UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2023

OR

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

Commission File Number: 001-33174

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

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

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

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

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

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

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

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

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

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

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

As of May 5, 2023, Carrols Restaurant Group, Inc. had 54,065,151 shares of its common stock, $.01 par value, outstanding.

CARROLS RESTAURANT GROUP, INC.

FORM 10-Q
QUARTER ENDED APRIL 2, 2023

PART I—FINANCIAL INFORMATION

ITEM 1—INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	April 2, 2023	January 1, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,881	$ 18,364
Trade and other receivables	24,515	19,933
Inventories	12,938	14,417
Prepaid expenses and other current assets	18,179	15,562
Total current assets	60,513	68,276
Property and equipment, net of accumulated depreciation of $546,308 and $535,359, respectively	305,224	312,346
Franchise rights, net of accumulated amortization of $164,295 and $161,426, respectively (Note 3)	309,075	312,804
Goodwill (Note 3)	107,751	107,751
Franchise agreements, at cost less accumulated amortization of $17,670 and $16,975, respectively	27,619	28,256
Operating right-of-use assets, net (Note 6)	761,754	763,935
Other assets (Note 7)	12,245	14,350
Total assets	$ 1,584,181	$ 1,607,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and finance lease liabilities (Notes 6 and 7)	$ 7,368	$ 7,341
Current portion of operating lease liabilities (Note 6)	47,948	47,408
Accounts payable	31,533	30,491
Accrued interest	5,074	9,643
Accrued payroll, related taxes and benefits	37,173	49,934
Accrued real estate taxes	6,782	8,896
Other liabilities	37,639	25,687
Total current liabilities	173,517	179,400
Long-term debt and finance lease liabilities, net of current portion (Notes 6 and 7)	465,735	479,756
Operating lease liabilities (Note 6)	774,927	776,465
Deferred income taxes, net (Note 8)	8,546	7,665
Other liabilities (Note 5)	10,085	13,590
Total liabilities	1,432,810	1,456,876
Commitments and contingencies (Note 10)		
Stockholders' equity (Note 12):		
Preferred stock, par value $.01; authorized 20,000,000 shares, issued and outstanding—100 shares	—	—
Voting common stock, par value $.01; authorized—100,000,000 shares, issued—56,316,888 and 54,928,225 shares, respectively, and outstanding—51,526,036 and 50,903,111 shares, respectively	538	530
Additional paid-in capital	293,797	292,708
Accumulated deficit	(136,104)	(136,968)
Accumulated other comprehensive income	7,565	8,702
Treasury stock, at cost	(14,425)	(14,130)
Total stockholders' equity	151,371	150,842
Total liabilities and stockholders' equity	$ 1,584,181	$ 1,607,718

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	April 2, 2023	**April 3, 2022**
Restaurant sales	$ 445,162	$ 399,476
Operating expenses:		
Food, beverage and packaging costs	125,443	123,057
Restaurant wages and related expenses	146,324	141,620
Restaurant rent expense (Note 6)	31,834	31,013
Other restaurant operating expenses	69,132	65,407
Advertising expense	17,898	15,964
General and administrative expenses (including stock-based compensation of $1,097 and $1,941, respectively)	25,740	22,017
Depreciation and amortization	18,718	19,542
Impairment and other lease charges (Note 4)	1,340	496
Other (income) expense, net (Note 14)	(1,506)	202
Total operating expenses	434,923	419,318
Income (loss) from operations	10,239	(19,842)
Interest expense	8,233	7,436
Income (loss) before income taxes	2,006	(27,278)
Provision (benefit) from income taxes (Note 8)	1,142	(6,009)
Net income (loss)	$ 864	$ (21,269)
Basic and diluted net income (loss) per share (Note 13)	$ 0.01	$ (0.42)
Shares used in computing net income (loss) per share:		
Weighted average common shares outstanding:		
Basic weighted average common shares outstanding	51,422,010	50,460,279
Diluted weighted average common shares outstanding	61,420,034	50,460,279
Comprehensive income (loss), net of tax:		
Net income (loss)	$ 864	$ (21,269)
Change in valuation of interest rate swap (Note 7)	(1,137)	4,282
Comprehensive loss	$ (273)	$ (16,987)

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, January 1, 2023	53,010,414	$ 530	100	$ —	$ 292,708	$ (136,968)	$ 8,702	(2,107,303)	$ (14,130)	$ 150,842
Stock-based compensation	—	—	—	—	1,097	—	—	—	—	1,097
Vesting of non-vested shares and RSUs	767,359	8	—	—	(8)	—	—	—	—	—
Net income	—	—	—	—	—	864	—	—	—	864
Purchase of treasury stock	—	—	—	—	—	—	—	(144,434)	(295)	(295)
Change in valuation of interest rate swap, net of income taxes of $260 (Note 7)	—	—	—	—	—	—	(1,137)	—	—	(1,137)
Balance, April 2, 2023	53,777,773	$ 538	100	$ —	$ 293,797	$ (136,104)	$ 7,565	(2,251,737)	$ (14,425)	$ 151,371
Balance, January 2, 2022	52,037,511	$ 520	100	$ —	$ 287,816	$ (61,396)	$ 1,411	(2,104,953)	$ (14,127)	$ 214,224
Stock-based compensation	—	—	—	—	1,941	—	—	—	—	1,941
Vesting of non-vested shares and RSUs	856,039	9	—	—	(9)	—	—	—	—	—
Net loss	—	—	—	—	—	(21,269)	—	—	—	(21,269)
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	—
Change in valuation of interest rate swap, net of income taxes of $1,268 (Note 7)	—	—	—	—	—	—	4,282	—	—	4,282
Balance, April 3, 2022	52,893,550	$ 529	100	$ —	$ 289,748	$ (82,665)	$ 5,693	(2,104,953)	$ (14,127)	$ 199,178

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	April 2, 2023	April 3, 2022
Cash flows provided by (used in) operating activities:		
Net income (loss)	$ 864	$ (21,269)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Gain) loss on disposals of property and equipment, including sale-leasebacks	(1,521)	218
Stock-based compensation	1,097	1,941
Impairment and other lease charges	1,340	496
Depreciation and amortization	18,718	19,542
Amortization of deferred financing costs	543	543
Amortization of discount on debt	32	32
Deferred income taxes	1,142	(6,009)
Changes in other operating assets and liabilities	(14,222)	(22,063)
Net cash provided by (used in) operating activities	7,993	(26,569)
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(858)	(2,622)
Restaurant remodeling	(2,035)	(5,319)
Other restaurant capital expenditures	(3,774)	(4,151)
Corporate and restaurant information systems	(1,322)	(1,097)
Total capital expenditures	(7,989)	(13,189)
Proceeds from sale of other assets	—	635
Proceeds from insurance recoveries	1,126	—
Net cash used for investing activities	(6,863)	(12,554)
Cash flows (used in) provided by financing activities:		
Principal payments on Term B Loans	(1,063)	(1,063)
Borrowings under revolving credit facility	11,000	47,750
Repayments under revolving credit facility	(23,500)	(27,750)
Principal payments on finance lease liabilities	(755)	(484)
Purchase of treasury shares	(295)	—
Net cash (used in) provided by financing activities	(14,613)	18,453
Net decrease in cash and cash equivalents	(13,483)	(20,670)
Cash and cash equivalents, beginning of period	18,364	29,151
Cash and cash equivalents, end of period	$ 4,881	$ 8,481
Supplemental disclosures:		
Interest paid on long-term debt	$ 12,137	$ 11,260
Interest paid on lease financing obligations	—	26
Interest paid on finance leases	208	108
Accruals for capital expenditures	1,945	2,920
Finance lease obligations incurred	20	3,038
Gain (loss) on sale-leaseback transactions	822	(74)
Operating lease assets and liabilities resulting from lease modifications and new leases	10,819	5,620
Operating cash flows related to operating leases	25,739	25,521

See notes to unaudited condensed consolidated financial statements.

1. Business Description

At April 2, 2023, Carrols Restaurant Group, Inc. ("Carrols Restaurant Group") operated, as franchisee, 1,019 Burger King® restaurants in 23 Northeastern, Midwestern, Southcentral and Southeastern states and 65 Popeyes® restaurants in seven Southeastern states. Carrols Restaurant Group, Inc. is a holding company and conducts all of its operations through its direct and indirect wholly-owned subsidiaries Carrols Corporation and New CFH, LLC and their wholly-owned subsidiaries. Carrols Corporation's material wholly-owned subsidiary is Carrols LLC, a Delaware limited liability company. New CFH LLC's material direct and indirect wholly-owned subsidiaries include Frayser Quality, LLC and Nashville Quality, LLC (and together with New CFH, LLC's immaterial direct and indirect subsidiaries, collectively, "New CFH"). Unless the context otherwise requires, Carrols Restaurant Group and its direct and indirect wholly-owned subsidiaries are collectively referred to as the "Company."

2. Significant Accounting Policies

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

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

Basis of Presentation. The unaudited condensed consolidated financial statements as of and for the three months ended April 2, 2023 and April 3, 2022 have been prepared without an audit pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of such unaudited condensed consolidated financial statements have been included. The results of operations for the three months ended April 2, 2023 are not necessarily indicative of the results to be expected for the full year.

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

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

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

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

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

Fair Value of Financial Instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three-level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect the Company's own assumptions. Financial instruments include cash and cash equivalents, trade and other receivables, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, trade and other receivables and accounts payable approximate fair value because of the short-term nature of these financial instruments. Borrowings under the Company's Senior Credit Facilities (including its term B loans) accrue interest at a floating rate tied to a standard short-term borrowing index selected at the Company's option, plus an applicable margin. The Company's liability for its Senior Credit Facilities and 5.875% Senior Notes due 2029 are carried at historical cost in the accompanying balance sheets. The fair value of our term B loans and 5.875% Senior Notes due 2029 is based on recent trading activity, which are Level 2 inputs in the fair value hierarchy. As of April 2, 2023, the term B loans traded at 91.9% of par value and the 5.875% Senior Notes due 2029 traded at 80.5% of par value.

The Company recognizes its derivative arrangements on the balance sheet at fair value, which is considered a Level 2 input. The Company's only derivative is an interest rate swap (the "Swap") which is designated as a cash flow hedge. Accordingly, the entire change in the fair value of the cash flow hedges included in the assessment of hedge effectiveness is recognized in accumulated other comprehensive income. The amounts recorded in other comprehensive income will subsequently be reclassified to earnings as an increase or decrease to interest expense as realized through receipts or payments. The Company classifies cash inflows and outflows from derivatives within operating activities on the condensed consolidated statements of cash flows. The Swap was valued at $7.2 million as of April 2, 2023 and it is classified as Level 2 within the fair value hierarchy.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analysis of long-lived assets, goodwill and intangible assets. Long-lived assets and definite-lived intangible assets are measured at fair value on a nonrecurring basis using Level 3 inputs. As described in Note 4, the Company recorded long-lived asset impairment charges of $0.1 million during the three months ended April 2, 2023 and $0.2 million during the three months ended April 3, 2022.

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

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

3. Intangible Assets

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

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

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

Goodwill. The Company is required to review goodwill for impairment annually, or more frequently when events and circumstances indicate that the carrying amount may be impaired. If the determined fair value of the reporting unit is less than the related carrying amount, an impairment loss is recognized. The Company performs its annual impairment assessment as of the end of the eighth month of its fiscal year. As part of this goodwill impairment assessment, the Company considers certain qualitative factors, such as the Company's performance, business forecasts and expansion plans, a discount rate approximating the Company's weighted average cost of capital, general economic conditions, and evaluation of peer company multiples, among other factors. Given the nature of the qualitative and quantitative factors considered, there is a degree of uncertainty associated with these judgments and estimates. Notably, the business forecasts and market conditions considered within the Company's annual goodwill impairment test reflect the Company's long-standing history of operating restaurants in various business cycles. The forecasts reflect a normalization of commodity costs and restaurant labor margins, that we have addressed through recent pricing and promotional discounting changes, and reflect continued normalization of these costs over time. Using both the income approach and the market approach, the Company compares the fair value of its Burger King reporting unit to its carrying value. The Company assessed events and circumstances from the date of its annual goodwill impairment test through April 2, 2023 and there were no indicators representing a triggering event. There were no goodwill impairment losses recorded during the three months ended April 2, 2023 and April 3, 2022.

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

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

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

During the three months ended April 2, 2023, the Company recorded impairment and other lease charges of $1.3 million consisting of capital expenditures at previously impaired restaurants of $0.1 million and $1.2 million of other lease charges related to three restaurants closed during the first quarter.

During the three months ended April 3, 2022, the Company recorded impairment and other lease charges of $0.5 million consisting of $0.1 million of initial impairment charges for one underperforming restaurant, capital expenditures at previously impaired restaurants of $0.1 million and $0.3 million of other lease charges related to a restaurant closed during the first quarter.

