

**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 April 3, 2011

OR

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

Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

13203
(Zip Code)

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

Commission File Number: 001-06553

CARROLS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

16-0958146
(I.R.S. Employer
Identification Number)

13203
(Zip Code)

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

Carrols Corporation meets the conditions set forth in General Instruction H(1) and is therefore filing this form with reduced disclosure format pursuant to General Instruction H(2).

Indicate by check mark whether either of the registrants (1) have 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 were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Carrols Restaurant Group, Inc.

Large accelerated filer ☐

Non-accelerated filer ☐

Accelerated filer ☒

Smaller reporting company ☐

Carrols Corporation

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☐

Carrols Restaurant Group, Inc.

Indicate by check mark whether either of the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May, 6, Carrols Restaurant Group, Inc. had 22,061,187 shares of its common stock, \$.01 par value, outstanding. As of May 6, 2011, all outstanding equity securities of Carrols Corporation, which consisted of 10 shares of its common stock, were owned by Carrols Restaurant Group, Inc.

CARROLS RESTAURANT GROUP, INC. AND CARROLS CORPORATION
FORM 10-Q
QUARTER ENDED APRIL 3, 2011

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PART I—FINANCIAL INFORMATION

ITEM 1—INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,392	\$ 3,144
Trade and other receivables	6,126	5,213
Inventories	5,088	5,203
Prepaid rent	4,014	4,018
Prepaid expenses and other current assets	6,013	5,349
Refundable income taxes	—	869
Deferred income taxes	4,609	4,609
Total current assets	30,242	28,405
Property and equipment, net	185,672	186,850
Franchise rights, net (Note 4)	69,633	70,432
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	389	419
Franchise agreements, at cost less accumulated amortization of \$6,232 and \$6,102, respectively	5,575	5,629
Deferred income taxes	1,949	1,949
Other assets	8,032	7,684
Total assets	<u>\$426,426</u>	<u>\$ 426,302</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 16,937	\$ 15,538
Accounts payable	14,823	13,944
Accrued interest	3,139	6,853
Accrued payroll, related taxes and benefits	16,738	19,504
Accrued income taxes payable	1,527	—
Accrued real estate taxes	3,158	4,778
Other liabilities	9,473	7,434
Total current liabilities	65,795	68,051
Long-term debt, net of current portion (Note 5)	239,981	237,914
Lease financing obligations (Note 9)	10,061	10,061
Deferred income—sale-leaseback of real estate	39,817	40,472
Accrued postretirement benefits (Note 8)	1,790	1,845
Other liabilities (Note 7)	21,066	23,052
Total liabilities	378,510	381,395
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, par value \$.01; authorized 20,000,000 shares, issued and outstanding—none	—	—
Voting common stock, par value \$.01; authorized 100,000,000 shares, issued and outstanding 22,053,675 shares and 21,678,203 shares, respectively	216	216
Additional paid-in capital	4,237	3,474
Retained earnings	42,069	39,823
Accumulated other comprehensive income (Note 13)	1,535	1,535
Treasury stock, at cost	(141)	(141)
Total stockholders' equity	47,916	44,907
Total liabilities and stockholders' equity	<u>\$426,426</u>	<u>\$ 426,302</u>

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

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In thousands of dollars, except share and per share amounts)
(Unaudited)

	2011	2010
Revenues:		
Restaurant sales	\$ 196,873	\$ 194,667
Franchise royalty revenues and fees	365	477
Total revenues	197,238	195,144
Costs and expenses:		
Cost of sales	60,315	59,198
Restaurant wages and related expenses (including stock-based compensation expense of \$10 and \$14, respectively)	58,568	59,134
Restaurant rent expense	12,054	12,356
Other restaurant operating expenses	27,924	28,232
Advertising expense	7,503	6,846
General and administrative (including stock-based compensation expense of \$665 and \$379, respectively)	13,856	12,497
Depreciation and amortization	8,108	8,122
Impairment and other lease charges (Note 3)	1,080	270
Other income (Note 14)	(106)	—
Total operating expenses	189,302	186,655
Income from operations	7,936	8,489
Interest expense	4,613	4,743
Income before income taxes	3,323	3,746
Provision for income taxes (Note 6)	1,077	1,432
Net income	\$ 2,246	\$ 2,314
Basic and diluted net income per share (Note 12)	\$ 0.10	\$ 0.11
Basic weighted average common shares outstanding (Note 12)	21,642,718	21,613,689
Diluted weighted average common shares outstanding (Note 12)	22,067,753	21,837,600

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

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In thousands of dollars)
(Unaudited)

	2011	2010
Cash flows provided from (used for) operating activities:		
Net income	\$ 2,246	\$ 2,314
Adjustments to reconcile net income to net cash provided from (used for) operating activities:		
Loss on disposals of property and equipment	114	64
Stock-based compensation expense	675	393
Impairment and other lease charges	1,080	270
Depreciation and amortization	8,108	8,122
Amortization of deferred financing costs	233	239
Amortization of deferred gains from sale-leaseback transactions	(839)	(830)
Accretion of interest on lease financing obligations	—	14
Deferred income taxes	—	(20)
Accrued income taxes	2,396	2,814
Changes in other operating assets and liabilities	(9,413)	(13,504)
Net cash provided from (used for) operating activities	4,600	(124)
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(3,407)	(1,192)
Restaurant remodeling	(2,999)	(1,993)
Other restaurant capital expenditures	(1,485)	(2,203)
Corporate and restaurant information systems	(545)	(392)
Total capital expenditures	(8,436)	(5,780)
Properties purchased for sale-leaseback	—	(1,141)
Proceeds from sale-leaseback transactions	1,861	2,319
Net cash used for investing activities	(6,575)	(4,602)
Cash flows provided from financing activities:		
Borrowings on revolving credit facility	25,800	41,700
Repayments on revolving credit facility	(19,500)	(33,400)
Principal pre-payments on term loans	—	(1,023)
Scheduled principal payments on term loans	(2,814)	(2,971)
Principal payments on capital leases	(20)	(22)
Deferred financing fees	(330)	—
Proceeds from stock option exercises	87	11
Net cash provided from financing activities	3,223	4,295
Net increase (decrease) in cash and cash equivalents	1,248	(431)
Cash and cash equivalents, beginning of period	3,144	4,402
Cash and cash equivalents, end of period	\$ 4,392	\$ 3,971
Supplemental disclosures:		
Interest paid on long-term debt	\$ 7,848	\$ 7,966
Interest paid on lease financing obligations	\$ 245	\$ 231
Accruals for capital expenditures	\$ 980	\$ 170
Income taxes refunded, net of payments	\$ (1,319)	\$ (1,392)

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

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

1. Basis of Presentation

Business Description. At April 3, 2011 the Company operated, as franchisee, 304 quick-service restaurants under the trade name “Burger King” in 12 Northeastern, Midwestern and Southeastern states. At April 3, 2011, the Company also owned and operated 90 Pollo Tropical restaurants, of which 85 were located in Florida and five were located in New Jersey, and franchised a total of 29 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in Honduras, one in the Bahamas, one in Trinidad and three on college campuses in Florida. At April 3, 2011, the Company owned and operated 156 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico, two in Texas and one in Georgia.

On February 24, 2011, the Company announced its intention to pursue the splitting of its business into two separate, publicly-traded companies through the tax-free spin-off of its combined Pollo Tropical and Taco Cabana businesses to its stockholders. The company to be spun-off will own and operate the Pollo Tropical and Taco Cabana businesses. The Company will continue to own and operate its franchised Burger King restaurants.

Basis of Consolidation. The unaudited consolidated financial statements presented herein include the accounts of Carrols Restaurant Group, Inc. (“Carrols Restaurant Group” or the “Company”) and its wholly-owned subsidiary Carrols Corporation (“Carrols”). Carrols Restaurant Group is a holding company and conducts all of its operations through Carrols and its wholly-owned subsidiaries. Unless the context otherwise requires, Carrols Restaurant Group, Carrols and the direct and indirect subsidiaries of Carrols are collectively referred to as the “Company.” All intercompany transactions have been eliminated in consolidation.

The difference between the consolidated financial statements of Carrols Restaurant Group and Carrols is primarily due to additional rent expense of approximately \$6 per year for Carrols Restaurant Group and the composition of stockholders’ equity.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended January 2, 2011 and January 3, 2010 will be referred to as the fiscal years ended December 31, 2010 and 2009, respectively. Similarly, all references herein to the three months ended April 3, 2011 and April 4, 2010 will be referred to as the three months ended March 31, 2011 and March 31, 2010, respectively. The fiscal year ended December 31, 2010 contained 52 weeks and the fiscal year ended December 31, 2009 contained 53 weeks. The three months ended March 31, 2011 and 2010 each contained thirteen weeks.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three months ended March 31, 2011 and 2010 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three months ended March 31, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year.

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

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

- *Current Assets and Liabilities.* The carrying value of cash and cash equivalents and accrued liabilities approximates fair value because of the short maturity of those instruments.
- *Senior Subordinated Notes.* The fair values of outstanding senior subordinated notes are based on quoted market prices. The fair values at both March 31, 2011 and December 31, 2010 were approximately \$165.4 million.
- *Revolving and Term Loan Facilities.* Rates and terms under Carrols’ senior credit facility are favorable to debt with similar terms and maturities that could be obtained, if at all, at March 31, 2011. Given the lack of comparative information regarding such debt, including the lack of trading in Carrols’ Term A debt, it is not practicable to estimate the fair value of our existing borrowings under Carrols’ senior credit facility at March 31, 2011.

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

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

Subsequent Events. The Company evaluated for subsequent events through the issuance date of the Company's financial statements. No subsequent events requiring disclosure were noted.

2. Stock-Based Compensation

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

Stock-based compensation expense for the three months ended March 31, 2011 and 2010 was \$0.7 million and \$0.4 million, respectively. As of March 31, 2011, the total non-vested stock-based compensation expense relating to the options and non-vested shares was approximately \$4.6 million and the Company expects to record an additional \$2.1 million as compensation expense in 2011. At March 31, 2011, the remaining weighted average vesting period for stock options and non-vested shares was 2.7 years and 3.6 years, respectively.

Stock Options

A summary of all option activity for the three months ended March 31, 2011 was as follows:

	2006 Plan			
	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value (1)
Options outstanding at January 1, 2011	2,588,017	\$ 9.17	4.2	\$ 2,948
Granted	—			
Exercised	(16,436)	5.12		
Forfeited	(13,262)	6.99		
Options outstanding at March 31, 2011	2,558,319	\$ 9.21	4.0	\$ 5,430
Vested or expected to vest at March 31, 2011	2,534,957	\$ 9.23	4.0	\$ 5,356
Options exercisable at March 31, 2011	1,504,545	\$ 10.86	3.5	\$ 2,062

- (1) The aggregate intrinsic value was calculated using the difference between the market price of the Company's common stock at April 3, 2011 and the grant price for only those awards that had a grant price that was less than the market price of the Company's common stock at April 3, 2011.

A summary of all non-vested stock activity for the three months ended March 31, 2011 was as follows:

	Shares	Weighted Average Grant Date Price
Nonvested at January 1, 2011	45,701	\$ 6.16
Granted	360,200	7.65
Vested	(4,700)	8.08
Forfeited	(1,400)	6.90
Nonvested at March 31, 2011	399,801	\$ 7.49

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

The Company reviews its long-lived assets, principally property and equipment, for impairment at the restaurant level. If an indicator of impairment exists for any of its assets, an estimate of the undiscounted future cash flows over the life of the primary asset for each restaurant is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value plus any lease liabilities to be incurred for non-operating properties, net of any estimated sublease recoveries.

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

The Company determined the fair value of the impaired long-lived assets at the restaurant level based on current economic conditions and historical experience. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. The non-financial assets measured at fair value associated with impairment charges recorded during the three months ended March 31, 2011 totaled \$40. They consist of restaurant equipment, which will be used in other Company restaurants with its value determined based upon the Company's experience of amounts utilized from prior restaurant closures.

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

	Three Months Ended March 31,	
	2011	2010
Burger King	\$ 816	\$ 22
Pollo Tropical	272	52
Taco Cabana	(8)	196
	<u>\$ 1,080</u>	<u>\$ 270</u>

During the three months ended March 31, 2011, the Company recorded impairment and other lease charges of \$1.1 million which primarily included \$0.8 million for five underperforming Burger King restaurants and \$0.2 million in other lease charges for a Pollo Tropical restaurant that was closed in the first quarter of 2011 and whose assets were previously impaired in 2010. During the three months ended March 31, 2010, the Company recorded a lease charge of \$0.2 million related to a non-operating Taco Cabana property due to a reduction of estimated cost recoveries from subletting the property through the end of the remaining lease term.

4. Goodwill and Franchise Rights

Goodwill. The Company is required to review goodwill for impairment annually, or more frequently, when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of goodwill is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values.

There have been no changes in goodwill or goodwill impairment losses for the years ended December 31, 2010 and 2009. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Balance, March 31, 2011	<u>\$56,307</u>	<u>\$67,177</u>	<u>\$1,450</u>	<u>\$124,934</u>

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

The Company assesses the potential impairment of Burger King franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. No impairment charges were recorded related to the Company's Burger King franchise rights for the three months ended March 31, 2011 and 2010.

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

Amortization expense related to Burger King franchise rights was \$799 and \$800 for the three months ended March 31, 2011 and 2010, respectively. The Company estimates the amortization expense for the year ending December 31, 2011 and for each of the five succeeding years to be \$3,194.

5. Long-term Debt

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

	March 31, 2011	December 31, 2010
Collateralized:		
Senior Credit Facility-Revolving credit facility	\$ 6,300	\$ —
Senior Credit Facility-Term loan A facility	84,436	87,250
Unsecured:		
9% Senior Subordinated Notes	165,000	165,000
Capital leases	1,182	1,202
	256,918	253,452
Less: current portion	(16,937)	(15,538)
	<u>\$ 239,981</u>	<u>\$ 237,914</u>

Senior Credit Facility. Carrols' senior credit facility totals \$185 million, originally consisting of \$120 million principal amount of term loan A borrowings maturing on March 9, 2013 (or earlier on September 30, 2012 if the 9% Senior Subordinated Notes due 2013 are not refinanced by June 30, 2012) and a \$65.0 million revolving credit facility (including a sub limit of up to \$25.0 million for letters of credit and up to \$5.0 million for swingline loans), maturing on March 8, 2012.

