

CARROLS CORP  
Form 10-K  
March 23, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549  
**FORM 10-K**

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

**CARROLS RESTAURANT GROUP, INC.**

(Exact name of Registrant as specified in its charter)

Commission File Number: 001-33174

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>16-1287774</b> (I.R.S. Employer Identification No.)
<b>968 James Street</b> <b>Syracuse, New York</b> (Address of principal executive office)	<b>13203</b> (Zip Code)
<b>Registrant's telephone number, including area code: (315) 424-0513</b>	

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

<b>Title of each class:</b> Common Stock, Carrols Restaurant Group, Inc.,	<b>Name on each exchange on which registered:</b> The NASDAQ Global Market
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par value \$.01 per share

Securities registered pursuant to Section 12(g) of the Act: None

**CARROLS CORPORATION**

(Exact name of Registrant as specified in its charter)

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Commission File Number: 0-25629

<p><b>Delaware</b> (State or other jurisdiction of incorporation or organization) <b>968 James Street</b>  <b>Syracuse, New York</b> (Address of principal executive office)</p>	<p><b>16-0958146</b> (I.R.S. Employer Identification No.)  <b>13203</b> (Zip Code) <b>Registrant's telephone number, including area code: (315) 424-0513</b></p>
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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Carrols Restaurant Group, Inc. Yes  No

Carrols Corporation Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of March 16, 2007, Carrols Restaurant Group, Inc. had 21,550,826 shares of its common stock, \$.01 par value, outstanding and the aggregate market value of the common stock held by non-affiliates of Carrols Restaurant Group, Inc. was \$155,955,954. As of March 16, 2007, all outstanding equity securities of Carrols Corporation, which consisted of 10 shares of its common stock, were owned by Carrols Restaurant Group, Inc.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Carrols Restaurant Group, Inc.'s definitive Proxy Statement for Carrols Restaurant Group, Inc.'s 2007 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A no later than 120 days after conclusion of Carrols Restaurant Group, Inc.'s fiscal year ended December 31, 2006, are incorporated by reference into Part III of this report.



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**CARROLS RESTAURANT GROUP, INC.**

**FORM 10-K**

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**PART I**

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

We use a 52 or 53 week fiscal year ending on the Sunday closest to December 31. For convenience, all references herein to the fiscal years ended December 29, 2002, December 28, 2003, January 2, 2005, January 1, 2006 and December 31, 2006 will hereinafter be referred to as the fiscal years ended December 31, 2002, 2003, 2004, 2005 and 2006, respectively. Our fiscal years ended December 31, 2002, 2003, 2005 and 2006 each contained 52 weeks. Our fiscal year ended December 31, 2004 contained 53 weeks.

We use the terms Segment EBITDA and Segment EBITDA margin in our 2006 Annual Report on Form 10-K because they are financial indicators that are reported to the chief operating decision maker for purposes of allocating resources to our segments and assessing their performance. Segment EBITDA (earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment losses, stock-based compensation expense, bonus to employees and a director in connection with the December 2004 Transactions (as defined in Item 6. Selected Financial Data), other income and expense and loss on extinguishment of debt) may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation. The calculation of Segment EBITDA for our Burger King restaurants includes general and administrative expenses related directly to our Burger King segment, as well as the expenses associated with administrative support for all three of our segments including executive management, information systems and certain accounting, legal and other administrative functions. Segment EBITDA margin means Segment EBITDA as a percentage of the total revenues of the applicable segment. We consider our Pollo Tropical restaurants, Taco Cabana restaurants and Burger King restaurants to each constitute a separate segment. See Note 13 to the accompanying consolidated financial statements.