5. Other Liabilities, Long-Term

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

	April 2, 2023	January 1, 2023
Accrued occupancy costs	$ 1,701	$ 1,797
Accrued workers' compensation and general liability claims	3,388	5,239
Deferred compensation	2,612	3,002
Accrued post retirement benefits	1,333	1,347
Other	1,051	2,205
	$ 10,085	$ 13,590

6. Leases

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

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

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

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

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

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

Lease Cost

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

		Three Months Ended	
Lease cost	**Classification**	**April 2, 2023**	**April 3, 2022**
Operating lease cost[1]	Restaurant rent expense	$ 26,363	$ 26,604
Operating lease cost[2]	General and administrative	305	213
Variable lease cost	Restaurant rent expense	5,471	4,409
Finance lease cost:			
Amortization of right-of-use assets	Depreciation and amortization	825	487
Interest on lease liabilities	Interest expense	208	108
Total lease cost		$ 33,172	$ 31,821

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

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

7. Long-term Debt

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

	April 2, 2023	January 1, 2023
Senior Credit Facility:		
Term B Loans	$ 166,563	$ 167,625
Revolving credit borrowings	—	12,500
Senior Notes Due 2029	300,000	300,000
Finance lease liabilities	12,090	12,826
Total Funded debt	478,653	492,951
Less: current portion of long-term debt and finance lease liabilities	(7,368)	(7,341)
Less: unamortized debt issuance costs	(5,129)	(5,401)
Less: unamortized original issue discount	(421)	(453)
Total Long-term debt	$ 465,735	$ 479,756

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

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

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

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

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

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

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

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

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

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

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

The weighted average interest rate for borrowings on long-term debt balances was 5.8% for three months ended April 2, 2023, and 4.9% for the three months ended April 3, 2022.

Senior Notes due 2029. On June 28, 2021, the Company issued $300.0 million principal amount of 5.875% Senior Notes due 2029 (the "Notes") in a private placement. The proceeds of the offering, together with $46.0 million of revolving credit borrowings under the Senior Credit Facilities, were used to (i) repay $74.4 million of outstanding term B-1 loans and $243.6 million of outstanding term B loans under the Senior Credit Facilities (which included scheduled principal payments), (ii) to pay fees and expenses related to the offering of the Notes and the Seventh Amendment and (iii) for working capital and general corporate purposes.

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

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

Interest Rate Swap. In March 2020, the Company entered into an interest rate swap agreement with certain of its lenders under the Senior Credit Facilities to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Senior Credit Facilities. The interest rate swap originally fixed the interest rate on 50% of outstanding borrowings under the Senior Credit Facility at 0.915% plus the applicable margin in its Senior Credit Facilities with the differences settled monthly. The agreement matures on February 28, 2025 and originally had a notional amount of $220.0 million, which was reduced to a notional amount of $120.0 million in 2021.

In 2022, the Company modified its interest rate swap to transition from LIBOR to SOFR as the benchmark rate, which also changed the fixed rate of interest from 0.915% plus the applicable margin to 0.847% plus the applicable margin.

The Company received $1.1 million to settle the interest rate swap of during the three months ended April 2, 2023 and made additional interest payments of $0.2 million to settle the interest rate swap during the three months ended April 3, 2022.

The fair value of the Company's interest rate swap agreement was an asset of $7.2 million as of April 2, 2023 which is included in other assets in the accompanying condensed consolidated balance sheets. Changes in the fair value of the cash flow hedges included in the assessment of hedge effectiveness is recognized in accumulated other comprehensive income. The amounts recorded in other comprehensive income will subsequently be reclassified to earnings as an increase or decrease to interest expense as realized through receipts or payments. The Company expects to recognize net gains totaling $4.7 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 2. 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 months ended April 2, 2023 and April 3, 2022 was comprised of the following:

	Three Months Ended	
	April 2, 2023	April 3, 2022
Current	$ —	$ —
Deferred	2,473	(8,216)
Change in valuation allowance	(1,331)	2,207
Provision (benefit) for income taxes	$ 1,142	$ (6,009)

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

The provision for income taxes for the three months ended April 2, 2023 was derived using an estimated effective annual income tax rate for all of 2023 of 18.7%, which is inclusive of the estimated change in the Company's valuation allowance on its deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2023 is attributed to various nondeductible tax expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in the period as well as the change in valuation allowance. Accordingly, in periods where recorded pre-tax income (loss) is relatively small, the proportional effect of these items on the effective rate may be significant. The income tax provision for the three months ended April 2, 2023 included $0.8 million of tax expense from net discrete tax adjustments.

The benefit for income taxes for the three months ended April 3, 2022 was derived using an estimated effective annual income tax rate for all of 2022 of 22.0%, which is inclusive of the estimated change in the Company's valuation allowance on its deferred tax assets and excludes other discrete tax adjustments. The difference compared to the statutory rate for 2022 is attributed to various nondeductible tax expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in the period as well as the valuation allowance charge. There were no discrete tax adjustments during the three months ended April 3, 2022.

The Company's federal net operating loss carryforwards generated prior to December 31, 2017 expire beginning in 2035. Federal net operating losses generated subsequent to 2017 have no expiration date. As of April 3, 2022, the Company had federal net operating loss carryforwards of approximately $124.4 million, general business credits ("GBC") carryforwards of $43.9 million and approximately $170.5 million in state net operating loss carryforwards. The Company's GBC carryforwards begin to expire in 2031 and state net operating loss carryforwards begin to expire in 2023.

The Company performs an assessment of positive and negative evidence regarding the realization of its deferred income tax assets as required by ASC 740. Under ASC 740, the weight given to negative and positive evidence is commensurate only to the extent that such evidence can be objectively verified. ASC 740 prescribes that objective historical evidence, in particular the Company's three-year cumulative loss position at April 2, 2023, be given greater weight than subjective evidence, including the Company's forecast of future taxable income, which include assumptions that cannot be objectively verified. In determining the likelihood of future realization of the deferred income tax assets as of April 2, 2023 and January 1, 2023 the Company considered both positive and negative evidence and weighted the effect of such evidence based upon its objectivity. At April 2, 2023 and January 1, 2023, the Company determined that a valuation allowance was needed for certain federal income tax credits and state operating loss carryforwards in the amount of $43.0 million and $44.3 million, respectively, as they may expire prior to their utilization by the Company. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as projections for growth. The Company recorded an income tax benefit of $1.3 million in the three months ended April 2, 2023 relative to this valuation reserve as pre-tax income in the period resulted in higher NOL utilization.

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

9. Stock-Based Compensation

Stock-based compensation expense for the three months ended April 2, 2023 and April 3, 2022 was $1.1 million and $1.9 million, respectively. The first quarter of 2022 included additional stock-based compensation expense of $0.7 million related to the accelerated vesting of certain awards upon the retirement of our former CEO.

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

As of April 2, 2023, the total unrecognized stock-based compensation expense relating to time-vested restricted shares and stock options was approximately $5.7 million and the Company expects to record an additional $2.6 million in stock-based compensation expense related to the vesting of these awards in the remainder of 2023. The remaining weighted average vesting period for stock options and non-vested shares was 2.2 years.

Time-based Non-vested Shares. During the three months ended April 2, 2023, the Company granted 1,001,915 non-vested shares of common stock to certain employees and officers of the Company and 384,807 non-vested shares of common stock to the outside directors of the Company. These shares generally vest in equal installments over their three-year service period, provided the participant has continuously remained an employee, officer or director of the Company.

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

	Shares	Weighted Average Grant Date Price
Non-vested at January 1, 2023	1,767,811	$ 3.79
Granted	1,386,722	$ 2.04
Vested	(753,818)	$ 4.28
Forfeited	(11,600)	$ 2.48
Non-vested at April 2, 2023	2,389,115	$ 2.62

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

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

Performance-based Restricted Shares. On April 1, 2022, 600,000 performance-based restricted shares were granted to the Company's former CEO of which 450,000 shares were subsequently forfeited on December 31, 2022. The remaining shares will fully vest on the third anniversary of the grant date based on the achievement of contractually defined EBITDA and share price growth targets. The fair value of the market-based restricted shares was determined using a Monte Carlo simulation valuation model and these shares will be expensed over their three year performance-based vesting period based on the probability of the Company's attainment of the contractually defined targets.

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

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

	Options	Weighted Average Exercise Price	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value(1)
Options outstanding at January 1, 2023	975,500			
Forfeited	—	$7.12		
Options Outstanding at April 2, 2023	975,500	$7.12	4.4	$—
Vested or expected to vest at April 2, 2023	975,500	$7.12	4.4	$—
Options exercisable at April 2, 2023	868,250	$7.12	4.4	$—

(1) The aggregate intrinsic value is calculated using the difference between the market price of the Company's common stock at April 2, 2023 of $2.23 and the grant price for only those awards that have a grant price that is less than the market price of the Company's common stock at April 2, 2023. There were no awards having a grant price less than the market price of the Company's common stock at April 2, 2023.

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

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

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

10. Commitments and Contingencies

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

The maximum potential amount of future undiscounted rental payments the Company could be required to make under these leases at April 2, 2023 was $10.3 million. The obligations under these leases will generally continue to decrease over time as these operating leases expire, except for any execution of renewal options that exist under the original leases. No payments related to these guarantees have been made by the Company to date and none are expected to be required to be made in the future. The Company has not recorded a liability for these guarantees in accordance with ASC 460 - *Guarantees* as Fiesta has indemnified the Company for all such obligations and the Company did not believe it was probable it would be required to perform under any of the guarantees or direct obligations.

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

Supplier Concentrations. The Company primarily utilizes four distributors, McLane Company Inc., Lineage Foodservice Solutions, LLC, Reinhart Food Service LLC and Performance Foodservice, to supply its Burger King restaurants with the majority of its foodstuffs. As of April 2, 2023, such distributors supplied 31%, 30%, 29% and 10%, respectively, of the Company's Burger King restaurants. Additionally, one bakery supplies the rolls used in approximately 50% of the Company's Burger King restaurants. The Company utilizes five distributors for its Popeyes restaurants, five for poultry products and two for all other products. For the Company's Popeyes restaurants, one distributor, Customized Distribution Services, supplies poultry products to 69% of its restaurants and supplies non-poultry products to 91% of its restaurants.

11. Transactions with Related Parties

In connection with an acquisition of restaurants from Burger King Corporation ("BKC"), a subsidiary of Restaurant Brands International Inc. ("RBI"), in 2012, Carrols Restaurant Group issued to BKC 100 shares of Series A Convertible Preferred Stock, which was exchanged for 100 shares of newly issued Series B Convertible Preferred Stock ("Series B Preferred Stock") in 2018. The Series B Preferred Stock was further exchanged for 100 shares of newly issued Series D Convertible Preferred Stock in 2022. These preferred shares are convertible into 9,414,580 shares of common stock, which as of April 2, 2023 represents approximately 14.8% of the outstanding shares of the Company's common stock after giving effect to the conversion of the Series D Preferred Stock and excluding shares held in treasury. Pursuant to the Certificate of Designation of the Series D Preferred Stock (the "Certificate of Designation"), the BKC Stockholders are entitled to elect two representatives on the Company's Board of Directors. The approval of the BKC Stockholders is also required before the Company can take certain actions, including, among other things, amending the Company's certificate of incorporation or bylaws, declaring or paying a special cash dividend, amending the size of the Company's Board of Directors, or engaging in any business other than the ownership and operation of Burger King restaurants, in each case as more particularly described in the Certificate of Designation.

The Company operates its Burger King restaurants under franchise agreements with BKC and its Popeyes restaurants under franchise agreements with Popeyes Louisiana Kitchen, Inc. ("PLK"), both subsidiaries of RBI. These franchise agreements generally provide for an initial term of twenty years and currently have an initial franchise fee of $50,000. With BKC's and PLK's respective approval, the Company can elect to extend franchise agreements for additional 20 year terms, provided that the restaurant meets the current restaurant image standard and the Company is not in default under terms of the franchise agreement. In addition to the initial franchise fee, the Company generally pays BKC a monthly royalty at a rate of 4.5% of Burger King restaurant sales and PLK a weekly royalty at a rate of 5.0% of Popeyes restaurant sales. Royalty expense was $19.8 million and $17.7 million in the three months ended April 2, 2023 and April 3, 2022, respectively, and is included in other restaurant operating expenses in the condensed consolidated statements of comprehensive loss. Beginning in May of 2021, the Company also pays a monthly fee to BKC for use of its digital platform, which was $0.7 million in the three months ended April 2, 2023 and $0.4 million in the three months ended April 3, 2022, respectively, and is included in other restaurant operating expenses in the condensed consolidated statements of comprehensive loss.

The Company is also generally required to contribute 4.0% of restaurant sales from its restaurants to an advertising fund utilized by BKC and PLK for advertising, promotional programs and public relations activities, and additional amounts for local advertising in markets that approve such advertising. Advertising expense associated with these expenditures was $17.4 million and $15.6 million in the three months ended April 2, 2023 and April 3, 2022, respectively.

As of April 2, 2023 and April 3, 2022, the Company leased 220 and 224 of its restaurant locations from BKC, respectively. As of April 2, 2023 and April 3, 2022, the terms and conditions of the leases with BKC are identical to those between BKC and their third party lessors for 93 and 95 restaurants, respectively. Aggregate rent under these BKC leases was $7.1 million for the three months ended April 2, 2023 and $6.7 million for the three months ended April 3, 2022, respectively. The Company does not believe that such lease terms have been significantly affected by the fact that the Company and BKC are deemed to be related parties.

