease charges related to six restaurants closed during the period.

Impairment and other lease charges were $18.7 million in the first six months of 2022, which consisted of $16.7 million in goodwill impairment charges, $1.0 million of initial impairment charges for seven underperforming restaurants, capital expenditures at previously impaired restaurants of $0.3 million, and lease charges related to five restaurants closed during the period of $0.7 million. The non-cash goodwill impairment charge in 2022 represented a full write-down of the goodwill for the Company's Popeyes reporting unit.

Other Expense (Income), net. The first six months of 2023 included other income, net, of $2.8 million, which was comprised of net gains from insurance recoveries of $1.8 million, a gain of $0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction, a gain of $0.4 million from a sale leaseback transaction, a gain from condemnation of a property of $0.3 million and a loss on disposal of assets of $0.5 million.

The first six months of 2022 included other expense, net, of $0.6 million which was comprised of a loss on disposal of assets of $0.8 million, a net gain from insurance proceeds of $0.1 million and net gains on previous sale-leaseback transactions of $0.1 million.

Interest Expense. Interest expense increased to $15.9 million in the first six months of 2023 from $15.1 million in the first six months of 2022. The weighted average interest rate on borrowings under our long-term debt increased to 5.7% in the first six months of 2023 from 5.2% in the first six months of 2022, due to the higher variable rates on the borrowings under our Senior Credit Facilities that are not subject to the interest rate swap. Variable rate increases on our Senior Credit Facilities have and will be offset by our interest rate swap which, until its expiration in February 2025, fixes the interest rate on $120.0 million of debt outstanding under our Senior Credit Facilities. At the end of the first six months of 2023, after consideration of our interest rate swap, approximately 90% of our long-term debt (including current portion) was at a fixed rate.

Provision (benefit) for Income Taxes. The provision for income taxes for the first six months of 2023 was derived using an estimated effective annual income tax rate for all of 2023 of 5.6%, which is inclusive of the estimated change in the Company's valuation allowance on its deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2023 is attributable to various permanent non-deductible expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in a period as well as the impact of a decrease to our valuation allowance on our deferred income tax assets of $0.4 million. There was $0.8 million of tax expense from net discrete tax adjustments during the six months ended July 2, 2023.

The benefit for income taxes for the first six months of 2022 was derived using an estimated effective annual income tax rate for all of 2022 of 20.3%, which is inclusive of the estimated change in the Company's valuation allowance on its deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2022 is attributable to various permanent non-deductible expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in the period as well as the impact of increases to our valuation allowance on our deferred income tax assets of $5.5 million. There were no discrete tax expenses in the six months ended July 3, 2022.

Net Income (Loss). As a result of the above, net income for the first six months of 2023 was $15.8 million, or $0.25 per diluted share, compared to a net loss in first six months of 2022 of $47.7 million, or $0.94 per diluted share.

Results of Operations

Reconciliations of Net Income (loss) to EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss), and Income (loss) from operations to Adjusted Restaurant-Level EBITDA for the three and six months ended July 2, 2023 and July 3, 2022 are as follows (in thousands, except for per share data):

