# 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 June 28, 2020**

**OR**

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

**Commission File Number: 001-33174**

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

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

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

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

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

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

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

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

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

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

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

As of August 4, 2020, Carrols Restaurant Group, Inc. had 52,723,814 shares of its common stock, $.01 par value, outstanding.

**CARROLS RESTAURANT GROUP, INC.**

**FORM 10-Q**
**QUARTER ENDED JUNE 28, 2020**

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# PART I—FINANCIAL INFORMATION

## ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | June 28, 2020 | December 29, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 45,978 | $ 2,974 |
| Trade and other receivables | 17,166 | 13,445 |
| Inventories | 11,943 | 13,334 |
| Prepaid expenses and other current assets | 8,277 | 9,748 |
| Refundable income taxes | 188 | 284 |
| Total current assets | 83,552 | 39,785 |
| Property and equipment, net of accumulated depreciation of $409,333 and $377,810, respectively | 363,554 | 385,578 |
| Franchise rights, net of accumulated amortization of $126,628 and $119,288, respectively (Note 3) | 341,601 | 348,941 |
| Goodwill (Note 3) | 122,619 | 122,619 |
| Franchise agreements, at cost less accumulated amortization of $13,481 and $13,365, respectively | 32,973 | 32,690 |
| Operating right-of-use assets, net (Note 6) | 816,922 | 811,016 |
| Other assets | 11,165 | 10,831 |
| Total assets | $ 1,772,386 | $ 1,751,460 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt and finance lease liabilities (Notes 6 and 7) | $ 4,996 | $ 5,866 |
| Current portion of operating lease liabilities (Note 6) | 40,880 | 40,805 |
| Accounts payable | 36,673 | 45,780 |
| Accrued interest | 812 | 901 |
| Accrued payroll, related taxes and benefits | 28,986 | 31,314 |
| Accrued real estate taxes | 8,891 | 8,139 |
| Other liabilities | 31,042 | 16,520 |
| Total current liabilities | 152,280 | 149,325 |
| Long-term debt and finance lease liabilities, net of current portion (Notes 6 and 7) | 478,214 | 455,565 |
| Lease financing obligations | 1,193 | 1,194 |
| Operating lease liabilities (Note 6) | 822,479 | 808,292 |
| Deferred income taxes, net (Note 8) | — | 6,983 |
| Accrued postretirement benefits | 2,464 | 2,555 |
| Other liabilities (Note 5) | 25,861 | 18,084 |
| Total liabilities | 1,482,491 | 1,441,998 |
| Commitments and contingencies (Note 10) | | |
| Stockholders' equity: | | |
| Preferred stock, par value $.01; authorized 20,000,000 shares, issued and outstanding—100 shares | — | — |
| Voting common stock, par value $.01; authorized—100,000,000 shares, issued—52,723,814 and 51,840,200 shares, respectively, and outstanding—51,486,116 and 51,049,377 shares, respectively | 515 | 510 |
| Additional paid-in capital | 303,487 | 301,251 |
| Retained earnings (accumulated deficit) | (3,271) | 11,096 |
| Accumulated other comprehensive income (loss) | (6,765) | 622 |
| Treasury stock, at cost | (4,071) | (4,017) |
| Total stockholders' equity | 289,895 | 309,462 |
| Total liabilities and stockholders' equity | $ 1,772,386 | $ 1,751,460 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| Revenue: | | | | |
| Restaurant sales | $ 368,418 | $ 365,674 | $ 719,936 | $ 656,463 |
| Other revenue | — | 2,885 | — | 2,885 |
| Total revenue | 368,418 | 368,559 | 719,936 | 659,348 |

| | | | | |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Cost of sales | 104,703 | 109,157 | 207,630 | 191,732 |
| Restaurant wages and related expenses | 111,888 | 121,140 | 236,463 | 221,332 |
| Restaurant rent expense | 28,984 | 26,690 | 58,438 | 48,606 |
| Other restaurant operating expenses | 54,310 | 56,308 | 112,288 | 101,913 |
| Advertising expense | 14,416 | 14,677 | 28,292 | 26,549 |
| General and administrative (including stock-based compensation expense of $1,109, $1,282, $2,241 and $2,808 respectively) | 18,581 | 20,620 | 39,368 | 40,344 |
| Depreciation and amortization | 20,296 | 17,121 | 41,327 | 32,413 |
| Impairment and other lease charges (Note 4) | 2,941 | 367 | 5,822 | 1,277 |
| Other expense (income), net (Note 14) | (2,003) | 376 | (1,947) | (1,753) |
| Total operating expenses | 354,116 | 366,456 | 727,681 | 662,413 |
| Income (loss) from operations | 14,302 | 2,103 | (7,745) | (3,065) |
| Loss on extinguishment of debt | — | 7,443 | — | 7,443 |
| Interest expense | 6,370 | 6,900 | 13,510 | 12,847 |
| Income (loss) before income taxes | 7,932 | (12,240) | (21,255) | (23,355) |
| Provision (benefit) for income taxes (Note 8) | 90 | (8,508) | (6,888) | (8,154) |
| Net income (loss) | $ 7,842 | $ (3,732) | $ (14,367) | $ (15,201) |
| Basic and diluted net income (loss) per share (Note 13) | $ 0.13 | $ (0.09) | $ (0.28) | $ (0.39) |
| Weighted average common shares outstanding: | | | | |
| Basic | 50,916,758 | 41,051,354 | 50,868,929 | 38,548,246 |
| Diluted | 60,331,817 | 41,051,354 | 50,868,929 | 38,548,246 |
| Comprehensive income (loss), net of tax: | | | | |
| Net income (loss) | $ 7,842 | $ (3,732) | $ (14,367) | $ (15,201) |
| Change in valuation of interest rate swap (Note 7) | (2,178) | — | (7,387) | — |
| Comprehensive income (loss) | $ 5,664 | $ (3,732) | $ (21,754) | $ (15,201) |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Common Stock | | Preferred Stock | | Additional Paid-In Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | |
| **Balance, December 29, 2019** | 51,049,377 | $ 510 | 100 | $ — | $ 301,251 | $ 11,096 | $ 622 | $ (4,017) | $ 309,462 |
| Stock-based compensation | — | — | — | — | 1,132 | — | — | — | 1,132 |
| Vesting of non-vested shares | 424,963 | 5 | — | — | (5) | — | — | — | — |
| Net loss | — | — | — | — | — | (22,209) | — | — | (22,209) |
| Repurchase of treasury stock | — | — | — | — | — | — | — | (54) | (54) |
| Change in valuation of interest rate swap (Note 7) | — | — | — | — | — | — | (5,209) | — | (5,209) |
| **Balance, March 29, 2020** | 51,474,340 | $ 515 | 100 | $ — | $ 302,378 | $ (11,113) | $ (4,587) | $ (4,071) | $ 283,122 |
| Stock-based compensation | — | — | — | — | 1,109 | — | — | — | 1,109 |
| Vesting of non-vested shares | 11,776 | — | — | — | — | — | — | — | — |
| Net income | — | — | — | — | — | 7,842 | — | — | 7,842 |
| Change in valuation of interest rate swap (Note 7) | — | — | — | — | — | — | (2,178) | — | (2,178) |
| **Balance, June 28, 2020** | 51,486,116 | $ 515 | 100 | $ — | $ 303,487 | $ (3,271) | $ (6,765) | $ (4,071) | $ 289,895 |
| | | | | | | | | | |
| **Balance, December 30, 2018** | 35,742,427 | $ 357 | 100 | $ — | $ 150,459 | $ 35,511 | $ (646) | $ (141) | $ 185,540 |
| Stock-based compensation | — | — | — | — | 1,526 | — | — | — | 1,526 |
| Vesting of non-vested shares | 371,824 | 4 | — | — | (4) | — | — | — | — |
| Net loss | — | — | — | — | — | (11,469) | — | — | (11,469) |
| Adoption of ASC 842, net of taxes (Note 6) | — | — | — | — | — | 7,504 | — | — | 7,504 |
| **Balance, March 31, 2019** | 36,114,251 | $ 361 | 100 | $ — | $ 151,981 | $ 31,546 | $ (646) | $ (141) | $ 183,101 |
| Stock-based compensation | — | — | — | — | 1,282 | — | — | — | 1,282 |
| Vesting of non-vested shares | 2,478 | — | — | — | — | — | — | — | — |
| Issuance of common and preferred stock | 7,364,413 | 74 | 10,000 | — | 145,259 | — | — | — | 145,333 |
| Retirement of treasury stock | — | — | — | — | (141) | — | — | 141 | — |
| Net loss | — | — | — | — | — | (3,732) | — | — | (3,732) |
| **Balance, June 30, 2019** | 43,481,142 | $ 435 | 10,100 | $ — | $ 298,381 | $ 27,814 | $ (646) | $ — | $ 325,984 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Six Months Ended | |
|---|---|---|
| | **June 28, 2020** | **June 30, 2019** |
| Cash flows provided by operating activities: | | |
| Net loss | $ (14,367) | $ (15,201) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| (Gain) loss on disposals of property and equipment | (1,859) | 508 |
| Stock-based compensation | 2,241 | 2,808 |
| Gain on settlement agreement (Note 11) | — | (1,913) |
| Impairment and other lease charges | 5,822 | 1,277 |
| Depreciation and amortization | 41,327 | 32,413 |
| Amortization of deferred financing costs | 1,039 | 719 |
| Amortization of bond premium and discount on debt | 146 | (264) |
| Deferred income taxes | (6,983) | (8,219) |
| Change in refundable income taxes | 96 | (41) |
| Loss on extinguishment of debt non-cash | — | 129 |
| Changes in other operating assets and liabilities | 20,430 | (1,384) |
| Net cash provided by operating activities | 47,892 | 10,832 |
| Cash flows used for investing activities: | | |
| Capital expenditures: | | |
| New restaurant development | (13,952) | (19,120) |
| Restaurant remodeling | (7,349) | (12,990) |
| Other restaurant capital expenditures | (5,555) | (8,784) |
| Corporate and restaurant information systems | (6,288) | (2,198) |
| Total capital expenditures | (33,144) | (43,092) |
| Acquisition of restaurants, net of cash acquired (Note 2) | — | (127,980) |
| Properties purchased for sale-leaseback | (12,441) | — |
| Proceeds from sale-leaseback transactions | 18,859 | 4,637 |
| Proceeds from insurance recoveries | 1,720 | 123 |
| Net cash used for investing activities | (25,006) | (166,312) |
| Cash flows provided by financing activities: | | |
| Proceeds from issuance of Term Loan B Facility | 71,250 | 422,875 |
| Repayments of Term Loan B Facility | (2,125) | — |
| Retirement of 8% Senior Secured Second Lien Notes, premium and fees | — | (280,500) |
| Borrowings under prior revolving credit facility | — | 175,750 |
| Repayments under prior revolving credit facility | — | (150,750) |
| Borrowings under new revolving credit facility | 150,000 | — |
| Repayments under new revolving credit facility | (195,750) | — |
| Payments on finance lease liabilities | (1,134) | (981) |
| Costs associated with financing long-term debt | (2,123) | (11,516) |
| Net cash provided by financing activities | 20,118 | 154,878 |
| Net increase (decrease) in cash and cash equivalents | 43,004 | (602) |
| Cash and cash equivalents, beginning of period | 2,974 | 4,014 |
| Cash and cash equivalents, end of period | $ 45,978 | $ 3,412 |
| Supplemental disclosures: | | |
| Interest paid on long-term debt | $ 12,363 | $ 15,988 |
| Interest paid on lease financing obligations | $ 52 | $ 52 |
| Accruals for capital expenditures | $ 3,405 | $ 4,882 |
| Income taxes paid | $ — | $ 138 |

See accompanying notes to unaudited condensed consolidated financial statements.

## 1. Basis of Presentation

*Business Description.* At June 28, 2020 Carrols Restaurant Group, Inc. ("Carrols Restaurant Group") operated, as franchisee, 1,027 Burger King® restaurants in 23 Northeastern, Midwestern and Southeastern states and 65 Popeyes® restaurants in seven Southeastern states.

In March 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic, which continues to spread throughout the United States. The COVID-19 pandemic has significantly impacted the communities the Company's restaurants operate in as federal, state and local governments have taken a series of actions to contain its spread. In March 2020, the Company closed its dining rooms in all restaurants and modified operating hours in line with local ordinances and day-part sales trends, and over the course of March and April of 2020 temporarily closed 46 restaurants that were geographically close to one of its other restaurants. These closures were in effect for most of the second quarter. Each restaurant operated according to their respective local governmental guidelines as well as safety procedures developed by Burger King and Popeyes. As individual states and local governments have allowed reopenings, the Company has evaluated the opportunity to re-open dining rooms. As of the end of the second quarter, 28 of the temporarily closed restaurants had reopened, and another seven restaurants were reopened in July.

The Company took actions to strengthen and preserve its liquidity in light of these emerging economic conditions. The Company has been in contact with its major suppliers and at this point, has not experienced any material disruption in its supply chains. During the second quarter, the Company contacted each of its landlords to request rent relief during this period as described in Note 6. Further, the Company increased the borrowing capacity under its Senior Credit Facilities and issued Incremental Term B-1 Loans for proceeds of $71.3 million after original issue discount as described in Note 7.

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

*Fiscal Year.* The Company uses a 52-53 week fiscal year ending on the Sunday closest to December 31. The three and six months ended June 28, 2020 and June 30, 2019 each contained thirteen weeks. The 2020 fiscal year will end January 3, 2021 and will contain 53 weeks.

*Basis of Presentation.* The accompanying unaudited condensed consolidated financial statements as of and for the three and six months ended June 28, 2020 and June 30, 2019 have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and the footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such unaudited condensed consolidated financial statements have been included. The results of operations for the three and six months ended June 28, 2020 and June 30, 2019 are not necessarily indicative of the results to be expected for the full year.

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

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

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

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

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

*Cash and Cash Equivalents.* The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. At both June 28, 2020 and December 29, 2019, the Company did not have any cash invested in money market funds classified as cash equivalents on the condensed consolidated balance sheet.

*Fair Value of Financial Instruments.* Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect the Company's own assumptions. Financial instruments include cash and cash equivalents, trade and other receivables, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, trade and other receivables and accounts payable approximate fair value because of the short-term nature of these financial instruments. The carrying amount of the Term Loan B and B-1 Facilities at June 28, 2020 and outstanding borrowings on our Revolving Credit Facility approximate fair value because of their variable rates.

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

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analysis of long-lived assets, goodwill and intangible assets. Long-lived assets and definite-lived intangible assets are measured at fair value on a nonrecurring basis using Level 3 inputs. As described in Note 4, the Company recorded long-lived asset impairment charges of $2.7 million and $4.4 million during the three and six months ended June 28, 2020, respectively, and $0.3 million and $1.1 million during the three and six months ended June 30, 2019.

*Recently Issued Accounting Pronouncements.* In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, to introduce new guidance for the accounting for credit losses on instruments within its scope. ASU 2016-13 requires among other things, the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This update was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company adopted this ASU in the first quarter of 2020 and there was no impact on its consolidated financial statements and related disclosures.

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

In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement benefits (Topic 715-20). This ASU amends ASC 715 to add certain relevant disclosures, remove certain disclosures no longer considered to be cost beneficial, and clarify specific disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2020 and requires application on a retrospective basis. The Company does not expect adoption of this guidance will have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04 (“ASU 2020-04”), Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (“LIBOR”). This ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the effect adoption of this guidance will have on its consolidated financial statements and related disclosures.