The term loan and revolving credit borrowings under the senior credit facility bear interest at a per annum rate, at Carrols' option, of either:

- 1) the applicable margin percentage ranging from 0% to 0.25% based on Carrols' senior leverage ratio (as defined in the senior credit facility) plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or
- 2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on Carrols' senior leverage ratio. At March 31, 2011 the LIBOR margin percentage was 1.0%.

At April 3, 2011, outstanding borrowings under Term loan A were \$84.4 million with the remaining balance due and payable as follows:

- 1) four quarterly installments of approximately \$4.2 million beginning on June 30, 2011; and
- 2) four quarterly installments of approximately \$16.9 million beginning on June 30, 2012.

Under the senior credit facility, Carrols is required to make mandatory prepayments of principal on term loan A facility borrowings (a) annually in an amount up to 50% of Excess Cash Flow depending upon Carrols' Total Leverage Ratio (as such terms are defined in the senior credit facility), (b) in the event of certain dispositions of assets (all subject to certain exceptions) and insurance proceeds, in an amount equal to 100% of the net proceeds received by Carrols therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt. For the year ended December 31, 2010, there was not a required prepayment based on the Excess Cash Flow for 2010, as defined. For the year ended December 31, 2009, Carrols was required to make a principal prepayment of approximately \$1.0 million in the first quarter of 2010.

The senior credit facility contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the senior credit facility if there is a default in the payment of any principal of or interest on any indebtedness of Carrols having an outstanding principal amount of at least \$2.5 million (excluding lease financing obligations but which would include the Indenture governing the Notes) or any event or condition which results in the acceleration of such indebtedness prior to its stated maturity.

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

In general, Carrols' obligations under the senior credit facility are guaranteed by the Company and all of Carrols' material subsidiaries and are collateralized by a pledge of Carrols' common stock and the stock of each of Carrols' material subsidiaries. The senior credit facility contains certain covenants, including, without limitation, those limiting Carrols' ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of its business, engage in transactions with related parties, make certain investments or pay dividends. In addition, Carrols is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the senior credit facility). Carrols was in compliance with the covenants under its senior credit facility as of April 3, 2011.

After reserving \$13.5 million for letters of credit guaranteed by the facility, \$45.2 million was available for borrowings under the revolving credit facility at April 3, 2011.

Senior Subordinated Notes. On December 15, 2004, Carrols issued \$180 million of 9% Senior Subordinated Notes due 2013 (the "Notes") that bear interest at a rate of 9% payable semi-annually on January 15 and July 15 and mature on January 15, 2013. The Notes are redeemable at the option of Carrols in whole or in part at 100% of the principal amount. At both April 3, 2011 and January 2, 2011, \$165.0 million principal amount of the Notes were outstanding.

Restrictive covenants under the Notes include limitations with respect to the Carrols' ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. Carrols was in compliance as of April 3, 2011 with the restrictive covenants in the Indenture governing the Notes.

The Indenture governing the Notes contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the Notes and the Indenture if there is a default under any indebtedness of Carrols having an outstanding principal amount of \$20 million or more (which would include the senior credit facility) if such default results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due.

6. Income Taxes

The provision for income taxes for the three months ended March 31, 2011 and 2010 was comprised of the following:

	Three Months Ended March 31,	
	2011	2010
Current	\$ 1,077	\$ 1,452
Deferred	—	(20)
	<u>\$ 1,077</u>	<u>\$ 1,432</u>

The provision for income taxes for the three months ended March 31, 2011 was derived using an estimated effective annual income tax rate for 2011 of 32.4%, which excludes any discrete tax adjustments. There were no discrete tax adjustments in the three months ended March 31, 2011.

The provision for income taxes for the three months ended March 31, 2010 was derived using an estimated effective annual income tax rate for 2010 of 37.0%, which excludes any discrete tax adjustments. Discrete tax adjustments increased the provision for income taxes by \$46 in the three months ended March 31, 2010.

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

The tax years 2007-2010 remain open to examination by the major taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to the uncertainties regarding the timing of any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

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

7. Other Liabilities, Long-Term

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

	March 31, 2011	December 31, 2010
Accrued occupancy costs	\$ 13,304	\$ 13,250
Accrued workers' compensation costs	3,607	3,423
Deferred compensation	785	2,937
Other	3,370	3,442
	<u>\$ 21,066</u>	<u>\$ 23,052</u>

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

The following table presents the activity in the exit cost reserve included in accrued occupancy costs at March 31, 2011 and December 31, 2010:

	Three months ended March 31, 2011	Year ended December 31, 2010
Balance, beginning of period	\$ 1,665	\$ 862
Changes in estimates of accrued costs	265	1,279
Payments, net	(257)	(632)
Other adjustments	34	156
Balance, end of period	<u>\$ 1,707</u>	<u>\$ 1,665</u>

8. Postretirement Benefits

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

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

	Three Months Ended March 31,	
	2011	2010
Service cost	\$ 7	\$ 8
Interest cost	25	27
Amortization of net gains and losses	24	24
Amortization of prior service credit	(90)	(90)
Net periodic postretirement benefit income	<u>\$ (34)</u>	<u>\$ (31)</u>

During the three months ended March 31, 2011, the Company made contributions of \$38 to its postretirement plan and expects to make additional contributions during 2011. Contributions made by the Company to its postretirement plan for the year ended December 31, 2010 were \$156.

9. Lease Financing Obligations

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

Interest expense associated with lease financing obligations for the three months ended March 31, 2011 and 2010 was \$0.2 million and \$0.3 million, respectively.

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

10. Business Segment Information

The Company is engaged in the quick-service and quick-casual restaurant industry, with three restaurant concepts: Burger King, operating as a franchisee, and Pollo Tropical and Taco Cabana, both Company-owned concepts. Pollo Tropical is a quick-casual restaurant chain offering a unique selection of food items reflecting tropical and Caribbean influences and feature grilled marinated chicken and authentic “made from scratch” side dishes. Taco Cabana is a quick-casual restaurant chain featuring fresh Mexican style food, including flame-grilled beef and chicken fajitas, quesadillas and other Tex-Mex dishes.

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

The “Other” column includes corporate related items not allocated to reportable segments, including stock-based compensation expense. Other identifiable assets consist primarily of cash, certain other assets, corporate property and equipment, including restaurant information systems expenditures, goodwill and deferred income taxes.

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

Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
March 31, 2011:					
Total revenues	\$52,235	\$63,381	\$ 81,622	\$ —	\$ 197,238
Cost of sales	17,149	19,195	23,971	—	60,315
Restaurant wages and related expenses	12,293	19,336	26,929	10	58,568
Restaurant rent expense	2,313	4,031	5,710	—	12,054
General and administrative expenses (1)	2,783	3,102	7,306	665	13,856
Depreciation and amortization	1,915	2,266	3,446	481	8,108
Adjusted Segment EBITDA	10,059	6,493	1,141		
Capital expenditures, including acquisitions	1,192	3,841	2,858	545	8,436
March 31, 2010:					
Total revenues	\$45,493	\$62,032	\$ 87,619	\$ —	\$ 195,144
Cost of sales	14,693	18,555	25,950	—	59,198
Restaurant wages and related expenses	11,589	19,350	28,181	14	59,134
Restaurant rent expense	2,461	3,899	5,996	—	12,356
General and administrative expenses (1)	2,808	2,770	6,540	379	12,497
Depreciation and amortization	1,930	2,277	3,472	443	8,122
Adjusted Segment EBITDA	6,727	6,761	3,786		
Capital expenditures, including acquisitions	801	1,290	3,297	392	5,780
Identifiable Assets:					
At March 31, 2011	\$50,388	\$63,424	\$141,086	\$171,528	\$ 426,426
At December 31, 2010	51,125	63,061	142,922	169,194	426,302

- (1) For the Pollo Tropical and Taco Cabana segments, such amounts include general and administrative expenses related directly to each segment. For the Burger King segment such amounts include general and administrative expenses related directly to the Burger King segment as well as expenses associated with administrative support to the Company's Pollo Tropical and Taco Cabana segments for executive management, information systems and certain accounting, legal and other administrative functions. For the three months ended March 31, 2011, these costs were \$1.4 million for Pollo Tropical and \$1.9 million for Taco Cabana. For the three months ended March 31, 2010, these costs were \$1.1 million for Pollo Tropical and \$1.4 million for Taco Cabana.

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

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

	Three Months Ended March 31,	
	2011	2010
Adjusted Segment EBITDA:		
Pollo Tropical	\$10,059	\$6,727
Taco Cabana	6,493	6,761
Burger King	1,141	3,786
Less:		
Depreciation and amortization	8,108	8,122
Impairment and other lease charges	1,080	270
Interest expense	4,613	4,743
Provision for income taxes	1,077	1,432
Stock-based compensation expense	675	393
Other income	(106)	—
Net income	<u>\$ 2,246</u>	<u>\$2,314</u>

11. Commitments and Contingencies

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

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

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

12. Net Income per Share

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

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

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

	Three months ended March 31,	
	2011	2010
Basic net income per share:		
Net income	\$ 2,246	\$ 2,314
Weighted average common shares outstanding	21,642,718	21,613,689
Basic net income per share	<u>\$ 0.10</u>	<u>\$ 0.11</u>
Diluted net income per share:		
Net income for diluted net income per share	\$ 2,246	\$ 2,314
Shares used in computed basic net income per share	21,642,718	21,613,689
Dilutive effect of non-vested shares and stock options	425,035	223,911
Shares used in computed diluted net income per share	<u>22,067,753</u>	<u>21,837,600</u>
Diluted net income per share	<u>\$ 0.10</u>	<u>\$ 0.11</u>
Shares excluded from diluted net income per share computation (1)	<u>1,925,047</u>	<u>2,057,504</u>

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

13. Comprehensive Income

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

	Three months ended March 31,	
	2011	2010
Net income	\$2,246	\$2,314
Change in postretirement benefit obligation, net of tax	—	10
Comprehensive income	<u>\$2,246</u>	<u>\$2,324</u>

14. Other Income

In the three months ended March 31, 2011, the Company recorded a gain of \$0.1 million related to a property insurance recovery from a fire at a Burger King restaurant.

15. Recent Accounting Developments

There are currently no recent accounting pronouncements which had or are expected to have a material impact on the Company's consolidated financial statements as of the date of this report.

ITEM 1—INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
CARROLS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands of dollars except share and per share amounts)
(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,392	\$ 3,144
Trade and other receivables	6,126	5,213
Inventories	5,088	5,203
Prepaid rent	4,014	4,018
Prepaid expenses and other current assets	6,013	5,349
Refundable income taxes	—	869
Deferred income taxes	4,609	4,609
Total current assets	30,242	28,405
Property and equipment, net	185,672	186,850
Franchise rights, net (Note 4)	69,633	70,432
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	389	419
Franchise agreements, at cost less accumulated amortization of \$6,232 and \$6,102, respectively	5,575	5,629
Deferred income taxes	1,949	1,949
Other assets	8,032	7,684
Total assets	<u>\$426,426</u>	<u>\$ 426,302</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 16,937	\$ 15,538
Accounts payable	14,823	13,944
Accrued interest	3,139	6,853
Accrued payroll, related taxes and benefits	16,738	19,504
Accrued income taxes	1,527	—
Accrued real estate taxes	3,158	4,778
Other liabilities	9,473	7,434
Total current liabilities	65,795	68,051
Long-term debt, net of current portion (Note 5)	239,981	237,914
Lease financing obligations (Note 9)	10,061	10,061
Deferred income—sale-leaseback of real estate	39,817	40,472
Accrued postretirement benefits (Note 8)	1,790	1,845
Other liabilities (Note 7)	21,159	23,060
Total liabilities	378,603	381,403
Commitments and contingencies (Note 11)		
Stockholder's equity:		
Common stock, par value \$1; authorized 1,000 shares, issued and outstanding—10 shares	—	—
Additional paid-in capital	(3,407)	(4,083)
Retained earnings	49,695	47,447
Accumulated other comprehensive income (Note 12)	1,535	1,535
Total stockholder's equity	47,823	44,899
Total liabilities and stockholder's equity	<u>\$426,426</u>	<u>\$ 426,302</u>

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

CARROLS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In thousands of dollars)
(Unaudited)

	<u>2011</u>	<u>2010</u>
Revenues:		
Restaurant sales	\$ 196,873	\$ 194,667
Franchise royalty revenues and fees	365	477
Total revenues	<u>197,238</u>	<u>195,144</u>
Costs and expenses:		
Cost of sales	60,315	59,198
Restaurant wages and related expenses (including stock-based compensation expense of \$10 and \$14, respectively)	58,568	59,134
Restaurant rent expense	12,054	12,356
Other restaurant operating expenses	27,924	28,232
Advertising expense	7,503	6,846
General and administrative (including stock-based compensation expense of \$665 and \$379, respectively)	13,854	12,495
Depreciation and amortization	8,108	8,122
Impairment and other lease charges (Note 3)	1,080	270
Other income (Note 13)	(106)	—
Total operating expenses	<u>189,300</u>	<u>186,653</u>
Income from operations	7,938	8,491
Interest expense	4,613	4,743
Income before income taxes	3,325	3,748
Provision for income taxes (Note 6)	1,077	1,432
Net income	<u>\$ 2,248</u>	<u>\$ 2,316</u>

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

CARROLS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In thousands of dollars)
(Unaudited)

	2011	2010
Cash flows provided (used for) from operating activities:		
Net income	\$ 2,248	\$ 2,316
Adjustments to reconcile net income to net cash provided from (used for) operating activities:		
Loss on disposals of property and equipment	114	64
Stock-based compensation expense	675	393
Impairment and other lease charges	1,080	270
Depreciation and amortization	8,108	8,122
Amortization of deferred financing costs	233	239
Amortization of deferred gains from sale-leaseback transactions	(839)	(830)
Accretion of interest on lease financing obligations	—	14
Deferred income taxes	—	(20)
Accrued income taxes	2,396	2,814
Changes in other operating assets and liabilities	(9,328)	(13,506)
Net cash provided from (used for) operating activities	4,687	(124)
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(3,407)	(1,192)
Restaurant remodeling	(2,999)	(1,993)
Other restaurant capital expenditures	(1,485)	(2,203)
Corporate and restaurant information systems	(545)	(392)
Total capital expenditures	(8,436)	(5,780)
Properties purchased for sale-leaseback	—	(1,141)
Proceeds from sale-leaseback transactions	1,861	2,319
Net cash used for investing activities	(6,575)	(4,602)
Cash flows provided from financing activities:		
Borrowings on revolving credit facility	25,800	41,700
Repayments on revolving credit facility	(19,500)	(33,400)
Principal pre-payments on term loans	—	(1,023)
Scheduled principal payments on term loans	(2,814)	(2,971)
Deferred financing fees	(330)	—
Principal payments on capital leases	(20)	(22)
Proceeds from stock option exercises	—	11
Net cash provided from financing activities	3,136	4,295
Net increase (decrease) in cash and cash equivalents	1,248	(431)
Cash and cash equivalents, beginning of period	3,144	4,402
Cash and cash equivalents, end of period	\$ 4,392	\$ 3,971
Supplemental disclosures:		
Interest paid on long-term debt	\$ 7,848	\$ 7,966
Interest paid on lease financing obligations	\$ 245	\$ 231
Accruals for capital expenditures	\$ 980	\$ 170
Income taxes refunded, net of payments	\$ (1,319)	\$ (1,392)

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

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars, except share and per share amounts)

1. Basis of Presentation

Business Description. At April 3, 2011 the Company operated, as franchisee, 304 quick-service restaurants under the trade name “Burger King” in 12 Northeastern, Midwestern and Southeastern states. At April 3, 2011, the Company also owned and operated 90 Pollo Tropical restaurants, of which 85 were located in Florida, five were located in New Jersey, and franchised a total of 29 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador, one in Honduras, one in the Bahamas, one in Trinidad and three on college campuses in Florida. At April 3, 2011, the Company owned and operated 156 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico, two in Texas and one in Georgia.