As of April 2, 2023 and January 1, 2023, the Company owed BKC and PLK $16.8 million and $16.0 million, respectively, related to the payment of advertising, royalties, digital fees, rent and real estate taxes, which is normally remitted on a monthly basis. These costs are included in accounts payable, other current liabilities, and accrued real estate taxes on the accompanying consolidated balance sheets.

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

In addition, pursuant to the Amended ADA, BKC granted Carrols LLC franchise pre-approval to build new Burger King restaurants or acquire Burger King restaurants from Burger King franchisees with respect to 500 Burger King restaurants in the aggregate in (i) Kentucky, Tennessee and Indiana (excluding certain geographic areas in Indiana) and (ii) (a) 16 states, which include Arkansas, Indiana, Kentucky, Louisiana, Maine, Maryland, Michigan, Mississippi, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont and Virginia (subject to certain exceptions for certain limited geographic areas within certain states) and (b) any other geographic locations that Carrols LLC enters after the commencement date of the Amended ADA pursuant to BKC procedures subject to certain limitations.

In 2022, the Company entered an agreement with BKC in connection with their "Reclaim the Flame" investment plan. Pursuant to this initiative, BKC has agreed to fund $120 million in additional advertising expenditures over the period October 1, 2022 through December 31, 2024. Following the franchisor's investment period in 2023 and 2024, participating franchisees have agreed to increase their advertising fund contributions by 50 basis points through 2026 if a profitability threshold for the Burger King system is met for the full fiscal year 2024, and further through 2028 if a secondary profitability threshold is met for the full fiscal year 2026. See "Subsequent Events" footnote 15 for description of an additional agreement executed with BKC related to their "Reclaim the Flame" investment plan.

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.

On August 10, 2021, the Company's Board of Directors approved an extension of the Company's Repurchase Program with approximately $11.0 million of its original $25 million in capacity remaining. The authorization will expire on August 2, 2023, unless terminated earlier by the Board of Directors. Purchases under the Repurchase Program may be made from time to time in open market transactions at prevailing market prices or in privately negotiated transactions (including, without limitation, the use of Rule 10b5-1 plans) in compliance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company has no obligation to repurchase stock under the Repurchase Program, and the timing, actual number and value of shares purchased will depend on the Company's stock price, trading volume, general market and economic conditions, and other factors.

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

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

13. Net Income (Loss) per Share

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

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

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

	Three Months Ended	
	April 2, 2023	**April 3, 2022**
Basic net income (loss) per share:		
Net income (loss)	$ 864	$ (21,269)
Less: Income attributable to non-vested shares	(129)	—
Less: Income attributable to preferred stock	(31)	—
Net income (loss) available to common stockholders	$ 704	$ (21,269)
Weighted average common shares outstanding	51,422,010	50,460,279
Basic net income (loss) per share	$ 0.01	$ (0.42)
Diluted net income (loss) per share:		
Net income (loss)	$ 864	$ (21,269)
Shares used in computing diluted net income (loss) per share	51,422,010	50,460,279
Dilutive effect of preferred stock and non-vested shares	9,998,024	—
Shares used in computing diluted net income (loss) per share	61,420,034	50,460,279
Diluted net income (loss) per share	$ 0.01	$ (0.42)
Shares excluded from diluted net income (loss) per share computations[1]	—	11,920,450

(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 (Income) Expense, net

The three months ended April 2, 2023 included other income, net, of $1.5 million, which was comprised of net gains from insurance recoveries of $0.9 million, a gain of $0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction and a loss on disposal of assets of $0.2 million. The three months ended April 3, 2022 included other expense, net, of $0.2 million, which was comprised of a loss on disposal of assets of $0.3 million and net gains on previous sale-leaseback transactions of $0.1 million.

15. Subsequent Events

On April 11, 2023, the Board of Directors (the "Board") of Carrols Restaurant Group, Inc. appointed Deborah M. Derby as President and Chief Executive Officer of the Company, effective May 1, 2023 (the "Effective Date"). Ms. Derby succeeded Paulo A. Pena, the Company's former President and CEO who passed away unexpectedly on December 31, 2022, and Anthony Hull, the Company's interim President and Chief Executive Officer, who continues to serve as the Company's Vice President, Chief Financial Officer and Treasurer of the Company after the Effective Date. Ms. Derby, who has served as an independent member of the Company's Board of Directors since June 2018, will continue to serve as a director of the Company, but as of April 11, 2023 Ms. Derby no longer serves as a Chair or a member of any of the Board's committees.

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

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

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

Introduction

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

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

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

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

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

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

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

Company Overview

Carrols Restaurant Group, Inc. and its consolidated subsidiaries (collectively, "Carrols Restaurant Group", the "Company", "we", "our" or "us") is one of the largest restaurant companies in the United States and has been operating restaurants for more than 60 years. We are the largest Burger King franchisee in the United States based on number of restaurants, and have operated Burger King restaurants since 1976. As of April 2, 2023 we operated, as franchisee, a total of 1,084 restaurants in 23 states under the trade names of Burger King and Popeyes. This included 1,019 Burger King restaurants in 23 Northeastern, Midwestern, Southcentral and Southeastern states and 65 Popeyes restaurants in seven Southeastern states.

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

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

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

these costs are not directly related to restaurant-level operations, these costs are necessary for the profitability of our restaurants. Management believes that Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss), when viewed with our results of operations in accordance with U.S. GAAP and the accompanying reconciliations on page 31, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Adjusted Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced.

However, EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are not measures of financial performance or liquidity under U.S. GAAP and, accordingly, should not be considered as alternatives to net income (loss), income (loss) from operations or cash flow from operating activities as indicators of operating performance or liquidity. Also, these measures may not be comparable to similarly titled captions of other companies. For the reconciliation between Net Income (loss) to EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss) and the reconciliation of income from operations to Adjusted Restaurant-Level EBITDA, see page 31.

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, non-recurring litigation costs and changes in the valuation allowance for deferred taxes) have recurred and may reoccur.

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

- *Interest expense* consists of interest expense associated with our Term B Loans under our Senior Credit Facilities, our 5.875% Senior Notes Due 2029 (the "Notes"), our revolving credit borrowings under our Senior Credit Facilities, finance lease liabilities, amortization of deferred financing costs, amortization of original issue discount, and payments and receipts made in connection with our interest rate swap arrangement.

Recent and Future Events Affecting our Results of Operations

BKC's "Reclaim the Flame" Plan

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

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

Under BKC's "Royal Reset" program, BKC will make certain contributions towards franchisee remodel costs, which increase in value if BKC owns the property and/or if the franchisee agrees to pay a 1% higher royalty rate over the 20-year franchise term renewal. The "Royal Reset" program also includes a $50 million co-investment with its franchisees in a restaurant refresh program, whereby BKC will match certain restaurant improvement spending by franchisees by providing them with restaurant technology equipment at no cost. At this time, we do not expect participation in the "Royal Reset" program to materially impact our levels of capital expenditures, provided that the program may allow us to complete more remodels with the same level of capital expenditure and to accelerate deployment of restaurant technology. In May 2023, we entered into an agreement and related documentation with BKC that will provide us with approximately $12.2 million of restaurant technology in 2023, conditioned upon us completing certain repairs, replacements and improvements to our restaurant assets at a cost of approximately $12.2 million by March 31, 2024.

Capital Expenditures

We expect that our capital expenditures in 2023 will remain at levels similar to our capital expenditures in 2022. We continue to review on an ongoing basis our future development and remodel plans in relation to our available capital resources, construction materials and restaurant equipment availability, and our expected return on investment.

We incurred $6.9 million of capital expenditures in the first three months of 2023, net of insurance recoveries. In the first three months of 2023, we completed the remodel of one Burger King restaurant and one Popeyes restaurant. In all of 2023, we expect to complete development of four new Burger King restaurants and to remodel twelve Burger King restaurants and three Popeyes restaurants.

Area Development and Remodeling Agreement

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

In addition, pursuant to the Amended ADA, BKC granted Carrols LLC franchise pre-approval to build new Burger King restaurants or acquire Burger King restaurants from Burger King franchisees with respect to 500 Burger King restaurants in the aggregate in (i) Kentucky, Tennessee and certain geographic areas in Indiana and (ii) (a) 16 states, which include Arkansas, Indiana, Kentucky, Louisiana, Maine, Maryland, Michigan, Mississippi, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont and Virginia (subject to certain exceptions for certain limited geographic areas within certain states) and (b) any other geographic locations that Carrols LLC enters after the commencement date of the Amended ADA pursuant to BKC procedures subject to certain limitations.

Issuance of Senior Notes and Amendments to our Senior Credit Facilities

Senior Credit Facilities. On April 30, 2019, we entered into senior secured credit facilities in an aggregate principal amount of $550.0 million, consisting of (i) a term loan B facility in an aggregate principal amount of $425.0 million (the "Term Loan B Facility") maturing on April 26, 2026, and (ii) a revolving credit facility (including a sub-facility of $35.0 million for standby letters of credit) in an aggregate principal amount of $125.0 million originally maturing on April 30, 2024 (the "Revolving Credit Facility" and, together with the Term Loan B Facility, the "Senior Credit Facilities"). On December 15, 2022 we executed an amendment to our Senior Credit Facilities to transition from LIBOR to SOFR as the benchmark rate for purposes of calculating interest. As of April 2, 2023 the Senior Credit Facilities, as amended, provide for an aggregate maximum commitment available for borrowings and issuances of letters of credit under the Revolving Credit Facility of $215.0 million. The Revolving Credit Facility matures on January 29, 2026.

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

Senior Notes due 2029. On June 28, 2021, the Company issued $300.0 million principal amount of 5.875% Senior Notes due 2029 (the "Notes") in a private placement. The proceeds of the offering, together with $46.0 million of revolving credit borrowings under the Senior Credit Facilities, were used to (i) repay $74.4 million of outstanding term B-1 loans and $243.6 million of outstanding term B loans under the Senior Credit Facilities (which included scheduled principal payments), (ii) to pay fees and expenses related to the offering of the Notes and the Seventh Amendment and (iii) for working capital and general corporate purposes.

Interest Rate Swap Agreement

In March 2020 we entered into an interest rate swap agreement with certain of our lenders under the Senior Credit Facilities to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Senior Credit Facilities. The interest rate swap originally fixed the interest rate on 50% of outstanding borrowings under the Senior Credit Facility at 0.915% plus the applicable margin in our Senior Credit Facilities with the difference settled monthly. The agreement matures on February 28, 2025 and had an original notional amount of $220.0 million, which was reduced to $120.0 million in 2021. On December 15, 2022, we modified the interest rate swap agreement to transition from LIBOR to SOFR as the benchmark interest rate, which also changed the fixed rate of interest from 0.915% plus the applicable margin to 0.847% plus the applicable margin.

We received $1.1 million to settle the interest rate swap during the three months ended April 2, 2023. We expect to recognize net gains totaling $4.7 million related to the interest rate swap agreement during the next twelve months.

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 on August 10, 2021, was extended through August 2, 2023. Purchases under the Repurchase Program may be made from time to time in open market transactions at prevailing market prices or in privately negotiated transactions (including, without limitation, the use of Rule 10b5-1 plans) in compliance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

We did not repurchase any shares in the three months ended April 2, 2023 or the year ended January 1, 2023. As of April 2, 2023, $11.0 million was available to repurchase shares under the Repurchase Program. We have no obligation to repurchase additional shares of stock under the Repurchase Program, and the timing, actual number and value of shares purchased will depend on our stock price, trading volume, general market and economic conditions and other factors.

Restaurant Closures

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

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

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

Effect of Minimum Wage Increases

Certain of the states and municipalities in which we operate have increased their minimum wage rates for 2021 and in many cases have also approved additional increases for future periods. Most notably, New York State increased the minimum wage applicable to our business to $14.50 an hour on January 1, 2021 and then to 15.00 an hour on July 1, 2021, from $13.75 an hour in 2020 and $12.75 per hour in 2019. New York State has a Youth Jobs Program tax credit through 2027 for which we have received tax credits from annually since 2016 that currently extends through 2027. We expect to receive approximately $0.6 million and $0.7 million from New York State related to these credits for 2022 and 2023, respectively. On April 2, 2023, we had 124 restaurants in New York State. We also had on April 2, 2023 ten restaurants in New Jersey that have annual minimum wage increases reaching $15.13 per hour in 2024, and 45 total restaurants in Illinois and Maryland that have annual minimum wage increases reaching $15.00 per hour in 2025.

In the current labor market, we have seen competitive pressure on wage rates that have significantly outpaced statutory minimums as the re-opening of the economy has increased demand for labor at all levels of the workforce. The increase in base hourly labor rates in the first quarter of 2023, inclusive of minimum wage increases, was 5.2% but has declined from the base hourly labor rate increase of 13.6% in the first quarter of 2022.