In April 2020, the FASB staff issued interpretive guidance that indicated it would be acceptable for entities to make an election to account for lease concessions related to the COVID-19 pandemic consistent with how those concessions would be accounted for under ACS Topic 842, Leases ("ASC 842"), as though enforceable rights and obligations for those concessions existed (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract). Consequently, for concessions related to the effects of the COVID-19 pandemic, an entity will not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance in Topic 842 to those contracts. This election is available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. The Company has made the policy election to apply this interpretive guidance to certain rent relief resulting directly from COVID-19, and has assumed that enforceable rights and obligations for those concessions exist in the lease contract. Accordingly, the Company recognized abatements that did not result in an extension of lease term as reductions in variable lease payments, and deferrals that did not result in an extension of lease term as an increase in other current liabilities. This election will continue while these abatement or deferrals are in effect.

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

## 2. Acquisitions

The Company was assigned Burger King Corporation's ("BKC") right of first refusal on the sale of franchisee-operated restaurants in 20 states (the "ROFR") in 2012 as part of its acquisition of 278 restaurants from BKC. Since the beginning of 2019 through the end of the first quarter of 2020, the Company acquired an aggregate of 179 Burger King restaurants and 55 Popeyes restaurants from other franchisees in the following transactions, some of which were acquired pursuant to the exercise of the ROFR (in thousands, except number of restaurants):

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

(1) During the second quarter of 2019, the Company completed the merger with New CFH, LLC (“Cambridge”) and acquired 165 Burger King restaurants and 55 Popeyes restaurants.
(2) Acquisitions resulting from the exercise of the ROFR with Burger King.

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

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

The Company allocated the aggregate purchase price to the net tangible and intangible assets acquired in the Cambridge Merger at their estimated fair values. The Company engaged a third party valuation specialist to assist with the valuation of franchise rights, leasehold improvements and favorable and unfavorable leases included in the operating right-to-use assets acquired. The fair value of other property and equipment and franchise agreements was based on the carrying value of the respective assets given that in the three years prior to the Cambridge Merger, Cambridge had completed valuations in connection with its acquisition of 132 restaurants and also recently constructed 33 new restaurants. The fair value of the right-of-use liability is based upon the lease payments over the remaining lease term discounted by the Company's incremental borrowing rate.

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

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

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

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

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

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

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

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

The results of operations for the restaurants acquired are included from the closing date of the respective acquisition. The 2019 acquired restaurants contributed restaurant sales of $68.6 million and $137.3 million in the three and six months ended June 28, 2020, respectively. It is impracticable to disclose net earnings for the post-acquisition period for the acquired restaurants as net earnings of these restaurants were not tracked on a collective basis due to the integration of administrative functions, including field supervision.

The unaudited pro forma impact on the results of operations for the restaurants acquired in 2019 for the three and six months ended June 30, 2019 is included below. The unaudited pro forma results of operations are not necessarily indicative of the results that would have occurred had the acquisitions been consummated at the beginning of the periods presented, nor are they necessarily indicative of any future consolidated operating results. The following table summarizes the Company's unaudited pro forma operating results:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2019 | | June 30, 2019 | |
| Total revenue | $ | 397,665 | $ | 764,854 |
| Net loss | $ | (1,260) | $ | (8,946) |
| Basic and diluted net loss per share | $ | (0.03) | $ | (0.23) |

This unaudited pro forma financial information does not give effect to any anticipated synergies, operating efficiencies, cost savings or any integration costs related to the acquired restaurants. The unaudited pro forma financial results exclude transaction costs recorded as general and administrative expenses of $1.4 million and $4.0 million during the three and six months ended June 30, 2019, respectively.

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

### 3. Intangible Assets

*Goodwill.* The Company is required to review goodwill for impairment annually, or more frequently when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of goodwill is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of the last day of its fiscal year and does not believe circumstances have changed since the last assessment date which would make it necessary to reassess the value of its goodwill. There were no recorded goodwill impairment losses during the three and six months ended June 28, 2020 or June 30, 2019, respectively.

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

The Company assesses the potential impairment of franchise rights whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an indicator of impairment exists, an estimate of the aggregate undiscounted cash flows from the acquired restaurants is compared to the respective carrying value of franchise rights for each acquisition. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value. No impairment charges were recorded related to the Company's franchise rights for the three and six months ended June 28, 2020 and June 30, 2019, respectively. The change in franchise rights for the six months ended June 28, 2020 is summarized below:

| | | |
|---|---|---|
| Balance at December 29, 2019 | $ | 348,941 |
| Amortization expense | | (7,340) |
| Balance at June 28, 2020 | $ | 341,601 |

Amortization expense related to franchise rights was $3.4 million and $2.0 million for the three months ended June 28, 2020 and June 30, 2019, respectively and $7.3 million and $4.1 million for the six months ended June 28, 2020 and June 30, 2019, respectively. The Company expects annual amortization expense to be $14.3 million in 2020 and $13.7 million in each of the following five years.

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

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

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

During the three months ended June 28, 2020, the Company recorded impairment and other lease charges of $2.9 million consisting of $2.6 million of initial impairment charges for six underperforming restaurants, capital expenditures of $0.1 million at underperforming restaurants, and $0.2 million of other lease charges. During the six months ended June 28, 2020, the Company recorded impairment and other lease charges of $5.8 million consisting of $4.1 million related to initial impairment charges for nine underperforming restaurants, capital expenditures of $0.3 million at previously impaired restaurants and $1.4 million of other lease charges primarily from nine restaurants closed during the first quarter of 2020.

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

During the three months ended June 30, 2019, the Company recorded impairment and other lease charges of $0.4 million consisting of $0.2 million related to initial impairment charges for one underperforming restaurant, capital expenditures of $0.1 million at previously impaired restaurants, and $0.1 million associated with the closure of one underperforming restaurant. During the six months ended June 30, 2019, the Company also recorded impairment and other lease charges of $1.3 million consisting of $0.9 million related to initial impairment charges for three underperforming restaurants, capital expenditures of $0.2 million at underperforming restaurants and $0.2 million of other lease charges primarily due to the de-imaging of six restaurants closed during the first quarter.

## 5. Other Liabilities, Long-Term

Other liabilities, long-term, at June 28, 2020 and December 29, 2019 consisted of the following:

| | June 28, 2020 | December 29, 2019 |
|---|---|---|
| Accrued occupancy costs | $ 2,288 | $ 8,523 |
| Accrued workers' compensation and general liability claims | 4,843 | 5,370 |
| Interest rate swap | 7,387 | — |
| Deferred compensation | 4,016 | 3,902 |
| Deferred federal payroll taxes | 7,093 | — |
| Other | 234 | 289 |
| | $ 25,861 | $ 18,084 |

## 6. Leases

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

As a result of the COVID-19 pandemic and the economic uncertainty in the restaurant industry that has resulted, the Company contacted each of its landlords to potentially negotiate accommodations to preserve cash, and for certain leases was able to modify existing payment terms, in some cases through deferral of existing payments until future periods and in some cases through a reduction in payments due during this period. The Company elected the practical expedient to not evaluate whether a deferral of rent within the current term is a lease modification. Any concessions which resulted in extension of the existing lease term were accounted for as a lease modification under the current GAAP guidance. The total rent that was or will be deferred as a result of requests for relief from our landlords other than BKC (see Note 11) was $5.8 million, of which $4.8 million is expected to be repaid over various periods beginning in the third quarter of 2020.

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

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

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

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

***Lease Cost***

The components and classification of lease expense for the three and six months ended June 28, 2020 and June 30, 2019 are as follows:

| | | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|---|
| **Lease cost** | **Classification** | **June 28, 2020** | **June 30, 2019** | **June 28, 2020** | **June 30, 2019** |
| Operating lease cost (1) | Restaurant rent expense | $ 25,491 | $ 22,543 | $ 50,962 | $ 40,837 |
| Operating lease cost | General and administrative | 167 | 148 | 265 | 222 |
| Variable lease cost | Restaurant rent expense | 3,599 | 4,290 | 7,704 | 8,090 |
| Sublease income | Restaurant rent expense | (106) | (143) | (228) | (321) |
| Finance lease cost: | | | | | |
| Amortization of right-of-use assets | Depreciation and amortization | 437 | 523 | 882 | 999 |
| Interest on lease liabilities | Interest expense | 36 | 64 | 82 | 135 |
| Total lease cost | | $ 29,624 | $ 27,425 | $ 59,667 | $ 49,962 |

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

***Other Information***

Supplemental cash flow information related to leases for the six months ended June 28, 2020 and June 30, 2019 are as follows:

| | Six Months Ended | |
|---|---|---|
| | **June 28, 2020** | **June 30, 2019** |
| Gain (loss) on sale-leaseback transactions | $ 567 | $ 105 |
| Lease assets and liabilities resulting from lease modifications and new leases | $ 39,953 | $ 36,124 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ 49,143 | $ 36,006 |
| Operating cash flows from finance leases | $ 36 | $ 135 |
| Financing cash flows from finance leases | $ 1,134 | $ 981 |

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

**7. Long-Term Debt**

Long-term debt at June 28, 2020 and December 29, 2019 consisted of the following:

| | June 28, 2020 | December 29, 2019 |
|---|---|---|
| Collateralized: | | |
| Senior Credit Facility: | | |
| Term Loan B borrowings | $ 420,750 | $ 422,875 |
| Term Loan B-1 borrowings | 75,000 | — |
| Revolving credit borrowings | — | 45,750 |
| Finance lease liabilities | 1,390 | 2,524 |
| | 497,140 | 471,149 |
| Less: current portion of long-term debt and finance lease liabilities | (4,996) | (5,866) |
| Less: unamortized debt issuance costs | (8,376) | (7,768) |
| Less: unamortized original issue discount | (5,554) | (1,950) |
| Total Long-term debt | $ 478,214 | $ 455,565 |

On April 30, 2019, the Company entered into a senior secured credit facility in an aggregate principal amount of $550.0 million, consisting of (i) a Term Loan B Facility in an aggregate principal amount of $425.0 million (the “Term Loan B Facility”) maturing on April 30, 2026 and (ii) a revolving credit facility (including a sub-facility of $35.0 million for standby letters of credit) in an aggregate principal amount of $125.0 million maturing on April 30, 2024 (the “Revolving Credit Facility” and, together with the Term Loan B Facility, (as amended, the “Senior Credit Facilities”).

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

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

The Second Amendment also amended the definition of Applicable Margin (such definition and all other definitions used herein and otherwise not defined herein shall have the meanings set forth in the Senior Credit Facilities) to provide that on and after the date of the Second Amendment (the "Second Amendment Effective Date"), the Applicable Margin for borrowings under the Revolving Credit Facility (including Letter of Credit Fees) shall be at a rate per annum equal to (a) for so long as the Revolving Committed Amount is greater than $115.0 million, (i) for the period commencing on the Second Amendment Effective Date and including the date that is 179 days after the Second Amendment Effective Date, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans, (ii) for the period commencing on the date that is 180 days after the Second Amendment Effective Date, through and including the date that is 269 days after the Second Amendment Effective Date, 4.25% for LIBOR Rate Loans and 3.25% for Alternate Base Rate Loans, (iii) for the period commencing on the date that is 270 days after the Second Amendment Effective Date, through and including the date that is 364 days after the Second Amendment Effective Date, 4.5% for LIBOR Rate Loans and 3.5% for Alternate Base Rate Loans and (iv) for the period commencing on the date that is 365 days after the Second Amendment Effective Date and thereafter, 4.75% for LIBOR Rate Loans and 3.75% for Alternate Base Rate Loans and (b) for so long as the Revolving Committed Amount is equal to or less than $115.0 million, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans.

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

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

On April 16, 2020, the Company entered into the Fourth Amendment to our Senior Credit Facilities (the "Fourth Amendment"). The Fourth Amendment permits the Company to incur and, if necessary, repay indebtedness incurred pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief and Economic Security Act, as amended (the "CARES Act"). Subsequent to this amendment, the Company withdrew its application for relief under the PPP and returned the funds upon receipt.

On June 23, 2020 (the "Fifth Amendment Effective Date"), the Company entered into the Fifth Amendment to our Senior Credit Facilities (the "Fifth Amendment"). The Fifth Amendment increased the Term Loan (as defined in the Senior Credit Facilities) borrowings in the aggregate principal amount of $75 million of Incremental Term B-1 Loans (as defined in the Senior Credit Facilities). The Incremental Term B-1 Loans constitute a new tranche of Term Loans ranking pari passu in right of payment and security with the Initial Term Loans for all purposes under the Senior Credit Facilities. The Incremental Term B-1 Loans have the same terms as outstanding borrowings under the Company's existing term loan B facility pursuant to and in accordance with the Senior Credit Facilities, provided that (i) borrowings under the Incremental Term B-1 Loans will bear interest at a rate per annum, at the Company’s option, of (a) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus the applicable margin of 5.25% or (b) the LIBOR Rate (as defined in the Senior Credit Facilities) (which shall not be less than 1% for Incremental Term B-1 Loans) plus the applicable margin of 6.25% and (ii) certain prepayments of the Incremental Term B-1 Loans by the Company prior to the first anniversary of the Fifth Amendment Effective Date are subject to a premium to the Administrative Agent (as defined in the Senior Credit Facilities), for the ratable account of each applicable Term Loan Lender (as defined in the Senior Credit Facilities) holding Incremental Term B-1 Loans on the date of such prepayment equal to the Applicable Make-Whole Amount (as defined in the Senior Credit Facilities) with respect to the principal amount of the Incremental Term B-1 Loans so prepaid. The principal amount of the Incremental Term B-1 Loans will amortize in an aggregate annual amount equal to 1% of the original principal amount of the Incremental Term B-1 Loans and shall be repayable in consecutive quarterly installments on the last day of the Company's fiscal quarters beginning on the third fiscal quarter of 2020 with the remaining outstanding principal amount of the Incremental Term B-1 Loan and all accrued but unpaid interest and other amounts payable with respect to the Incremental Term B-1 Loan due on April 30, 2026 which is the Term Loan Maturity Date (as defined in the Senior Credit Facilities).

The net proceeds of the Incremental Term B-1 Loans were $71.3 million after original issue discount and were used for general corporate purposes, including repayment of the outstanding balance of the Revolving Credit Facility. As of June 28, 2020, there was $136.2 million available for revolving credit borrowings under the Senior Credit Facilities, after reserving for issued letters of credit.

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

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

The Senior Credit Facilities contain certain covenants, including without limitation, those limiting the Company’s and its subsidiaries' ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of its business in all material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends. In addition, the Senior Credit Facilities require the Company to meet a First Lien Leverage Ratio (as defined in the Senior Credit Facilities) if revolving credit borrowings exceed 35% of the aggregate borrowing capacity, as described under the First Amendment above. As there were no borrowings under the Revolving Credit Facility at June 28, 2020, no First Lien Leverage Ratio calculation was required. The Company was in compliance with the covenants under its Senior Credit Facilities at June 28, 2020.

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

The Term Loan B and B-1 borrowings are due and payable in quarterly installments, which began on September 30, 2019. Amounts outstanding at June 28, 2020 are due and payable as follows:

(i) twenty-three remaining quarterly installments of $1.3 million;

(ii) one final payment of $467.0 million on April 30, 2026.

At June 28, 2020, borrowings under the Senior Credit Facility bore interest as follows:

(i) Revolving Credit Facility: at a rate per annum equal to (a) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus 2.50% or (b) LIBOR Rate (as defined in the Senior Credit Facilities) plus 3.50%.

(ii) Term Loan B borrowings: at a rate per annum equal to (a) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus 2.25% or (b) LIBOR Rate (as defined in the Senior Credit Facilities) plus 3.25%.

(iii) Term Loan B-1 borrowings: at a rate per annum, at the Company’s option, of (a) the Alternate Base Rate plus the applicable margin of 5.25% or (b) the LIBOR Rate (which shall not be less than 1% for Incremental Term B-1 Loans) plus the applicable margin of 6.25%.

The weighted average interest rate for borrowings under the Senior Credit Facilities, was 4.3% and 4.6% for the three and six months ended June 28, 2020, respectively and 6.3% and 7.0% for the three and six months ended June 30, 2019, respectively.