On February 24, 2011, Carrols Restaurant Group, Inc. and the Company announced their intention to pursue the splitting of their businesses into two separate, publicly-traded companies through the tax-free spin-off of their combined Pollo Tropical and Taco Cabana businesses to Carrols Restaurant Group’s stockholders. The company to be spun-off will own and operate the Pollo Tropical and Taco Cabana businesses. Carrols Restaurant Group, Inc. and the Company will continue to own and operate their franchised Burger King restaurants.

Basis of Consolidation. The unaudited consolidated financial statements presented herein include the accounts of Carrols Corporation and its subsidiaries (the “Company”). The Company is a wholly-owned subsidiary of Carrols Restaurant Group, Inc. (“Carrols Restaurant Group” or the “Parent Company”). All intercompany transactions have been eliminated in consolidation.

The difference between the consolidated financial statements of Carrols Corporation and Carrols Restaurant Group is primarily due to additional rent expense of approximately \$6 per year for Carrols Restaurant Group and the composition of stockholder’s equity.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended January 2, 2011 and January 3, 2010 will be referred to as the fiscal years ended December 31, 2010 and 2009, respectively. Similarly, all references herein to the three months ended April 3, 2011 and April 4, 2010 will be referred to as the three months ended March 31, 2011 and March 31, 2010, respectively. The year ended December 31, 2010 contained 52 weeks and the year ended December 31, 2009 contained 53 weeks. The three months ended March 31, 2011 and 2010 each contained thirteen weeks.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three months ended March 31, 2011 and 2010 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such financial statements have been included. The results of operations for the three months ended March 31, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year.

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

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

- *Current Assets and Liabilities.* The carrying value of cash and cash equivalents and accrued liabilities approximates fair value because of the short maturity of those instruments.
- *Senior Subordinated Notes.* The fair values of outstanding senior subordinated notes are based on quoted market prices. The fair values at both March 31, 2011 and December 31, 2010 were approximately \$165.4 million.
- *Revolving and Term Loan Facilities.* Rates and terms under the Company’s senior credit facility are favorable to debt with similar terms and maturities that could be obtained, if at all, at March 31, 2011. Given the lack of comparative information regarding such debt, including the lack of trading in our Term A debt, it is not practicable to estimate the fair value of existing borrowings under the Company’s senior credit facility at March 31, 2011.

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

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

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

Subsequent Events. The Company evaluated for subsequent events through the issuance date of the Company's financial statements. No subsequent events requiring disclosure were noted.

2. Stock-Based Compensation

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

Stock-based compensation expense for the three months ended March 31, 2011 and 2010 was \$0.7 million and \$0.4 million, respectively. As of March 31, 2011, the total non-vested stock-based compensation expense relating to the options and non-vested shares was approximately \$4.6 million and the Company expects to record an additional \$2.1 million as compensation expense in 2011. At March 31, 2011, the remaining weighted average vesting period for stock options and non-vested shares was 2.7 years and 3.6 years, respectively.

Stock Options

A summary of all option activity for the three months ended March 31, 2011 was as follows:

	2006 Plan			
	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value (1)
Options outstanding at January 1, 2011	2,588,017	\$ 9.17	4.2	\$ 2,948
Granted	—			
Exercised	(16,436)	5.12		
Forfeited	(13,262)	6.99		
Options outstanding at March 31, 2011	2,558,319	\$ 9.21	4.0	\$ 5,430
Vested or expected to vest at March 31, 2011	2,534,957	\$ 9.23	4.0	\$ 5,356
Options exercisable at March 31, 2011	1,504,545	\$ 10.86	3.5	\$ 2,062

- (1) The aggregate intrinsic value was calculated using the difference between the market price of Carrols Restaurant Group's common stock at April 3, 2011 and the grant price for only those awards that had a grant price that was less than the market price of Carrols Restaurant Group's common stock at April 3, 2011.

A summary of all non-vested stock activity for the three months ended March 31, 2011 was as follows:

	Shares	Weighted Average Grant Date Price
Nonvested at January 1, 2011	45,701	\$ 6.16
Granted	360,200	7.65
Vested	(4,700)	8.08
Forfeited	(1,400)	6.90
Nonvested at March 31, 2011	399,801	\$ 7.49

3. Impairment of Long-lived Assets and Other Lease Charges

The Company reviews its long-lived assets, principally property and equipment, for impairment at the restaurant level. If an indicator of impairment exists for any of its assets, an estimate of the undiscounted future cash flows over the life of the primary asset for each restaurant is compared to that long-lived asset's carrying value. If the carrying value is greater than the undiscounted cash flow, the Company then determines the fair value of the asset and if an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value plus any lease liabilities to be incurred for non-operating properties, net of any estimated sublease recoveries.

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

The Company determined the fair value of the impaired long-lived assets at the restaurant level based on current economic conditions and historical experience. These fair value asset measurements rely on significant unobservable inputs and are considered Level 3 in the fair value hierarchy. The non-financial assets measured at fair value associated with impairment charges recorded during the three months ended March 31, 2011 totaled \$40. They consist of restaurant equipment, which will be used in other Company restaurants with its value determined based upon the Company's experience of amounts utilized from prior restaurant closures.

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

	Three Months Ended March 31,	
	2011	2010
Burger King	\$ 816	\$ 22
Pollo Tropical	272	52
Taco Cabana	(8)	196
	<u>\$ 1,080</u>	<u>\$ 270</u>

During the three months ended March 31, 2011, the Company recorded impairment and other lease charges of \$1.1 million which primarily included \$0.8 million for five underperforming Burger King restaurants and \$0.2 million in other lease charges for a Pollo Tropical restaurant that was closed in the first quarter of 2011 and whose assets were previously impaired in 2010. During the three months ended March 31, 2010, the Company recorded a lease charge of \$0.2 million related to a non-operating Taco Cabana property due to a reduction of estimated costs recoveries from subletting the property through the end of the remaining lease term.

4. Goodwill and Franchise Rights

Goodwill. The Company is required to review goodwill for impairment annually, or more frequently, when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of goodwill is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of December 31 and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess their values.

There have been no changes in goodwill or goodwill impairment losses for the years ended December 31, 2010 and 2009. Goodwill balances are summarized below:

	Pollo Tropical	Taco Cabana	Burger King	Total
Balance, March 31, 2011	<u>\$56,307</u>	<u>\$67,177</u>	<u>\$1,450</u>	<u>\$124,934</u>

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

The Company assesses the potential impairment of Burger King franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each Burger King acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. No impairment charges were recorded related to the Company's Burger King franchise rights for the three months ended March 31, 2011 and 2010.

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Amortization expense related to Burger King franchise rights was \$799 and \$800 for the three months ended March 31, 2011 and 2010, respectively. The Company estimates the amortization expense for the year ending December 31, 2011 and for each of the five succeeding years to be \$3,194.

5. Long-term Debt

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

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Collateralized:		
Senior Credit Facility-Revolver credit facility	\$ 6,300	\$ —
Senior Credit Facility-Term loan A facility	84,436	87,250
Unsecured:		
9% Senior Subordinated Notes	165,000	165,000
Capital leases	1,182	1,202
	<u>256,918</u>	<u>253,452</u>
Less: current portion	<u>(16,937)</u>	<u>(15,538)</u>
	<u>\$239,981</u>	<u>\$ 237,914</u>

Senior Credit Facility. The Company's senior credit facility totals \$185 million, originally consisting of \$120 million principal amount of term loan A borrowings maturing on March 9, 2013 (or earlier on September 30, 2012 if the 9% Senior Subordinated Notes due 2013 are not refinanced by June 30, 2012) and a \$65.0 million revolving credit facility (including a sub limit of up to \$25.0 million for letters of credit and up to \$5.0 million for swingline loans), maturing on March 8, 2012.

The term loan and revolving credit borrowings under the senior credit facility bear interest at a per annum rate, at the Company's option, of either:

- 1) the applicable margin percentage ranging from 0% to 0.25% based on the Company's senior leverage ratio (as defined in the senior credit facility) plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or
- 2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on the Company's senior leverage ratio. At March 31, 2011 the LIBOR margin percentage was 1.0%.

At April 3, 2011, outstanding borrowings under Term loan A were \$84.4 million with the remaining balance due and payable as follows:

- 1) four quarterly installments of approximately \$4.2 million beginning on June 30, 2011; and
- 2) four quarterly installments of approximately \$16.9 million beginning on June 30, 2012.

Under the senior credit facility, the Company is required to make mandatory prepayments of principal on term loan A facility borrowings (a) annually in an amount of up to 50% of Excess Cash Flow depending upon the Company's Total Leverage Ratio (as such terms are defined in the senior credit facility), (b) in the event of certain dispositions of assets (all subject to certain exceptions) and insurance proceeds, in an amount equal to 100% of the net proceeds received by the Company therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt. For the year ended December 31, 2010, there was not a required prepayment based on the Excess Cash Flow for 2010, as defined. For the year ended December 31, 2009, the Company was required to make a principal prepayment of approximately \$1.0 million in the first quarter of 2010.

The senior credit facility contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the senior credit facility if there is a default in the payment of any principal of or interest on any indebtedness of the Company having an outstanding principal amount of at least \$2.5 million (excluding lease financing obligations but which would include the Indenture governing the Notes) or any event or condition which results in the acceleration of such indebtedness prior to its stated maturity.

CARROLS CORPORATION AND SUBSIDIARIES
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In general, the Company's obligations under the senior credit facility are guaranteed by Carrols Restaurant Group and all of the Company's material subsidiaries and are collateralized by a pledge of the Company's common stock and the stock of each of the Company's material subsidiaries. The senior credit facility contains certain covenants, including, without limitation, those limiting the Company's ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of its business, engage in transactions with related parties, make certain investments or pay dividends. In addition, the Company is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the senior credit facility). The Company was in compliance with the covenants under its senior credit facility as of April 3, 2011.

After reserving \$13.5 million for letters of credit guaranteed by the facility, \$45.2 million was available for borrowings under the revolving credit facility at April 3, 2011.

Senior Subordinated Notes. On December 15, 2004, the Company issued \$180 million of 9% Senior Subordinated Notes due 2013 (the "Notes") that bear interest at a rate of 9% payable semi-annually on January 15 and July 15 and mature on January 15, 2013. The Notes are redeemable at the option of the Company in whole or in part at 100% of the principal amount. At both April 3, 2011 and January 2, 2011, \$165.0 million principal amount of the Notes were outstanding.

Restrictive covenants under the Notes include limitations with respect to the Company's ability to issue additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. The Company was in compliance as of April 3, 2011 with the restrictive covenants in the Indenture governing the Notes.

The Indenture governing the Notes contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the Notes and the Indenture if there is a default under any indebtedness of Carrols having an outstanding principal amount of \$20 million or more (which would include the senior credit facility) if such default results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due.

6. Income Taxes

The provision for income taxes for the three months ended March 31, 2011 and 2010 was comprised of the following:

	Three Months Ended March 31,	
	2011	2010
Current	\$ 1,077	\$ 1,452
Deferred	—	(20)
	<u>\$ 1,077</u>	<u>\$ 1,432</u>

The provision for income taxes for the three months ended March 31, 2011 was derived using an estimated effective annual income tax rate for 2011 of 32.4%, which excludes any discrete tax adjustments. There were no discrete tax adjustments in the three months ended March 31, 2011.

The provision for income taxes for the three months ended March 31, 2010 was derived using an estimated effective annual income tax rate for 2010 of 37.0%, which excludes any discrete tax adjustments. Discrete tax adjustments increased the provision for income taxes by \$46 in the three months ended March 31, 2010.