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

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

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

	Three Months Ended	
	April 2, 2023	**April 3, 2022**
Restaurant Sales	$ 445,162	$ 399,476
Burger King	421,937	377,828
Popeyes	23,225	21,648
Change in Comparable Restaurant Sales[a]	11.6 %	1.7 %
Change in comparable Burger King restaurant sales[a]	11.7 %	1.6 %
Change in comparable Popeyes restaurant sales[a]	9.5 %	2.2 %
Burger King Restaurants operating at beginning of period:	1,022	1,026
New restaurants opened, including relocations[b]	—	2
Restaurants closed, including relocations[b]	(3)	(2)
Burger King restaurants at end of period	1,019	1,026
Average number of operating Burger King restaurants	1,021.8	1,023.7
Popeyes Restaurants operating at beginning and end of period:	65	65
Average number of operating Popeyes restaurants	64.9	65.0

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

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

Restaurant Sales. Total restaurant sales in the first quarter of 2023 increased $45.7 million to $445.2 million from the first quarter of 2022. Our comparable restaurant sales increased 11.6% compared to the first quarter of 2022 which reflected an increase in average check of 12.8% which was partially offset by a decrease in customer traffic of 1.1%. The change in average check included a 9.7% effective price increase compared to the first quarter of 2022 for our Burger King restaurants. Promotional sales discounts in the first quarter of 2023 were 11.2% of restaurant sales at our Burger King restaurants compared to 18.4% in the first quarter of 2022. Hours of operation have increased 4.5% in the first quarter of 2023 at our Burger King restaurants and 3.5% at our Popeyes restaurants compared to the first quarter of 2022. Restaurant sales were also impacted by the four new Burger King restaurants built since the end of the first quarter of 2022 and the 11 restaurants closed since the end of the first quarter of 2022.

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

	Three Months Ended (13 weeks)	
	April 2, 2023	**April 3, 2022**
Costs and expenses (all restaurants):		
Food, beverage and packaging costs	28.2 %	30.8 %
Restaurant wages and related expenses	32.9 %	35.5 %
Restaurant rent expense	7.2 %	7.8 %
Other restaurant operating expenses	15.5 %	16.4 %
Advertising expense	4.0 %	4.0 %
General and administrative	5.8 %	5.5 %

Food, beverage and packaging costs decreased to 28.2% of restaurant sales in the first quarter of 2023 from 30.8% of restaurant sales in the first quarter of 2022. This decrease compared to last year reflects the impact of menu price increases taken at our Burger King restaurants since the end of the first quarter of 2022 (2.6%) and lower promotional discounting in the first quarter of 2023 at our Burger King restaurants (1.9%) which were partially offset by increased commodity pricing at our Burger King restaurants (1.6%) and commodity pricing at our Popeyes restaurants (0.2%).

Restaurant wages and related expenses decreased to 32.9% of restaurant sales in the first quarter of 2023 from 35.5% in the first quarter of 2022. The impact of base hourly labor rate increase in the first quarter of 2023, inclusive of minimum wage increases, was 5.2%, and has moderated significantly from the base hourly labor rate increases we had over the course of 2021 and 2022. This increase was offset by an overall decrease in labor hours of 3%.

Restaurant rent expense decreased to 7.2% in the first quarter of 2023 from 7.8% in the first quarter of 2022 due to the impact of higher sales volumes on generally fixed rental costs.

Other restaurant operating expenses decreased as a percentage of restaurant sales to 15.5% in the first quarter of 2023 from 16.4% of restaurant sales in the first quarter of 2022. In the first quarter of 2023 we had a reduction in general liability insurance costs (0.2%), real estate taxes (0.2%), utilities (0.1%), and supplies (0.1%) partially driven by the impact of higher sales volumes on generally fixed operating costs.

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

Adjusted Restaurant-Level EBITDA. As a result of the factors discussed above, Adjusted Restaurant-Level EBITDA increased $32.0 million, or 142.2%, to $54.5 million in the first quarter of 2023 compared to $22.5 million in the first quarter of 2022. As a percentage of total restaurant sales, Adjusted Restaurant-Level EBITDA increased to 12.2% in the first quarter of 2023 from 5.6% in the first quarter of 2022. For a reconciliation between Adjusted Restaurant-Level EBITDA and loss from operations see page 31.

General and Administrative Expenses. General and administrative expenses increased $3.7 million in the first quarter of 2023 to $25.7 million, and increased to 5.8% as a percentage of total restaurant sales in the first quarter of 2023 from 5.5% in the first quarter of 2022. The $3.7 million increase was due to higher incentive compensation accruals of $4.0 million and increased professional fees of $1.0 million, which were partially offset by severance paid in the prior year quarter of $1.1 million and decreased stock compensation expense of $0.8 million.

Adjusted EBITDA. As a result of the factors above, Adjusted EBITDA increased to $30.7 million in the first quarter of 2023 from $4.3 million in the first quarter of 2022. As a percentage of total restaurant sales, Adjusted EBITDA increased to 6.9% in the first quarter of 2023 from 1.1% in the first quarter of 2022. For a reconciliation between net loss and EBITDA and Adjusted EBITDA see page 31.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased $0.8 million to $18.7 million in the first quarter of 2023 from $19.5 million in the first quarter of 2022.

Impairment and Other Lease Charges. Impairment and other lease charges were $1.3 million consisting of capital expenditures at previously impaired restaurants of $0.1 million and $1.2 million of other lease charges related to three restaurants closed during the quarter. During the first quarter of 2022, we recorded impairment and other lease charges of $0.5 million consisting of $0.1 million of initial impairment charges for one underperforming restaurant, capital expenditures at previously impaired restaurants of $0.1 million and $0.3 million of other lease charges primarily from one location closed in the period.

Other (Income) expense, net. Other income, net, was $1.5 million in the first quarter of 2023 and included net gains from insurance recoveries of $0.9 million, a gain of $0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction and a loss on disposal of assets of $0.2 million. Other expense, net, in the first quarter of 2022 included a loss on disposal of assets of $0.3 million and net gains on previous sale-leaseback transactions of $0.1 million.

Interest Expense. Interest expense increased to $8.2 million in the first quarter of 2023 from $7.4 million in the first quarter of 2022. Our weighted average interest rate for long-term borrowings increased to 5.8% in the first quarter of 2023 from 4.9% in the first quarter of 2022, due to the higher variable rates on the unhedged portion of our Senior Credit Facilities. Variable rate increases on our Senior Credit Facilities have and will be offset by our interest rate swap which fixes the interest rate on $120.0 million of debt outstanding under our Senior Credit Facilities. At the end of the first quarter of 2023, after consideration of our interest rate swap, approximately 90% of our long-term debt (including current portion) was at a fixed rate.

Provision (benefit) for Income Taxes. For the three months ended April 2, 2023, the provision for income taxes was derived using an estimated effective annual income tax rate for all of 2023 of 18.7%. The difference compared to the statutory rate for 2023 is attributable to various permanent non-deductible expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in the period as well as the impact of increases or reductions to the valuation allowance on our deferred income tax assets. During the three months ended April 2, 2023, the provision for income taxes was decreased by $1.3 million due to a decrease in the valuation allowance on our deferred income tax assets. There were also $0.8 million discrete tax expenses in the first quarter of 2023.

For the three months ended April 3, 2022, the benefit for income taxes was derived using an estimated effective annual income tax rate for all of 2022 of 22.0%. The difference compared to the statutory rate for 2022 is attributable to various permanent non-deductible expenses and non-refundable business credits which are not directly related to the amount of pre-tax loss recorded in the period as well as the impact of increases to our valuation allowance on our deferred income tax assets. During the three months ended April 3, 2022, the benefit for income taxes was reduced by $2.2 million due to an increase in the valuation allowance on our deferred income tax assets. There were no discrete tax expenses in the first quarter of 2022.

Net Income (Loss). As a result of the above, net income for the first quarter of 2023 was $0.9 million, or $0.01 per diluted share, compared to net loss in the first quarter of 2022 of $21.3 million, or $0.42 per diluted share.

Results of Operations

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

	Three Months Ended	
Reconciliation of EBITDA and Adjusted EBITDA:	**April 2, 2023**	**April 3, 2022**
Net Income (loss)	**$ 864**	**$ (21,269)**
Provision (benefit) from income taxes	1,142	(6,009)
Interest expense	8,233	7,436
Depreciation and amortization	18,718	19,542
EBITDA	**28,957**	**(300)**
Impairment and other lease charges	1,340	496
Stock-based compensation expense	1,097	1,941
Pre-opening costs[1]	—	45
Executive transition, litigation and other professional expenses[2]	798	1,918
Other (income) expense, net[3][4]	(1,506)	202
Adjusted EBITDA	**$ 30,686**	**$ 4,302**
Reconciliation of Adjusted Restaurant-Level EBITDA:		
Income (loss) from operations	**$ 10,239**	**$ (19,842)**
Add:		
General and administrative expenses	25,740	22,017
Pre-opening costs[1]	—	45
Depreciation and amortization	18,718	19,542
Impairment and other lease charges	1,340	496
Other (income) expense, net[3][4]	(1,506)	202
Adjusted Restaurant-Level EBITDA	**$ 54,531**	**$ 22,460**
Reconciliation of Adjusted Net Income (Loss):		
Net Income (loss)	**$ 864**	**$ (21,269)**
Add:		
Impairment and other lease charges	1,340	496
Pre-opening costs[1]	—	45
Executive transition, litigation and other professional expenses[2]	798	1,918
Other (income) expense, net[3][4]	(1,506)	202
Income tax effect on above adjustments[5]	(158)	(665)
Valuation allowance for deferred taxes[6]	(1,331)	2,207
Adjusted Net Income (Loss)	**$ 7**	**$ (17,066)**
Adjusted diluted net income (loss) per share[7]	**$ —**	**$ (0.34)**
Diluted weighted average common shares outstanding	**61,420**	**50,460**

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

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

(3) The three months ended April 2, 2023 included other income, net, of $1.5 million, which was comprised of net gains from insurance recoveries of $0.9 million, a gain of $0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction, and a loss on disposal of assets of $0.2 million.

(4) The three months ended April 3, 2022 included other expense, net, of $0.2 million, which was comprised of a loss on disposal of assets of $0.3 million and net gains on previous sale-leaseback transactions of $0.1 million

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

(6) Reflects the change in the valuation allowance on deferred income tax assets during the three months ended April 2, 2023 and April 3, 2022.

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

Liquidity and Capital Resources

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

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

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

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

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

Operating Activities. Net cash provided by operating activities was $8.0 million in the first three months of 2023 compared to net cash used in operating activities of $26.6 million in the first three months of 2022. The increase in the net cash provided was due primarily to an increase of $29.3 million in EBITDA and a net increase in cash provided by working capital components of $7.8 million. Net working capital changes in the first three months of 2023 and 2022 both included a repayment of $10.8 million of employer payroll taxes deferred in 2020 under the CARES Act which is now fully repaid.

Investing Activities. Net cash used for investing activities in the first three months of 2023 and 2022 was $6.9 million and $12.6 million, respectively.

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

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

	Three Months Ended	
	April 2, 2023	April 3, 2022
New restaurant development	$ 858	$ 2,622
Restaurant remodeling	2,035	5,319
Other restaurant capital expenditures	3,774	4,151
Corporate and restaurant information systems	1,322	1,097
Total capital expenditures	$ 7,989	$ 13,189
Number of new restaurant openings, including relocations	—	2

In the first three months of 2023, investing activities also included proceeds from insurance recoveries of $1.1 million.

Financing Activities. Net cash used in financing activities in the first three months of 2023 was $14.6 million and included repayment of $12.5 million of net revolving credit borrowings under our Senior Credit Facilities, principal payments of $1.1 million of outstanding term B loans under our Senior Credit Facilities, and principal payments on finance leases of $0.8 million.

Net cash provided by financing activities in the first three months of 2022 was $18.5 million and included $20.0 million of net revolving credit borrowings under our Senior Credit Facilities, principal payments of $1.1 million on the Term Loan B Facility and principal payments on finance leases of $0.5 million.

Senior Notes due 2029. On June 28, 2021, we issued $300.0 million principal amount of the Notes in a private placement as described above under "—Recent and Future Events Affecting our Results of Operations-Issuance of Notes and Amendments to our Senior Credit Facilities". The proceeds of the offering, together with $46.0 million of revolving credit borrowings under our Senior Credit Facilities, were used to (i) repay $74.4 million of outstanding term B-1 loans and $243.6 million of outstanding term B loans under our Senior Credit Facilities (which included scheduled principal payments), (ii) to pay fees and expenses related to the offering of the Notes and the Seventh Amendment and (iii) for working capital and general corporate purposes.

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

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

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

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

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

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

As there were no borrowings under the Revolving Credit Facility (and only $10.5 million of outstanding letters of credit) at April 2, 2023, we did not exceed 35% of the aggregate borrowing capacity and no First Lien Leverage Ratio calculation was required. However, if we had been subject to the First Lien Leverage Ratio, the Company's First Lien Leverage Ratio was 1.90x to 1.00 as of April 2, 2023 which was below the required First Lien Leverage Ratio of 5.75x to 1.00. As a result, we do not expect to have to reduce our term loan borrowings mandatorily with Excess Cash Flow (as defined in the Senior Credit Facilities). We were in compliance with the financial covenants under our Senior Credit Facilities at April 2, 2023.

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

The weighted average interest rate for borrowings on long-term debt balances were 5.8% for the three months ended April 2, 2023 and 4.9% for the three months ended April 3, 2022.