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

As of June 28, 2020, there were no revolving credit borrowings outstanding and $9.7 million of letters of credit issued under the Revolving Credit Facility. After reserving for issued letters of credit and outstanding revolving credit borrowings, $136.2 million was available for revolving credit borrowings under the Senior Credit Facilities at June 28, 2020.

*Interest Rate Swap.* In March 2020, The Company entered into an interest rate swap agreement with its lenders to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Term Loan B Facility. The interest rate swap fixes the interest rate on 50% of the outstanding term loan borrowings under the Term Loan B Facility at 0.915% plus the applicable margin in its Senior Credit Facilities. The agreement matures on February 28, 2025 and has a notional amount of $220.0 million at June 28, 2020. The differences between the variable LIBOR rate and the interest rate swap rate of 0.915% are settled monthly. The Company received payments of $0.03 million to settle the interest rate swap during the three and six months ended June 28, 2020. The fair value of the Company's interest rate swap agreement was a liability of $7.4 million as of June 28, 2020 and is included in long-term other liabilities in the accompanying consolidated balance sheets. Changes in the valuation of the Company's interest rate swap were included as a component of other comprehensive income and will be reclassified to earnings as the losses are realized. The Company expects to reclassify net losses totaling $1.7 million into earnings in the next twelve months.

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

## 8. Income Taxes

The provision (benefit) for income taxes for the three and six months ended June 28, 2020 and June 30, 2019 was comprised of the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| Current | $ 90 | $ 53 | $ 95 | $ 65 |
| Deferred | 1,789 | (8,561) | (7,342) | (8,219) |
| Change in valuation allowance | (1,789) | — | 359 | — |
| Provision (benefit) for income taxes | $ 90 | $ (8,508) | $ (6,888) | $ (8,154) |

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

The Company has performed an assessment of positive and negative evidence regarding the realization of its deferred income tax assets at June 28, 2020 as required by ASC 740. Under ASC 740, the weight given to negative and positive evidence is commensurate only to the extent that such evidence can be objectively verified. ASC 740 also prescribes that objective evidence, in particular the Company’s three-year cumulative loss position at June 28, 2020, be given greater weight than subjective evidence, including the Company’s forecasts of future taxable income, which include assumptions that cannot be objectively verified. The Company considers all available positive and negative evidence and determines, based on the required weight of the evidence under ASC 740, whether a valuation allowance is necessary for any of its deferred tax assets at each reporting period. During the first quarter of 2020, due to forecasted losses for 2020, the Company determined that an incremental valuation allowance was needed for its net deferred income tax assets. As of June 28, 2020, a valuation allowance was recorded against net deferred tax assets of $2.5 million.

The benefit for income taxes for the three and six months ended June 28, 2020 was derived using an estimated effective annual income tax rate for all of 2020 of 36.7%, which excludes any discrete tax adjustments. The difference compared to the statutory rate for 2020 is attributed to the benefits of federal employment credits which are not directly related to the amount of pre-tax loss recorded in a period. Accordingly, in periods where recorded pre-tax income (loss) is relatively small, the proportional effect of these items on the effective tax rate may be significant. There were no discrete items for the three and six months ended June 28, 2020.

On March 27, 2020, the United States enacted the CARES Act as a response to the economic uncertainty resulting from COVID-19. The CARES Act includes modifications for net operating loss carryovers and carrybacks, limitations of business interest expense for tax, immediate refund of alternative minimum tax (AMT) credit carryovers as well as a technical correction to the Tax Cuts and Jobs Act of 2017, referred to herein as the U.S. Tax Act, for qualified improvement property. The CARES Act also provides for deferred payment of the employer portion of social security taxes through the end of 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of June 28, 2020, the Company had deferred $7.1 million of social security taxes, which is included in other long-term liabilities in the consolidated balance sheets. As of June 28, 2020, the Company expects that the carryback of NOL's will not have an impact on its current tax attributes.

The provision for income taxes for the three and six months ended June 30, 2019 was derived using an estimated effective annual income tax rate for all of 2019 of 35.1%, which excludes any discrete tax adjustments and was below the statutory rate due to the effect of fixed employment tax credits on taxable income. The benefits of federal employment credits are not directly related to the amount of pre-tax income recorded in a period. Accordingly, in periods where recorded pre-tax income is relatively small, the proportional effect of these items on the effective tax rate may be significant. There were no discrete adjustments for the three and six months ended June 30, 2019.

As of June 28, 2020, the Company had federal net operating loss carryforwards of approximately $145.0 million which expire beginning in 2033. The Company's state net operating loss carryforwards expire beginning in 2021 through 2038.

The Company's policy is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. At June 28, 2020 and December 29, 2019, the Company had no unrecognized tax benefits and no accrued interest related to uncertain tax positions. The tax years 2014 - 2019 remain open to examination by the major taxing jurisdictions to which the Company is subject. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase within the next twelve months due to the uncertainties regarding the timing of examinations, the Company does not expect unrecognized tax benefits to significantly change in the next twelve months.

## 9. Stock-Based Compensation

Stock-based compensation expense for the three months ended June 28, 2020 and June 30, 2019 was $1.1 million and $1.3 million, respectively and for the six months ended June 28, 2020 and June 30, 2019 was $2.2 million and $2.8 million, respectively. During the six months ended June 28, 2020, the Company granted 790,000 non-vested restricted shares to certain employees and officers of the Company and 73,128 non-vested restricted shares to outside directors of the Company. These shares vest, become non-forfeitable and are being expensed over their three-year vesting period.

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

A summary of all non-vested shares activity for the six months ended June 28, 2020 was as follows:

| | Shares | Weighted Average Grant Date Price |
|---|---|---|
| Non-vested at December 29, 2019 | 790,823 | $ 11.35 |
| Granted | 863,128 | $ 5.42 |
| Vested | (416,253) | $ 12.07 |
| Non-vested at June 28, 2020 | 1,237,698 | $ 6.97 |

The fair value of non-vested shares is based on the closing price on the date of grant. As of June 28, 2020, the total non-vested unrecognized stock-based compensation expense was approximately $6.9 million and the remaining weighted average vesting period for non-vested shares was 2.2 years. The Company expects to record an additional $2.1 million in stock-based compensation expense related to the vesting of these awards for the remainder of 2020.

The Company has issued restricted stock units (“RSUs”) on shares of the Company's common shares to certain eligible employees. During the six months ended June 28, 2020, 20,486 RSUs vested into shares of the Company's common stock at a weighted average price of $2.92 per share.

A summary of all RSU activity for the six months ended June 28, 2020 was as follows:

| | Units |
|---|---|
| Non-vested at December 29, 2019 | 57,942 |
| Vested | (20,486) |
| Non-vested at June 28, 2020 | 37,456 |

## 10. Commitments and Contingencies

*Lease Guarantees.* Fiesta Restaurant Group, Inc. ("Fiesta"), a former wholly-owned subsidiary of the Company, was spun-off in 2012 to the Company's stockholders. As of June 28, 2020, the Company is a guarantor under 27 Fiesta restaurant property leases, of which all but for one is still operating, with lease terms expiring on various dates through 2030. The Company is fully liable for all obligations under the terms of the leases in the event that Fiesta fails to pay any sums due under the lease, subject to indemnification provisions of a Separation and Distribution Agreement entered into in connection with the spin-off of Fiesta.

The maximum potential amount of future undiscounted rental payments the Company could be required to make under these leases at June 28, 2020 was $9.3 million. The obligations under these leases will generally continue to decrease over time as these operating leases expire. No payments related to these guarantees have been made by the Company to date and none are expected to be required to be made in the future. The Company has not recorded a liability for $9.3 million of these guarantees in accordance with ASC 460 - *Guarantees* as Fiesta has indemnified the Company for all such obligations and the Company did not believe it was probable it would be required to perform under any of the guarantees or direct obligations.

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

## 11. Transactions with Related Parties

In connection with an acquisition of restaurants from BKC in 2012, the Company issued to BKC 100 shares of Series A Convertible Preferred Stock, which was exchanged for 100 shares of newly issued Series B Convertible Preferred Stock ("Series B Preferred Stock") in 2018, and as of June 28, 2020 is convertible into approximately 15.2% of the outstanding shares of the Company's common stock after giving effect to the conversion of the Series B Preferred Stock. Pursuant to the terms of the Series B Preferred Stock, BKC together with certain other entities that are both affiliates of BKC and either Restaurant Brands International or Restaurant Brands International Limited Partnership (collectively "RBI") are entitled to elect two representatives on the Company's board of directors.

The Company operates its Burger King® restaurants under franchise agreements with BKC and its Popeyes® restaurants under franchise agreements with Popeyes Louisiana Kitchen, Inc. ("PLK"), a subsidiary of RBI. These franchise agreements generally provide for an initial term of twenty years and currently have an initial franchise fee of fifty thousand dollars. Any franchise agreement, including renewals, can be extended at the Company's discretion for an additional 20 year term, with BKC's and PLK's approval, provided that, among other things, the restaurant meets the current restaurant image standard and the Company is not in default under terms of the franchise agreement. In addition to the initial franchise fee, the Company generally pays BKC a monthly royalty at a rate of 4.5% of Burger King restaurant sales and PLK a weekly royalty at a rate of 5.0% of Popeyes restaurant sales. Royalty expense was $15.9 million and $15.6 million in the three months ended June 28, 2020 and June 30, 2019, respectively and was $31.0 million and $28.0 million in the six months ended June 28, 2020 and June 30, 2019, respectively.

The Company is also generally required to contribute 4% of restaurant sales from its restaurants to an advertising fund utilized by BKC and PLK for its advertising, promotional programs and public relations activities, and additional amounts for additional local advertising in markets that approve such advertising. Advertising expense associated with these expenditures was $14.1 million and $14.4 million in the three months ended June 28, 2020 and June 30, 2019, respectively and $27.5 million and $25.8 million in the six months ended June 28, 2020 and June 30, 2019, respectively.

As of June 28, 2020, the Company leased 239 of its restaurant locations from BKC and 107 of these locations are subleased by BKC from various third party lessors. Aggregate rent under these BKC leases was $6.3 million and $6.8 million for the three months ended June 28, 2020 and June 30, 2019, respectively, and was $13.0 million and $13.6 million in the six months ended June 28, 2020 and June 30, 2019, respectively. The Company does not believe that such lease terms have been significantly affected by the fact that the Company and BKC are deemed to be related parties.

As of June 28, 2020 and December 29, 2019, the Company owed BKC and PLK $21.0 million and $14.0 million, respectively, related to the payment of advertising, royalties, rent and real estate taxes, which is normally remitted on a monthly basis.

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

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

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

## 12. Stockholders' Equity

### *Stock Repurchase Program*

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

At June 28, 2020, $21.0 million was available to repurchase shares under the Repurchase Program. Shares repurchased are being held in treasury until they are retired at the discretion of the Board of Directors. This program was suspended during the second quarter of 2020.

## 13. Net Income (Loss) per Share

The Company applies the two-class method to calculate and present net income (loss) per share. The Company's non-vested share awards and Series B Preferred Stock contain non-forfeitable rights to dividends and are considered participating securities for purposes of computing net income (loss) per share pursuant to the two-class method. Under the two-class method, net earnings are reduced by the amount of dividends declared (whether paid or unpaid) and the remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. As the Company incurred a net loss for the six months ended June 28, 2020, and losses are not allocated to participating securities under the two-class method, such method is not applicable for the aforementioned interim reporting periods.

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

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

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| **Basic net income (loss) per share:** | | | | |
| Net income (loss) | $ 7,842 | $ (3,732) | $ (14,367) | $ (15,201) |
| Less: Income attributable to non-vested shares | (158) | — | — | — |
| Less: Income attributable to preferred stock | (1,199) | — | — | — |
| Net income (loss) available to common stockholders | $ 6,485 | $ (3,732) | $ (14,367) | $ (15,201) |
| Weighted average common shares outstanding | 50,916,758 | 41,051,354 | 50,868,929 | 38,548,246 |
| Basic net income (loss) per share | $ 0.13 | $ (0.09) | $ (0.28) | $ (0.39) |
| **Diluted net income (loss) per share:** | | | | |
| Net income (loss) | $ 7,842 | $ (3,732) | $ (14,367) | $ (15,201) |
| Shares used in computing basic net income (loss) per share | 50,916,758 | 41,051,354 | 50,868,929 | 38,548,246 |
| Dilutive effect of preferred stock and non-vested shares | 9,415,059 | — | — | — |
| Shares used in computing diluted net income (loss) per share | 60,331,817 | 41,051,354 | 50,868,929 | 38,548,246 |
| Diluted net income (loss) per share | $ 0.13 | $ (0.09) | $ (0.28) | $ (0.39) |
| Shares excluded from diluted net income (loss) per share computations (1) | — | 17,755,355 | 10,652,278 | 17,755,355 |

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

## 14. Other Expense (Income)

In the three months ended June 28, 2020, the Company recorded other income, net of $2.0 million which consisted of gains related to insurance recoveries from property damage at four of its restaurants of $1.3 million, net gain on three sale-leaseback transactions of $0.8 million and a loss on disposal of assets of $0.1 million. In the six months ended June 28, 2020, the Company recorded other income, net of $1.9 million, which consisted of gains related to insurance recoveries from property damage at four of its restaurants of $1.6 million, net gain on ten sale-leaseback transactions of $0.6 million and a loss on disposal of assets of $0.2 million.

In the three months ended June 30, 2019, the Company recorded other expense, net of $0.4 million consisting of a loss on the disposal of restaurant equipment of $0.5 million and a $0.1 million gain on a sale-leaseback transaction. In the six months ended June 30, 2019, the Company recorded other income of $1.8 million which consisted of a $1.9 million gain from a settlement with BKC for their approval of new restaurant development by other franchisees which unfavorably impacted the Company's restaurants, a $0.1 million gain on two sale-leaseback transactions, a $0.1 million gain related to an insurance recovery from property damage at one of its restaurants in the prior year and a loss on a disposal of restaurant equipment of $0.5 million.

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

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

## Introduction

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

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

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

*Results from Operations*—an analysis of our results of operations for the three and six months ended June 28, 2020 compared to the three and six months ended June 30, 2019 including a review of material items and known trends and uncertainties.

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

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

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

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

## Company Overview

Carrols Restaurant Group, Inc. and its consolidated subsidiaries (collectively, "Carrols Restaurant Group", the "Company", “we”, “our” or “us”) is one of the largest restaurant companies in the United States and have been operating restaurants for more than 55 years. We are the largest Burger King® franchisee in the United States, based on number of restaurants. As of June 28, 2020 we operated, as franchisee, a total of 1,092 restaurants in 23 states under the trade names of Burger King® and Popeyes®, including certain restaurants temporarily closed as a result of COVID-19. This included 1,027 Burger King restaurants in 23 Northeastern, Midwestern and Southeastern states and 65 Popeyes restaurants in 7 Southeastern states.

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

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

- *Restaurant sales* consist of food and beverage sales at our restaurants, net of sales discounts and excluding sales tax collected. Restaurant sales are influenced by changes in comparable restaurant sales, menu price increases, new restaurant development, and acquisitions of restaurants and closures of restaurants. Comparable restaurant sales reflect the change in year-over-year sales for a comparable restaurant base. Restaurants we acquire are included in comparable restaurant sales after they have been owned for 12 months and immediately after they re-open following a remodel. Newly developed restaurants are included in comparable restaurant sales after they have been open for 15 months. For comparative purposes, where applicable, the calculation of the changes in comparable restaurant sales is based either on a 53-week or 52-week year and compares against the 52-week prior period.