	Three Months Ended		Six Months Ended	
Reconciliation of EBITDA and Adjusted EBITDA:	**July 2, 2023**	**July 3, 2022**	**July 2, 2023**	**July 3, 2022**
Net income (loss)	**$ 14,954**	**$ (26,476)**	**$ 15,818**	**$ (47,745)**
Provision (benefit) from income taxes	604	(6,121)	1,746	(12,130)
Interest expense	7,667	7,636	15,900	15,072
Depreciation and amortization	18,559	20,071	37,277	39,613
EBITDA	**41,784**	**(4,890)**	**70,741**	**(5,190)**
Impairment and other lease charges	2,749	18,176	4,089	18,672
Stock-based compensation expense	1,002	936	2,099	2,877
Pre-opening costs[1]	4	44	4	89
Executive transition, litigation and other professional expenses[2]	104	403	902	2,321
Other (income) expense, net[3][4]	(1,319)	439	(2,825)	641
Adjusted EBITDA	**$ 44,324**	**$ 15,108**	**$ 75,010**	**$ 19,410**
Reconciliation of Adjusted Restaurant-Level EBITDA:				
Income (loss) from operations	**$ 23,225**	**$ (24,961)**	**$ 33,464**	**$ (44,803)**
Add:				
General and administrative expenses	24,588	20,827	50,328	42,844
Pre-opening costs[1]	4	44	4	89
Depreciation and amortization	18,559	20,071	37,277	39,613
Impairment and other lease charges	2,749	18,176	4,089	18,672
Other (income) expense, net[3][4]	(1,319)	439	(2,825)	641
Adjusted Restaurant-Level EBITDA	**$ 67,806**	**$ 34,596**	**$ 122,337**	**$ 57,056**
Reconciliation of Adjusted Net Income (Loss):				
Net income (loss)	**$ 14,954**	**$ (26,476)**	**$ 15,818**	**$ (47,745)**
Add:				
Impairment and other lease charges	2,749	18,176	4,089	18,672
Pre-opening costs[1]	4	44	4	89
Executive transition, litigation and other professional expenses[2]	104	403	902	2,321
Other (income) expense, net[3][4]	(1,319)	439	(2,825)	641
Income tax effect on above adjustments[5]	(385)	(4,766)	(543)	(5,431)
Valuation allowance for deferred taxes[6]	902	3,279	(429)	5,486
Adjusted Net Income (Loss)	**$ 17,009**	**$ (8,901)**	**$ 17,016**	**$ (25,967)**
Adjusted diluted net income (loss) per share[7]	**$ 0.27**	**$ (0.18)**	**$ 0.28**	**$ (0.51)**
Diluted weighted average common shares outstanding	**62,124**	**50,795**	**61,773**	**50,634**

(1) Pre-opening costs for the three and six months ended July 2, 2023 and July 3, 2022 include training, labor and occupancy costs incurred during the construction of new restaurants.

(2) Executive transition, litigation and other professional expenses for the three and six months ended July 2, 2023 include executive recruiting and transition costs and other non-recurring professional expenses. Executive transition, litigation and other professional expenses for the three and six months ended July 3, 2022 include executive recruiting and severance costs, costs pertaining to an ongoing lawsuit with one of the Company's former vendors and other non-recurring professional expenses.

(3) The three months ended July 2, 2023 included other income, net, of $1.3 million, which was comprised of net gains from insurance recoveries of $0.9 million, a gain of $0.4 million from a sale leaseback transaction, a gain from condemnation of a property of $0.3 million and a loss on disposal of assets of $0.3 million. The six months ended July 2, 2023 included other income, net, of $2.8 million, which was comprised of net gains from insurance recoveries of $1.8 million, a gain of $0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction, a gain of $0.4 million from a sale leaseback transaction, a gain from condemnation of a property of $0.3 million and a loss on disposal of assets of $0.5 million.

(4) The three and six months ended July 3, 2022 included other expense, net, of $0.4 million and $0.6 million, respectively, which was comprised of a loss on disposal of assets of $0.5 million and $0.8 million, respectively.

(5) The income tax effect related to the adjustments to Adjusted Net Income (Loss) was calculated using an incremental income tax rate of 25% for the three and six months ended July 2, 2023 and July 3, 2022.

(6) Reflects the change in the valuation allowance on all our net deferred taxes for the three and six months ended July 2, 2023 and July 3, 2022.

(7) Adjusted diluted net income (loss) per share is calculated based on Adjusted Net Income (Loss) and the dilutive weighted average common shares outstanding for the respective periods, where applicable.

Liquidity and Capital Resources

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

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

Interest payments under our debt obligations, capital expenditures (including for restaurant remodeling), payments of royalties and advertising to BKC and PLK, and payments related to our lease obligations represent significant liquidity requirements for us, not including any discretionary expenditures for the acquisition or development of additional Burger King and Popeyes restaurants.

If our future financing needs increase, we may need to arrange additional debt or equity financing. We continually evaluate and consider various financing alternatives to enhance or supplement our existing financial resources, including our Senior Credit Facilities. However, there can be no assurance that we will be able to enter into any such arrangements on acceptable terms or at all.