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

(i) twelve quarterly installments of $1.1 million;

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

Interest Rate Swap. In March 2020, we entered into an interest rate swap agreement certain of our lenders under the Senior Credit Facilities to mitigate the risk of increases in the variable interest rate related to term loan borrowings under the Term Loan B Facility. The interest rate swap fixed the interest rate originally on $220.0 million of outstanding borrowings under the Senior Credit Facilities at 0.915% plus the applicable margin in its Senior Credit Facilities. The agreement matures on February 28, 2025 and the notional amount was reduced to $120.0 million in 2021.

In 2022, the Company modified its interest rate swap agreement to transition from LIBOR to SOFR as the benchmark rate, which also changed the fixed rate of interest from 0.915% plus the applicable margin to 0.847% plus the applicable margin.

The differences between the variable and fixed rates are settled monthly. We received payments of $1.1 million and made payments of $0.2 million to settle the interest rate swap during the three months ended April 2, 2023 and April 3, 2022, respectively. The fair value of our interest rate swap agreement was an asset of $7.2 million as of April 2, 2023 and is included in long-term other assets in the accompanying condensed consolidated balance sheets. Changes in the fair value of the cash flow hedges included in the assessment of hedge effectiveness is recognized in accumulated other comprehensive income. The amounts recorded in other comprehensive income will subsequently be reclassified to earnings as an increase or decrease to interest expense as realized through receipts or payments. We expect to recognize net gains totaling $4.7 million into earnings in the next twelve months.

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

Inflation

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

In the current labor market, we have seen competitive pressure on wage rates that have significantly outpaced statutory minimums as the re-opening of the economy has increased demand for labor at all levels in the workforce. In the past two years, we have experienced inflationary cost pressures in labor and commodity costs as a result of challenges impacting our restaurants and our supply chains. The COVID-19 pandemic has increased the difficulty and cost of maintaining adequate staffing levels at our restaurants as well as for businesses in our supply chain that we depend on for commodities. At this point, there is limited visibility as to when these inflationary pressures may revert to normal levels.

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

Application of Critical Accounting Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in the "Significant Accounting Policies" footnote in the notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2023. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. There have been no material changes affecting our critical accounting policies or estimates previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 1, 2023.

Forward Looking Statements

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

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

ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

A 1% change in interest rates would have resulted in a $0.2 million and $0.7 million change to interest expense for the three months ended April 2, 2023 and April 3, 2022, respectively.

ITEM 4—CONTROLS AND PROCEDURES

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

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

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

The table below reflects the shares of common stock we repurchased during the first quarter of 2023.

		Total Number of Shares Purchased [(1)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January	*Purchased January 2, 2023 to February 5, 2023*	138,591	$ 2.04	—	$ 10,983,543
February	*Purchased February 6, 2023 to March 5, 2023*	—	—	—	$ 10,983,543
March	*Purchased March 6, 2023 to April 2, 2023*	5,843	$ 2.22	—	$ 10,983,543
	Total	144,434		—	

(1) Represents shares withheld through net share settlements in order to meet individual tax withholding liability related to the vesting of restricted stock awards.

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	Form of Employment Agreement dated as of April 12, 2023 among Carrols Restaurant Group, Inc., Carrols Corporation and Deborah M. Derby#+
19.1	Management Insider Trading Policy#
31.1	Chief Executive Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
31.2	Chief Financial Officer's Certificate Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.1	Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
32.2	Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carrols Restaurant Group, Inc.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Filed herewith

+ Compensatory plan or arrangement

SIGNATURES

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

CARROLS RESTAURANT GROUP, INC.

Date: May 11, 2023	/s/ Deborah M. Derby
	(Signature)
	Deborah M. Derby **President and Chief Executive Officer**
Date: May 11, 2023	/s/ Anthony E. Hull
	(Signature)
	Anthony E. Hull **Vice President, Chief Financial Officer and Treasurer**

Exhibit 10.1

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and entered into as of this 12th day of April, 2023 by and among CARROLS RESTAURANT GROUP, INC., a Delaware corporation (the "Company"), and CARROLS CORPORATION, a Delaware corporation and an indirect, wholly-owned subsidiary of the Company (the "Employer"), and DEBORAH M. DERBY having an address at 130 Rising Meadow Way, East Stroudsburg, PA 18302 (the "Executive").

W I T N E S S E T H:

WHEREAS, Executive has been an independent member of the Board of Directors of the Company since 2018; and

WHEREAS, the Company and the Employer desire to employ Executive as its President and Chief Executive Officer and Executive desires to accept such employment, in each case pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter contained, and other good and valuable consideration, the receipt and adequacy of which is mutually acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Definitions.

For purposes of this Agreement, the following definitions shall apply:

1.1 "Affiliate" shall mean an entity controlled by, controlling or under the common control with the entity in question.

1.2 "Cause" shall mean: (a) the commission by the Executive of any act or omission that would constitute a felony or any crime of moral turpitude under Federal law or the law of the state or foreign law in which such action occurred; (b) dishonesty, disloyalty, fraud, willful misconduct, embezzlement, misappropriation, theft, disclosure of trade secrets or confidential information or other acts or omissions by the Executive that result in a breach of fiduciary or other material duty to the Company, the Employer or any of the Companies; (c) continued reporting to work or working under the influence of alcohol, an illegal drug, an intoxicant or a controlled substance which renders the Executive incapable of performing Executive's material duties to the satisfaction of the Company or the Employer; (d) the Executive's material breach of this Agreement or any other written agreement or covenant with the Company, the Employer or any of the Companies, which material breach shall continue after thirty (30) days' written notice to the Executive and an opportunity to cure such breach, to the extent curable; (e) the Executive's substantial disregard in the performance of the Executive's material duties and/or responsibilities with respect to the Company, the Employer or any of the Companies, which substantial disregard shall continue after thirty (30) days' written notice to the Executive and an opportunity to cure, to the extent curable; or (f) an act of gross negligence in connection with the Executive's duties.

1.3 "Certificate of Incorporation" shall mean the Amended and Restated Certificate of Incorporation of the Company, as amended.

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

1.4.1 The acquisition, directly or indirectly, by any person or group (as those terms are defined in Sections 3(a)(9), 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules thereunder) of beneficial ownership (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors (voting securities) of the Company that represent 50% or more of the combined voting power of the Company's then outstanding voting securities, other than:

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

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

Notwithstanding the foregoing, the following event shall not constitute an acquisition by any person or group for purposes of this subsection 1.4.1: an acquisition of the Company's securities by the Company which causes the Company's voting securities beneficially owned by a person or group to represent 50% or more of the combined voting power of the Company's then outstanding voting securities; provided, however, that if a person or group shall become the beneficial owner of 50% or more of the combined voting power of the Company's then outstanding voting securities by reason of share acquisitions by the Company as described above and shall, after such share acquisitions by the Company, become the beneficial owner of any additional voting securities of the Company, then such acquisition shall constitute a Change of Control; or

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

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

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

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

1.4.4 A sale or disposition of all or substantially all of the Company's assets; or

1.4.5 The Company's stockholders approve a liquidation or dissolution of the Company.

1.5 "Companies" shall mean the Company, the Employer and any present of future Affiliate of each of them and their respective successors and assigns (whether by operation of law or otherwise).

1.6 "Competitor" shall mean any company or organization operating a quick-service restaurant which features hamburger or chicken as the primary or central menu item.

1.7. "Disability" shall mean the Executive's inability to perform the duties and responsibilities contemplated under this Agreement for a period of six (6) successive months, or an aggregate of six (6) months in any twelve (12) month period, due to physical or mental incapacity or impairment.

1.8 "Effective Date" shall mean May 1, 2023.

1.9 "Executive Bonus Plan" shall mean: all bonus plans or arrangements maintained by the Employer or any of the Companies in which the Executive is eligible to participate as the same may be amended or modified from time to time.

1.10 "Good Reason" shall mean: (a) the material breach by the Employer or the Company of any material provision of this Agreement or any other agreement by and between the Executive and any of the Companies affecting the terms of the Executive's employment with any of the Companies, which breach, if curable, is not remedied within thirty (30) days after the Employer's or the Company's receipt of written notice thereof from the Executive; (b) the material diminution of the Executive's position, authority, duties or responsibilities with respect to any of the Companies or the assignment to the Executive of duties and responsibilities that are materially inconsistent with those duties and responsibilities customarily assigned to a president and chief executive officer of a similarly situated company; (c) the failure of any successor of the Company or the Employer to assume in a writing delivered to the Executive and reasonably satisfactory to the Executive the obligations of this Agreement; (d) solely with respect to Section 4.1, a reduction in the Executive's base salary which reduction is not commensurate with that of similarly situated executive officers; (e) solely with respect to Section 4.2, a reduction in the Executive's base salary regardless of whether such reduction is or is not commensurate with that of similarly situated executive officers; (f) solely with respect to Section 4.1, treatment of the Executive under the Executive Bonus Plan or under any other executive bonus plan in which similarly situated executive officers of the Company are eligible to participate in a manner inconsistent in any material respect with the treatment under such plan of such similarly situated executive officers, including, without limitation, with respect to eligibility to participate in such plan, conditions and criteria for earning bonuses thereunder and the amount of bonuses thereunder; or (g) solely with respect to Section 4.2, any modification of the Executive Bonus Plan or any other executive bonus plan in which similarly situated executive officers of the Company are eligible to participate in a manner that will materially change the Executive's treatment under such plan including, without limitation, with respect to eligibility to participate in such plan, conditions and criteria for earning bonuses thereunder and the amount of bonuses thereunder and regardless of whether such material change is or is not commensurate with that of similarly situated executive officers. Any termination by Executive for Good Reason may only occur if Executive provides written notice of termination for Good Reason within forty-five (45) days after Executive learns about the occurrence of the event giving rise to the claim of Good Reason and the Company or the Employer fails to remedy the matter within thirty (30) days of receipt of such notice from Executive.

1.11 "Mandatory Arbitration Agreement" shall mean that certain Agreement for Resolution of Disputes Pursuant to Binding Arbitration between the Employer and the Executive all as more fully as set forth on Exhibit A attached hereto and made a part hereof.

1.12 "Release" shall mean that certain Release as more fully set forth on Exhibit B attached hereto and made a part hereof.

1.13 "Severance Bonus" shall mean: an amount equal to a pro rata portion of the aggregate annual bonus under the Executive Bonus Plan for the year in which the Executive incurs a Termination of employment to which the Executive would otherwise have been entitled had her employment not been terminated, provided, however, for any bonus (or portion thereof) under the Executive Bonus Plan based on the individual attainment of goals and objectives, "Severance Bonus" shall mean, subject to the achievement of any metric or threshold as a precondition for eligibility to receive such bonus, an amount equal to the pro rata portion of the target bonus for the year in which the Executive incurs a Termination of employment, regardless of whether the Executive would otherwise have achieved such bonus had her employment not been terminated.

1.14 "Severance Payment" shall mean: an amount equal to the Executive's annual base salary in effect immediately prior to the date the Executive incurs a Termination of employment.

1.15 "Special Severance Bonus" shall mean: an amount equal to the aggregate annual bonus under the Executive Bonus Plan for the year in which the Executive incurs a Termination of employment to which the Executive would otherwise have been entitled had her employment not been terminated, provided, however, for any bonus (or portion thereof) under the Executive Bonus Plan based on the individual attainment of goals and objectives, "Special Severance Bonus" shall mean, subject to the achievement of any metric or threshold as a precondition for eligibility to receive such bonus, an amount equal to the annual target bonus for the year in which the Executive incurs a Termination of employment, regardless of whether the Executive would otherwise have achieved such bonus had her employment not been terminated.

1.16 "Special Severance Payment" shall mean: an amount equal to eighteen (18) multiplied by the amount of the Executive's monthly base salary in effect immediately prior to the date the Executive incurs a Termination of employment.

1.17 "Termination of employment" means cessation of the Executive's employment with the Company, the Employer and all of the Companies by which the Executive is employed.

2. Employment and Term.

2.1 Employment. The Employer hereby employs Executive and Executive accepts such employment as the President and Chief Executive Officer of the Companies reporting to the Board of Directors of the Company (the "Board"). In Executive's capacity as President and Chief Executive Officer, Executive shall have such duties and responsibilities as are customarily assigned to individuals serving in such position. Executive shall devote Executive's full business time and attention and all of Executive's skill, knowledge and experience to the conscientious performance of Executive's duties and responsibilities, provided, however, that Executive may serve as a member of the board of directors of Henry Schein, Inc. so long as it does not materially interfere with the performance of Executive's duties to the Companies.

2.2 Term. The term of this Agreement shall commence on the Effective Date and shall continue until the date of Executive's termination of employment hereunder.

2.3 Location. Executive shall work from Executive's home in Pennsylvania and shall be available to travel as the needs of the Companies require. For the first year of Executive's employment, Executive shall work a minimum of five (5) days per month in the home office of the Company in Syracuse, NY.

3. Compensation and Benefits.

3.1 Base Salary. Executive's annual base salary shall be $650,000, which base salary shall be prorated for periods that are less than one year and shall be paid in accordance with the Employer's monthly payroll practices for executives at a rate of $54,166.67 a month, less applicable taxes and withholdings. Executive shall be eligible for annual merit increases in Executive's base salary as determined by the Compensation Committee of the Board in its sole discretion.