- *Other revenue* consists of fuel sales, food sales and sales of other convenience merchandise and services from the six convenience stores acquired as part of the Cambridge Acquisition. The six convenience stores were closed in the fourth quarter of 2019.
- *Cost of sales* consists of food, paper and beverage costs (including packaging costs) and delivery charges, less purchase discounts and vendor rebates. Cost of sales is generally influenced by changes in commodity costs, the mix of items sold, the level of promotional discounting and the effectiveness of our restaurant-level controls to manage food and paper costs. In 2019 cost of sales also included fuel costs for the six convenience stores acquired as part of the Cambridge Acquisition, which contributed lower margins relative to our restaurant cost of sales.
- *Restaurant wages and related expenses* include all restaurant management and hourly productive labor costs and related benefits, employer payroll taxes and restaurant-level bonuses. Payroll and related benefits are subject to inflation, including minimum wage increases and increased costs for health insurance, workers' compensation insurance and federal and state unemployment insurance.
- *Restaurant rent expense* includes base rent and variable rent on our leases characterized as operating leases.
- *Other restaurant operating expenses* include all other restaurant-level operating costs, the major components of which are royalty expenses paid to BKC and PLK, utilities, repairs and maintenance, real estate taxes and credit card fees.
- *Advertising expense* includes advertising payments to BKC and PLK based on a percentage of sales as required under our franchise and operating agreements and additional marketing and promotional expenses in certain of our markets.
- *General and administrative expenses* are comprised primarily of salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees, acquisition costs and stock-based compensation expense.
- *EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss)*. EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are non-GAAP financial measures. EBITDA represents net income (loss) before income taxes, interest expense and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted to exclude impairment and other lease charges, acquisition costs, loss on extinguishment of debt, stock compensation expense, certain other non-recurring expenses and other income or expense. Adjusted Restaurant-Level EBITDA represents income (loss) from operations adjusted to exclude general and administrative expenses, depreciation and amortization, impairment and other lease charges and other income or expense. Adjusted Net Income (Loss) represents net income (loss) adjusted to exclude loss on extinguishment of debt, impairment and other lease charges, acquisition costs, pre-opening expenses, certain other non-recurring expenses, other income and expense and the related income tax effect of these adjustments.

  We are presenting Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) because we believe that they provide a more meaningful comparison than EBITDA and net income of our core business operating results, as well as with those of other similar companies. Additionally, we present Adjusted Restaurant-Level EBITDA because it excludes the impact of general and administrative expenses and other income or expense, which are not directly related to restaurant-level operations. Management believes that Adjusted EBITDA and Adjusted Restaurant-Level EBITDA, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations on page 42, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Adjusted Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced.

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

Net Income (Loss) and the reconciliation of income from operations to Adjusted Restaurant-Level EBITDA, see page 42.

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

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

- *Depreciation and amortization* primarily includes the depreciation of fixed assets, including equipment, owned buildings and leasehold improvements utilized in our restaurants, the amortization of franchise rights from our acquisitions of restaurants and the amortization of franchise fees paid to BKC and PLK.
- *Impairment and other lease charges* are determined through our assessment of the recoverability of property and equipment and intangible assets by determining whether the carrying value of these assets can be recovered over their respective remaining lives through undiscounted future operating cash flows. A potential impairment charge is evaluated whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Lease charges are recorded for our obligations under the related leases for closed locations net of estimated sublease recoveries.
- *Interest expense* consists of interest expense associated with our $425.0 million Term Loan B borrowings, $75 million Term Loan B-1 borrowings, amortization of deferred financing costs, amortization of original issue discounts, interest on revolving credit borrowings and, through April 30, 2019, interest on the $275.0 million of 8% Senior Secured Second Lien Notes due 2022 (the "8% Notes") and unamortized bond premium.
- *Free Cash Flow* is a non-GAAP financial measure and may not necessarily be comparable to other similarly titled captions of other companies due to differences in methods of calculation. Free Cash Flow is defined as cash provided by operating activities less cash used for investing activities, adjusted to add back cash paid for acquisitions. We believe that Free Cash Flow, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations in the table on page 43 , provides useful information about our cash flow for liquidity purposes and to service our debt. However, Free Cash Flow is not a measure of liquidity under GAAP, and, accordingly should not be considered as an alternative to our consolidated statement of cash flows and net cash provided by operating activities, net cash used for investing activities and net cash provided by financing activities as indicators of our liquidity or cash flow.

**Recent and Future Events Affecting our Results of Operations**

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

In response to the COVID-19 pandemic and the impact it has had on our business operations beginning in March 2020 and to the continuing uncertainty in the economy in general, we have taken several steps to adapt our business and strengthen and preserve our liquidity:

- The impact of the COVID-19 pandemic on restaurant sales at our Burger King restaurants began during the week ended March 15, 2020 and during the week ended March 29, 2020 comparable restaurant sales decreased 33.8% compared to the prior year week. Comparable restaurant sales declines at our Burger King restaurants began easing mid-April, and for the month of June the change in comparable restaurant sales was positive. For our Popeyes restaurants, the impact of the COVID-19 pandemic on restaurant sales started during the week ended March 22, 2020, and began easing mid-April. Year over year same store sales were positive each month of the second quarter for our Popeyes restaurants.

- In March 2020, we closed the dining rooms in all our restaurants and modified operating hours in line with local ordinances and day-part sales trends. These closures were in effect for most of the second quarter, with each restaurant operating according to their respective local governmental guidelines as well as safety procedures developed by BKC and PLK. As individual states and local governments have allowed reopenings, we have continually evaluated the opportunity to re-open dining rooms. In most cases, consumers have not been eager to return to dining rooms, and restaurant sales in the second quarter of 2020 included less than 1% of eat-in traffic.
- We launched delivery services in March of 2020 at approximately 800 of our restaurants and added additional third-party delivery partners over the course of the second quarter. For the second quarter, delivery comprised approximately 3% of total restaurant sales. We are continuing to integrate with additional third-party delivery providers.
- We temporarily closed 46 restaurants in late March 2020 and early April 2020 that were geographically close to one of our other restaurants, and these closures were in effect for most of the second quarter. By the end of the second quarter, we had reopened 28 of the temporarily closed restaurants and in July 2020 reopened another seven restaurants.
- As discussed below, we increased revolving credit borrowing capacity under our Revolving Credit Facility by $30.8 million to a total of $145.8 million and borrowed Incremental Term B-1 Loans for net proceeds of $71.3 million after original issue discount to increase our liquidity and protect against the uncertainty of a prolonged pandemic.
- We remain committed to active management of our expenditures and in the second quarter limited spending mainly to necessary restaurant maintenance issues. For the full year, we continue to expect operating capital expenditures be approximately $40 million, net of sale-leaseback proceeds.
- We reduced regional and corporate overhead by streamlining our regional management and support structure, improving our training process and instituting a 10% temporary reduction in all non-restaurant wages for the second quarter. Given our improved business trajectory, this reduction in wages was restored as of July 1, 2020.
- As allowed under the Coronavirus Aid, Relief and Economic Security Act, as amended (the "CARES Act"), we are deferring payment of the employer portion of Social Security taxes through the end of 2020. The amount of the cumulative deferral at the end of 2020 is currently estimated to be $17 million to $19 million, of which 50% is payable on each of December 31, 2021 and December 31, 2022. As of June 28, 2020, we have deferred $7.1 million of social security taxes, which is included in other long-term liabilities in the consolidated balance sheets.
- We negotiated with our landlords other than BKC to secure $5.8 million in deferral or abatement of 2020 cash rent obligations, of which $4.8 million is expected to be repaid over various periods beginning in the third quarter of 2020.
- During the second quarter, we optimized payment terms with our key vendors and suppliers and utilized deferral opportunities with our utility vendors. In July of 2020, we reverted to normal payment terms with our suppliers and utility vendors. Additionally, during the second quarter, we had a number of minor and/or temporary supply chain issues. All such issues have been resolved.
- We suspended any acquisition activity and share repurchases.

Throughout the course of this evolving COVID-19 outbreak, the Company has been adapting its business in order to continue operating safely. To support the health and safety of our employees, beginning in March 2020 we have mandated the use of masks, and contactless procedures in our restaurants, the use of sanitizers and requiring team members' temperatures be taken at the beginning of each shift. We also suspended all non-essential travel for our employees and implemented a work-from-home policy for all non-restaurant personnel. Subsequent to the second quarter, administrative employees have returned to the office on a voluntary basis as New York has continued its phased re-opening.

Although the COVID-19 pandemic has negatively impacted the Company's customer traffic, the immediate actions taken to continue drive-thru and carry-out business operations and secure additional liquidity have minimized the financial impact on the Company's results of operations, financial condition and cash flows. In June of 2020, monthly comparable sales were positive, with the decline in customer traffic more than offset by an increase in average check.

While significant uncertainty remains as to when or the manner in which the circumstances surrounding the COVID-19 pandemic will change, including but not limited to stock price volatility, lower customer traffic, governmental restrictions on restaurant businesses and the unpredictable economic environment, we have been nimble in adapting our operations to the realities of the marketplace and have seen the results of these efforts in the second quarter:

- We believe our restaurant performance has stabilized and remains resilient, which is driving both sales and profitability improvement;
- We are generating significant cash from operations that we believe will strengthen our balance sheet and enhance our liquidity position, and;
- Our capital expenditures are manageable, which we believe should enable us to continue generating positive Free Cash Flow for the foreseeable future.

***Cambridge Acquisition***

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

***Area Development and Remodeling Agreement***

The Company, Carrols Corporation, Carrols LLC, and BKC entered into the Area Development and Remodeling Agreement (the "ADA") which commenced on April 30, 2019 and ends on September 30, 2024, and which superseded the Operating Agreement dated as of May 30, 2012, as amended, between Carrols LLC and BKC. Pursuant to the ADA, BKC assigned to Carrols LLC, for a cost of $3.0 million, the right of first refusal on the sale of franchisee-operated restaurants in 16 states and a limited number of counties in four additional states, and granted franchise pre-approval to acquire Burger King restaurants until the date that we have acquired more than an aggregate of an additional 500 Burger King restaurants excluding those restaurants we acquired in the Cambridge Acquisition ("ADA ROFR").

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

The continued assignment of the ADA ROFR is subject to suspension at the discretion of BKC in the event of non-compliance by Carrols LLC with the new restaurant development and restaurant remodel obligations and certain other terms in the ADA. For 2020 and future periods, we have reduced our planned spending for new restaurant development and the remodeling of restaurants below the requirements in the ADA. As a result of the pandemic, beginning in March 2020 and through the second quarter we restricted capital expenditures to the most critical maintenance needs and completion of existing projects. We expect to complete remodels of seven restaurants in 2020 and to begin to selectively seek build to suit opportunities for new restaurants with attractive ROI's towards the end of 2020. In the event we do not meet our new restaurant development and/or restaurant remodel requirements in the

ADA, BKC may elect to suspend the ADA ROFR. In the case of a suspension of the ADA ROFR by BKC, any benefits available to us from the ADA may be suspended until such time that we are in compliance with the terms of the ADA.

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

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

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

### *Capital Expenditures*

In light of the economic conditions resulting from the COVID-19 pandemic as discussed above, we are managing our levels of capital expenditures and delaying the start of new projects other than critical restaurant capital and maintenance needs. We estimate our capital expenditures in 2020 will be approximately $40 million, net of estimated sale-leaseback proceeds. We incurred $25.0 million of capital expenditures in the first six months of 2020, inclusive of sale-leaseback proceeds, properties purchased for sale-leaseback, and insurance proceeds.

We opened six Burger King restaurants in the first six months of 2020, including three restaurants in the second quarter of 2020. We expect to complete remodels of seven restaurants in 2020 and to begin to selectively seek build-to-suit opportunities with attractive ROI's towards the end of 2020.

### *Restaurant Acquisitions*

From the beginning of 2019 through June 28, 2020, we acquired 234 restaurants (including the Cambridge Acquisition) from other franchisees in the following transactions (in thousands, except number of restaurants):

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

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

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

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

The pro forma impact on the results of operations for the six months ended June 30, 2019 from the 2019 acquired restaurants is included below. The pro forma results of operations are not necessarily indicative of the results that would have occurred had the acquisitions been consummated at the beginning of the periods presented, nor are they necessarily indicative of any future consolidated operating results. This pro forma financial information does not give effect to any anticipated synergies, operating efficiencies or cost savings or any transaction costs related to the 2019 acquired restaurants.

The following table summarizes certain pro forma financial information related to our operating results for the three and six months ended June 30, 2019 (in thousands):

| | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|
| Total revenue | $ 397,665 | $ 764,854 |
| Loss from operations | $ 5,399 | $ 5,275 |
| Adjusted EBITDA | $ 27,154 | $ 45,464 |

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

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

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

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

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

Loans, (ii) for the period commencing on the date that is 180 days after the Second Amendment Effective Date, through and including the date that is 269 days after the Second Amendment Effective Date, 4.25% for LIBOR Rate Loans and 3.25% for Alternate Base Rate Loans, (iii) for the period commencing on the date that is 270 days after the Second Amendment Effective Date, through and including the date that is 364 days after the Second Amendment Effective Date, 4.5% for LIBOR Rate Loans and 3.5% for Alternate Base Rate Loans and (iv) for the period commencing on the date that is 365 days after the Second Amendment Effective Date and thereafter, 4.75% for LIBOR Rate Loans and 3.75% for Alternate Base Rate Loans and (b) for so long as the Revolving Committed Amount is equal to or less than $115.0 million, 3.5% for LIBOR Rate Loans and 2.5% for Alternate Base Rate Loans.

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

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

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

On June 23, 2020 (the "Fifth Amendment Effective Date"), we entered into the Fifth Amendment to our Senior Credit Facilities (the "Fifth Amendment"). The Fifth Amendment increased the Term Loan (as defined in the Senior Credit Facilities) borrowings in the aggregate principal amount of $75 million of Incremental Term B-1 Loans (as defined in the Senior Credit Facilities). The Incremental Term B-1 Loans constitute a new tranche of Term Loans ranking pari passu in right of payment and security with the Initial Term Loans (as defined in the Senior Credit Facilities) for all purposes under the Senior Credit Facilities. The Incremental Term B-1 Loans have the same terms as outstanding borrowings under the Company's existing term loan B facility pursuant to and in accordance with the Senior Credit Facilities, provided that (i) borrowings under the Incremental Term B-1 Loans will bear interest at a rate per annum, at our option, of (a) the Alternate Base Rate (as defined in the Senior Credit Facilities) plus the applicable margin of 5.25% or (b) the LIBOR Rate (as defined in the Senior Credit Facilities) (which shall not be less than 1% for Incremental Term B-1 Loans) plus the applicable margin of 6.25% and (ii) certain prepayments of the Incremental Term B-1 Loans by us prior to the first anniversary of the Fifth Amendment Effective Date are subject to a premium to the Administrative Agent (as defined in the Senior Credit Facilities), for the ratable account of each applicable Term Loan Lender (as defined in the Senior Credit Facilities) holding Incremental Term B-1 Loans on the date of such prepayment equal to the Applicable Make-Whole Amount (as defined in the Senior Credit Facilities) with respect to the principal amount of the Incremental Term B-1 Loans so prepaid. The principal amount of the Incremental Term B-1 Loans will amortize in an aggregate annual amount equal to 1% of the original principal amount of the Incremental Term B-1 Loans and shall be repayable in consecutive quarterly installments on the last day of our fiscal quarters beginning on the third fiscal quarter of 2020 with the remaining outstanding principal amount of the Incremental Term B-1 Loan and all accrued but unpaid interest and other amounts payable with respect to the Incremental Term B-1 Loan due on April 30, 2026 which is the Term Loan Maturity Date (as defined in the Senior Credit Facilities).

As of June 28, 2020, there were no revolving credit borrowings outstanding and $9.7 million of letters of credit were issued under our Revolving Credit Facility. After reserving for issued letters of credit, $136.2 million was available for revolving credit borrowings under our Senior Credit Facilities at June 28, 2020.

***Restaurant Closures***

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

In 2019, excluding two restaurants relocated within their trade area, we closed eleven Burger King restaurants. In the first six months of 2020, excluding one restaurant relocated within its trade area, we permanently closed fourteen Burger King restaurants and we currently anticipate closing an additional 6 to 8 Burger King restaurants in 2020, excluding any restaurants being relocated within their trade area.