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

The tax years 2007-2010 remain open to examination by the major taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to the uncertainties regarding the timing of any examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

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

7. Other Liabilities, Long-Term

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

	March 31, 2011	December 31, 2010
Accrued occupancy costs	\$ 13,304	\$ 13,250
Accrued workers' compensation costs	3,607	3,423
Deferred compensation	785	2,937
Other	3,463	3,450
	<u>\$ 21,159</u>	<u>\$ 23,060</u>

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

The following table presents the activity in the exit cost reserve included in accrued occupancy costs at March 31, 2011 and December 31, 2010:

	Three months ended March 31, 2011	Year ended December 31, 2010
Balance, beginning of period	\$ 1,665	\$ 862
Changes in estimates of accrued costs	265	1,279
Payments, net	(257)	(632)
Other adjustments	34	156
Balance, end of period	<u>\$ 1,707</u>	<u>\$ 1,665</u>

8. Postretirement Benefits

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

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

	Three Months Ended March 31, 2011	2010
Service cost	\$ 7	\$ 8
Interest cost	25	27
Amortization of net gains and losses	24	24
Amortization of prior service credit	(90)	(90)
Net periodic postretirement benefit income	<u>\$ (34)</u>	<u>\$ (31)</u>

During the three months ended March 31, 2011, the Company made contributions of \$38 to its postretirement plan and expects to make additional contributions during 2011. Contributions made by the Company to its postretirement plan for the year ended December 31, 2010 were \$156.

9. Lease Financing Obligations

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

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Interest expense associated with lease financing obligations for the three months ended March 31, 2011 and 2010 was \$0.2 million and \$0.3 million, respectively.

10. Business Segment Information

The Company is engaged in the quick-service and quick-casual restaurant industry, with three restaurant concepts: Burger King, operating as a franchisee, and Pollo Tropical and Taco Cabana, both Company-owned concepts. Pollo Tropical is a quick-casual restaurant chain offering a unique selection of food items reflecting tropical and Caribbean influences and feature grilled marinated chicken and authentic “made from scratch” side dishes. Taco Cabana is a quick-casual restaurant chain featuring fresh Mexican style food, including flame-grilled beef and chicken fajitas, quesadillas and other Tex-Mex dishes.

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

The “Other” column includes corporate related items not allocated to reportable segments, including stock-based compensation expense. Other identifiable assets consist primarily of cash, certain other assets, corporate property and equipment, including restaurant information systems expenditures, goodwill and deferred income taxes.

Three Months Ended	Pollo Tropical	Taco Cabana	Burger King	Other	Consolidated
March 31, 2011:					
Total revenues	\$52,235	\$63,381	\$ 81,622	\$ —	\$ 197,238
Cost of sales	17,149	19,195	23,971	—	60,315
Restaurant wages and related expenses	12,293	19,336	26,929	10	58,568
Restaurant rent expense	2,313	4,031	5,710	—	12,054
General and administrative expenses (1)	2,781	3,102	7,306	665	13,854
Depreciation and amortization	1,915	2,266	3,446	481	8,108
Adjusted Segment EBITDA	10,061	6,493	1,141		
Capital expenditures, including acquisitions	1,192	3,841	2,858	545	8,436
March 31, 2010:					
Total revenues	\$45,493	\$62,032	\$ 87,619	\$ —	\$ 195,144
Cost of sales	14,693	18,555	25,950	—	59,198
Restaurant wages and related expenses	11,589	19,350	28,181	14	59,134
Restaurant rent expense	2,461	3,899	5,996	—	12,356
General and administrative expenses (1)	2,806	2,770	6,540	379	12,495
Depreciation and amortization	1,930	2,277	3,472	443	8,122
Adjusted Segment EBITDA	6,729	6,761	3,786		
Capital expenditures, including acquisitions	801	1,290	3,297	392	5,780
Identifiable Assets:					
At March 31, 2011	\$50,388	\$63,424	\$141,086	\$171,528	\$ 426,426
At December 31, 2010	51,125	63,061	142,922	169,194	426,302

- (1) For the Pollo Tropical and Taco Cabana segments, such amounts include general and administrative expenses related directly to each segment. For the Burger King segment such amounts include general and administrative expenses related directly to the Burger King segment as well as expenses associated with administrative support to the Company’s Pollo Tropical and Taco Cabana segments for executive management, information systems and certain accounting, legal and other administrative functions. For the three months ended March 31, 2011, these costs were \$1.4 million for Pollo Tropical and \$1.9 million for Taco Cabana. For the three months ended March 31, 2010, these costs were \$1.1 million for Pollo Tropical and \$1.4 million for Taco Cabana.

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

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

	Three Months Ended March 31,	
	2010	2009
Adjusted Segment EBITDA:		
Pollo Tropical	\$10,061	\$6,729
Taco Cabana	6,493	6,761
Burger King	1,141	3,786
Less:		
Depreciation and amortization	8,108	8,122
Impairment and other lease charges	1,080	270
Interest expense	4,613	4,743
Provision for income taxes	1,077	1,432
Stock-based compensation expense	675	393
Other income	(106)	—
Net income	<u>\$ 2,248</u>	<u>\$2,316</u>

11. Commitments and Contingencies

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

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

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

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

12. Comprehensive income

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

	Three months ended March 31,	
	2011	2010
Net income	\$2,248	\$2,316
Change in postretirement benefit obligation, net of tax	—	10
Comprehensive income	<u>\$2,248</u>	<u>\$2,326</u>

13. Other Income

In the three months ended March 31, 2011, the Company recorded a gain of \$0.1 million related to a property insurance recovery from a fire at a Burger King restaurant.

14. Recent Accounting Developments

There are currently no recent accounting pronouncements which had or are expected to have a material impact on the Company's consolidated financial statements as of the date of this report.

15. Guarantor Financial Statements

The Company's obligations under the Notes are jointly and severally guaranteed in full on an unsecured senior subordinated basis by certain of the Company's subsidiaries ("Guarantor Subsidiaries"), all of which are directly or indirectly wholly-owned by the Company. These subsidiaries are:

- Cabana Beverages, Inc.
- Cabana Bevco LLC
- Carrols LLC
- Carrols Realty Holdings Corp.
- Carrols Realty I Corp.
- Carrols Realty II Corp.
- Carrols J.G. Corp.
- Quanta Advertising Corp.
- Pollo Franchise, Inc.
- Pollo Operations, Inc.
- Taco Cabana, Inc.
- TP Acquisition Corp.
- TC Bevco LLC
- T.C. Management, Inc.
- TC Lease Holdings III, V and VI, Inc.
- Get Real, Inc.
- Texas Taco Cabana, L.P.
- TPAQ Holding Corporation

The following supplemental financial information sets forth on a consolidating basis, balance sheets as of March 31, 2011 and December 31, 2010 for the Parent Company only, Guarantor Subsidiaries and for the Company and the related statements of operations for the three months ended March 31, 2011 and 2010, and cash flows for the three months ended March 31, 2011 and 2010.

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

For certain of the Company's sale-leaseback transactions, the Parent Company has guaranteed on an unsecured basis the rental payments of its subsidiaries. In accordance with ASC 840-40-25-16, "Sale-Leaseback Transactions," the Company has included in the following guarantor financial statements amounts pertaining to these leases as if they were accounted for as financing transactions of the Guarantor Subsidiaries. These adjustments are eliminated in consolidation.

For purposes of the guarantor financial statements, the Company and its subsidiaries determine the applicable tax provision for each entity generally using the separate return method. Under this method, current taxes are allocated to each reporting entity as if it were to file a separate tax return. The rules followed by the reporting entity in computing its tax obligation or refund would be the same as those followed in filing a separate income tax return. However, for purposes of evaluating an entity's ability to realize its tax attributes, the Company assesses whether it is more likely than not that those assets will be realized at the consolidated level. Any differences in the total of the income tax provision for the Parent Company only and the Guarantor Subsidiaries, as calculated on the separate return method, and the consolidated income tax provision are eliminated in consolidation.

The Company provides administrative support to its subsidiaries related to executive management, information systems and certain accounting, legal and other administrative functions. For purposes of the guarantor financial statements, the Company allocates such corporate costs on a specific identification basis, where applicable, or based on revenues or the number of restaurants for each subsidiary. Management believes that these allocations are reasonable based on the nature of costs incurred. Beginning in January 2011, all administrative costs have been allocated to our guarantor subsidiaries using such methods.

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
CONSOLIDATING BALANCE SHEET
March 31, 2011
(In thousands of dollars)
(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,270	\$ 3,122	\$ —	\$ 4,392
Trade and other receivables	115	6,011	—	6,126
Inventories	—	5,088	—	5,088
Prepaid rent	5	4,009	—	4,014
Prepaid expenses and other current assets	1,455	4,558	—	6,013
Deferred income taxes	(108)	4,717	—	4,609
Total current assets	2,737	27,505	—	30,242
Property and equipment, net	11,746	256,945	(83,019)	185,672
Franchise rights, net	—	69,633	—	69,633
Goodwill	—	124,934	—	124,934
Intangible assets, net	—	389	—	389
Franchise fees, net	—	5,575	—	5,575
Intercompany receivable (payable)	106,605	(136,767)	30,162	—
Investment in subsidiaries	184,773	—	(184,773)	—
Deferred income taxes	2,814	3,649	(4,514)	1,949
Other assets	3,726	6,244	(1,938)	8,032
Total assets	<u>\$312,401</u>	<u>\$ 358,107</u>	<u>\$ (244,082)</u>	<u>\$ 426,426</u>
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current liabilities:				
Current portion of long-term debt	\$ 16,887	\$ 50	\$ —	\$ 16,937
Accounts payable	2,179	12,644	—	14,823
Accrued interest	3,139	—	—	3,139
Accrued payroll, related taxes and benefits	(326)	17,064	—	16,738
Accrued income taxes payable	1,527	—	—	1,527
Accrued real estate taxes	—	3,158	—	3,158
Other liabilities	455	9,018	—	9,473
Total current liabilities	23,861	41,934	—	65,795
Long-term debt, net of current portion	238,849	1,132	—	239,981
Lease financing obligations	—	126,441	(116,380)	10,061
Deferred income—sale-leaseback of real estate	—	23,840	15,977	39,817
Accrued postretirement benefits	1,790	—	—	1,790
Other liabilities	78	19,145	1,936	21,159
Total liabilities	264,578	212,492	(98,467)	378,603
Commitments and contingencies				
Stockholder's equity	47,823	145,615	(145,615)	47,823
Total liabilities and stockholder's equity	<u>\$312,401</u>	<u>\$ 358,107</u>	<u>\$ (244,082)</u>	<u>\$ 426,426</u>

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
CONSOLIDATING BALANCE SHEET
December 31, 2010
(In thousands of dollars)

	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 42	\$ 3,102	\$ —	\$ 3,144
Trade and other receivables	91	5,122	—	5,213
Refundable income taxes	869	—	—	869
Inventories	—	5,203	—	5,203
Prepaid rent	5	4,013	—	4,018
Prepaid expenses and other current assets	1,452	3,897	—	5,349
Deferred income taxes	(108)	4,717	—	4,609
Total current assets	2,351	26,054	—	28,405
Property and equipment, net	10,613	259,774	(83,537)	186,850
Franchise rights, net	—	70,432	—	70,432
Goodwill	—	124,934	—	124,934
Intangible assets, net	—	419	—	419
Franchise agreements, net	—	5,629	—	5,629
Intercompany receivable (payable)	109,966	(139,948)	29,982	—
Investment in subsidiaries	180,985	—	(180,985)	—
Deferred income taxes	2,814	3,356	(4,221)	1,949
Other assets	3,619	6,065	(2,000)	7,684
Total assets	<u>\$310,348</u>	<u>\$ 356,715</u>	<u>\$ (240,761)</u>	<u>\$ 426,302</u>
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current liabilities:				
Current portion of long-term debt	\$ 15,480	\$ 58	\$ —	\$ 15,538
Accounts payable	2,072	11,872	—	13,944
Accrued interest	6,853	—	—	6,853
Accrued payroll, related taxes and benefits	85	19,419	—	19,504
Accrued real estate taxes	—	4,778	—	4,778
Other liabilities	220	7,214	—	7,434
Total current liabilities	24,710	43,341	—	68,051
Long-term debt, net of current portion	236,770	1,144	—	237,914
Lease financing obligations	—	126,430	(116,369)	10,061
Deferred income—sale-leaseback of real estate	—	24,157	16,315	40,472
Accrued postretirement benefits	1,845	—	—	1,845
Other liabilities	2,124	19,072	1,864	23,060
Total liabilities	265,449	214,144	(98,190)	381,403
Commitments and contingencies				
Stockholder's equity	44,899	142,571	(142,571)	44,899
Total liabilities and stockholder's equity	<u>\$310,348</u>	<u>\$ 356,715</u>	<u>\$ (240,761)</u>	<u>\$ 426,302</u>

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
CONSOLIDATING STATEMENT OF OPERATIONS
Three Months Ended March 31, 2011
(In thousands of dollars)
(Unaudited)

	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenues:				
Restaurant sales	\$ —	\$ 196,873	\$ —	\$ 196,873
Franchise royalty revenues and fees	—	365	—	365
Total revenues	<u>—</u>	<u>197,238</u>	<u>—</u>	<u>197,238</u>
Costs and expenses:				
Cost of sales	—	60,315	—	60,315
Restaurant wages and related expenses (including stock based compensation expense of \$10)	—	58,568	—	58,568
Restaurant rent expense	—	9,750	2,304	12,054
Other restaurant operating expenses	—	27,924	—	27,924
Advertising expense	—	7,503	—	7,503
General and administrative (including stock based compensation expense of \$665)	—	13,854	—	13,854
Depreciation and amortization	—	8,628	(520)	8,108
Impairment and other lease charges	—	1,080	—	1,080
Other income	—	(106)	—	(106)
Total operating expenses	<u>—</u>	<u>187,516</u>	<u>1,784</u>	<u>189,300</u>
Income from operations	—	9,722	(1,784)	7,938
Interest expense	4,328	2,925	(2,640)	4,613
Intercompany interest allocations	<u>(1,997)</u>	<u>1,997</u>	<u>—</u>	<u>—</u>
Income (loss) before income taxes	(2,331)	4,800	856	3,325
Provision (benefit) for income taxes	(791)	1,756	112	1,077
Equity income from subsidiaries	<u>3,788</u>	<u>—</u>	<u>(3,788)</u>	<u>—</u>
Net income	<u>\$ 2,248</u>	<u>\$ 3,044</u>	<u>\$ (3,044)</u>	<u>\$ 2,248</u>

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
CONSOLIDATING STATEMENT OF OPERATIONS
Three Months Ended March 31, 2010
(In thousands of dollars)
(Unaudited)