3.2 Annual Bonus. Executive shall participate in the Company's Executive Bonus Plan. Executive's target bonus percent shall be 100% of Executive's annual base salary. A copy of the 2023 Executive Bonus Plan has been provided to Executive with this Agreement.

3.3 Equity Awards. On May 1, 2023, Executive shall receive a grant of 417,320 shares of restricted stock of the Company under the Carrols Restaurant Group, Inc. 2016 Stock Incentive Plan (as amended, the "Stock Incentive Plan"). These shares will vest over three years, with 34% of the shares vesting on May 1, 2024, 33% of the shares vesting on January 15, 2025, and 33% of the shares vesting on January 15, 2026.

In addition, on July 1, 2023, Executive shall be awarded 450,000 performance-based restricted stock units (the "RSUs") under the Stock Incentive Plan, subject to Executive's continued employment with the Company on such date, the approval at the 2023 Annual Meeting of the Stockholders of the Company of an amendment to the Stock Incentive Plan to increase the number of shares of common stock available for issuance under the Stock Incentive Plan and the terms of the applicable award agreement. The RSUs will entitle the Executive to receive a payout as set forth below based upon the Company's achievement of compounded organic adjusted EBITDA growth over a three- year period above the Company's 2022 actual adjusted EBITDA subject to the terms of the applicable award agreement:

Performance Level	**Organic Adjusted EBITDA Achievement**	**Payout (% of Target PSUs)**
Below Threshold	<$75,000,000	None
Threshold	$75,000,000	25%
Intermediate	$79,100,000	50%
Target	$83,600,000	100%
Maximum	$114,000,000	200%

Payout will be linearly interpolated for EBITDA achievement between levels once the Threshold has been achieved. If achieved, Executive's payout shall be made at the same time as payouts are made to other members of the Company's executive management team.

During Executive's employment, additional equity grants may also be awarded to Executive from time to time as determined by the Compensation Committee of the Board in its sole discretion.

3.4 Deferred Compensation Plan. Effective May 1, 2023, Executive shall be eligible to participate in the Carrols Corporation & Subsidiaries Amended and Restated Deferred Compensation Plan (as may be amended from time to time, the "Deferred Compensation Plan") subject to the requirements of the Deferred Compensation Plan. Executive shall also be eligible to participate in any other retirement benefit plan maintained by the Company on the same basis as other executive officers of the Company (other than retirement benefit plans that have been terminated or frozen).

3.5 Benefits. During the term of this Agreement, Executive and Executive's eligible dependents (as defined by applicable plan documents) shall be eligible to participate in all medical, dental, vision, flexible spending account, health savings account, life insurance and other welfare benefit plans that the Companies maintain for executive officers, as the same may be amended or modified from time to time (collectively the "Benefit Plans"), and receive benefits under such Benefit Plans on the same basis as those benefits are made available to other executive officers, subject, in each case, to the terms, provisions and conditions of the applicable plan documents. Executive's participation in the Benefits Plans during the term of this Agreement shall be at Executive's election and will be effective May 1, 2023, provided Executive enrolls on the employee benefits communication portal. Executive shall also be eligible to participate in the short-term and long-term disability plans offered by the Companies as the same may be amended or modified from time to time, subject to the terms, provisions and conditions of the plan documents (collectively the "Disability Plans"). Executive's participation in any of the Disability Plans shall be at Executive's election and will be effective August 1, 2023 provided Executive enrolls on the employee benefits communication portal. Executive's share of the cost for the Benefit Plans and Disability Plans elected by Employee will be deducted from the monthly compensation of Executive described in Section 3.1 of this Agreement. The Companies reserve the right to amend or terminate any Benefit Plan or Disability Plan at any time in its sole discretion, subject to the terms of such Benefit Plan or Disability Plan and applicable law provided that any such amendment or termination shall treat the Executive on substantially the same basis as other similarly situated executive officers of the Company.

3.6 Vacation. During the term of this Agreement, Executive shall be eligible for four (4) weeks of vacation each year, it being understood that any portion of such vacation not taken during a year shall not be available to be taken during any other year.

3.7 Expense Reimbursement. During the term of this Agreement, Executive shall be reimbursed for all business expenses incurred in accordance with Company policy including, without limitation, mileage reimbursable for use of Executive's personal vehicle on Company business.

3.8 Stipend. The Company shall provide Executive with a $265,000 cash stipend (the "Stipend") in lieu of any moving, temporary housing or other similar cost, expense or compensation loss Executive may incur as a result of Executive's employment hereunder. One-half of the Stipend will be paid to Executive within thirty (30) days of the Effective Date, with the remainder being paid on or about November 1, 2023, less applicable taxes and withholdings. In the event that Executive voluntarily terminates Executive's employment hereunder on or before May 1, 2024, Executive shall be required to reimburse the Company the entire amount of the Stipend, less any taxes paid on the Stipend, and if Executive voluntarily terminates Executive's employment hereunder after May 1, 2024 but on or before May 1, 2025, Executive shall be required to reimburse the Company one-half of the amount of the Stipend, less any taxes paid on the Stipend.

3.9 Clawback Provision. Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based or other compensation paid to the Executive under this Agreement or any other agreement or arrangement with the Company or Employer which is subject to recovery under any law, government regulation, stock exchange listing requirement or policy adopted by the Employer or the Company will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation, stock exchange listing requirement or policy.

4. Termination.

Subject to the provisions of this Agreement, either the Company or the Employer, on the one hand, or Executive, on the other hand, may terminate the employment of Executive after receipt of written notice by the other party hereto provided that any applicable cure periods have expired if the Company or the Employer terminate the employment of Executive for Cause or Executive terminates Executive's employment with Good Reason.

4.1 Termination with Good Reason by Executive or by the Company or the Employer without Cause. Subject to the provisions of this Agreement and the Executive's compliance with the provisions of Section 5 of this Agreement, in the event that the Executive incurs a Termination of employment that is other than a Termination of employment under Section 4.2 of this Agreement and is either (a) by the Company or the Employer (or any successor thereof) without Cause or (b) by the Executive with Good Reason, and provided in each case that the Executive executes and does not revoke a general release of claims substantially in the form attached as Exhibit B hereto (a "Release") within forty (40) days following such Termination of employment (the "Release Requirement"), the Employer (or any successor thereto) shall pay to the Executive (i) thirty (30) days after such termination of employment, Executive's accrued but unpaid base salary, any unreimbursed businesses expenses and any unused vacation time which has accrued during the year in which the Executive's employment is terminated, in each case as of the date of termination; (ii) any accrued and unpaid annual bonus under the Executive Bonus Plan with respect to the any prior year at such time as provided under the Executive Bonus Plan but in no event later than the March 15 of the calendar year following the calendar year in which the Executive's employment terminates; (iii) any other amounts or benefits owing to the Executive under the terms of any employee benefit plan of the Company or, in the case of equity-based compensation awards, under the terms of the equity award plan or applicable award agreement; (iv) any amounts the Executive may be entitled to pursuant to the Deferred Compensation Plan at such times as provided under the terms of the Deferred Compensation Plan; and (v) the Severance Payment and the Severance Bonus. The Severance Payment shall be paid to the Executive as follows: (A) one-half of the amount of the Severance Payment on the fifth (5th) business day following the six (6) month anniversary of Termination of employment, and (B) the remaining amount of the Severance Payment in equal monthly installments until the date that is the twelve (12) month anniversary of the Termination of employment, provided that following the death of the Executive, the entire amount of the Severance Payment shall be paid to the Executive in a single lump sum cash payment on the fifth (5th) business day following the date of death of the Executive. The Severance Bonus shall be paid to the Executive in a single lump sum cash payment on the date that bonuses are paid under the Executive Bonus Plan, but in no event later than March 15th of the calendar year following the calendar year in which the Executive's employment terminates. Notwithstanding the foregoing, the Executive's right to receive the Severance Payment and the Severance Bonus under this Section of the Agreement shall terminate, and the Executive shall be obligated to return to the Employer any payment or payments of the Severance Payment or the Severance Bonus previously made under this Section, if the Executive, directly or indirectly, commences employment with, or serves as an owner, operator, manager, director, partner, member or stockholder (other than as a stockholder of not more than two percent (2%) of any class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended) of, or consultant, advisor or independent contractor to, any business or organization that is a Competitor on or prior to the date that is the twelve (12) month anniversary of the Termination of employment.

4.2 Termination Following a Change of Control. Notwithstanding Section 4.1 of this Agreement, in the event that the Executive incurs a Termination of employment within twelve months after a Change of Control either (a) by the Company or the Employer (or any successor to the Company or the Employer after the Change of Control) without Cause (but determined without regard to Section 1.2(e) of this Agreement) or (b) by the Executive with Good Reason, this Section 4.2 shall apply and Section 4.1 above shall not apply. For avoidance of doubt, it is understood that any payment pursuant to this Section 4.2 is in lieu of, and not in addition to, any payments pursuant to Section 4.1 above. Subject to the Release Requirement being met and the Executive's compliance with the provisions of Section 5 of this Agreement, in the event that the Executive incurs a Termination of employment pursuant to this Section 4.2, the Employer (or any successor thereto) shall pay to the Executive (i) thirty (30) days after such termination of employment, Executive's accrued but unpaid base salary, any unreimbursed businesses expenses and any unused vacation time which has accrued during the year in which the Executive's employment is terminated, in each case as of the date of termination; (ii) any accrued and unpaid annual bonus under the Executive Bonus Plan with respect to the any prior year at such time as provided under the Executive Bonus Plan but in no event later than the March 15 of the calendar year following the calendar year in which the Executive's employment is terminated; (iii) any other amounts or benefits owing to the Executive under the terms of any employee benefit plan of the Company or, in the case of equity-based compensation awards, under the terms of the equity award plan or applicable award agreement; (iv) any amounts the Executive may be entitled to pursuant to the Deferred Compensation Plan at such times as provided under the terms of the Deferred Compensation Plan; and (v) a single lump sum cash payment equal to the Special Severance Payment and the Special Severance Bonus. The Special Severance Payment shall be paid to the Executive on the fifth (5^{th}) business day following the six (6) month anniversary of the Termination of employment (or on the fifth (5^{th}) business day following the death of the Executive, if sooner). The Special Severance Bonus shall be paid to the Executive in a single lump sum cash payment on the date that bonuses are paid under the Executive Bonus Plan, but in no event later than March 15th of the calendar year following the calendar year in which the Executive's employment terminates.

4.3 Termination Without Good Reason by Executive or by the Company or the Employer with Cause or Due to Death or Disability. In the event the Executive incurs a Termination of employment by the Executive without Good Reason or by the Company or the Employer for Cause or due to death or Disability, the Employer (or any successor thereto) shall pay to the Executive (i) thirty (30) days after such termination of employment, Executive’s accrued but unpaid base salary, any unreimbursed businesses expenses and any unused vacation time which has accrued during the year in which the Executive's employment is terminated, in each case as of the date of termination; (ii) any accrued and unpaid annual bonus under the Executive Bonus Plan with respect to the any prior year at such time as provided under the Executive Bonus Plan but in no event later than the March 15 of the calendar year following the calendar year in which the Executive’s employment terminates; (iii) solely with respect to the Executive's termination for death or Disability, a pro-rata portion of any annual bonus payable under the Executive Bonus Plan for the year the Executive dies or suffers a Disability payable no later than the March 15 of the calendar year following the calendar year in which the Executive’s employment terminates; (iv) any other amounts or benefits owing to the Executive under the terms of any employee benefit plan of the Company or, in the case of equity-based compensation awards, under the terms of the equity award plan or applicable award agreement; and (v) any amounts the Executive may be entitled to pursuant to the Deferred Compensation Plan at such times as provided under the terms of the Deferred Compensation Plan.

5. Non-Competition, Non-Solicitation and Confidentiality.

In consideration of the Executive’s employment and continued employment, the payment of Executive’s compensation by the Employer, the Companies entrusting Executive with Confidential Information (as defined below), and the compensation and benefits provided under this Agreement, including, without limitation, pursuant to the provisions of Sections 3 and 4 hereof, the Executive agrees as follows:

5.1 Non-Competition. During Executive’s employment with the Employer and for a period of twelve (12) months thereafter, Executive shall not, directly or indirectly, commence employment with, or serve as an owner, operator, manager, director, partner, member or stockholder (other than as a stockholder of not more than two percent (2%) of any class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended) of, or consultant, advisor or independent contractor to, any business or organization that is a Competitor within the United States. Executive understands that the provisions of this Section 5.1 may limit Executive’s ability to earn a livelihood in a business similar to the business of the Companies but nevertheless agrees to comply with such provisions and hereby acknowledges and agrees that the consideration provided under this Agreement, including, without limitation, amounts payable under Sections 3 and 4 hereof, are sufficient to justify the restrictions contained in this Section. In consideration thereof and in light of the fact that Executive's education, skills and abilities are such that Executive can obtain employment in a business engaged in other lines and/or of a different nature than the business of the Companies, Executive agrees that she will not assert in any forum that such provisions prevent her from earning a living or otherwise are void or unenforceable or should be held void or unenforceable.