In response to restaurant sales declines resulting from the COVID-19 pandemic we temporarily closed, 42 Burger King restaurants and four Popeyes Restaurants that were geographically close to one of our other restaurants in the last week of March 2020 and first week of April 2020. By the end of July 2020, 31 of the Burger King restaurants temporarily closed have reopened and all four Popeyes restaurants temporarily closed have reopened.

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

***Effect of Minimum Wage Increases***

Certain of the states and municipalities in which we operate have increased their minimum wage rates for 2020 and in many cases have also approved additional increases for future periods. Most notably, New York State has increased the minimum wage applicable to our business to $13.75 an hour in 2020 from $12.75 per hour in 2019 and $11.75 per hour in 2018, with subsequent annual increases reaching $15.00 per hour by July 1, 2021. New York State does have an Urban Youth Credit through 2022 for which we have been receiving approximately $500,000 per year since 2016. We had 126 restaurants in New York State at June 28, 2020. As of such date, we also had one restaurant in Massachusetts that has annual minimum wage increases reaching $15.00 per hour in 2023, 10 restaurants in New Jersey that have annual minimum wage increases reaching $15.00 per hour in 2024, and 46 total restaurants in Illinois and Maryland that have annual minimum wage increases reaching $15.00 per hour in 2025. We typically attempt to offset the effects of wage inflation, at least in part, through periodic menu price increases. However, no assurance can be given that we will be able to offset these wage increases in the future.

***Stock Repurchase Program***

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

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

***Interest Rate Swap Agreement***

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

## Results of Operations

### *Three Months Ended June 28, 2020 Compared to Three Months Ended June 30, 2019*

The following table highlights the key components of sales and the number of restaurants in operation for our second quarter ended June 28, 2020 (inclusive of restaurants that were temporarily closed due to COVID-19 at during the period) as compared to second quarter ended June 30, 2019:

| | Three Months Ended | |
|---|---|---|
| | June 28, 2020 | June 30, 2019 |
| Restaurant Sales | 368,418 | 365,674 |
| Burger King | 345,649 | 353,714 |
| Popeyes | 22,769 | 11,960 |
| | | |
| Change in Comparable Restaurant Sales % (a) | (5.6)% | 0.1% |
| Change in Comparable Burger King Restaurant Sales (a) | (6.4)% | 0.1% |
| Change in Comparable Popeyes Restaurant Sales (a) | 17.1 % | |
| | | |
| Burger King Restaurants operating at beginning of period: | 1,028 | 845 |
| New restaurants opened, including relocations (b) | 3 | 4 |
| Restaurants acquired | — | 178 |
| Restaurants closed, including relocations (b) | (4) | (4) |
| Burger King Restaurants operating at end of period | 1,027 | 1,023 |
| | | |
| Popeyes Restaurants operating at beginning of year | 65 | — |
| New restaurants opened | — | 3 |
| Restaurants acquired | — | 55 |
| Popeyes Restaurants operating at end of period | 65 | 58 |

a. Restaurants we acquire are included in comparable restaurant sales after they have been operated by us for 12 months. Sales from restaurants we develop are included in comparable sales after they have been open for 15 months. The calculation of changes in comparable restaurant sales is based on the comparable 13-week or 26-week period.

b. For the second quarter of 2020, new restaurants opened includes one restaurant relocated within its market area and closed restaurants includes one restaurant closed as a result of relocation.

*Restaurant Sales.* Total restaurant sales in the second quarter of 2020 increased $2.7 million to $368.4 million from the second quarter of 2019. Restaurant sales in the second quarter of 2020 included three months of activity for the 220 restaurants from the Cambridge Acquisition, while 2019 included two months. Our comparable restaurant sales decreased 5.6% compared to the second quarter of 2019 due to a decrease in customer traffic of 22.7% which was offset by an increase in average check of 22.1% The change in average check included a 2.1% effective price increase compared to the second quarter of 2019. The decrease in traffic and increase in average check realized during the second quarter represents changing consumer behavior as a result of the COVID-19 pandemic. Restaurant sales were also impacted by the inclusion of three months of activity in 2020 for the 220 restaurants acquired in the Cambridge Acquisition, while 2019 included two months of activity.

*Operating Costs and Expenses (percentages stated as a percentage of total revenue).* The following table sets forth, for the three months ended June 28, 2020 and June 30, 2019, selected operating results as a percentage of total revenue:

| | **Three Months Ended** | |
|---|---|---|
| | **June 28, 2020** | **June 30, 2019** |
| Costs and expenses (all restaurants): | | |
| Cost of sales | 28.4% | 29.6% |
| Restaurant wages and related expenses | 30.4% | 32.9% |
| Restaurant rent expense | 7.9% | 7.2% |
| Other restaurant operating expenses | 14.7% | 15.3% |
| Advertising expense | 3.9% | 4.0% |
| General and administrative | 5.0% | 5.6% |

Cost of sales decreased to 28.4% in the second quarter of 2020 from 29.6% in the second quarter of 2019 due primarily to improved operational efficiencies at our restaurants and the impact of menu price increases taken since the end of the second quarter of 2019 at our Burger King restaurants. These improvements were partially offset by an increase in commodity costs at our Burger King restaurants (1.4%), which includes an 8.3% increase in ground beef prices compared to the second quarter of 2019. Promotional sales discounts in the second quarter of 2020 were 19.9% of total restaurant sales compared to 20.7% in the second quarter of 2019.

Restaurant wages and related expenses decreased to 30.4% in the second quarter of 2020 from 32.9% in the second quarter of 2019 due to labor adjustments we made during the quarter in response to the COVID-19 environment. We were able to adjust our labor requirements and hours based on operating day part sales trends and in response to dining room closures. The impact of hourly labor rate increases in the second quarter of 2020, inclusive of minimum wage increases, was 5.3% when compared to the prior year period. This was more than offset through effective labor hour management in the second quarter.

Restaurant rent expense increased to 7.9% in the second quarter of 2020 from 7.2% in the second quarter of 2019 due to higher rent as a percentage of sales for the 220 Cambridge restaurants acquired in 2019 and the effect of lower sales volumes on fixed rental costs. Restaurant rent expense in the second quarter of 2020 was reduced for rent abatements recognized in the second quarter of $0.2 million.

Other restaurant operating expenses decreased to 14.7% in the second quarter of 2020 from 15.3% in the second quarter of 2019 due primarily efficiencies realized due to dining room closures, primarily from lower repair and maintenance spending (0.4%) and utility costs (0.1%). Lower operating supply costs were offset by $1.4 million in COVID-19 related supplies, including face marks, thermometers, sneeze guards, and sanitizers.

Advertising expense decreased to 3.9% in the second quarter of 2020 from 4.0% in the second quarter of 2019 due to advertising incentives received for certain remodeled Burger King restaurants, including restaurants acquired from Cambridge in 2019.

*Adjusted Restaurant-Level EBITDA.* As a result of the factors discussed above, Adjusted Restaurant-Level EBITDA increased $13.0 million, or 31.7%, to $54.1 million in the second quarter of 2020, and as a percentage of total revenue, increased to 14.7% in the second quarter of 2020 from 11.2% in the second quarter of 2019. For a reconciliation between Adjusted Restaurant-Level EBITDA and loss from operations see page 42.

*General and Administrative Expenses.* General and administrative expenses decreased $2.0 million in the second quarter of 2020 to $18.6 million, and, as a percentage of total revenue, decreased to 5.0% in the second quarter of 2020 from 5.6% in the second quarter of 2019. The $2.0 million decrease was driven by reduced overhead costs in 2020, including our reduction in regional and corporate overhead from streamlining our regional management structure, improvements to our training process, and institution of a 10% temporary reduction in non-restaurant wages for the second quarter of 2020, as well as 2019 including $1.9 million more of acquisition and integration costs. The full impact of these administrative cost reductions were offset in the quarter by $0.8 million more in abandoned development write-offs, the inclusion of a full quarter for Cambridge field overhead, and $0.8 million higher administrative bonus accruals in the second quarter of 2020 as a result of favorable restaurant-level profitability in the period. The 10% temporary reduction in non-restaurant wages was restored as of July 1, 2020.

*Adjusted EBITDA.* As a result of the factors above, Adjusted EBITDA increased to $38.0 million in the second quarter of 2020 from $24.1 million in the second quarter of 2019, and as a percentage of total revenue, increased to 10.3% in the second quarter of 2020 from 6.5% in the second quarter of 2019. For a reconciliation between net loss and EBITDA and Adjusted EBITDA see page 42.

*Depreciation and Amortization Expense*. Depreciation and amortization expense increased $3.2 million to $20.3 million in the second quarter of 2020 from $17.1 million in the second quarter of 2019 due primarily to our new restaurant development, remodeling initiatives and the additional restaurants from the Cambridge Merger in 2019.

*Impairment and Other Lease Charges*. Impairment and other lease charges were $2.9 million in the second quarter of 2020 consisting of $2.6 million related to initial impairment charges for six underperforming restaurants, capital expenditures of $0.1 million at previously impaired restaurants, and $0.2 million of other lease charges.

During the second quarter of 2019, impairment and other lease charges were $0.4 million which consisted primarily of $0.2 million for one underperforming restaurant, capital expenditures of $0.1 million at previously impaired restaurants, and $0.1 million associated with the closure of one underperforming restaurant.

*Other Income and Expense.* Other income, net in the second quarter of 2020 included gains related to insurance recoveries from property damage at four of its restaurants of $1.3 million, a net gain on three sale-leaseback transactions of $0.8 million and a loss on disposal of assets of $0.1 million. Other expense, net for the three months ended June 30, 2019 included a loss on disposal of assets of $0.5 million and a gain on one sale-leaseback transaction of $0.1 million.

*Loss on Extinguishment of Debt.* We recognized a loss on extinguishment of debt of $7.4 million during the second quarter of 2019 in connection with the refinancing of our 8% Notes. The loss consisted of the write-off of unamortized debt costs, unamortized bond premium and additional redemption fees.

*Interest Expense.* Interest expense decreased to $6.4 million in the second quarter of 2020 from $6.9 million in the second quarter of 2019. Our weighted average interest rate on our long-term debt, excluding lease financing obligations, decreased to 4.3% in the second quarter of 2020 from 6.3% in the second quarter of 2019, due to the refinancing in the second quarter of 2019 which included the redemption of our 8% Senior Secured Second Lien Notes in exchange for lower variable rate term loans.

*Provision (benefit) for Income Taxes.* For the three months ended June 28, 2020 the provision for income taxes was derived using an estimated effective annual income tax rate for all of 2020 of 36.7%. There were no discrete tax adjustments in the second quarter of 2020. Due to a valuation allowance on all of our net deferred income tax assets, we did not record any provision or benefit for income taxes in the second quarter of 2020 other than $0.1 million in current tax expense related to statutory costs.

During the first quarter of 2020 we determined that a valuation allowance was needed for all of our net deferred income tax assets. As a result, the deferred tax expense that would have been incurred due to pretax income during the second quarter was offset by a tax benefit of $1.8 million to reduce the valuation allowance as our net deferred tax assets decreased due to the income during the quarter.

The provision (benefit) for income taxes for the second quarter of 2019 was derived using an estimated effective annual income tax rate for all of 2019 of 35.1%, excluding any discrete tax adjustments. The difference compared to the statutory rate for 2019 is attributable to approximately $3.0 million of non-deductible acquisition costs incurred during the year and the benefits of federal employment credits which are not directly related to the amount of pre-tax loss recorded in a period.

*Net Income (Loss).* As a result of the above, net income for the second quarter of 2020 was $7.8 million, or $0.13 per diluted share, compared to a net loss in the second quarter of 2019 of $3.7 million, or $0.09 per diluted share.

***Six Months Ended June 28, 2020 Compared to Six Months Ended June 30, 2019***

The following table highlights the key components of sales for the six month period ended June 28, 2020 as compared to the six month period ended June 30, 2019 :

| | Six Months Ended | |
|---|---|---|
| | **June 28, 2020** | **June 30, 2019** |
| Restaurant Sales | 719,936 | 656,463 |
| Burger King | 675,286 | 644,503 |
| Popeyes | 44,650 | 11,960 |
| | | |
| Change in Comparable Restaurant Sales % (a) | (5.6)% | 1.2% |
| Change in Comparable Burger King Restaurant Sales (a) | (6.0)% | 1.2% |
| Change in Comparable Popeyes Restaurant Sales (a) | 17.1 % | |
| | | |
| Burger King Restaurants operating at beginning of period: | 1,036 | 849 |
| New restaurants opened, including relocations (b) | 6 | 6 |
| Restaurants acquired | — | 178 |
| Restaurants closed, including relocations (b) | (15) | (10) |
| Burger King Restaurants operating at end of period | 1,027 | 1,023 |
| | | |
| Popeyes Restaurants operating at beginning of year | 65 | — |
| New restaurants opened | — | 3 |
| Restaurants acquired | — | 55 |
| Popeyes Restaurants operating at end of period | 65 | 58 |

a. Restaurants we acquire are included in comparable restaurant sales after they have been operated by us for 12 months. Sales from restaurants we develop are included in comparable sales after they have been open for 15 months. The calculation of changes in comparable restaurant sales is based on the comparable 13-week or 26-week period.

b. For the first six months of 2020, new restaurants opened includes one restaurant relocated within its market area and closed restaurants includes one restaurant closed as a result of relocation.

*Restaurant Sales.* Total restaurant sales in the first six months of 2020 increased 9.7% to $719.9 million from $656.5 million in the first six months of 2019. Comparable restaurant sales decreased 5.6% in the first six months of 2020 due to a decrease in customer traffic of 17.5% which was partially offset by an increase in average check of 14.4%. The effect in the first six months of 2020 from menu price increases taken since the beginning of 2019 was approximately 2.1%. Restaurant sales were also impacted by the inclusion of six months of activity in 2020 for the 220 restaurants acquired in the Cambridge Acquisition, while 2019 included two months of activity.

*Operating Costs and Expenses (percentages stated as a percentage of total revenue unless otherwise noted).* The following table sets forth, for the six months ended June 28, 2020 and June 30, 2019, selected operating results as a percentage of total revenue:

| | Six Months Ended | |
|---|---|---|
| | **June 28, 2020** | **June 30, 2019** |
| Costs and expenses (all restaurants): | | |
| Cost of sales | 28.8% | 29.1% |
| Restaurant wages and related expenses | 32.8% | 33.6% |
| Restaurant rent expense | 8.1% | 7.4% |
| Other restaurant operating expenses | 15.6% | 15.5% |
| Advertising expense | 3.9% | 4.0% |
| General and administrative | 5.5% | 6.1% |

Cost of sales decreased to 28.8% in the first six months of 2020 from 29.1% in the first six months of 2019 as the positive impacts of improved operational efficiencies at our restaurants and menu price increases taken since the beginning of 2019 were mostly offset by higher commodity prices at our Burger King restaurants (1.4%), including a 9.6% increase in beef prices compared to the prior year period and the addition of delivery costs (0.2%). Promotional sales discounts in the first six months of 2020 were 20.5% of total restaurant sales compared to 21.9% in the first six months of 2019.

Restaurant wages and related expenses decreased to 32.8% in the first six months of 2020 from 33.6% in the first six months of 2020 due to labor adjustments we made during the quarter in response to the COVID-19 environment. We were able to adjust our labor requirements and hours based on operating day part sales trends and in response to dining room closures. The impact of hourly labor rate increases over the first six months of 2020, inclusive of minimum wage increases, was 5.6% when compared to the prior year period. This was more than offset through effective labor hour management in the second quarter.

Restaurant rent expense increased to 8.1% in the first six months of 2020 from 7.4% in the first six months of 2019 due to higher rent as a percentage of sales for the 220 Cambridge restaurants acquired in 2019 and the effect of lower sales volumes on fixed rental costs. Restaurant rent expense in the first six months of 2020 was reduced for rent abatements recognized in the second quarter of $0.2 million.