We believe our cash balances, cash generated from our operations and availability of revolving credit borrowings under our Senior Credit Facilities provide sufficient cash availability to cover our anticipated working capital needs, capital expenditures and debt service requirements for at least the next twelve months.

Operating Activities. Net cash provided by operating activities was $52.5 million in the first six months of 2023 compared to net cash used in operating activities of $23.0 million in the first six months of 2022. The increase in the net cash provided was due primarily to an increase of $75.9 million in EBITDA and a net increase in cash provided by working capital components of $19.1 million. Net working capital changes in the first six months of 2023 and 2022 both included a repayment of $10.8 million of employer payroll taxes deferred in 2020 under the CARES Act which is now fully repaid.

Investing Activities. Net cash used for investing activities in the first six months of 2023 and 2022 was $13.5 million and $21.8 million, respectively.

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

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

	Six Months Ended	
	July 2, 2023	**July 3, 2022**
New restaurant development	$ 1,204	$ 5,268
Restaurant remodeling	4,355	6,577
Other restaurant capital expenditures	8,688	8,490
Corporate and restaurant information systems	2,101	2,421
Total capital expenditures	$ 16,348	$ 22,756
Number of new restaurant openings, including relocations	—	3

In the first six months of 2023, investing activities also included a property purchased to be sold in a sale-leaseback for $0.7 million, the sale of which was completed with proceeds to us of $1.3 million, as well as proceeds from insurance recoveries of $2.2 million.

Financing Activities. Net cash used in financing activities in the first six months of 2023 was $16.4 million and included repayment of $12.5 million of net revolving credit borrowings under our Senior Credit Facilities, principal payments of $2.1 million of outstanding term B loans under our Senior Credit Facilities, and principal payments on finance leases of $1.5 million.

Net cash provided by financing activities in the first six months of 2022 was $23.8 million and included $27.0 million of net revolving credit borrowings under our Senior Credit Facilities, principal payments of $2.1 million on the Term Loan B Facility and principal payments on finance leases of $1.1 million.

Senior Notes due 2029. On June 28, 2021, we issued $300.0 million principal amount of the Notes in a private placement as described above under "—Recent and Future Events Affecting our Results of Operations-Issuance of Notes and Amendments to our Senior Credit Facilities".

Senior Credit Facilities. As described above under "—Recent and Future Events Affecting Our Results of Operations—Issuance of Notes and Amendments to our Senior Credit Facilities", we entered into the Senior Credit Facilities and subsequent amendments to the Senior Credit Facilities.

Our obligations under the Senior Credit Facilities are guaranteed by our subsidiaries and are secured by first priority liens on substantially all of our assets and our subsidiaries, including a pledge of all of the capital stock and equity interests of our subsidiaries. Under the Senior Credit Facilities, we are required to make mandatory prepayments of borrowings following dispositions of assets, debt issuances and the receipt of insurance and condemnation proceeds (all subject to certain exceptions).

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

In addition, the Senior Credit Facilities require us to meet a First Lien Leverage Ratio (as defined in the Senior Credit Facilities) of not greater than 5.75 to 1.00 (as measured on a most recent four quarter basis) if, and only if, on the last day of any fiscal quarter, the sum of the aggregate principal amount of outstanding revolving credit borrowings under the Revolving Credit Facility and the aggregate face amount of letters of credit issued under the Revolving Credit Facility (excluding undrawn letters of credit in an aggregate face amount up to $12.0 million) exceeds 35% of the aggregate amount of the maximum revolving credit borrowings under the Revolving Credit Facility.

The Senior Credit Facilities contain customary default provisions, including that the lenders may terminate their obligation to advance and may declare the unpaid balance of borrowings, or any part thereof, immediately due and payable upon the occurrence and during the continuance of customary events of default which include, without limitation, payment default, covenant default, bankruptcy default, cross-default on other indebtedness, judgment default and the occurrence of a change of control.

As of July 2, 2023, there were no revolving credit borrowings outstanding and $10.5 million of letters of credit issued under the Revolving Credit Facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, $204.5 million was available for revolving credit borrowings at July 2, 2023 under the Revolving Credit Facility.