	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenues:				
Restaurant sales	\$ —	\$ 194,667	\$ —	\$ 194,667
Franchise royalty revenues and fees	—	477	—	477
Total revenues	<u>—</u>	<u>195,144</u>	<u>—</u>	<u>195,144</u>
Costs and expenses:				
Cost of sales	—	59,198	—	59,198
Restaurant wages and related expenses (including stock based compensation expense of \$14)	—	59,134	—	59,134
Restaurant rent expense	—	10,047	2,309	12,356
Other restaurant operating expenses	—	28,232	—	28,232
Advertising expense	—	6,846	—	6,846
General and administrative (including stock based compensation expense of \$379)	2,215	10,280	—	12,495
Depreciation and amortization	—	8,642	(520)	8,122
Impairment and other lease charges	—	270	—	270
Total operating expenses	<u>2,215</u>	<u>182,649</u>	<u>1,789</u>	<u>186,653</u>
Income (loss) from operations	(2,215)	12,495	(1,789)	8,491
Interest expense	4,456	2,959	(2,672)	4,743
Intercompany interest allocations	(4,556)	4,556	—	—
Income (loss) before income taxes	(2,115)	4,980	883	3,748
Provision (benefit) for income taxes	(716)	1,815	333	1,432
Equity income from subsidiaries	3,715	—	(3,715)	—
Net income	<u>\$ 2,316</u>	<u>\$ 3,165</u>	<u>\$ (3,165)</u>	<u>\$ 2,316</u>

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2011
(In thousands of dollars)
(Unaudited)

	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Cash flows provided from (used for) operating activities:				
Net income	\$ 2,248	\$ 3,044	\$ (3,044)	\$ 2,248
Adjustments to reconcile net income to net cash provided from (used for) operating activities:				
Loss on disposals of property and equipment	—	114	—	114
Stock-based compensation expense	—	675	—	675
Impairment and other lease charges	—	1,080	—	1,080
Depreciation and amortization	—	8,628	(520)	8,108
Amortization of deferred financing costs	229	67	(63)	233
Amortization of deferred gains from sale-leaseback transactions	—	(501)	(338)	(839)
Accretion of interest on lease financing obligations	—	12	(12)	—
Deferred income taxes	—	(292)	292	—
Accrued income taxes	2,396	—	—	2,396
Changes in other operating assets and liabilities	(6,348)	(6,665)	3,685	(9,328)
Net cash provided from (used for) operating activities	<u>(1,475)</u>	<u>6,162</u>	<u>—</u>	<u>4,687</u>
Cash flows used for investing activities:				
Capital expenditures:				
New restaurant development	—	(3,407)	—	(3,407)
Restaurant remodeling	—	(2,999)	—	(2,999)
Other restaurant capital expenditures	—	(1,485)	—	(1,485)
Corporate and restaurant information systems	(453)	(92)	—	(545)
Total capital expenditures	(453)	(7,983)	—	(8,436)
Proceeds from sale-leaseback transactions	—	1,861	—	1,861
Net cash used for investing activities	<u>(453)</u>	<u>(6,122)</u>	<u>—</u>	<u>(6,575)</u>
Cash flows provided from (used for) financing activities:				
Borrowings on revolving credit facility	25,800	—	—	25,800
Repayments on revolving credit facility	(19,500)	—	—	(19,500)
Scheduled principal payments on term loans	(2,814)	—	—	(2,814)
Principal payments on capital leases	—	(20)	—	(20)
Deferred financing fees	(330)	—	—	(330)
Net cash provided from (used for) financing activities	<u>3,156</u>	<u>(20)</u>	<u>—</u>	<u>3,136</u>
Net increase in cash and cash equivalents	1,228	20	—	1,248
Cash and cash equivalents, beginning of period	42	3,102	—	3,144
Cash and cash equivalents, end of period	<u>\$ 1,270</u>	<u>\$ 3,122</u>	<u>\$ —</u>	<u>\$ 4,392</u>

CARROLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2010
(In thousands of dollars)
(Unaudited)

	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Cash flows provided from (used for) operating activities:				
Net income	\$ 2,316	\$ 3,165	\$ (3,165)	\$ 2,316
Adjustments to reconcile net income to net cash provided from operating activities:				
Loss on disposals of property and equipment	—	64	—	64
Stock-based compensation expense	265	128	—	393
Impairment and other lease charges	—	270	—	270
Depreciation and amortization	—	8,642	(520)	8,122
Amortization of deferred financing costs	235	64	(60)	239
Amortization of deferred gains from sale-leaseback transactions	—	(444)	(386)	(830)
Accretion of interest on lease financing obligations	—	103	(89)	14
Deferred income taxes	—	(359)	339	(20)
Accrued income taxes	2,814	—	—	2,814
Changes in other operating assets and liabilities	(9,381)	(8,006)	3,881	(13,506)
Net cash provided from (used for) operating activities	<u>(3,751)</u>	<u>3,627</u>	<u>—</u>	<u>(124)</u>
Cash flows used for investing activities:				
Capital expenditures:				
New restaurant development	—	(1,192)	—	(1,192)
Restaurant remodeling	—	(1,993)	—	(1,993)
Other restaurant capital expenditures	—	(2,203)	—	(2,203)
Corporate and restaurant information systems	(362)	(30)	—	(392)
Total capital expenditures	(362)	(5,418)	—	(5,780)
Properties purchased for sale-leaseback	—	(1,141)	—	(1,141)
Proceeds from sale-leaseback transactions	—	—	2,319	2,319
Net cash used for investing activities	<u>(362)</u>	<u>(6,559)</u>	<u>2,319</u>	<u>(4,602)</u>
Cash flows provided from financing activities:				
Borrowings on revolving credit facility	41,700	—	—	41,700
Repayments on revolving credit facility	(33,400)	—	—	(33,400)
Principal pre-payments on term loans	(1,023)	—	—	(1,023)
Scheduled principal payments on term loans	(2,971)	—	—	(2,971)
Principal payments on capital leases	—	(22)	—	(22)
Proceeds from lease financing obligations	—	2,429	(2,429)	—
Financing costs associated with issuance of lease financing obligations	—	(110)	110	—
Proceeds from stock option exercises	11	—	—	11
Net cash provided from financing activities	<u>4,317</u>	<u>2,297</u>	<u>(2,319)</u>	<u>4,295</u>
Net increase (decrease) in cash and cash equivalents	204	(635)	—	(431)
Cash and cash equivalents, beginning of period	34	4,368	—	4,402
Cash and cash equivalents, end of period	<u>\$ 238</u>	<u>\$ 3,733</u>	<u>\$ —</u>	<u>\$ 3,971</u>

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

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

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. All references herein to the fiscal years ended January 2, 2011 and January 3, 2010 will be referred to as the fiscal years ended December 31, 2010 and 2009, respectively. Similarly, all references herein to the three months ended April 3, 2011 and April 4, 2010 will be referred to as the three months ended March 31, 2011 and 2010, respectively. The fiscal years ended December 31, 2010 and 2009 contained 52 weeks and 53 weeks, respectively, and the three months ended March 31, 2011 and 2010 each contained thirteen weeks, respectively.

Introduction

Carrols Restaurant Group is a holding company and conducts all of its operations through its direct and indirect subsidiaries and has no assets other than the shares of capital stock of Carrols, its direct wholly-owned subsidiary. The following “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) relates to the consolidated financial statements of Carrols Restaurant Group and the consolidated financial statements for Carrols presented in Item 1.

The difference between the consolidated financial statements of Carrols Restaurant Group and Carrols is primarily due to additional rent expense of approximately \$6,000 per year for Carrols Restaurant Group and the composition of stockholders’ equity.

The following MD&A is written to help the reader understand our company. The MD&A is provided as a supplement to, and should be read in conjunction with, the Consolidated Financial Statements and the accompanying financial statement notes of each of Carrols Restaurant Group and Carrols appearing elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2010. The overview provides our perspective on the individual sections of MD&A, which include the following:

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

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

Executive Summary—an executive review of our performance for the three months ended March 31, 2011.

Results of Operations—an analysis of our results of operations for the three months ended March 31, 2011 compared to the three months ended March 31, 2010, including a review of material items and known trends and uncertainties.

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

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

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

Forward Looking Statements—cautionary information about forward-looking statements and a description of certain risks and uncertainties that could cause our actual results to differ materially from our historical results or our current expectations or projections.

Company Overview

We are one of the largest restaurant companies in the United States operating three restaurant brands in the quick-casual and quick-service restaurant segments with 550 restaurants located in 16 states as of April 3, 2011. We have been operating restaurants for more than 50 years. We own and operate two Hispanic restaurant brands, Pollo Tropical and Taco Cabana (together referred to by us as our Hispanic Brands), which we acquired in 1998 and 2000, respectively. We are also the largest Burger King franchisee, based on the number of restaurants, and have operated Burger King restaurants since 1976. As of April 3, 2011, our company-owned restaurants included 90 Pollo Tropical restaurants and 156 Taco Cabana restaurants, and we operated 304 Burger King restaurants under franchise agreements.

We are franchising our Pollo Tropical restaurants primarily internationally and, as of April 3, 2011, we had 29 franchised restaurants located in Puerto Rico, Ecuador, Honduras, Trinidad, the Bahamas and on college campuses in Florida. We also have agreements for the future development of franchised Pollo Tropical restaurants in Panama, Tobago, Aruba, Curacao, Bonaire, and Venezuela. Although we are not actively franchising our Taco Cabana restaurants, we had five Taco Cabana franchised restaurants at April 3, 2011 located in the United States.

We believe that the diversification and strength of our restaurant brands as well as the geographic dispersion of our restaurants provide us with stability and enhanced growth opportunities. For the three months ended March 31, 2011 and 2010, we had total revenues of \$197.2 million and \$195.1 million, respectively.

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

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

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- *Interest expense* consists primarily of interest expense associated with Carrols' 9% Senior Subordinated Notes due 2013 (the "Notes"), borrowings under our senior credit facility, amortization of deferred financing costs and imputed interest expense on leases entered into in connection with sale-leaseback transactions which are accounted for as lease financing obligations. Interest expense also includes any gains and losses from the settlement of lease financing obligations. Interest on borrowings under our senior credit facility is generally based on LIBOR plus a current margin of 1.0% or prime as we designate. Consequently, changes in LIBOR rates or prime will impact our interest expense.

Recent and Future Events Affecting our Results of Operations

Spin-off of Hispanic Brands

On February 24, 2011 we announced our intention to pursue splitting our business into two separate, publicly-traded companies through the tax-free spin-off of our Hispanic Brands to our stockholders. The company to be spun off would operate our Pollo Tropical and Taco Cabana businesses. Carrols Restaurant Group would continue to own and operate our franchised Burger King restaurants.

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

We believe that the proposed spin-off will enable each company to better focus on its respective opportunities as well as to pursue its own distinct plan and growth strategy including acquisition opportunities in the Burger King system. We expect to complete the spin-off by the end of 2011; however there can be no assurance that we will complete the spin-off by then or at all.

Refinancing of Outstanding Indebtedness

We are in the process of refinancing our existing debt with a separate financing of the Burger King and Hispanic Brand businesses. We currently contemplate that the refinancing would be comprised of term loan borrowings under a senior secured bank credit facility for our Burger King business and the issuance of senior secured notes for our Hispanic Brands. Our intent in bifurcating the financing is to facilitate the contemplated spin-off of our Hispanic Brands at a later date, and avoid having to alter or reconstitute the capital structure at that time. Presently, our plan is to complete this refinancing in the middle of 2011; however there can be no assurance that the refinancing will be completed within such time period, on favorable terms, or at all. Due to the interest rate terms in our existing senior credit facility it is likely that the refinancing will increase our interest expense in the aggregate.

Future Restaurant Closures

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

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

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

Executive Summary—Operating Performance for the Three Months Ended March 31, 2011

Total revenues for the three months ended March 31, 2011 increased to \$197.2 million from \$195.1 million in the three months ended March 31, 2010. Revenues from our Hispanic Brand restaurants increased 7.5% to \$115.6 million and revenues from our Burger King restaurants decreased to \$81.6 million from \$87.6 million in the three months ended March 31, 2010. Comparable restaurant sales in the first quarter of 2011 increased 13.5% at our Pollo Tropical restaurants, increased 2.0% at our Taco Cabana restaurants and decreased 5.0% at our Burger King restaurants. The comparable restaurant sales increase at our Pollo Tropical restaurants was a result of higher customer traffic, the increase at our Taco Cabana restaurants was primarily due to an increase in average check while the decrease at our Burger King restaurants was due primarily to a decline in customer traffic partially offset by an increase in average check.

Restaurant operating margins at our Hispanic Brands were positively impacted in the first quarter of 2011 by the effect of higher sales on fixed labor costs and lower medical claim costs. As a percentage of total restaurant sales, restaurant wages and related expenses decreased to 29.7% in the first quarter of 2011 from 30.4% in the first quarter of 2010. Cost of sales increased 0.2%, as a percentage of total restaurant sales, compared to the first quarter of 2010, due to higher commodity prices at all three of our restaurant brands. These increases were partially offset by favorable sales mix changes at our Burger King and Pollo Tropical restaurants as well as menu price increases taken in the last twelve months at our Burger King and Taco Cabana restaurants. Advertising expense, as a percentage of total restaurant sales, increased to 3.8% in the first quarter of 2011 from 3.5% in the first quarter of 2010 due primarily to higher advertising spending for our Taco Cabana restaurants due to the timing of promotions. Operating results were favorably impacted by lower utility costs which, as a percentage of total restaurant sales, decreased to 3.4% in the first quarter of 2011 from 3.6% in the first quarter of 2010.

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General and administrative expenses increased to \$13.9 million in the first quarter of 2011 from \$12.5 million in the first quarter of 2010 due to higher legal and professional fees, administrative bonus accruals, stock-based compensation expense. Legal and professional fees the first quarter of 2011 included \$0.3 million incurred in connection with the planned spin-off of our Hispanic Brands.

Interest expense decreased \$0.1 million to \$4.6 million in the first quarter of 2011 due primarily to a reduction in our total outstanding indebtedness since the beginning of 2010.

Our effective income tax rate, including discrete tax items, was 32.4% in the first quarter of 2011 compared to 38.2% in the first quarter of 2010.