Other restaurant operating expenses increased to 15.6% in the first six months of 2020 from 15.5% in the first six months of 2019 due primarily to an increase in operating supplies (0.1%), which included $1.4 million in COVID-19 related supplies, including face marks, thermometers, sneeze guards, and sanitizers.

Advertising expense decreased to 3.9% in the first six months of 2020 from 4.0% in the first six months of 2019 due to advertising incentives received for certain remodeled Burger King restaurants, including restaurants acquired from Cambridge in 2019.

*Adjusted Restaurant-Level EBITDA.* As a result of the factors above, Adjusted Restaurant-Level EBITDA increased $7.1 million, or 10.2%, to $76.9 million in the first six months of 2020, and, as a percentage of total revenue, increased to 10.7% for the first six months of 2020 from 10.6% in the prior year period. For a reconciliation between Restaurant-Level EBITDA and income (loss) from operations see page 42.

*General and Administrative Expenses.* General and administrative expenses decreased $1.0 million in the first six months of 2020 to $39.4 million and, as a percentage of total revenue, decreased to 5.5% from 6.1%. The decrease in total general and administrative expenses was due primarily to 2019 including $4.5 million more of acquisition and integration costs, lower administrative bonus accruals of $0.6 million as well as the second quarter administrative cost reductions discussed earlier.

*Adjusted EBITDA.* As a result of the factors above, Adjusted EBITDA increased to $42.0 million in the first six months of 2020 from $37.5 million in the first six months of 2019. For a reconciliation between net income (loss) and EBITDA and Adjusted EBITDA see page 42.

*Depreciation and Amortization Expense*. Depreciation and amortization expense increased to $41.3 million in the first six months of 2020 from $32.4 million in the first six months of 2019 due primarily to our ongoing remodeling initiatives and our acquisition of restaurants in 2019.

*Impairment and Other Lease Charges*. Impairment and other lease charges were $5.8 million in the first six months of 2020, which included $4.1 million of asset impairment charges at nine underperforming restaurants, $0.3 million of capital expenditures at previously impaired restaurants, and $1.4 million of other lease charges primarily due to nine restaurants closed during the first quarter. Impairment and other lease charges were $1.3 million in the first six months of 2019, which included $0.9 million related to impairment charges for three underperforming restaurants, capital expenditures of $0.2 million at underperforming restaurants and $0.2 million of other lease charges.

*Other Income and Expense*. In the first six months of 2020 other income, net included gains related to insurance recoveries from property damage at four of its restaurants of $1.6 million, net gain on ten sale-leaseback transactions of $0.6 million and a loss on disposal of assets of $0.2 million.

The first six months of 2019 included a $1.9 million gain related to a settlement with Burger King Corporation for the approval of new restaurant development by other franchisees which unfavorably impacted our restaurants, a gain on two sale-leaseback transactions of $0.1 million, and a gain related to an insurance recovery from property damage at one of our restaurants of $0.1 million

*Interest Expense.* Interest expense increased to $13.5 million in the first six months of 2020 from $12.8 million in the first six months of 2019. The weighted average interest rate on our long-term debt, excluding lease financing obligations, decreased to 4.6% in the first six months of 2020 from 7.0% in the first six months of 2019, due primarily to the refinancing in the second quarter of 2019 which included the redemption of our 8% Senior Secured Second Lien Notes in exchange for lower variable rate term loans.

*Provision (Benefit) for Income Taxes.* The benefit for income taxes for the first six months of 2020 was derived using an estimated effective annual income tax rate for all of 2020 of 36.7%, which excludes any discrete tax adjustments. There were no discrete tax adjustments in the six months ended June 28, 2020.

During the first quarter of 2020 we determined that a valuation allowance was needed for all of our net deferred income tax assets. As a result, the deferred tax benefit that would have been incurred due to the pretax loss during the six months of 2020 was offset by tax expense of $0.4 million for the valuation allowance on our net deferred tax assets as of June 28, 2020.

The provision (benefit) for income taxes for the first six months of 2019 was derived using an estimated effective annual income tax rate for all of 2019 of 35.1%, excluding any discrete tax adjustments. The difference compared to the statutory rate for 2019 is attributable to approximately $3.0 million of non-deductible acquisition costs incurred during the year and the benefits of federal employment credits which are not directly related to the amount of pre-tax loss recorded in a period.

*Net Loss.* As a result of the above, net loss for first six months of 2020 was $14.4 million, or $0.28 per diluted share, compared to a net loss in first six months of 2019 of $15.2 million, or $0.39 per diluted share.

Reconciliations of net income (loss) to EBITDA, Adjusted EBITDA and Adjusted net income (loss), and Income (loss) from operations to Restaurant-Level EBITDA, for the three and six months ended June 28, 2020 and June 30, 2019 are as follows (in thousands, except for per share data):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Reconciliation of EBITDA and Adjusted EBITDA:** | **June 28, 2020** | **June 30, 2019** | **June 28, 2020** | **June 30, 2019** |
| Net income (loss) | **$ 7,842** | **$ (3,732)** | **$ (14,367)** | **$ (15,201)** |
| Provision (benefit) for income taxes | 90 | (8,508) | (6,888) | (8,154) |
| Interest expense | 6,370 | 6,900 | 13,510 | 12,847 |
| Depreciation and amortization | 20,296 | 17,121 | 41,327 | 32,413 |
| **EBITDA** | **34,598** | **11,781** | **33,582** | **21,905** |
| Impairment and other lease charges | 2,941 | 367 | 5,822 | 1,277 |
| Acquisition and integration costs (1) | 274 | 2,573 | 355 | 5,229 |
| Abandoned development costs (2) | 869 | 54 | 1,557 | 111 |
| Pre-opening costs (3) | 10 | 121 | 99 | 189 |
| Litigation costs (4) | 219 | 136 | 280 | 272 |
| Other (income) expense, net (5) (6) | (2,003) | 376 | (1,947) | (1,753) |
| Stock-based compensation expense | 1,109 | 1,282 | 2,241 | 2,808 |
| Loss on extinguishment of debt | — | 7,443 | — | 7,443 |
| **Adjusted EBITDA** | **$ 38,017** | **$ 24,133** | **$ 41,989** | **$ 37,481** |
| | | | | |
| **Reconciliation of Restaurant-Level EBITDA:** | | | | |
| Income (loss) from operations | **$ 14,302** | **$ 2,103** | **$ (7,745)** | **$ (3,065)** |
| Add: | | | | |
| General and administrative expenses | 18,581 | 20,620 | 39,368 | 40,344 |
| Acquisition and integration costs (1) | — | 406 | — | 406 |
| Pre-opening costs (3) | 10 | 121 | 99 | 189 |
| Depreciation and amortization | 20,296 | 17,121 | 41,327 | 32,413 |
| Impairment and other lease charges | 2,941 | 367 | 5,822 | 1,277 |
| Other (income) expense, net (5) (6) | (2,003) | 376 | (1,947) | (1,753) |
| **Restaurant-Level EBITDA** | **$ 54,127** | **$ 41,114** | **$ 76,924** | **$ 69,811** |
| | | | | |
| **Reconciliation of Adjusted Net Income (Loss):** | | | | |
| Net income (loss) | **$ 7,842** | **$ (3,732)** | **$ (14,367)** | **$ (15,201)** |
| Add: | | | | |
| Impairment and other lease charges | 2,941 | 367 | 5,822 | 1,277 |
| Acquisition and integration costs (1) | 274 | 2,573 | 355 | 5,229 |
| Abandoned development costs (2) | 869 | 54 | 1,557 | 111 |
| Pre-opening costs (3) | 10 | 121 | 99 | 189 |
| Litigation costs (4) | 219 | 136 | 280 | 272 |
| Other (income) expense, net (5) (6) | (2,003) | 376 | (1,947) | (1,753) |
| Loss on extinguishment of debt | — | 7,443 | — | 7,443 |
| Income tax effect on above adjustments (7) | (578) | (2,768) | (1,542) | (3,193) |
| **Adjusted Net Income (Loss)** | **$ 9,574** | **$ 4,570** | **$ (9,743)** | **$ (5,626)** |
| **Adjusted diluted net income (loss) per share (8)** | **$ 0.16** | **$ 0.08** | **$ (0.19)** | **$ (0.15)** |
| **Adjusted diluted weighted average common shares outstanding (in thousands of shares)** | **60,332** | **58,208** | **50,869** | **38,548** |

(1) Acquisition costs for the three and six months ended June 28, 2020 and June 30, 2019 mostly includes legal and professional fees incurred in connection with restaurant acquisitions. Integration costs were $1.2 million in the three and six months ended June 30, 2019 and included certain professional fees, corporate payroll, and other costs related to the integration of the Cambridge Acquisition, of which $0.4 million of one-time repairs and maintenance costs were were restaurant-level expenses and $0.8 million were recorded in general and administrative expense.

(2) Abandoned development costs for the three and six months ended June 28, 2020 and June 30, 2019 represents the write-off of capitalized costs due to the abandoned development of future restaurant locations.

(3) Pre-opening costs for the three and six months ended June 28, 2020 and June 30, 2019 include training, labor and occupancy costs incurred during the construction of new restaurants prior to their opening.

(4) Litigation costs for the three and six months ended June 28, 2020 and June 30, 2019 includes litigation expenses pertaining to an ongoing lawsuit with one of the Company's former vendors as well as other non-recurring professional service expenses.

(5) Other income, net for the three months ended June 28, 2020 included gains related to insurance recoveries from property damage at four of its restaurants of $1.3 million, a net gain on three sale-leaseback transactions of $0.8 million and a loss on disposal of assets of $0.1 million. For the six months ended June 28, 2020 other income, net included gains related to insurance recoveries from property damage at four of its restaurants of $1.6 million, net gain on ten sale-leaseback transactions of $0.6 million and a loss on disposal of assets of $0.2 million.

(6) Other expense, net for the three months ended June 30, 2019 included a loss on disposal of assets of $0.5 million and a gain on one sale-leaseback transaction of $0.1 million. Other income, net for the six months ended June 30, 2019 included a $1.9 million gain related to a settlement with BKC for the approval of new restaurant development by other franchisees which unfavorably impacted our restaurants, a gain on two sale-leaseback transactions of $0.1 million, and a gain related to an insurance recovery from property damage at one of our restaurants of $0.1 million.

(7) The income tax effect related to the adjustments to Adjusted Net Income (Loss) during the periods presented was calculated using an incremental income tax rate of 25% for the three and six months ended June 28, 2020 and June 30, 2019.

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

A reconciliation of Free Cash Flow to cash provided by operating activities and cash used for investing activities is as follows:

| | Three Months Ended (1) | | Six Months Ended | |
|---|---|---|---|---|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| **Reconciliation of Free Cash Flow:** | | | | |
| Net cash provided by operating activities | $ 51,682 | $ 2,844 | $ 47,892 | $ 10,832 |
| Net cash used for investing activities | (3,038) | (150,562) | (25,006) | (166,312) |
| Add: cash paid for acquisitions | — | 127,980 | — | 127,980 |
| **Total Free Cash Flow** | **$ 48,644** | **$ (19,738)** | **$ 22,886** | **$ (27,500)** |

(1) Free Cash Flow for the three months ended June 28, 2020 and June 30, 2019 is derived from the Company's consolidated statement of cash flows for the respective six month periods presented in our consolidated statement of cash flows in this Form 10-Q and the consolidated statement of cash flows for the previously reported three month periods ended March 29, 2020 and March 31, 2019, respectively, contained in our Form 10-Q for the period ended March 29, 2020.

## Liquidity and Capital Resources

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

- restaurant operations are primarily conducted on a cash basis;
- rapid turnover results in a limited investment in inventories; and

- cash from sales is usually received before related liabilities for food, supplies and payroll become due.

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

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

- Operationally we temporarily closed 46 restaurants in late March 2020 and early April 2020 that were geographically close to one of our other restaurants, and these closures were in effect for most of the second quarter. By the end of the second quarter, we had reopened 28 of the temporarily closed restaurants and in July 2020 reopened another seven restaurants. All of our other restaurants are open and we are continuing to serve all of our drive-thru and take-out customers, which comprised over 95% of our restaurant sales in the second quarter, and we have launched delivery services in March and April at a majority of our restaurants. We also have modified our operating hours and appropriate levels of labor in line with local ordinances and based on day-part sales trends.
- As discussed above, we increased revolving credit borrowing capacity under our Revolving Credit Facility by $30.8 million to a total of $145.8 million. In the first quarter of 2020, we borrowed on our Revolving Credit Facility to protect against a prolonged pandemic coupled with financial market illiquidity. This was repaid in the second quarter of 2020 upon our borrowing of $75 million in Incremental Term B-1 Loans.
- We remain committed to keeping our expenditures in check and in the second quarter limited spending mainly to necessary restaurant maintenance issues. For the full year, we continue to expect operating capital expenditures of approximately $40 million, net of sale-leaseback proceeds.
- We reduced regional and corporate overhead by streamlining our regional management and support structure, improving our training process and instituting a 10% temporary reduction in all non-restaurant wages for the second quarter. Given our improved business trajectory, this reduction in wages was restored as of July 1, 2020.
- As allowed under the CARES Act, we are deferring payment of the employer portion of Social Security taxes through the end of 2020. The amount of the cumulative deferral at the end of 2020 is currently estimated to be $17 million to $19 million, of which 50% is payable on each of December 31, 2021 and December 31, 2022. As of June 28, 2020, we have deferred $7.1 million of social security taxes.
- We negotiated with our landlords other than BKC to secure $5.8 million in deferral or abatement of 2020 cash rent obligations, of which $4.8 million is expected to be repaid over various periods beginning in the third quarter of 2020.
- During the second quarter, we optimized payment terms with our key vendors and suppliers and utilized deferral opportunities with our utility vendors. In July of 2020, we reverted to normal payment terms with our suppliers and utility vendors. Additionally, during the second quarter, we had a number of minor and/or temporary supply chain issues. All such issues have been resolved.
- We also have suspended any acquisition activity and share repurchases.

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

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

*Operating Activities*. Net cash provided by operating activities was $47.9 million in the first six months of 2020 compared to net cash provided by operating activities of $10.8 million in the first six months of 2019. The increase was due primarily to an increase of $4.5 million in Adjusted EBITDA combined with an increase in working capital of $22.0 million.

*Investing Activities.* Net cash used for investing activities in the first six months of 2020 and 2019 was $25.0 million and $166.3 million, respectively. In the first six months of 2020, we purchased certain restaurant properties to be sold in sale-leaseback transactions for $12.4 million and completed sale-leaseback transactions of 10 restaurant properties for proceeds of $18.9 million. Investing activities in the six months of also included the receipt of insurance proceeds of $1.7 million for fires at four of our restaurants.

In the first six months of 2019, investing activities included $128.0 million paid in connection with the Cambridge Acquisition and the separate acquisition of thirteen Burger King restaurants from another franchisee, net proceeds of $4.6 million from two sale-leaseback transaction and $0.1 million of proceeds from property damage at one of our restaurants.

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

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

| | | |
|---|---|---|
| **Six Months Ended June 28, 2020** | | |
| New restaurant development | $ | 13,952 |
| Restaurant remodeling | | 7,349 |
| Other restaurant capital expenditures | | 5,555 |
| Corporate and restaurant information systems | | 6,288 |
| Total capital expenditures | $ | 33,144 |
| **Six Months Ended June 30, 2019** | | |
| New restaurant development | $ | 19,120 |
| Restaurant remodeling | | 12,990 |
| Other restaurant capital expenditures | | 8,784 |
| Corporate and restaurant information systems | | 2,198 |
| Total capital expenditures | $ | 43,092 |

*Free Cash Flow.* We generated $48.6 million and $22.9 million in Free Cash Flow during the three and six months ended June 28, 2020, compared to a use of cash of $19.7 million and $27.5 million during the three and six months ended June 30, 2019. Free Cash Flow in the second quarter was driven by the actions we took to bolster liquidity in our response to the current economic conditions, by reducing levels of capital expenditures and improving profitability. The six months ended June 28, 2020 were offset by higher levels of capital expenditures in the first quarter of 2020. Free Cash Flow in first six months of 2020 was higher than cash used in the prior comparable periods due to lower level of capital expenditures and increased cash provided by operations. For a reconciliation between cash provided from operations and investing activities to Free Cash Flow see page 43.