As there were no borrowings under the Revolving Credit Facility (and only $10.5 million of outstanding letters of credit) at July 2, 2023, we did not exceed 35% of the aggregate borrowing capacity and no First Lien Leverage Ratio calculation was required. However, if we had been subject to the First Lien Leverage Ratio, the Company's First Lien Leverage Ratio was 1.13x to 1.00 as of July 2, 2023 which was below the required First Lien Leverage Ratio of 5.75x to 1.00. As a result, we do not expect to have to reduce our term loan borrowings mandatorily with Excess Cash Flow (as defined in the Senior Credit Facilities). We were in compliance with the financial covenants under our Senior Credit Facilities at July 2, 2023.

At July 2, 2023, borrowings under the Revolving Credit Facility and Term Loan B Facility each bore interest at a rate per annum equal to (a) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus 2.25% or (b) Adjusted Term SOFR (as defined in the Senior Credit Facilities) plus 3.25% (subject to the interest rate swap as described below).

The weighted average interest rate for borrowings on long-term debt balances were 5.7% for the six months ended July 2, 2023 and 5.2% for the six months ended July 3, 2022.

The Term Loan B Facility is due and payable in quarterly installments which began on September 30, 2019. Amounts outstanding at July 2, 2023 are due and payable as follows:

(i) eleven quarterly installments of $1.1 million;

(ii) one final payment of $153.8 million on April 30, 2026.

Interest Rate Swap. In March 2020, we entered into an interest rate swap agreement certain of our lenders under the Senior Credit Facilities to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Senior Credit Facilities. The agreement matures on February 28, 2025. The interest rate swap originally fixed the interest rate on 50% of outstanding borrowings under the Senior Credit Facilities at 0.915% plus the applicable margin in its Senior Credit Facilities with the differences settled monthly. The original notional amount of $220.0 million was reduced to $120.0 million in 2021 and the fixed rate of interest was changed from 0.915% plus the applicable margin to 0.854% plus the applicable margin in 2022 in connection with the transition from LIBOR to SOFR as the benchmark rate on our Senior Credit Facilities.

We received payments of $1.3 million and $2.4 million to settle the interest rate swap during the three and six months ended July 2, 2023, respectively, and made net additional interest payments of $44 thousand and $0.3 million to settle the interest rate swap during the three and six months ended and July 3, 2022, respectively.

The fair value of our interest rate swap agreement was an asset of $7.9 million as of July 2, 2023 and is included in long-term other assets in the accompanying condensed consolidated balance sheets. Changes in the fair value of the cash flow hedges included in the assessment of hedge effectiveness is recognized in accumulated other comprehensive income. The amounts recorded in other comprehensive income will subsequently be reclassified to earnings as an increase or decrease to interest expense as realized through receipts or payments. We expect to recognize net gains totaling $5.4 million into earnings in the next twelve months.

A table of our contractual obligations as of January 1, 2023 was included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended January 1, 2023. There have been no significant changes to our contractual obligations during the three months ended July 2, 2023 other than as described under "—Recent and Future Events Affecting Our Results of Operations—Issuance of Notes and Amendments to our Senior Credit Facilities".

Inflation

The inflationary factors that have historically affected our results of operations include increases in food and paper costs, labor and other operating expenses, the cost of providing medical and prescription drug insurance to our employees and energy costs. Wages paid in our restaurants are impacted by changes in federal and state hourly minimum wage rates and the Fair Labor Standards Act. Accordingly, changes in the federal and state hourly minimum wage rates and increases in the wage level to not be considered an hourly employee will directly affect our labor costs.

In 2021 and 2022, the reopening of the economy from the COVID-19 pandemic restrictions increased demand for labor at all levels of the work force and escalated inflation to levels the U.S. economy had not recently experienced. Beginning in the second quarter of 2021 and extending into most of 2022, we were heavily impacted by the sustained levels of commodity and labor inflation. Over that time period, we also experienced difficulty maintaining adequate staffing levels at our restaurants and were impacted by staffing challenges within our supply chain. In 2023, we have seen commodity and labor inflation pressures abate from their peaks and also the availability of labor has improved.

We typically attempt to offset the effect of inflation, at least in part, through periodic menu price increases and various cost reduction programs. However, no assurance can be given that we will be able to offset such inflationary cost increases in the future.