As a result of the above, our net income decreased slightly to \$2.2 million in the first quarter of 2011 from \$2.3 million in the first quarter of 2010.

Results of Operations

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

The following table sets forth, for the three months ended March 31, 2011 and 2010, selected operating results as a percentage of consolidated restaurant sales:

	2011	2010
Restaurant sales:		
Pollo Tropical	26.4%	23.2%
Taco Cabana	32.1%	31.8%
Burger King	41.5%	45.0%
Total restaurant sales	100.0%	100.0%
Costs and expenses:		
Cost of sales	30.6%	30.4%
Restaurant wages and related expenses	29.7%	30.4%
Restaurant rent expense	6.1%	6.3%
Other restaurant operating expenses	14.2%	14.5%
Advertising expense	3.8%	3.5%
General and administrative	7.0%	6.4%

Since the beginning of 2010 through the end of the first quarter of 2011, we have opened two new Pollo Tropical restaurants, two new Taco Cabana restaurants and two new Burger King restaurants. The two new Burger King restaurants were relocations within their market areas. During the same period we closed eight Burger King restaurants, excluding relocations, three Pollo Tropical restaurants and two Taco Cabana restaurants.

Restaurant Sales. Total restaurant sales for the first quarter of 2011 increased \$2.2 million, or 1.1%, to \$196.9 million due to a 7.7% increase in sales at our Hispanic Brand restaurants. Total restaurant sales at our Hispanic Brand restaurants were \$115.3 million in the first quarter of 2011 compared to \$107.0 million in the first quarter of 2010.

Pollo Tropical restaurant sales increased 15.2% to \$51.9 million due primarily to an increase in comparable restaurant sales of 13.5% resulting from an increase in customer traffic in the first quarter of 2011 of 13.3%, compared to the first quarter of 2010. Our average check at our Pollo Tropical restaurants was essentially flat, compared to the first quarter of 2010. The effect of menu price increases in the first quarter of 2011 was 0.2% due to a modest price increase taken in the first quarter of 2011. There were no menu price increases at our Pollo Tropical restaurants in 2010.

Taco Cabana restaurant sales increased 2.2% to \$63.3 million due primarily to an increase in comparable restaurant sales of 2.0% in the first quarter of 2011 due primarily to a 1.6% increase in average check, compared to the first quarter of 2010, and a slight increase in customer traffic. The effect of menu price increases taken in the last twelve months was approximately 2.1%, compared to the first quarter of 2010. The average check increase in 2011 also reflects the effect of menu mix changes from product promotions.

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Burger King restaurant sales decreased \$6.0 million to \$81.6 million in the first quarter of 2011 due to a 5.0% decrease in comparable restaurant sales in the first quarter of 2011 due to lower customer traffic and from the closure, excluding relocated restaurants, of eight Burger King restaurants since the beginning of 2010. The effect of menu price increases taken in the second and third quarters of 2010 was approximately 4.2%, compared to the first quarter of 2010, however the average check at our Burger King restaurants increased 8.0% in the first quarter of 2011 compared to the first quarter of 2010 reflecting the effect of menu mix changes and product promotions.

Pollo Tropical Operating Costs and Expenses (percentages stated as a percentage of Pollo Tropical restaurant sales). Pollo Tropical cost of sales increased to 33.0% in the first quarter of 2011 from 32.6% in the first quarter of 2010 due primarily to higher chicken commodity prices (0.6%) offset partially by favorable menu item sales mix shifts. Pollo Tropical restaurant wages and related expenses decreased to 23.7% in the first quarter of 2011 from 25.7% in the first quarter of 2010 due primarily to the effect of higher sales volumes on fixed labor costs, lower workers compensation claim costs (0.8%) and lower medical claim costs (0.4%). Pollo Tropical other restaurant operating expenses decreased to 12.2% in the first quarter of 2011 from 13.1% in the first quarter of 2010 due primarily to lower real estate taxes (0.4%), lower utility costs (0.2%) and the effect of higher sales volumes on fixed operating costs. Pollo Tropical advertising expense decreased to 2.5% in the first quarter of 2011 from 2.9% in the first quarter of 2010 due to the timing of promotions. For all of 2011 our Pollo Tropical advertising expenses are expected to be approximately 2.6% to 2.8% of Pollo Tropical restaurant sales.

Taco Cabana Operating Costs and Expenses (percentages stated as a percentage of Taco Cabana restaurant sales). Taco Cabana cost of sales increased to 30.3% in the first quarter of 2011 from 29.9% in the first quarter of 2010 due primarily to higher commodity prices (0.8%) partially offset by the effect of menu price increases taken in 2010. Taco Cabana restaurant wages and related expenses decreased to 30.5% in the first quarter of 2011 from 31.2% in the first quarter of 2010 due primarily to lower medical claim costs (0.6%) and, to a lesser extent, the effect of menu price increases and higher sales volumes on fixed labor costs. Taco Cabana other restaurant operating expenses decreased to 13.3% in the first quarter of 2011 from 14.1% in the first quarter of 2010 due primarily to lower utility costs (0.5%) and the reduction of operating supply costs (0.2%). Taco Cabana advertising expense increased to 4.4% in the first quarter of 2011 from 3.2% in the fourth quarter of 2010 due to the timing of promotions. For all of 2011 our Taco Cabana advertising expenses are expected to be approximately 4.0% to 4.2% of Taco Cabana restaurant sales.

Burger King Operating Costs and Expenses (percentages stated as a percentage of Burger King restaurant sales). Burger King cost of sales decreased to 29.4% in the first quarter of 2011 from 29.6% in the first quarter of 2010 due to a favorable sales mix compared to the first quarter of 2010 from lower sales of the discounted double cheeseburger (2.1%) and the effect of menu price increases taken in the last twelve months (1.4%), substantially offset by higher commodity prices (2.4%), including beef, and higher sales discounts. Burger King restaurant wages and related expenses increased to 33.0% in the first quarter of 2011 from 32.2% in the first quarter of 2010 due primarily to the effect of lower sales volumes on fixed labor costs and higher medical and workers compensation claim costs (0.4%). Burger King other restaurant operating expenses increased to 16.1% in the first quarter of 2011 from 15.5% in the first quarter of 2010 due primarily to the effect of lower sales volumes on fixed operating costs and higher real estate tax expense (0.2%). Burger King advertising expense was 4.1% in both the first quarter of 2011 and the first quarter of 2010. For all of 2011 our Burger King advertising expenses are expected to be approximately 4.0% to 4.2% of Burger King restaurant sales.

Consolidated Restaurant Rent Expense. Restaurant rent expense, as a percentage of total restaurant sales, decreased to 6.1% in the first quarter of 2011 from 6.3% in the first quarter of 2010 due primarily to the effect of significant sales increases in the first quarter of 2011 at our Pollo Tropical restaurants on fixed rental costs.

Consolidated General and Administrative Expenses. General and administrative expenses increased \$1.4 million in the first quarter of 2011 to \$13.9 million and, as a percentage of total restaurant sales, increased to 7.0% compared to 6.4% in the first quarter of 2010. The increase in the first quarter of 2011 was due to higher legal and professional fees of \$0.7 million, which included \$0.3 million incurred in connection with the planned spin-off of our Hispanic Brands, an increase of \$0.5 million in performance-based administrative bonuses compared to the first quarter of 2010 and higher stock-based compensation expense of \$0.3 million.

Adjusted Segment EBITDA. As a result of the factors set forth above, Adjusted Segment EBITDA for our Pollo Tropical restaurants increased to \$10.1 million in the first quarter of 2011 from \$6.7 million in the first quarter of 2010. Adjusted Segment EBITDA for our Taco Cabana restaurants decreased to \$6.5 million in the first quarter of 2011 from \$6.8 million in the first quarter of 2010. Adjusted Segment EBITDA for our Burger King restaurants decreased to \$1.1 million in the first quarter of 2011 from \$3.8 million in the first quarter of 2010.

Adjusted Segment EBITDA for our Burger King segment includes general and administrative expenses related directly to the Burger King segment as well as expenses associated with administrative support to the Company's Pollo Tropical and Taco Cabana segments for executive management, information systems and certain accounting, legal and other administrative functions of \$1.4 million and \$1.9 million, respectively, for the three months ended March 31, 2011 and \$1.1 million and \$1.4 million, respectively, for the three months ended March 31, 2010.

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Depreciation and Amortization Expense. Depreciation and amortization expense was \$8.1 million in both the first quarter of 2011 and the first quarter of 2010.

Impairment and Other Lease Charges. Impairment and other lease charges were \$1.1 million in the first quarter of 2011 compared to \$0.3 million in the first quarter of 2010. In the first quarter of 2011 impairment and other lease charges included \$0.8 million for the impairment of five underperforming Burger King restaurants and \$0.2 million in lease charges for a Pollo Tropical restaurant that was closed in the first quarter of 2011 and whose assets were previously impaired in 2010. In the first quarter of 2010 impairment and other lease charges included a lease charge of \$0.2 million related to a non-operating Taco Cabana property due to a reduction of estimated cost recoveries from subletting the property through the end of the remaining lease term.

Interest Expense. Total interest expense decreased \$0.1 million to \$4.6 million in the first quarter of 2011 due to a reduction in our LIBOR based borrowings of \$16.1 million since the beginning of 2010. The weighted average interest rate on our long-term debt, excluding lease financing obligations, increased to 6.2% in the first quarter of 2011 from 5.9% in the first quarter of 2010. Interest expense on lease financing obligations decreased to \$0.2 million in the first quarter of 2011 from \$0.3 million in the first quarter of 2010.

Provision for Income Taxes. The provision for income taxes for the first quarter of 2011 was derived using an estimated effective annual income tax rate for 2011 of 32.4%, which excludes any discrete tax adjustments. There were no discrete tax adjustments in the first quarter of 2011. The provision for income taxes for the first quarter of 2010 was derived using an estimated effective annual income tax rate for 2010 of 37.0%, which excluded any discrete tax adjustments. Discrete tax adjustments increased the provision for income taxes by \$46,000 in the first quarter of 2010 and resulted in an overall tax rate of 38.2%. The decrease in our effective tax rate compared to that used in the first quarter of 2010 was due to primarily to a lower projected Federal income tax rate of 34% in 2011 compared to 35% in 2010 and higher Work Opportunity tax credits.

Net Income. As a result of the foregoing, net income was \$2.2 million in the first quarter of 2011 compared to \$2.3 million in the first quarter of 2010.

Liquidity and Capital Resources

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

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

In response to economic conditions we have and will continue to focus on reducing our debt balances and our financial leverage, particularly in the near term. We limited our spending on new restaurant development in 2009 and 2010 which allowed us to utilize our free cash flow to reduce our outstanding indebtedness. We are continuing to moderate new restaurant growth in 2011.

We currently plan to refinance our existing debt and to separately finance the Burger King and Hispanic Brand businesses to facilitate the contemplated spin-off. We currently contemplate that the refinancing would be comprised of term loan borrowings under a senior secured bank credit facility for our Burger King business and the issuance of senior secured notes for our Hispanic Brands. Presently, our plan is to complete this refinancing in the middle of 2011; however there can be no assurance that the refinancing will be completed by then, on favorable terms, or at all. Due to the interest rate terms in our existing senior credit facility it is likely that the refinancing will increase our interest expense in the aggregate.

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

Operating Activities. Net cash provided from operating activities for the three months ended March 31, 2011 increased \$4.7 million to \$4.6 million, compared to the first quarter of 2010, due to a reduction in the components of net working capital of \$3.7 million and an increase in net income, adjusted for non-cash items including depreciation and amortization, impairment and other lease charges and stock-based compensation expense.

Investing Activities. Net cash used for investing activities in the three months ended March 31, 2011 and 2010 was \$6.6 million and \$4.6 million, respectively. Capital expenditures are the largest component of our investing activities and include: (1) new restaurant development, which may include the purchase of real estate; (2) restaurant remodeling, which includes the renovation or rebuilding of the interior and exterior of our existing restaurants, including expenditures associated with Burger King franchise renewals; (3) other restaurant capital expenditures, which include capital maintenance expenditures for the ongoing reinvestment and enhancement of our restaurants; and (4) corporate and restaurant information systems, including expenditures in 2011 for new point-of-sale systems for our Burger King restaurants.

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

	<u>Pollo Tropical</u>	<u>Taco Cabana</u>	<u>Burger King</u>	<u>Other</u>	<u>Consolidated</u>
Three months ended March 31, 2011:					
New restaurant development	\$ 98	\$2,445	\$ 864	\$—	\$ 3,407
Restaurant remodeling	748	769	1,482	—	2,999
Other restaurant capital expenditures (1)	346	627	512	—	1,485
Corporate and restaurant information systems	—	—	—	545	545
Total capital expenditures	<u>\$1,192</u>	<u>\$3,841</u>	<u>\$2,858</u>	<u>\$545</u>	<u>\$ 8,436</u>
Number of new restaurant openings (2)	—	1	1		2
Three months ended March 31, 2010:					
New restaurant development	\$ —	\$ 89	\$1,103	\$—	\$ 1,192
Restaurant remodeling	243	514	1,236	—	1,993
Other restaurant capital expenditures (1)	558	687	958	—	2,203
Corporate and restaurant information systems	—	—	—	392	392
Total capital expenditures	<u>\$ 801</u>	<u>\$1,290</u>	<u>\$3,297</u>	<u>\$392</u>	<u>\$ 5,780</u>
Number of new restaurant openings	—	—	—		—

- 1) Excludes restaurant repair and maintenance expenses included in other restaurant operating expenses in our consolidated financial statements. For the three months ended March 31, 2011 and 2010, total restaurant repair and maintenance expenses were approximately \$4.8 million and \$4.4 million, respectively.
- 2) Includes a Burger King restaurant which was relocated within the same market area under a new franchise agreement.

In 2011, we anticipate that total capital expenditures will range from \$45 million to \$55 million, although the actual amount of capital expenditures may differ from these estimates. In 2011 we plan to open five to seven new Hispanic Brand restaurants and to relocate one Burger King restaurant. Capital expenditures in 2011 are expected to include approximately \$10 million to \$15 million for the development of new restaurants and purchase of related real estate. Capital expenditures in 2011 also are expected to include expenditures of approximately \$25 million to \$30 million for the ongoing reinvestment in our three restaurant concepts for remodeling costs and capital maintenance expenditures and approximately \$10 million of other expenditures, including approximately \$6.0 million for new point-of-sale systems at our Burger King restaurants.