*Financing Activities*. Net cash provided by financing activities in first six months of 2020 was $20.1 million and included net proceeds from issuance of the Incremental Term B-1 Loans of $71.3 million after original issue discount, net revolving credit facility repayments of $45.8 million, and principal payments of $2.1 million on the Term Loan B

Facility. We also incurred $2.1 million of costs associated with issuance of Incremental Term B-1 Loans and amendments of our Senior Credit Facilities and made principal payments on finance leases of $1.1 million.

Net cash provided by financing activities in the six months of 2019 was $154.9 million and included $422.9 million in borrowings from the Term B Facility, net revolving credit borrowings of $25.0 million under the Revolving Credit Facility, redemption of the 8.0% Notes, costs associated with the new Senior Credit Facilities of $11.5 million and principal payments on finance leases of $1.0 million.

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

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

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

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

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

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

On June 23, 2020, we entered into the Fifth Amendment to our Senior Credit Facilities. The Fifth Amendment increased the Term Loan borrowings in the aggregate principal amount of $75 million of Incremental Term B-1 Loans. The Incremental Term B-1 Loans constitute a new tranche of Term Loans ranking pari passu in right of payment and security with the Initial Term Loans for all purposes under the Credit Agreement. The Incremental Term B-1 Loans have the same terms as outstanding borrowings under the our existing term loan B facility pursuant to and in accordance with the Credit Agreement, provided that (i) borrowings under the Incremental Term B-1 Loans will bear interest at a rate per annum, at our option, of (a) the Alternate Base Rate plus the applicable margin of 5.25% or (b) the LIBOR Rate (which shall not be less than 1% for Incremental Term B-1 Loans) plus the applicable margin of 6.25% and (ii) certain prepayments of the Incremental Term B-1 Loans prior to the first anniversary of the Fifth Amendment Effective Date are subject to a premium to the Administrative Agent, for the ratable account of each applicable Term Loan Lender holding Incremental Term B-1 Loans on the date of such prepayment equal to the Applicable Make-Whole Amount with respect to the principal amount of the Incremental Term B-1 Loans so prepaid. The principal amount of the Incremental Term B-1 Loans will amortize in an aggregate annual amount equal to 1% of the original principal amount of the Incremental Term B-1 Loans and shall be repayable in consecutive quarterly installments on the last day of our fiscal quarters beginning on the third fiscal quarter of 2020 with the remaining outstanding principal amount of the Incremental Term B-1 Loan and all accrued but unpaid interest and other amounts payable with respect to the Incremental Term B-1 Loan due on April 30, 2026 which is the Term Loan Maturity Date.

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

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

The Senior Credit Facilities contain certain covenants, including without limitation, those limiting our and our subsidiaries' ability to, among other things, incur indebtedness, incur liens, sell or acquire assets or businesses, change the character of its business in all material respects, engage in transactions with related parties, make certain investments, make certain restricted payments or pay dividends. In addition, the Senior Credit Facilities require us to meet a First Lien Leverage Ratio (as defined in the Senior Credit Facilities). As there were no borrowings under the Revolving Credit Facility at June 28, 2020, no First Lien Leverage Ratio calculation was required. We were in compliance with the covenants under our Senior Credit Facilities at June 28, 2020.

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

At June 28, 2020, borrowings under the Senior Credit Facility bore interest as follows:

(i) Revolving Credit Facility: at a rate per annum equal to (a) the Alternate Base Rate plus 2.50% or (b) LIBOR Rate plus 3.50%.

(ii) Term Loan B borrowings: at a rate per annum equal to (a) the Alternate Base Rate plus 2.25% or (b) LIBOR Rate plus 3.25%.

(iii) Term Loan B-1 borrowings: at a rate per annum, at the Company's option, of (a) the Alternate Base Rate plus the applicable margin of 5.25% or (b) the LIBOR Rate (which shall not be less than 1% for Incremental Term B-1 Loans) plus the applicable margin of 6.25%.

The weighted average interest rate on long-term debt, excluding lease financing obligations, was 4.3% and 4.6% for the three and six months ended June 28, 2020, respectively, and 6.3% and 7.0% for the three and six months ended June 30, 2019, respectively.

The Term Loan B and B-1 borrowings are due and payable in quarterly installments, which began on September 30, 2019. Amounts outstanding at June 28, 2020 are due and payable as follows:

(i) twenty-three quarterly installments of $1.3 million;

(ii) one final payment of $467.0 million on April 30, 2026.

As of June 28, 2020, there were no revolving credit borrowings outstanding and $9.7 million of letters of credit issued under the Revolving Credit Facility. After reserving for issued letters of credit, $136.2 million was available for revolving credit borrowings under the Senior Credit Facilities at June 28, 2020.

In March 2020, we entered into an interest rate swap agreement with our lenders to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Term Loan B Facility. The interest rate swap fixes the interest rate on 50% of the outstanding term loan borrowings under the Term Loan B Facility at 0.915% plus the applicable margin in its Senior Credit Facilities. The agreement matures on February 28, 2025 and has a notional amount of $220.0 million at June 28, 2020. The differences between the variable LIBOR rate and the interest rate swap rate of 0.915% are settled monthly. We received payments of $0.03 million to settle the interest rate swap during the three and six months ended June 28, 2020. The fair value of our interest rate swap agreement was a liability of $7.4 million as of June 28, 2020 and is included in long-term other liabilities in the accompanying consolidated balance sheets. Changes in the valuation of our interest rate swap were included as a component of other comprehensive income, and will be reclassified to earnings as the losses are realized. We expect to reclassify net losses totaling $1.7 million into earnings in the next twelve months.

***Contractual Obligations***

A table of our contractual obligations as of December 29, 2019 was included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 29, 2019. There have been no significant changes to our contractual obligations during the three months ended June 28, 2020 other than a decrease in revolving credit borrowings under our Revolving Credit Facility in the first six months of 2020 of $45.8 million and an increase in Term Loan B-1 borrowings of $75.0 million.

***Inflation***

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

***Application of Critical Accounting Policies***

Our unaudited condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the "Significant Accounting Policies" footnote in the notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2019. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods.

There have been no material changes affecting our critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2019.

***Forward Looking Statements***

*This Quarterly Report on Form 10-Q contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. These statements are often identified by the words “may”, “might", “will”, “should”, “anticipate”, “believe”, “expect”, “intend”, “estimate”, “hope”, “plan” or similar expressions. In addition, expressions of our strategies, intentions or plans are also forward looking statements. These statements reflect management’s current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected or implied in the forward-looking statements. We have identified significant factors that could cause actual results to differ materially from those stated or implied in the forward-looking statements. We believe important factors that could cause actual results to differ materially from our expectations include the following, in addition to other risks and uncertainties discussed herein and in our Annual Report on Form 10-K for the period ended December 29, 2019:*

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

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

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

A 1% change in interest rates would have resulted in a $0.8 million and $1.8 million to interest expense for the three and six months ended June 28, 2020, respectively and a $0.7 million and $0.8 million change to interest expense for the three and six months ended June 30, 2019, respectively.

## ITEM 4—CONTROLS AND PROCEDURES

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

*Evaluation of Disclosure Controls and Procedures*. We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 28, 2020.

*Changes in Internal Control.* During the three months ended June 28, 2020, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

All of our administrative employees and employees of our outsourcing partners and other service providers worked remotely beginning in March 2020 as our corporate office was closed in response to the *COVID*-19 outbreak. Despite working remotely, there were no material changes in our internal control over financial reporting as we were able to continue to maintain our existing controls and procedures over our financial reporting during the quarter ended June 28, 2020. We are continually monitoring and assessing the effect of the *COVID*-19 pandemic on our internal controls to minimize the impact on its design and operating effectiveness.

**PART II—OTHER INFORMATION**

## Item 1. Legal Proceedings

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

## Item 1A. Risk Factors

Part I - Item 1A of the Annual Report on Form 10-K for the period ended December 29, 2019 describes important risk factors that could materially affect our business, consolidated financial condition or results of operations or cause our operating results to differ materially from the indicated or cause our operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time to time. Our risk factor disclosure has been updated to add the following:

***We could be adversely affected by health concerns such as the current COVID-19 pandemic.***

The United States and most other countries have experienced the widespread outbreak of the COVID-19 pandemic and in the past the Avian Flu or "SARS," or H1N1. As we have experienced and are experiencing in the current COVID-19 environment:

- if a virus is transmitted by human contact, our employees or customers may become infected, or may choose, or be advised, to avoid gathering in public places, any of which may adversely affect our restaurant customer traffic and our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. These are all areas that have been impacted during the second quarter and continue to be challenges in the near-term for our business. The COVID-19 pandemic has negatively impacted our customer traffic, and we've had to take immediate actions to shift focus to our drive-thru, carry-out and delivery service modes. We have also experienced significant staffing challenges, both as a result of employee exposure to COVID-19 as well as the hourly workforce being disincentivized by federal, state and local unemployment benefits and fearful of the workplace.
- We also may be adversely affected if jurisdictions in which we have restaurants impose or continue to impose mandatory closures, seek or continue to seek voluntary closures or impose or continue to impose restrictions on operations. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may adversely affect our business. During the second quarter, we did see frequent changes to operating hours, as a result of shifting consumer behavior as well as public safety measures mandated by local jurisdictions. In March 2020, we closed the dining rooms in all our restaurants and modified operating hours in line with local ordinances and day-part sales trends. These closures were in effect for most of the second quarter, with each restaurant operating according to their respective local governmental guidelines as well as safety procedures developed by BKC and PLK. As individual states and local governments have allowed reopenings, we have continually evaluated the opportunity to re-open dining rooms. In most cases, consumers have not been eager to return to dining rooms, and restaurant sales in the second quarter of 2020 included less than 1% of eat-in traffic.
- Lower customer traffic as experienced in the immediate onset of the COVID-19 pandemic in our markets may not provide enough revenue to cover the fixed operating costs of our restaurants. We temporarily closed 46 restaurants in late March 2020 and early April 2020 that were geographically close to one of our other restaurants, and these closures were in effect for most of the second quarter. By the end of the second quarter of 2020, we had reopened 28 of the temporarily closed restaurants and in July 2020 reopened another seven restaurants. While these closures are temporary, our business remains sensitive to operating in environments with prolonged sales declines of the magnitude we saw in the first weeks of the pandemic.
- We will incur incremental costs for an indefinite period of time to provide safety to our guests and our employees in the form of masks, sanitizers and thermometers as well as additional labor to continuously sanitize our restaurants. Throughout the course of this evolving COVID-19 outbreak, we have been adapting our business in order continue operating safely. To support the health and safety of our employees and customers, we mandated the use of masks and contactless procedures in our restaurants, the use of sanitizers and also requiring team members' temperatures be taken at the beginning of each shift. During the second quarter, we incurred. $1.4 million in expenses directly related to COVID-19 related supplies, including face marks, thermometers, sneeze guards, and sanitizers.

• The uncertain economic environment that we are operating in now has required us to enhance our liquidity and bolster our balance sheet. In the first quarter of 2020 we borrowed on our Revolving Credit Facility to protect against a prolonged pandemic coupled with financial market illiquidity. We have also increased our revolving credit borrowing capacity under our Revolving Credit Facility by $30.8 million to a total of $145.8 million, and issued Incremental Term B-1 Loans of $75 million.

• Our financial performance depends on our continuing ability to offer fresh, quality food at competitive prices. A significant disruption in service or supply by our suppliers or distributors could create disruptions in the operations of our restaurants and adversely affect our business. During the second quarter, we were subject to a limited menu in some markets due to limited product available from one of our suppliers and in some instances deliveries were delayed due to the conditions of the pandemic. A more significant disruption in service or supply by our suppliers or distributors due to the impact of COVID-19 on their business, whether from employees at these facilities contracting the COVID-19 virus, or their own business suffering due to their inability to operate in the COVID-19 economic environment, or their own financial instability, could have a material adverse effect on our business.

A health pandemic such as COVID-19 is a disease outbreak that has spread rapidly and widely by infection and has affected many individuals in an areas of population density. Our restaurants are places where people can gather together for human connection. Customers might avoid or be advised to not gather in public places in the event of a health pandemic, and local, regional or national governments might continue or further limit or ban public gatherings to halt or delay the spread of disease. The impact of a health pandemic on us might be disproportionately greater than on other quick-service concepts that have lower customer traffic and that depend less on the gathering of people.

In addition, we cannot guarantee that changes to our operational policies and training will be effective to keep our employees and customers safe from the COVID-19 virus. Any publicity relating to health concerns or the perceived or specific outbreaks of COVID-19 attributed to one or more of our restaurants, could result in a significant decrease in guest traffic in all of our restaurants and could have a material adverse effect on our results of operations. In addition, similar publicity or occurrences with respect to other restaurants or restaurant chains could also decrease our guest traffic and have a similar material adverse effect on our business.

***We could be adversely affected by our failure to acknowledge and sufficiently respond to the fast-moving influence of social media.***

The widespread use of social media platforms on devices accessible almost anywhere allows individuals access to a broad audience at any time of day. The content shared by users on these platforms is published without consideration of accuracy or its potential impact. Such content may be harmful to the brands we operate or may be factually inaccurate, but nonetheless negatively impact our customer engagement, business operations, brand reputation, or financial performance. This damage could be fast-moving and not allow us or our franchisors a chance to address the situation.

***We could be adversely affected by external events such as extreme weather, natural disasters, terrorist actions, and civil unrest, among others.***

External events such as extreme weather, natural disasters, terrorist actions, and civil unrest, and anticipation of such events, can adversely affect consumer spending, supply availability and costs, and our ability to operate our business in any impacted market.

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

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

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

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

**Item 6. Exhibits**

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

| **Exhibit No.** | |
|---|---|
| 10.1 | Fifth Amendment to Credit Agreement dated as of June 23, 2020 among Carrols Restaurant Group, Inc., certain subsidiaries party thereto, Wells Fargo Bank, National Association and the lenders party thereto. |
| 31.1 | Chief Executive Officer’s Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc. |
| 31.2 | Chief Financial Officer’s Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc. |
| 32.1 | Chief Executive Officer’s Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc. |
| 32.2 | Chief Financial Officer’s Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc. |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

## SIGNATURES

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

**CARROLS RESTAURANT GROUP, INC.**

| | |
|---|---|
| Date: August 6, 2020 | /s/ Daniel T. Accordino |
| | **(Signature)** |
| | **Daniel T. Accordino**<br>**Chief Executive Officer** |
| Date: August 6, 2020 | /s/ Anthony E. Hull |
| | **(Signature)** |
| | **Anthony E. Hull**<br>**Vice President, Chief Financial Officer and Treasurer** |

**Published CUSIP Number: 14576JAF0**
**Published ISIN Number: US14576JAF03**

**FIFTH AMENDMENT TO CREDIT AGREEMENT**

**THIS FIFTH AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), dated as of June 23, 2020, is by and among **CARROLS RESTAURANT GROUP, INC.**, a Delaware corporation formerly known as Carrols Holdco Inc. (the "Borrower"), certain domestic Subsidiaries of the Borrower party hereto (collectively, the "Guarantors"), the Lenders (as hereinafter defined) party hereto and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as administrative agent on behalf of the Lenders under the Credit Agreement (as hereinafter defined) (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement referred to below.