Application of Critical Accounting Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the "Significant Accounting Policies" footnote in the notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2023. 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 or estimates previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 1, 2023.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. These statements are often identified by the words "may", "might", "will", "should", "anticipate", "believe", "expect", "intend", "estimate", "hope", "plan" or similar expressions. In addition, expressions of our strategies, intentions or plans are also forward looking statements. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected or implied in the forward-looking statements. We have identified significant factors that could cause actual results to differ materially from those stated or implied in the forward-looking statements. We believe important factors that could cause actual results to differ materially from our expectations include the following, in addition to other risks and uncertainties discussed herein and in our Annual Report on Form 10-K for the period ended January 1, 2023:

- *The impact of health concerns such as the COVID-19 pandemic or reports of cases of food borne illnesses such as "mad cow" disease, and the possibility that consumers could lose confidence in the safety and quality of certain food products as well as negative publicity regarding food quality, illness, injury or other health concerns;*
- *Effectiveness of the Burger King and Popeyes advertising programs and the overall success of the Burger King and Popeyes brands;*
- *Increases in food costs and other commodity costs;*
- *Our ability to hire and retain employees at current or increased wage rates;*
- *Competitive conditions, including pricing pressures, discounting, aggressive marketing, the potential impact of competitors' new unit openings and promotions on sales of our restaurants, and competition impacting the cost and availability of labor;*
- *Regulatory factors;*
- *Environmental conditions and regulations;*
- *General economic conditions, particularly in the retail sector;*
- *Weather conditions;*
- *Fuel prices;*
- *Significant disruptions in service or supply by any of our suppliers or distributors;*
- *Changes in consumer perception of dietary health and food safety;*
- *Labor and employment benefit costs, including the effects of minimum wage increases, healthcare reform and changes in the Fair Labor Standards Act;*
- *The outcome of pending or future legal claims or proceedings;*
- *Our ability to manage our growth and successfully implement our business strategy;*
- *Our ability to service our indebtedness;*
- *Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;*
- *The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties; and*
- *Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if our products cause injury, ingredient disclosure and labeling laws and regulations.*

ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes from the information presented in Item 7A included in our Annual Report on Form 10-K for the year ended January 1, 2023 with respect to our market risk sensitive instruments.

A 1% change in interest rates would have resulted in a $0.1 million and $0.3 million change to interest expense for the three and six months ended July 2, 2023, respectively, and a $0.2 million and $0.4 million for the three and six months ended July 3, 2022, respectively.

ITEM 4—CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures. We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 2, 2023.

Changes in Internal Control. During the three months ended July 2, 2023, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Part I - Item 1A of the Annual Report on Form 10-K for the fiscal year ended January 1, 2023 describes important risk factors that could materially affect our business, consolidated financial condition or results of operations or cause our operating results to differ materially from the indicated or cause our operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time to time.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

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

Exhibit No.	
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.1	Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.2	Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Filed herewith

+ Compensatory plan or arrangement

SIGNATURES

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

CARROLS RESTAURANT GROUP, INC.

Date: August 10, 2023	/s/ Deborah M. Derby
	(Signature)
	Deborah M. Derby **President and Chief Executive Officer**
Date: August 10, 2023	/s/ Anthony E. Hull
	(Signature)
	Anthony E. Hull **Vice President, Chief Financial Officer and Treasurer**

Exhibit 31.1

CERTIFICATIONS

I, Deborah M. Derby, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended July 2, 2023 of Carrols Restaurant Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2023	/s/ DEBORAH M. DERBY
	Deborah M. Derby President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Anthony E. Hull, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended July 2, 2023 of Carrols Restaurant Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2023	/s/ ANTHONY E. HULL
	Anthony E. Hull 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, Deborah M. Derby, Chief Executive Officer of Carrols Restaurant Group, Inc. (the “Company”), hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Company's Quarterly Report on Form 10-Q for the period ended July 2, 2023, 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/ DEBORAH M. DERBY

Deborah M. Derby
President and Chief Executive Officer

August 10, 2023

Exhibit 32.2

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(1) The Company's Quarterly Report on Form 10-Q for the period ended July 2, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ ANTHONY E. HULL

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

August 10, 2023