Investing activities also include sale-leaseback transactions related to our restaurant properties, the net proceeds from which were \$1.9 million and \$2.3 million in the three months ended March 31, 2011 and 2010, respectively. The net proceeds from these sales were used to reduce outstanding borrowings under our senior credit facility. In the first quarter of 2010 we also purchased one of our restaurant properties for \$1.1 million for a future sale-leaseback transaction.

Financing Activities. Net cash provided from financing activities in the three months ended March 31, 2011 and 2010 was \$3.2 million and \$4.3 million, respectively, due to net revolver borrowings of \$6.3 million and \$8.3 million in the first quarter of 2011 and 2010, respectively. Principal payments on our term loan under our senior credit facility were \$2.8 million and \$4.0 million in the first quarter of 2011 and 2010, respectively. During the three months ended March 31, 2011 we also deferred \$0.3 million of financing costs pertaining to our planned 2011 refinancing activities.

Senior Credit Facility. The senior credit facility consists of term loan A borrowings maturing on March 9, 2013 (or earlier on September 30, 2012 if the Notes are not refinanced by June 30, 2012) and a \$65.0 million revolving credit facility (including a sub limit of up to \$25.0 million for letters of credit and up to \$5.0 million for swingline loans) maturing on March 8, 2012.

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Both term loan and revolving credit borrowings under the senior credit facility bear interest at a per annum rate, at Carrols' option, of either:

- 1) the applicable margin ranging from 0% to 0.25% based on our senior leverage ratio (as defined in the senior credit facility), plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or
- 2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on our senior leverage ratio. At April 3, 2011 the LIBOR margin percentage was 1.0%.

At April 3, 2011, outstanding term loan A borrowings were \$84.4 million with the remaining balance due and payable as follows:

- 1) Four quarterly installments of approximately \$4.2 million beginning on June 30, 2011; and
- 2) Four quarterly installments of approximately \$16.9 million beginning on June 30, 2012.

Under the senior credit facility, Carrols is also required to make mandatory prepayments of principal on term loan A facility borrowings (a) annually in an amount up to 50% of Excess Cash Flow depending upon Carrols' Total Leverage Ratio (as such terms are defined in the senior credit facility), (b) in the event of certain dispositions of assets (all subject to certain exceptions) and insurance proceeds, in an amount equal to 100% of the net proceeds received by Carrols therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt. The senior credit facility contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the senior credit facility if there is a default in the payment of any principal of or interest on any indebtedness of Carrols having an outstanding principal amount of at least \$2.5 million (excluding lease financing obligations but which would include the Indenture governing the Notes) or any event or condition which results in the acceleration of such indebtedness prior to its stated maturity.

In general, obligations under the senior credit facility are guaranteed by us and all of Carrols' material subsidiaries and are collateralized by a pledge of Carrols' common stock and the stock of each of Carrols' material subsidiaries. The senior credit facility contains certain covenants, including, without limitation, those limiting Carrols' ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of Carrols business, engage in transactions with related parties, make certain investments or pay dividends. In addition, Carrols is required to meet certain financial ratios, including fixed charge coverage, senior leverage, and total leverage ratios (all as defined under the senior credit facility). Carrols was in compliance as of April 3, 2011 with the covenants in the senior credit facility. At April 3, 2011, Carrols fixed charge coverage ratio was 1.40 to 1.00 compared to the minimum required fixed charge ratio of 1.20 to 1.00, Carrols senior leverage ratio was 1.29 to 1.00 compared to the allowed senior leverage ratio of 2.00 to 1.00, and Carrols total leverage ratio was 3.37 to 1.00 compared to the allowed total leverage ratio of 4.00 to 1.00.

Notes. On December 15, 2004, Carrols issued \$180.0 million of Notes that bear interest at a rate of 9% payable semi-annually on January 15 and July 15 and mature on January 15, 2013. The notes are currently redeemable at the option of Carrols in whole or in part at a price equal to the principal amount plus accrued interest to the date of redemption.

The Notes are unsecured and guaranteed by Carrols' material subsidiaries. Restrictive covenants under the Notes include limitations with respect to, among other things, Carrols' and its material subsidiaries' ability to incur additional debt, incur liens, sell or acquire assets or businesses, pay dividends and make certain investments. The Indenture governing the Notes contains customary default provisions as provided therein, including without limitation, a cross default provision pursuant to which it is an event of default under the Notes and the Indenture if there is a default under any indebtedness of Carrols having an outstanding principal amount of \$20 million or more (which would include the senior credit facility) if such default results in the acceleration of such indebtedness prior to its stated maturity or is caused by a failure to pay principal when due. Carrols was in compliance as of April 3, 2011 with the restrictive covenants in the indenture governing the Notes.

Indebtedness. At April 3, 2011, we had total debt outstanding of \$267.0 million comprised of \$165.0 million of Notes, term loan borrowings of \$84.4 million under the senior credit facility, revolving credit borrowings of \$6.3 million under the senior credit facility, lease financing obligations of \$10.1 million and capital lease obligations of \$1.2 million. After reserving \$13.5 million for letters of credit guaranteed by our senior credit facility, \$45.2 million was available for revolving credit borrowings under the senior credit facility at April 3, 2011.

Contractual Obligations

A table of our contractual obligations as of December 31, 2010 was included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. There have been no significant changes to our contractual obligations during the three months ended March 31, 2011.

Off-Balance Sheet Arrangements

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

Application of Critical Accounting Policies

Our unaudited interim consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the “Significant Accounting Policies” footnote in the notes to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. Critical accounting estimates are those that require application of management’s most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. There have been no material changes affecting our critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 during the three months ended March 31, 2011.

Effects of New Accounting Standards

There are currently no recent accounting pronouncements that which had, or are expected to have, a material impact on our consolidated financial statements as of the date of this report.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. These statements are often identified by the words “may,” “might,” “will,” “should,” “anticipate,” “believe,” “expect,” “intend,” “estimate,” “hope,” “plan” or similar expressions. In addition, expressions of our strategies, intentions or plans are also forward looking statements. These statements reflect management’s current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected or implied in the forward-looking statements. We believe important factors that could cause actual results to differ materially from our expectations include the following, in addition to other risks and uncertainties discussed herein and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010:

- *The effect of the proposed tax-free spin-off of our Hispanic Brand businesses;*
- *The potential tax liability associated with the proposed tax-free spin-off of our Hispanic Brand businesses;*
- *Competitive conditions;*
- *Regulatory factors;*
- *Environmental conditions and regulations;*
- *General economic conditions, particularly in the retail sector;*
- *Weather conditions;*
- *Increases in commodity costs;*
- *Fuel prices;*

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- Significant disruptions in service or supply by any of our suppliers or distributors;
- Changes in consumer perception of dietary health and food safety;
- Labor and employment benefit costs;
- The outcome of pending or future legal claims and proceedings;
- Our ability to manage our growth and successfully implement our business strategy (including, without limitation, our announced intention to refinance our indebtedness in advance of the proposed spin-off transaction) and other related risks and uncertainties;
- The risks associated with the expansion of our business;
- Our ability to integrate any businesses we acquire;
- Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;
- The availability and terms of necessary or desirable financing or refinancing (including, without limitation, our announced intention to refinance our indebtedness in advance of the proposed spin-off transaction) and other related risks and uncertainties;
- The risk of an act of terrorism or escalation of any insurrection or armed conflict involving the United States or any other national or international calamity; and
- Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations, reports of cases of “mad cow” disease and avian flu, and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as negative publicity regarding food quality, illness, injury or other health concerns.

Inflation

The inflationary factors that have historically affected our results of operations include increases in food and paper costs, labor and other operating expenses and energy costs. Labor costs in our restaurants are impacted by changes in the Federal and state hourly minimum wage rates as well as changes in payroll related taxes, including Federal and state unemployment taxes. We typically attempt to offset the effect of inflation, at least in part, through periodic menu price increases and various cost reduction programs. However, no assurance can be given that we will be able to fully offset such inflationary cost increases in the future.

ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes from the information presented in Item 7A included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 with respect to the Company’s market risk sensitive instruments.

A 1% change in interest rates would have resulted in an increase or decrease in interest expense of approximately \$0.2 million for the three months ended March 31, 2011.

ITEM 4—CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Our senior management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures. We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of April 3, 2011.

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Part I — Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 describes important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time-to-time. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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

None

Item 3. Default Upon Senior Securities

None

Item 4. Reserved

Item 5. Other Information

None

Item 6. Exhibits

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

<u>Exhibit No.</u>	
10.1	Third Supplement to Indenture dated as of May 4, 2011 by and among Carrols Corporation, Fiesta Restaurant Group, Inc. and The Bank of New York Mellon (formerly known as The Bank of New York).
10.2	Joinder Agreement dated as of May 4, 2011 by and among Carrols Corporation, certain subsidiaries of Carrols Corporation, Carrols Restaurant Group, Inc., Fiesta Restaurant Group, Inc. and Well Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association).
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.
31.3	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Corporation.
31.4	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Corporation.
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.
32.3	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 Corporation.
32.4	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 Corporation.

SIGNATURES

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

CARROLS RESTAURANT GROUP, INC.

Date: May 12, 2011

/S/ ALAN VITULI

(Signature)
Alan Vituli
Chairman of the Board and
Chief Executive Officer

Date: May 12, 2011

/S/ PAUL R. FLANDERS

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

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 CORPORATION

Date: May 12, 2011

/S/ ALAN VITULI

(Signature)
Alan Vituli
Chairman of the Board and
Chief Executive Officer

Date: May 12, 2011

/S/ PAUL R. FLANDERS

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

THIRD SUPPLEMENT TO INDENTURE

This Third Supplement to Indenture (the “Supplement”) is dated as of May 4, 2011 by and among Carrols Corporation, a Delaware corporation (the “Company”), Fiesta Restaurant Group, Inc., a Delaware corporation (the “Additional Guarantor”) and The Bank of New York Mellon (formerly known as The Bank of New York), a New York banking corporation, as trustee (the “Trustee”), with respect to the Company’s 9% Senior Subordinated Notes due 2013 (the “Notes”). Capitalized terms used but not otherwise defined in this Supplement shall have the meanings ascribed to such terms in the Indenture (as defined below), as amended and supplemented from time to time in accordance with its terms.

WHEREAS, the Company, the Subsidiary Guarantors named therein and the Trustee entered into the Indenture, dated as of December 15, 2004 (the “Indenture”) governing the Notes, as amended by that certain First Supplement to Indenture (the “First Supplement”) dated as of November 29, 2006 by and among the Company, TPAQ Holding Corporation and the Trustee and as further amended by that certain Second Supplement to Indenture (the “Second Supplement”) dated as of May 29, 2008 by and among the Company, Carrols LLC and the Trustee;

WHEREAS, pursuant to Section 4.11 of the Indenture, Restricted Subsidiaries of the Company meeting certain qualifications described therein are required to execute and deliver to the Trustee a supplemental indenture pursuant to which such Restricted Subsidiary will agree to unconditionally guarantee all of the Company’s obligations under the Notes and Indenture as provided therein;

WHEREAS, all acts and requirements necessary to make this Supplement the legal, valid and binding obligation of the Company and the Additional Guarantor have been completed.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree, for the equal and proportionate benefit of all Holders of the Notes, as follows:

ARTICLE I
SUBSIDIARY GUARANTY

Section 1.01 Guaranty. The Additional Guarantor hereby (a) unconditionally guarantees, as a Subsidiary Guarantor, all of the Company’s obligations under the Notes and the Indenture on the terms set forth in Article Eleven of the Indenture and (b) agrees that it shall hereafter be a Subsidiary Guarantor for all purposes under the Indenture.

ARTICLE II
MISCELLANEOUS PROVISIONS

Section 2.01 Instruments to be Read Together. This Supplement is an indenture supplement to and in implementation of the Indenture, and said Indenture, First Supplement, Second Supplement and this Supplement shall henceforth be read together.

Section 2.02 Confirmation. The Indenture, amended and supplemented by this Supplement, are in all respects confirmed and preserved.

Section 2.03 Counterparts. This Supplement may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original, but all of which shall together constitute one and the same instrument.

Section 2.04 Effectiveness. This Supplement shall become effective immediately upon its execution in accordance with the provisions of the Indenture.

Section 2.05 GOVERNING LAW. THIS SUPPLEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW RULES THEREOF.

Section 2.06 Disclaimer of Trustee's Responsibility. In executing this Supplement, the Trustee shall be entitled to all the privileges and immunities afforded to the Trustee under the terms and provisions of the Indenture. The Trustee makes no representations as to the validity or sufficiency of this Supplement and the recitals and statements herein are deemed to be those of the Company and Additional Guarantor and not of the Trustee.

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

CARROLS CORPORATION

By: /s/ Joseph Zirkman

Name: Joseph Zirkman

Title: Vice President

FIESTA RESTAURANT GROUP, INC.

By: /s/ Joseph Zirkman

Name: Joseph Zirkman

Title: Vice President

THE BANK OF NEW YORK MELLON

By: /s/ J. Christopher Howe

Name: J. Christopher Howe

Title: Senior Associate

JOINDER AGREEMENT

THIS JOINDER AGREEMENT, dated as of May 4, 2011 (the "Agreement"), to the Subsidiary Guaranty Agreement (as defined below) and the Pledge Agreement (as defined below) is entered into by and among CARROLS CORPORATION, a Delaware corporation (the "Borrower"), certain subsidiaries of the Borrower party hereto, CARROLS RESTAURANT GROUP, INC., a Delaware corporation (the "Parent"), FIESTA RESTAURANT GROUP, INC., a Delaware corporation (the "New Subsidiary") and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association), a national banking association, as administrative agent for the Lenders (the "Agent") under the Loan Agreement referred to below.