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

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

**WHEREAS**, pursuant to Section 2.22 of the Credit Agreement, the Borrower may incur additional Indebtedness under the Credit Agreement in the form of an Incremental Term Loan (as defined in the Credit Agreement) under an Incremental Term Facility (as defined in the Credit Agreement) and;

**WHEREAS**, the Borrower desires to establish an Incremental Term Facility and incur Incremental Term Loans thereunder in an aggregate principal amount of $75,000,000 (the "Incremental Term B-1 Loans"; each Lender party hereto with an Incremental Term B-1 Commitment (as hereinafter defined) and any permitted assignees thereof, an "Incremental Term B-1 Lender" and, collectively, the "Incremental Term B-1 Lenders"), which shall be a new tranche of Term Loans and the proceeds of which will be used to finance general corporate purposes of the Borrower and its subsidiaries;

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

**ARTICLE I**
**AMENDMENTS TO CREDIT AGREEMENT**

**1.1. Incremental Term B-1 Loans.**

(a) Subject to the terms and conditions set forth herein, each Incremental Term B-1 Lender party hereto agrees (i) that, effective as of the Fifth Amendment Effective Date (as defined below), it shall be considered a Lender and a Term Loan Lender for all purposes under the Credit Documents and agrees to be bound by the terms thereof and (ii) to make an Incremental Term B-1 Loan to the Borrower on the Fifth Amendment Effective Date in a principal amount equal to the amount set forth opposite such Incremental Term B-1 Lender's name on Schedule A hereto (each, an "Incremental Term B-1 Commitment" and, collectively, the "Incremental Term B-1 Commitments").

(b) Except as set forth herein, the terms and provisions of the Incremental Term B-1 Loans shall be identical to the terms and provisions of the Initial Term Loans. The Incremental Term B-1 Loans will constitute a new tranche of Term Loans ranking pari passu in right of payment and security with the Initial Term Loans for all purposes under the Credit Agreement. The Incremental Term B-1 Loans have been assigned separate "CUSIP" and "ISIN" numbers from the Initial Term Loans. The aggregate amount of the Incremental Term B-1 Loans made under this Amendment shall be $75,000,000. The Borrower shall use the proceeds of the Incremental Term B-1 Loans as set forth in the recitals to this Amendment.

(c) The Incremental Term B-1 Lenders, by delivering their signature pages to this Amendment and funding an Incremental Term B-1 Loan on the Fifth Amendment Effective Date, shall be deemed to have acknowledged receipt of, and consented to and approved, each Credit Document and each other document required to be delivered to, or be approved by or satisfactory to, the Administrative Agent and the Incremental Term B-1 Lenders on or prior to the Fifth Amendment Effective Date.

(d) Pursuant to Section 2.22 of the Credit Agreement and subject to the terms and conditions set forth herein, effective as of the Fifth Amendment Effective Date, for all purposes of the Credit Documents, (i) the Incremental Term B-1 Commitments shall constitute "Term Loan Commitments", (ii) the Incremental Term B-1 Loans shall constitute "Incremental Term Loans" and "Term Loans" and (iii) each Incremental Term B-1 Lender shall constitute an "Incremental Term Loan Lender", a "Term Loan Lender" and a "Lender" (if such Incremental Term B-1 Lenders are not already Term Loan Lenders or Lenders prior to the effectiveness of this Amendment) and shall have all the rights and obligations of a Lender holding a Term Loan Commitment (or, following the making of a Incremental Term B-1 Loan, a Term Loan), and other related terms will have correlative meanings *mutatis mutandis*. Upon execution and delivery of this Amendment, the Administrative Agent will record the Incremental Term B-1 Loans as being a new tranche of Term Loans ranking pari passu in right of payment and security with the Initial Term Loans.

**1.2. Amendment to Section 1.1 of the Credit Agreement.**

Effective as of the Fifth Amendment Effective Date, Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) The following definitions are hereby added in the appropriate alphabetical order:

"Applicable Make-Whole Amount" shall means with respect to any prepayment of Incremental Term B-1 Loans pursuant to Section 2.7(a) or Section 2.7(b)(iii) prior to the first anniversary of the Fifth Amendment Effective Date, an amount equal to the present value as of the date of such prepayment (the "Prepayment Date") of the amount of interest that would have been paid on the principal amount of the Incremental Term B-1 Loans being so prepaid for the period from and including the Prepayment Date to but excluding the date that is the one (1) year anniversary of the Fifth Amendment Effective Date using a discount rate equal to the Applicable Treasury Rate plus 50 basis points (in each case, calculated on the basis of the interest rate with respect to the Incremental Term B-1 Loans that is in effect on the Prepayment Date and on the basis of actual days elapsed over a year of three hundred sixty-five (365) days).

"Applicable Treasury Rate" shall mean, with respect to the Applicable Make-Whole Amount, as of the applicable Prepayment Date, the weekly average rounded to the nearest 1/100th of a percentage point (for the most recently completed week for which such information is available as of the date that is two (2) Business Days prior to the applicable Prepayment Date) of the yield to maturity of United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 with respect to each applicable day during such week (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by the Borrower in good faith)) most nearly equal to the period from and including the applicable Prepayment Date to but excluding the date that is the one (1) year anniversary of the Fifth Amendment Effective Date; provided that if the period from and including the applicable Prepayment Date to but excluding the date that is the one (1) year anniversary of the Fifth Amendment Effective Date is not equal to the constant maturity of a United States Treasury security for which such an average yield is given, the Applicable Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given.

"Fifth Amendment" shall mean the Fifth Amendment to this Agreement, dated as of the Fifth Amendment Effective Date, among the Borrower, the Guarantors, the Incremental Term B-1 Lenders party thereto and the Administrative Agent.

"Fifth Amendment Effective Date" shall have the meaning assigned thereto in the Fifth Amendment.

"Incremental Term B-1 Commitment" shall have the meaning assigned thereto in the Fifth Amendment. The aggregate amount of the Incremental Term B-1 Commitments as of the Fifth Amendment Effective Date is $75,000,000.

"Incremental Term B-1 Facility" shall mean the Incremental Term B-1 Commitments and the Incremental Term B-1 Loans.

"Incremental Term B-1 Lender" shall mean each Incremental Term Loan Lender with an Incremental Term B-1 Commitment.

"Incremental Term B-1 Loans" shall mean the Incremental Term Loan provided for in the Fifth Amendment.

"Prepayment Date" shall have the meaning set forth in the definition of "Applicable Make-Whole Amount."

(b) The definition of "Applicable Margin" is hereby amended as follows:

(i) The word "and" appearing immediately before clause (b) of such definition is hereby replaced with a comma; and

(ii) The following text is hereby added before the period appearing at the end of clause (b) of such definition:

"and (c) in the case of the Incremental Term B-1 Facility, 6.25% for LIBOR Rate Loans and 5.25% for Alternate Base Rate Loans."

(c) The definition of "LIBOR" is hereby amended and restated in its entirety as follows:

"LIBOR" shall mean, subject to the implementation of a Replacement Rate in accordance with Section 2.13(c), for any LIBOR Rate Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1.0%) for deposits of Dollars for a term coextensive with the designated Interest Period which the ICE Benchmark Administration (or any successor administrator of LIBOR rates) fixes as its LIBOR rate as of 11:00 a.m. (London time) on the day which is two (2) Business Days prior to the beginning of such Interest Period; provided that, if such rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement; provided further, that with respect to Incremental Term B-1 Loans, if such rate shall be less than 1.0%, such rate shall be deemed to be 1.0% for purposes of the Incremental Term B-1 Loans. If for any reason such rate is not available, then "LIBOR" shall mean the rate per annum at which, as determined by the Administrative Agent in accordance with its customary practices, Dollars in an amount comparable to the Loans then requested are being offered to leading banks at approximately 11:00 A.M. London time, two (2) Business Days prior to the commencement of the applicable Interest Period for settlement in immediately available funds by leading banks in the London interbank market for a period equal to the Interest Period selected. Notwithstanding the foregoing, unless otherwise specified in any amendment to this Agreement entered into in accordance with Section 2.13(c), in the event that a Replacement Rate with respect to LIBOR is implemented then all references herein to LIBOR shall be deemed references to such Replacement Rate.

(d) The definition of "Term Loan Facility" is hereby amended and restated in its entirety as follows:

"Term Loan Facility" shall mean the Initial Term Loan Facility, and except where the context otherwise dictates, the Term Loan Facility shall include each facility providing for the borrowing of Extended Term Loans and Incremental Term Loans, including the Incremental Term B-1 Loans, and each facility providing for the borrowing of Refinancing Term Loans in respect of the foregoing.

(e) The definition of "Term Loans" is hereby amended and restated in its entirety as follows:

"Term Loans" shall mean the Initial Term Loans and, if applicable, any Incremental Term Loans, including the Incremental Term B-1 Loans, any Extended Term Loans and any Refinancing Term Loans. "Term Loan" shall mean any of such Term Loans.

**1.3. Amendment to Section 2.2(b) to the Credit Agreement**. Section 2.2(b) to the Credit Agreement is hereby amended as follows:

(a) "(i)" is hereby added prior to the beginning of the first sentence of this subsection; and

(b) The following paragraph is hereby added after the last sentence of this subsection:

"(ii) Repayment of Incremental Term B-1 Loans. The principal amount of the Incremental Term B-1 Loans shall be repaid in consecutive quarterly installments on the last day of the fiscal quarters set forth below (and on the Term Loan Maturity Date) based on the quarterly percentages of the original principal amount of the Incremental Term B-1 Loan set forth on the table below (provided, however, if such payment date is not a Business Day, such payment shall be due on the preceding Business Day), unless accelerated sooner pursuant to Section 7.2:

| **Quarterly Amortization Payment Dates** | **Amortization** |
| --- | --- |
| Third Quarter of 2020 | 0.25% |
| Fourth Quarter of 2020 | 0.25% |
| First Quarter of 2021 | 0.25% |
| Second Quarter of 2021 | 0.25% |
| Third Quarter of 2021 | 0.25% |
| Fourth Quarter of 2021 | 0.25% |
| First Quarter of 2022 | 0.25% |
| Second Quarter of 2022 | 0.25% |
| Third Quarter of 2022 | 0.25% |
| Fourth Quarter of 2022 | 0.25% |
| First Quarter of 2023 | 0.25% |
| Second Quarter of 2023 | 0.25% |
| Third Quarter of 2023 | 0.25% |
| Fourth Quarter of 2023 | 0.25% |
| First Quarter of 2024 | 0.25% |
| Second Quarter of 2024 | 0.25% |
| Third Quarter of 2024 | 0.25% |
| Fourth Quarter of 2024 | 0.25% |
| First Quarter of 2025 | 0.25% |
| Second Quarter of 2025 | 0.25% |
| Third Quarter of 2025 | 0.25% |
| Fourth Quarter of 2025 | 0.25% |
| First Quarter of 2026 | 0.25% |
| Maturity Date | The remaining outstanding principal of the Incremental Term B-1 Loans |

The outstanding principal amount of the Incremental Term B-1 Loan and all accrued but unpaid interest and other amounts payable with respect to the Incremental Term B-1 Loan shall be repaid on the Term Loan Maturity Date.

**1.4. Commitment Reductions**. Section 2.6 to the Credit Agreement is hereby amended by adding the following new subsection 2.6(d) thereto.

(a) "Incremental Term B-1 Commitments. The Incremental Term B-1 Commitments of each Incremental Term B-1 Lender shall be automatically and permanently reduced to $0 upon the funding of the Incremental Term B-1 Loans to be made by such Incremental Term B-1 Lender on the Fifth Amendment Effective Date."

**1.5. Amendment to Section 2.7(d) to the Credit Agreement**. Section 2.7(d) to the Credit Agreement is hereby amended and restated in its entirety as follows:

(a) "(i)" is hereby added prior to the beginning of the first sentence of this subsection; and

(b) The following paragraph is hereby added after the last sentence of this subsection:

"(ii) Prepayment of Incremental Term B-1 Loans. If a prepayment of the Incremental Term B-1 Loans is made pursuant to Section 2.7(a) or Section 2.7(b)(iii) prior to the first anniversary of the Fifth Amendment Effective Date, a premium shall be paid to the Administrative Agent, for the ratable account of each applicable Term Loan Lender holding Incremental Term B-1 Loans on the date of such prepayment equal to the Applicable Make-Whole Amount with respect to the principal amount of the Incremental Term B-1 Loans so prepaid.

**1.6. Use of Proceeds**.

(a) Section 3.11 to the Credit Agreement is hereby amended to add the following sentence to the end of the Section:

"The proceeds of the Incremental Term B-1 Loans shall be used to finance general corporate purposes of the Borrower and its Subsidiaries."

## ARTICLE II
## CONDITIONS TO EFFECTIVENESS

**2.1. Closing Conditions**. This Amendment (including the obligation of the Incremental Term B-1 Lenders to make Incremental Term B-1 Loans) shall become effective on the date that each of the following conditions are satisfied or waived by the Incremental Term B-1 Lenders holding at least a majority of the Incremental Term B-1 Commitments (such date, the "Fifth Amendment Effective Date"):

(a) Executed Amendment. The Administrative Agent shall have received a copy of this Amendment duly executed by each of the Credit Parties and Lenders constituting the Incremental Term B-1 Lenders.

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

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

(d) Credit Agreement Conditions. All of the conditions specified in Sections 2.22(b)(i) and 4.2(b) of the Credit Agreement with respect to the incurrence of an Incremental Term Loan thereunder shall have been satisfied.

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

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

## ARTICLE III
## MISCELLANEOUS

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

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

(a) It has taken all necessary limited liability company, partnership or corporate action to authorize the execution, delivery and performance of this Amendment;

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

(c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or Governmental Authority or third party is required in connection with the execution, delivery or performance by such Person of this Amendment (other than those that have been obtained);

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

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

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

(g) Except as expressly set forth herein, the Credit Party Obligations are not reduced or modified by this Amendment and are not subject to any offsets, defenses or counterclaims.

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

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

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

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

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

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

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

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

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

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

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

BORROWER:

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

By: /s/ Anthony Hull
Name: Anthony Hull
Title: VP, CFO

GUARANTORS:

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

By: /s/ Anthony Hull
Name: Anthony Hull
Title: VP, CFO

**CARROLS CORPORATION**,
a Delaware corporation

By: /s/ Anthony Hull
Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull
Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull
Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull
Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

**MIRABILE INVESTMENT CORPORATION**,
a Tennessee corporation

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

By: /s/ Anthony Hull

Name: Anthony Hull
Title: VP, CFO

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

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

**Exhibit 31.1**

## CERTIFICATIONS

I, Daniel T. Accordino, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 28, 2020 of Carrols Restaurant Group, Inc.;

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

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

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

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

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

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

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

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

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

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

| | |
|---|---|
| Date: August 6, 2020 | /s/ Daniel T. Accordino |
| | Daniel T. Accordino<br>Chief Executive Officer |

**Exhibit 31.2**

**CERTIFICATIONS**

I, Anthony E. Hull, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 28, 2020 of Carrols Restaurant Group, Inc.;

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

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

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

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

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

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

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

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

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

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

| | |
|---|---|
| Date: August 6, 2020 | /s/ Anthony E. Hull |
| | Anthony E. Hull<br>Vice President, Chief Financial Officer and Treasurer |

**Exhibit 32.1**

**CERTIFICATE PURSUANT TO**

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

**AS ADOPTED PURSUANT TO**

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

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

(1) The Company's Quarterly Report on Form 10-Q for the period ended June 28, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Daniel T. Accordino

Daniel T. Accordino
Chief Executive Officer

August 6, 2020

**Exhibit 32.2**

**CERTIFICATE PURSUANT TO**

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

**AS ADOPTED PURSUANT TO**

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

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

(1) The Company's Quarterly Report on Form 10-Q for the period ended June 28, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Anthony E. Hull

Anthony E. Hull

Vice President, Chief Financial Officer and Treasurer

August 6, 2020