5.2 Non-Solicitation. During Executive's employment with the Employer and for a period of two (2) years following termination of the Executive's employment, the Executive shall not solicit or employ any management-level employee who was employed by the Company, the Employer or any of the Companies within six months prior to the termination of the Executive's employment, in any business in which the Executive has a material interest, direct or indirect, including, without limitation, as an owner, operator, manager, officer, director, partner, member, stockholder, consultant, advisor or independent contractor. The preceding sentence shall not prohibit the Executive from hiring any person whose employment is terminated involuntarily by the Company, the Employer or any of the Companies during the Executive's employment with the Companies or at any time thereafter provided that such hiring shall not occur until after the Executive's Termination of employment under this Agreement.

5.3 Confidentiality. During Executive's employment with the Employer and following Termination of employment, Executive shall not use or disclose to any individual or entity any Confidential Information (as defined below) except (i) in the performance of Executive's duties for the Company, the Employer or any of the Companies, (ii) as authorized in writing by the Company or the Employer, or (c) as required by law or legal process, provided that, prior written notice of such required disclosure is provided to the Company or the Employer and, provided further that the Executive uses all reasonable efforts to assist the Companies (at the Companies' expense) in obtaining reliable assurance that the confidentiality of such information shall be preserved.

5.4 Confidential Information. As used in this Agreement, "Confidential Information" shall mean information that (a) is used or potentially useful in the business of the Company, the Employer or any of the Companies, (b) the Company, the Employer or any of the Companies treats as proprietary, private or confidential, and (c) is not generally known to the public. "Confidential Information" includes, without limitation, information relating to the Company's, the Employer's or any of the Companies' strategic plans, acquisition, merger or business development plans or strategies, operating procedures, systems, internal controls, infrastructure, corporate organization, human resource management, products or services, processes, marketing, customer information and data, pricing strategies and reports, memoranda, notes, records, technical data, plans, trade secrets, composition of products, research and development data, sources of supply, operating and cost data, financial information, personal information and any other information of a similar nature that is not known or made available to the public which, if misused or disclosed, could adversely affect the business of the Companies. "Confidential Information" also includes proprietary and/or confidential information of the Company's, the Employer's or any of the Companies' franchisors, suppliers and business partners who may share such information with the Company, the Employer or any of the Companies pursuant to a confidentiality agreement or otherwise. The Executive agrees to treat all such franchisor, supplier or business partner information as "Confidential Information" hereunder. The foregoing restrictions on the use or disclosure of confidential information shall continue after Executive's employment terminates for any reason for so long as the information is not generally known to the public.

5.5 Non-Disparagement. Executive agrees that Executive shall not, either directly or indirectly, engage in any conduct or make any statement disparaging in any way the Company, the Employer, the Companies or any of their directors and officers. The Companies similarly agree that they shall not, and shall direct their officers and directors not to, directly or indirectly, engage in any conduct or make any statement disparaging in any way Executive. Notwithstanding the foregoing, nothing in this Section 5.5 shall prevent any party from discussing another party in connection with a performance evaluation, communicating privately with their attorneys, accountants and other advisors, providing truthful testimony in connection with any legal proceeding, from taking any action to enforce or defend their rights under this Agreement, or require any party to violate any law or subpoena.

5.6 Enforcement. Executive acknowledges and agrees that, by virtue of her position, her services, and her access to and use of Confidential Information, the restrictions set forth in this Section 5 are reasonable and necessary to protect the competitive business interests and goodwill of the Companies and any violation by her of any of the undertakings contained in this Section 5 would cause the Company, the Employer and the Companies immediate, substantial and irreparable injury for which there is no adequate remedy at law. Accordingly, Executive agrees that in the event of any breach or threatened breach by Executive of any of said undertakings, the Companies shall be entitled to injunctive relief in any court of competent jurisdiction (without the need to post any bond and without proving that money damages would be inadequate). Rights and remedies provided for in this Section 5.6 are cumulative and shall be in addition to any rights and remedies otherwise available hereunder, under any other agreement, at law, in equity, by statute or otherwise.

6. Continued Welfare Coverage.

If the Executive's employment is terminated for any reason other than Cause, the Executive shall be entitled to elect to receive continued medical, dental and vision benefits under the same benefit plans as in effect for active executive officers of the Company for the Executive and the Executive's spouse, dependents and beneficiaries eligible for coverage under such plans pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), for a period of eighteen (18) months, subject to the terms of the plans and payment by the Executive of the premiums charged to former employees of the Company pursuant to Section 4980B of the Code for continued benefit coverage for former employees and their eligible spouses, dependents and beneficiaries under such plans. Thereafter, the Company shall pay the Executive an amount necessary for Executive to acquire such benefits under equivalent plans from an independent provider, net of the amount the Executive would otherwise be required to pay under this Section 6. The Company may amend or otherwise alter the medical, dental and vision plans to provide different benefits to the Executive and the Executive's spouse, dependents and beneficiaries eligible for coverage so long as the benefits provided to the Executive and the Executive's spouse, dependents and beneficiaries eligible for coverage are no less favorable in the aggregate that those provided or offered to active executive officers of the Company. In no event shall the coverage provided pursuant to this Section 6 extend beyond December 31 of the year in which the Executive turns 65 years old. The obligations of the Company under this Section 6 shall terminate if, at any time after the date of termination of the Executive's employment, the Executive is employed by or is otherwise affiliated with a party that offers substantially comparable medical, dental and vision benefits to the Executive.

7. At Will Employment.

Nothing in this Agreement shall confer upon the Executive the right to remain in the employ of the Employer, the Company or any of the Companies, it being understood and agreed that (a) the Executive is an employee at will and serves at the pleasure of the Company or the Employer at such compensation as the Company or the Employer shall determine from time to time subject to the provisions of this Agreement, (b) the Company or the Employer shall have the right to terminate the Executive's employment at any time, with or without Cause subject to the provisions of this Agreement, and (c) except for this Agreement, the Employer's Mandatory Arbitration Agreement and any equity awards agreements entered into by Executive and the Employer, Company, or any of the Companies pursuant to the Stock Incentive Plan (or any subsequent stock incentive plan of Company), there are no other arrangements or agreements between Executive and the Employer, the Company or any of the Companies concerning the terms of the Executive's employment with the Employer, the Company or any of the Companies, and that nothing in this Agreement guarantees employment for any definitive or specific term or duration.

8. Costs of Enforcement.

Notwithstanding anything to the contrary set forth in the terms of the Mandatory Arbitration Agreement, in the event that the Executive incurs any costs or expenses, including attorneys' fees, in the enforcement of the Executive's rights under this Agreement then, unless the Company or the Employer is wholly successful in defending against the enforcement of such rights, the Employer shall reimburse all reasonable costs and expenses incurred by the Executive. Any such reimbursement shall be made as promptly as practicable after the final disposition of the Executive's enforcement claims following the presentation of invoices evidencing such costs and expenses, but in no event later than March 15th of the calendar year following the calendar year in which occurs such final disposition.

9. Representations and Warranties.

Executive represents and warrants that (a) Executive is entering into this Agreement voluntarily, and that Executive's employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by Executive of any agreement to which Executive is a party or by which Executive may be bound; (b) Executive has not violated, and in connection with Executive's employment hereunder, will not violate, any non-competition, non-solicitation or other restrictive covenant or agreement by which Executive is or may be bound; and (c) in connection with Executive's employment by the Company, Executive will not use any confidential or proprietary information Executive may have obtained in connection with Executive's employment with any prior employer or service as a consultant, advisor or member of the board of directors of any other company (other than the Company).

10. Indemnification.

Executive shall be entitled to be indemnified by the Company against any claims brought against Executive arising from Executive's employment with, or provision of services to, the Company and to have Executive's defense expenses advanced, to the maximum extent provided in the Company's Certificate of Incorporation and applicable law (each as in effect as of the date hereof or as may be subsequently amended from time to time), and to be covered by the Company's directors and officers liability policy (at the Company's expense), in the same manner and to the same extent as other current and former executive officers of the Company; provided, however, that Executive acknowledges that she is not entitled to the indemnity referred to above (either as set forth in Company's Certificate of Incorporation or in this Agreement) to the extent a dispute arises between the Company, the Employer or any of the Companies, on the one hand, and the Executive, on the other hand, with respect to her conduct as an Executive, or any claim that may arise either directly or indirectly with respect to the breach of any terms and conditions of this Agreement.

11. Notices.

All notices under this Agreement shall be in writing and shall be sent by a national overnight delivery courier, or registered or certified mail, return receipt requested, if intended for the Company or the Employer shall be addressed to it, attention of its General Counsel, 968 James Street, Syracuse, New York 13203 or at such other address of which the Company or the Employer shall have given notice to the Executive in the manner herein provided; and if intended for the Executive, shall be mailed to the Executive at the address of the Executive's address first set forth above or at such other address of which the Executive shall have given notice to the Company or the Employer in the manner provided in this Section 11.

12. Entire Agreement.

This Agreement, together with the Release and the Mandatory Arbitration Agreement constitutes and contains the entire agreement and understanding between the parties with respect to the matters referred to herein and, as of the Effective Date, supersedes any and all prior negotiations, correspondence, understandings, and agreements between the parties respecting the subject matter hereof, and no waiver of or modification to the terms hereof shall be valid unless in writing signed by the party to be charged and only to the extent therein set forth. With the exception of the Mandatory Arbitration Agreement (which shall survive and continue), all prior and contemporaneous agreements and understandings with respect to the subject matter of this Agreement are hereby terminated and superseded by this Agreement. When used in this Agreement, the terms "hereof", "herein" and "hereunder" refer to this Agreement in its entirety, including any exhibits or schedules attached to this Agreement and not to any particular provisions of this Agreement, unless otherwise specifically indicated.

13. No Mitigation or Offset.

Except as otherwise provided in this Agreement, in the event of any termination of the Executive's employment, the Executive shall not be required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive pursuant to this Agreement. Except as specifically provided in the last sentence of Section 4.1 of this Agreement, the amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by the Executive or benefit provided to the Executive as the result of employment by another employer or otherwise. Except as specifically provided in the last sentence of Section 4.1 of this Agreement, the amounts payable under this Agreement shall not be subject to set-off, counterclaim, recoupment, defense or other right that the Companies may have against the Executive.

14. Withholding.

The Employer shall be entitled to withhold from amounts payable to the Executive hereunder such amounts as may be required by applicable law.

15. Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, administrators, executors, personal representatives, successors and assigns.

16. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York without giving effect to conflicts of laws. All actions or proceedings brought by either Executive or Employer, Company or any of the Companies arising out of or relating to this Agreement shall be subject to and brought under the Mandatory Arbitration Agreement. In the event of a conflict between the terms and conditions of this Agreement and the Mandatory Arbitration Agreement, the Mandatory Arbitration Agreement shall control.

17. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

18. Advice of Counsel.

Executive acknowledges that during the negotiation of this Agreement, Executive has retained or has been advised to retain counsel of Executive's choosing who has provided or will provide advice to Executive in connection with the Executive's decision to enter into this Agreement. Executive acknowledges that the Companies' in-house and outside legal counsel have represented only the Companies in connection with the negotiation, drafting, and entering into of this Agreement and that Executive has not been provided nor has Executive relied upon any legal advice from the Companies' in-house or outside legal counsel.

19. Severability.

It is the intention of the parties hereto that any provision of this Agreement found to be invalid or unenforceable be reformed rather than eliminated. If any of the provisions of this Agreement, or any part hereof, is at any time construed to be invalid or unenforceable, the same shall not affect the remainder of such provision or the other provisions of this Agreement, which shall be given full effect, without regard to the invalid portions. If any of the provisions of Section 5 of this Agreement, or any portion thereof, is held to be unenforceable because of the duration of such provision or portions thereof, the area covered thereby or the type of conduct restricted therein, the parties hereto agree that the court making such determination shall have the power to modify the duration, geographic area and/or, as the case may be, other terms of such provisions or portions thereof, and, as so modified, said provisions or portions thereof shall then be enforceable. In the event that the courts of any one or more jurisdictions shall hold such provisions wholly or partially unenforceable by reason of the scope thereof or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the Employer's rights provided for herein in the courts of any other jurisdictions as to breaches or threatened breaches of such provisions in such other jurisdictions, the above provisions as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

20. Waiver.

Failure by either the Employer or Executive to enforce any provision of this Agreement or any right with respect to this Agreement, or the failure to exercise any option provided hereunder, shall in no way be considered to be a waiver of such provision, right or option, or to in any way affect the validity of this Agreement.

21. Headings; Interpretation.

The headings preceding the text of the sections of this Agreement have been inserted solely for convenience of reference and neither constitutes a part of this Agreement nor affect the meaning, interpretation or effect of this Agreement. The terms and provisions of this Agreement shall be construed fairly as to all parties hereto and not in favor of or against any party, regardless of which party was generally responsible for the preparation of this Agreement.

22. <u>Survival of Provisions.</u>

The following sections of this Agreement shall survive Employee’s termination of employment from the Companies and termination of this Agreement: Section 4, Section 5 (Non- Competition, Non-Solicitation and Confidentiality), Section 6 (Continued Welfare Coverage), Section 8 (Cost of Enforcement), Section 10 (Indemnification) and Section 16 (Governing Law). In addition, all sections of this Agreement that, by their terms, survive the termination of this Agreement shall so survive such termination.