Statement of Purpose

Reference is hereby made to the Loan Agreement dated as of March 9, 2007 (as amended by that certain First Amendment to Loan Agreement dated as of July 2, 2007 by and among the Borrower, certain subsidiaries of the Borrower party thereto, the lenders party thereto and the Agent, and as further amended, restated, supplemented or otherwise modified, the "Loan Agreement") by and among the Borrower, the lenders who are or may become party thereto (the "Lenders") and the Agent. In connection with the Loan Agreement, the Parent, the Borrower and certain of their respective Subsidiaries have entered into that certain pledge agreement dated as of March 9, 2007 (as amended, restated, supplemented or otherwise modified, the "Pledge Agreement") and certain Subsidiaries of the Borrower have entered into that certain Subsidiary Guaranty Agreement dated as of March 9, 2007 (as amended, restated, supplemented or otherwise modified from time to time, the "Subsidiary Guaranty Agreement").

On April, 27, 2011, the New Subsidiary became a Subsidiary of the Borrower. In connection therewith and pursuant to Section 8.9 of the Loan Agreement, (a) the New Subsidiary is required to execute, among other documents, this Agreement in order (i) to become an Obligor and a Subsidiary Guarantor under the Subsidiary Guaranty Agreement and (ii) to become a Pledgor and an Issuer under the Pledge Agreement and (b) the Borrower, as Pledgor under the Pledge Agreement and owner of the Pledged Stock of the New Subsidiary, is required to execute, among other things, this Agreement, in order to confirm and reaffirm its pledge of one hundred percent (100%) of the Pledged Stock of the New Subsidiary.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the parties hereto hereby agree as follows:

Section 1. Subsidiary Guaranty Agreement Supplement.

(a) The New Subsidiary hereby agrees that by execution of this Agreement it is a Subsidiary Guarantor under the Subsidiary Guaranty Agreement as if a signatory thereof on the Effective Date, and such New Subsidiary (i) shall comply with, and be subject to, and have the benefit of, all of the terms, conditions, covenants, agreements and obligations set forth in the Subsidiary Guaranty Agreement and (ii) hereby makes each representation and warranty set forth in the Subsidiary Guaranty Agreement.

(b) Each Obligor and the New Subsidiary hereby agrees that (i) each reference to an "Obligor" or "Obligors" in the Loan Agreement and the other Loan Documents shall include the New Subsidiary, (ii) each reference to a "Subsidiary Guarantor" or "Subsidiary Guarantors" in the Subsidiary Guaranty Agreement and the other Loan Documents shall include the New Subsidiary, and (iii) each reference to the "Guaranty", "Guaranties", "Subsidiary Guaranty Agreement" or "Subsidiary Guaranty" as used in the Loan Agreement, the Subsidiary Guaranty Agreement or the other Loan Documents shall mean the Subsidiary Guaranty Agreement as supplemented hereby.

Section 2. Pledge Agreement Supplement.

(a) Joinder to the Pledge Agreement.

(i) In order to secure the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations in accordance with the terms of the Loan Agreement and the other Loan Documents, the Borrower hereby (A) confirms and reaffirms the Security Interests in and to all of the Collateral of the Borrower granted to the Agent, for the ratable benefit of itself and the other Secured Parties, under the Pledge Agreement and (B) confirms and reaffirms that the Collateral of the Borrower includes one hundred percent (100%) of the Pledged Stock owned by the Borrower in the New Subsidiary (the “Additional Investment Property”).

(ii) The Security Interests are granted as security only and shall not subject the Agent or any Secured Party to, or transfer to the Agent or any Secured Party, or in any way affect or modify, any obligation or liability of the Borrower or the New Subsidiary with respect to any of the Additional Investment Property or any transaction in connection therewith.

(iii) Each Obligor (including the New Subsidiary) hereby agrees that by execution of this Agreement, the New Subsidiary is a party to the Pledge Agreement as if a signatory thereof as a Pledgor and an Issuer on the Effective Date, and the New Subsidiary shall (A) comply with, and be subject to, and have the benefit of, all of the terms, covenants, conditions, agreements and obligations set forth in the Pledge Agreement and (B) hereby makes each representation and warranty set forth in the Pledge Agreement. Each Obligor (including the New Subsidiary) hereby agrees that each reference to a “Pledgor”, the “Pledgors”, an “Issuer” or the “Issuers” in the Pledge Agreement and the other Loan Documents shall include the New Subsidiary.

(iv) Each Obligor (including the New Subsidiary) hereby agrees that (A) “Collateral” as used in the Pledge Agreement and the Loan Agreement shall include all Additional Investment Property pledged pursuant hereto and all Pledged Stock owned by the New Subsidiary, (B) “Investment Property” and “Pledged Stock”, as applicable, as used therein shall include the Additional Investment Property pledged pursuant hereto and the Pledged Stock owned by the New Subsidiary and (C) “Pledge Agreement” or “Agreement” as used therein shall mean the Pledge Agreement as supplemented hereby.

(b) Further Assurances. The Borrower and the New Subsidiary shall deliver to the Agent such certificates (if any) and other documents (including, without limitation, stock certificates and stock powers) and take such additional and further action as the Agent shall reasonably request in order to effectuate the terms hereof and the Pledge Agreement.

(c) Acknowledgement and Consent. The New Subsidiary hereby acknowledges receipt of a copy of the Pledge Agreement, the Subsidiary Guaranty Agreement and the other Loan Documents to which it is a party and agrees for the benefit of the Agent and the Secured Parties to be bound thereby and to comply with the terms thereof insofar as such terms are applicable to it.

(d) Schedules to the Loan Agreement and the Pledge Agreement. Attached hereto as Annex A is an updated Schedule 6.9 to the Loan Agreement and updated Schedules to the Pledge Agreement, as applicable, setting forth all information required to be provided therein with respect to the New Subsidiary (which information shall be deemed to have been provided as of the Effective Date).

Section 3. Conditions to Effectiveness. Upon the satisfaction of each of the following conditions, this Agreement shall be deemed to be effective as of the date hereof:

(a) the Agent shall have received counterparts of this Agreement executed by the Agent, the Borrower and the other Obligors (including the New Subsidiary);

(b) the Agent shall have received all certificated Pledged Stock of the New Subsidiary, if any, (including, without limitation, the Additional Investment Property) and any other agreement or document required to be delivered pursuant to this Agreement and the Pledge Agreement;

(c) the Agent shall have received a favorable opinion of counsel to the New Subsidiary, in form and substance satisfactory to the Agent, with respect to the New Subsidiary, this Agreement, the other Loan Documents to which the New Subsidiary is a party and such other matters as the Agent may reasonably request;

(d) the Agent shall have received a certificate of a responsible officer of the New Subsidiary certifying as to the incumbency and genuineness of the signature of each officer of the New Subsidiary executing Loan Documents to which it is a party and certifying that attached thereto is a true, correct and complete copy of (i) the Organizational Documents of the New Subsidiary and all amendments thereto, certified as of a recent date by the appropriate Governmental Authority in its jurisdiction of formation, (ii) resolutions duly adopted by the managers, sole member or other governing body of the New Subsidiary authorizing the transactions contemplated hereunder and the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party, and (iii) certificates as of a recent date of the good standing of the New Subsidiary under the laws of its jurisdiction of formation;

(e) the Agent shall have received all certificates of insurance evidencing the existence of all insurance required to be maintained by the Borrower (including, without limitation, coverage of the New Subsidiary) by the Loan Agreement and the Security Documents, in each case in form and substance reasonably satisfactory to the Agent;

(f) the Agent shall have been reimbursed for all fees and reasonable out-of-pocket charges and other expenses incurred in connection with this Agreement (including, without limitation, the reasonable fees and disbursements of counsel for the Agent); and

(g) the Agent shall have received any other agreement or document reasonably requested by the Agent in connection with the execution of this Agreement.

Section 4. Reaffirmation of Security Documents. By its execution hereof, each Obligor hereby expressly (a) consents to the modifications set forth in this Agreement and (b) confirms and reaffirms its obligations under the Loan Documents to which it is a party and agrees that the Loan Documents to which it is a party remain in full force and effect and are hereby ratified and confirmed.

Section 5. General Provisions.

(a) Representations and Warranties. By its execution hereof, the Borrower hereby certifies, represents and warrants to the Agent and the Lenders that:

(i) each of the representations and warranties set forth in the Loan Agreement and the other Loan Documents is true and correct in all material respects (except that to the extent that any such representation and warranty is qualified by materiality or material adverse effect, continued accuracy of such representation and warranty shall be in all respects) as of the date hereof as if fully set forth herein and no Default or Event of Default has occurred and is continuing as of the date hereof.

(ii) the Borrower and each of the other Obligors has the necessary power and authority and has taken all necessary corporate or other action to authorize the execution, delivery and performance of this Agreement and each other document executed in connection herewith to which it is a party in accordance with their respective terms.

(iii) this Agreement and each other document executed in connection herewith has been duly executed and delivered by the duly authorized officers of the Borrower and each of the other Obligors, and each such document constitutes the legal, valid and binding obligation of the Borrower and each of the other Obligors, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency and other similar laws and judicial decisions affecting creditors' rights generally and by general equitable principles.

(b) Limited Effect. Except as expressly provided herein, the Loan Agreement and each other Loan Document shall remain unmodified and in full force and effect. This Agreement shall not be deemed (i) to be a waiver of, or consent to, or a modification or amendment of, any other term or condition of the Loan Agreement or any other Loan Document, (ii) to prejudice any right or rights which the Agent or any Lender may now have or may have in the future under or in connection with the Loan Agreement or the other Loan Documents or any of the instruments or agreements referred to therein, as the same may be amended or modified from time to time, (iii) to be a commitment or any other undertaking or expression of any willingness to engage in any further discussion with the Borrower or any other Person with respect to any waiver, amendment, modification or any other change to the Loan Agreement or the Loan Documents or any rights or remedies arising in favor of the Lenders or the Agent, or any of them, under or with respect to any such documents or (iv) to be a waiver of, or consent to or a modification or amendment of, any other term or condition of any other agreement by and among the Borrower, on the one hand, and the Agent or any other Lender, on the other hand. References in the Loan Agreement to "this Agreement" (and indirect references such as "hereunder", "hereby", "herein", and "hereof") and in any Loan Document to the "Loan Agreement" shall be deemed to be references to the Loan Agreement as modified hereby.

(c) Costs and Expenses. The Borrower and each other Obligor, jointly and severally, shall pay or reimburse the Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with the administration of this Agreement and the other Loan Documents, including, without limitation, the reasonable fees and disbursements of counsel for the Agent (including, without limitation, in connection with a Lien search (including a search as to judgments, pending, litigation and tax matters) made against the New Subsidiary under the Uniform Commercial Code (or applicable judicial docket) as in effect in each jurisdiction in which filings or recordings under the Uniform Commercial Code should be made to evidence or perfect security interests in all assets of the New Subsidiary, indicating among other things that the assets of such New Subsidiary are free and clear of any Lien (except Permitted Liens)).

(d) Counterparts; Integration; Effectiveness. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same agreement and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or electronic mail shall be effective as delivery of a manually executed counterpart of this Agreement.

(e) Definitions. The following capitalized terms used and not defined herein shall have the meanings given thereto in the Subsidiary Guaranty Agreement: "Subsidiary Guarantor" and "Subsidiary Guarantors". The following capitalized terms used and not defined herein shall have the meanings given

thereto in the Pledge Agreement: “Investment Property”, “Issuer”, “Pledged Stock”, “Pledgor”, “Secured Parties” and “Security Interest”. All other capitalized terms used and not defined herein shall have the meanings given thereto in the Loan Agreement or the applicable Loan Document referred to therein.

(f) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE APPLICABLE LAWS OF THE STATE OF NEW YORK, INCLUDING SECTION 5-1401 AND SECTION 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO THE CONFLICTS OF LAW PRINCIPLES THEREOF.

[SIGNATURE PAGES FOLLOW]

NEW SUBSIDIARY:

Title: Vice President

OBLIGORS:

Title: Vice President

ACKNOWLEDGED AND AGREED:

Title: Vice President

Title: President and Secretary

[SIGNATURE PAGES CONTINUE]

TPAQ HOLDING CORPORATION

By: /s/ Joseph Zirkman

Name: Joseph Zirkman

Title: Vice President

TEXAS TACO CABANA, L.P.

By: T.C. Management, Inc., its General Partner

By: /s/ Joseph Zirkman

Name: Joseph Zirkman

Title: Vice President

CARROLS LLC

By: CARROLS CORPORATION, its Member

By: /s/ Joseph Zirkman

Name: Joseph Zirkman

Title: Vice President

[SIGNATURE PAGES CONTINUE]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Agent

By: /s/ Tim G. Loyd

Name: Tim G. Loyd

Title: Managing Director

CERTIFICATIONS

I, Alan Vituli, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 3, 2011 of Carrols Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2011

/s/ ALAN VITULI

Alan Vituli

Chairman of the Board and Chief Executive Officer

CERTIFICATIONS

I, Paul R. Flanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 3, 2011 of Carrols Restaurant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2011

/s/ PAUL R. FLANDERS

Paul R. Flanders

Vice President – Chief Financial Officer and Treasurer

CERTIFICATIONS

I, Alan Vituli, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 3, 2011 of Carrols Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2011

/s/ ALAN VITULI

Alan Vituli

Chairman of the Board and Chief Executive Officer

CERTIFICATIONS

I, Paul R. Flanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 3, 2011 of Carrols Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2011

/s/ PAUL R. FLANDERS

Paul R. Flanders

Vice President – Chief Financial Officer and Treasurer

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

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

- (1) The Company’s Quarterly Report on Form 10-Q for the period ended April 3, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ALAN VITULI

Alan Vituli
Chairman of the Board and Chief Executive Officer
May 12, 2011

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

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

- (1) The Company’s Quarterly Report on Form 10-Q for the period ended April 3, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PAUL R. FLANDERS

Paul R. Flanders

Vice President – Chief Financial Officer and Treasurer

May 12, 2011

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

The undersigned, Alan Vituli, Chief Executive Officer of Carrols Corporation (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 April 3, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ALAN VITULI

Alan Vituli
Chairman of the Board and Chief Executive Officer
May 12, 2011

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

The undersigned, Paul R. Flanders, Chief Financial Officer of Carrols Corporation (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 April 3, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PAUL R. FLANDERS

Paul R. Flanders

Vice President – Chief Financial Officer and Treasurer

May 12, 2011