23. <u>Additional Tax Provisions.</u>

23.1 <u>Golden Parachutes</u>. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit received or to be received by Executive (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (collectively, the "<u>Total Benefits</u>") would be subject to the excise tax imposed under Section 4999 of the Code (the “<u>Excise Tax</u>”), the Total Benefits shall be reduced to the extent necessary so that no portion of the Total Benefits is subject to the Excise Tax; provided, however, that no such reduction in the Total Benefits shall be made if by not making such reduction, Executive’s Retained Amount (as hereinafter defined) would be greater than Executive’s Retained Amount if the Total Benefits are not so reduced. “<u>Retained Amount</u>” shall mean the present value (as determined in accordance with sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of the Total Benefits net of all federal, state and local taxes imposed on Executive with respect thereto. To the extent any reduction is required, the Total Benefits shall be reduced in the following order: (i) any portion of the Total Benefits that are not subject to Section 409A of the Code (other than Total Benefits resulting from any accelerated vesting of equity awards), (ii) Total Benefits that are subject to Section 409A of the Code in reverse order of when payment is due, and (iii) Total Benefits that are not subject to Section 409A and arise from any accelerated vesting of any equity awards.

23.2 Section 409A of the Code. It is intended that the provisions of this Agreement are either exempt from or comply with the terms and conditions of Section 409A of the Code and the regulations and guidance promulgated thereunder (collectively, "Code Section 409A"), and to the extent that the requirements of Code Section 409A are applicable thereto, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. Notwithstanding the foregoing, the Companies shall have no liability with regard to any failure to comply with Code Section 409A. If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. Notwithstanding anything herein to the contrary, except to the extent any expense, reimbursement or in-kind benefit provided pursuant to this Section does not constitute a "deferral of compensation" within the meaning of Code Section 409A and the regulations and other guidance thereunder: (i) the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive in any other calendar year; (ii) the reimbursements for expenses for which Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred; and (iii) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit. In no event shall the Executive, directly or indirectly, designate the calendar year of payment. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of amounts or benefits upon or following a termination of employment unless such termination is also a "Separation from Service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean Separation from Service. If a payment obligation under this Agreement arises on account of Executive's separation from service while Executive is a "specified employee" (as defined under Code Section 409A and determined in good faith by the Companies), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A- 1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall be paid within five (5) business days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within five (5) business days after the Executive's death.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

CARROLS RESTAURANT GROUP, INC.

By: ______________________________
Name:
Title:

CARROLS CORPORATION

By: ______________________________
Name:
Title:

____
DEBORAH M. DERBY

EXHIBITS A AND B INTENTIONALLY OMITTED

Exhibit 19.1

CARROLS RESTAURANT GROUP, INC.
Syracuse, New York

MANAGEMENT INSIDER TRADING POLICY

Subject: **MANAGEMENT INSIDER TRADING POLICY**	Instruction No: 330 Effective Date: 12/14/06 Revised: 06/01/07 Revised: 04/08/13 Revised: 03/31/21
Affects: Covered Individuals	Approved by: Jared L. Landaw Title: Vice President, General Counsel, and Chief Ethics and Compliance Officer

1. Covered Individuals.

In addition to the policies and procedures that apply to all employees generally under the Carrols Restaurant Group, Inc. Policy on Insider Trading, the policies and procedures contained in this Management Insider Trading Policy (this "Policy") apply to the following persons (collectively the "Covered Individuals"):

- all members of the Board of Directors and all Executive Officers who are required to file reports under Section 16 of the Securities Exchange Act of 1934, as amended;
- members of Senior Management;
- Controller and Assistant Controller;
- certain other individuals identified on the addendum to this Policy; and
- any other persons designated from time to time by the Audit Committee and/or the Chief Ethics and Compliance Officer.

2. Overview.

This Management Insider Trading Policy (combined with the Company's Policy on Insider Trading) establishes procedures and guidelines for buying or selling securities issued by the Company.

- The Policy provides that, if you are aware of information regarding the Company that is material and is not generally known to the public, you may not buy or sell the Company's securities, and you may not share that information with others.

- The Policy provides for "blackout periods" during which Covered Individuals are prohibited from buying or selling Company securities.

- **The Policy requires that all Covered Individual obtain clearance from our Chief Ethics and Compliance Officer before buying or selling any Securities of the Company.**

These prohibitions apply to any security of the Company and its subsidiaries, including debt securities and options – not just the Company's common stock.

You should review this Policy in detail and contact the Company's General Counsel, Jared L. Landaw, who serves as the Company's Chief Ethics and Compliance Officer, at (315) 424-0513 ext. 2222 (or jlandaw@carrols.com) if you have any questions. **You should note, however, that as a matter of law and corporate policy, you are ultimately responsible for complying with insider trading laws, this Management Insider Trading Policy and the Company's Policy on Insider Trading. Regardless of any advice or information you receive, you will bear the consequences of any legal violations or violations of this Policy or the Company's Policy on Insider Trading. Furthermore, the Chief Ethics and Compliance Officer's failure to raise an objection to a transaction will not constitute a recommendation by the Company or any of its directors, officers or employees that you engage in that transaction.**

Violating the insider trading laws can result in significant criminal and civil liabilities, including imprisonment and fines of up to $5,000,000. Furthermore, failure to observe and comply with all of the provisions contained in this Policy may subject you to disciplinary action by the Company, including discharge.

3. Blackout Periods.

Throughout the year there are certain periods during which Covered Individuals are more likely be in possession of material, non-public information regarding the Company's results of operations, cash flows and financial condition.

As a result, Covered Individuals may not trade in the Company's securities during a "blackout period" beginning on the fifteenth (15th) day of the third month of each fiscal quarter and continuing through the end of the second full trading day after the Company publicly releases its earnings for that fiscal quarter (or the fiscal year in the case of the fourth fiscal quarter).

In other words, the only period during which you may be permitted to trade in the Company's securities (referred to as "trading window") begins on the third trading day following the Company's public release of earnings for the prior fiscal quarter (or fiscal year as applicable) and continues through the fourteenth (14th) day of the third month of the then current quarter. **However, you remain subject to insider trading laws, and accordingly, you are prohibited**

from engaging in transactions even within a trading window if you are aware of material, non-public information.

To illustrate the "blackout period" and "trading window" concepts:

- For the quarter ended June 30, the blackout period runs from the opening of the market on June 15th through the end of the second full trading day after the Company releases earnings for that quarter (which would usually be expected to occur in late July/early August). No trading is allowed during that period. If the Company releases earnings prior to the opening of the market on a trading day, the day of such release shall be deemed one full trading day.

- The trading window re-opens in late July/early August on the third trading day after earnings are released. The trading window then remains open through September 14th, and the next blackout period begins on September 15th.

In addition, there may be other circumstances where the Company will impose a temporary blackout period on the Covered Individuals and/or other employees if the Chief Ethics and Compliance Officer or the Company's Board of Directors determines that circumstances warrant a halt in trading by Covered Individuals, such as when the Company is involved in a material transaction which could have an impact on the market price of the Company's securities. The Chief Ethics and Compliance Officer will notify Covered Individuals of the existence of any temporary blackout period. Covered Individuals may not trade in the Company's securities until the temporary blackout period expires or is terminated, and they are prohibited from disclosing the existence of the temporary blackout period to any other persons.

4. Pre-Clearance on Trading.

To minimize the risk of an inadvertent violation of the securities laws all Covered Individuals must receive the written permission of the Chief Ethics and Compliance Officer ("pre-clearance") before engaging in ***any*** transaction (purchase, sale, gift or other transfer, option exercise, etc.) in Company securities during a permitted trading window. A request for pre-clearance should be submitted, via e-mail, to the Chief Ethics and Compliance Officer at least two (2) business days in advance of the proposed transaction. Written permission via e-mail will be given for a specified period, but the Covered Individual will continue to be subject to the prohibition on trading while aware of material, non-public information. **As previously noted, the Chief Ethics and Compliance Officer's clearance for a transaction will not constitute a recommendation by the Company or any of its directors, officers or employees that you engage in that transaction and you bear the ultimate responsibility for complying with the requirements of the insider trading laws.**

5. Transactions By Family Members.

The restrictions on trading Company securities imposed by this Policy, including the "blackout period" trading prohibitions and pre-clearance requirements set forth in Section 4 above, also apply to the members of your immediate family (i.e., any spouse, parents, children and siblings), any other persons living in your household and any other persons acting on your behalf. Accordingly, you are responsible for informing such persons of this Policy and ensuring that they comply with the requirements of this Policy.

6. Employee Stock Plans.

The restrictions imposed by this Policy do not apply to your acquisition of Company stock through the exercise of stock options granted to you by the Company. The restrictions imposed by this policy do, however, apply to <u>sales</u> of your securities acquired through the exercise of those options (including any sale as part of a broker-assisted cashless exercise of stock options).

7. Suppliers, Vendors and Strategic Alliance Partners.

If you are working on a matter involving a publicly-held company that is a supplier or vendor or with which the Company has entered into or is negotiating a business or contractual relationship or transaction (for instance, Restaurant Brands International Inc. or any of its subsidiaries), you are cautioned that the Company's relationships with such entities often involve the exchange of material, non-public information. Consequently, if you are aware of material, non-public information about any such company, you are prohibited from trading in securities of that company or passing along the information to others outside the Company, and you must not recommend or suggest that anyone buy, sell or retain securities of that company.

Regardless of whether you are working on a matter involving any of the foregoing types of suppliers, vendors, etc., all of the Company's officers and employees must notify the Company's Chief Ethics and Compliance Officer before taking a "material position" in the securities, or becoming a member of the Board of Directors, of such a company. For these purposes, "taking a material position" means acquiring beneficial ownership of greater than 5% of such outstanding securities or investing 10% or more of your net worth in such securities.

8. Other Trading Restrictions.

In addition to the trading restrictions described above, as a Covered Individual you are specifically prohibited from engaging in any of the following activities with respect to the Company's securities:

(a) short selling (i.e., selling Company securities you do not own at the time of sale);

(b) buying or selling "uncovered" put options, call options or other derivative securities relating to the Company on a securities exchange or in any other organized securities market;

(c) engaging in hedging transactions, such as "costless collars" and forward sale contracts;

(d) purchasing Company securities on margin;

(e) borrowing against Company securities in a margin account; or

(f) pledging Company securities.

Furthermore, the Company strongly discourages you from actively trading in the Company's stock. You should expect to hold any shares of Company stock that you acquire for at least six months before you sell them.

Pursuant to Section 16(b) of the Securities Exchange Act of 1934, any profit an officer or director realizes from a "short-swing transaction" must be paid to the Company upon demand by the Company or a stockholder acting on the Company's behalf. A short-swing transaction is any purchase and sale, or sale and purchase, of the Company's equity securities, that is not otherwise subject to a limited number of exemptions under Section 16(b), within a period of less than six months. For example, if an officer bought 1,000 shares of Company common stock for $10 per share and then, less than six months later, sold 1,000 shares of Company common stock for $20 per share, the $10,000 profit from such sale would be recoverable by the Company. As the rules regarding a "short-swing transactions" can be complex, please contact our Chief Ethics and Compliance Officer (Jared L. Landaw, our Vice President, General Counsel and Secretary at (315) 424-0513 ext. 2222 or by email at jlandaw@carrrols.com) with any questions.

9. Post-Termination Transactions.

If your service as a director, officer or other employee of the Company terminates during a blackout period applicable to you or otherwise while you are aware of material non-public information regarding the Company, you will continue to be subject to this Policy and the Company's Policy on Insider Trading applicable to all directors, officers and employees, and specifically to the ongoing prohibition against trading, until such blackout period ends or otherwise until the information has become public or is no longer material.

10. Stop-Transfer Instructions.

The Company may, in its discretion, provide stop transfer instructions to its transfer agent in order to enforce trading restrictions imposed by this Policy or the Company's Policy on Insider Trading, including, without limitation, restrictions relating to blackout periods or post- termination transactions.

If you have any questions concerning the propriety of a proposed transaction, or a question about this Policy generally, you are encouraged to contact our Chief Ethics and Compliance Officer (Jared L. Landaw, our Vice President, General Counsel and Secretary at (315) 424-0513 ext. 2222 or by email at jlandaw@carrols.com).

Failure to observe and comply with all of the provisions contained in this Policy may subject you to disciplinary action by the Company, including discharge. The Company reserves the right to amend this Policy at any time, but intends to provide reasonable written notification of any such revision.

Addendum

The persons filling the following positions shall also be deemed Covered Individuals under this Policy:

Director, Financial Planning and Analysis

Manager, Financial Reporting

Senior Financial Analyst

Director, Corporate Accounting

Exhibit 31.1

CERTIFICATIONS

I, Deborah M. Derby, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 11, 2023	/s/ DEBORAH M. DERBY
	Deborah M. Derby President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Anthony E. Hull, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 11, 2023	/s/ ANTHONY E. HULL
	Anthony E. Hull Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

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

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

/s/ DEBORAH M. DERBY

Deborah M. Derby
President and Chief Executive Officer

May 11, 2023

Exhibit 32.2

CERTIFICATE PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

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

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

/s/ ANTHONY E. HULL
Anthony E. Hull
Vice President, Chief Financial Officer and Treasurer

May 11, 2023