In this Annual Report on Form 10-K, we refer to information, forecasts and statistics regarding the restaurant industry. Unless otherwise indicated, all restaurant industry data in this Annual Report on Form 10-K refers to the U.S. restaurant industry and is taken from or based upon the Technomic Information Services (Technomic) report entitled 2006 Technomic Top 500 Chain Restaurant Report. In addition, statements in this Annual Report on Form 10-K concerning the increasing disposable income of the Hispanic consumer base are based on an article appearing in the third quarter 2004 edition of Georgia Business and Economic Conditions, a publication of the Terry College of Business, The University of Georgia. In this Annual Report on Form 10-K we also refer to information, forecasts and statistics from the U.S. Census Bureau and the U.S. Bureau of Labor Statistics and regarding BKC, as defined below. Unless otherwise indicated, information regarding BKC in this Annual Report on Form 10-K has been made publicly available by BKC. Any reference to BKC in this Annual Report on Form 10-K refers to Burger King Holdings, Inc. (NYSE: BKC) and its wholly-owned subsidiaries, including Burger King Corporation. We believe that all of these sources are reliable, but we have not independently verified any of this information and cannot guarantee its accuracy or completeness. The information, forecasts and statistics we have used from Technomic may reflect rounding adjustments.

**Forward-Looking Statements**

This 2006 Annual Report on Form 10-K contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. These statements are often identified by the words may, might, will, should, anticipate, believe, expect, intend, estimate, hope or similar expressions.

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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 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. For more information, please see Item 1A Risk Factors. 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:

Competitive conditions;

Regulatory factors;

Environmental conditions and regulations;

General economic conditions, particularly at the retail level;

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;

The outcome of pending or future legal proceedings;

Our ability to manage our growth and successfully implement our business strategy;

The risks associated with the expansion of our business;

General risks associated with the restaurant industry;

Our inability to integrate any businesses we acquire;

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Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;

The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties;

The risk of events similar to those of September 11, 2001 or an outbreak or escalation of any insurrection or armed conflict involving the United States or any other national or international calamity;

Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations, reports of cases of mad cow disease and avian flu, and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as recent publicity concerning the health implications of obesity and transfatty acids; and

Other factors discussed under Item IA Risk Factors and elsewhere herein.

**Table of Contents****ITEM 1. BUSINESS****Overview*****Our Company***

We are one of the largest restaurant companies in the United States operating three restaurant brands in the quick-casual and quick-service restaurant segments with 547 restaurants located in 16 states as of December 31, 2006. We own and operate two Hispanic restaurant brands, Pollo Tropical® and Taco Cabana® (together referred to by us as our Hispanic Brands), which we acquired in 1998 and 2000, respectively. We are also the largest Burger King franchisee, based on the number of restaurants, and have operated Burger King restaurants since 1976. As of December 31, 2006, our company-owned restaurants included 76 Pollo Tropical restaurants and 143 Taco Cabana restaurants, and we operated 328 Burger King restaurants under franchise agreements. We also franchise our Hispanic Brand restaurants with 30 franchised restaurants located in Puerto Rico, Ecuador and the United States as of December 31, 2006. We believe that the diversification and strength of our restaurant brands as well as the geographic dispersion of our restaurants provide us with stability and enhanced growth opportunities. Our primary growth strategy is to develop new company-owned Hispanic Brand restaurants. For the year ended December 31, 2006, we had total revenues of \$751.4 million and net income of \$13.4 million.

On December 20, 2006, we and certain selling stockholders completed an initial public offering (the IPO) of 5,666,666 and 5,333,334 shares of our common stock, respectively (including 1,000,000 shares sold by the selling stockholders upon the underwriters' exercise of its over-allotment option). In connection with the IPO, our common stock was approved for listing on The NASDAQ Global Market and began trading on December 15, 2006 under the symbol TAST.

***Hispanic Brands.*** Our Hispanic Brands operate in the quick-casual restaurant segment, combining the convenience and value of quick-service restaurants with the menu variety, use of fresh ingredients and food quality more typical of casual dining restaurants. For the year ended December 31, 2006, our company-owned Pollo Tropical and Taco Cabana restaurants generated average annual sales per restaurant of \$2,135,000 and \$1,643,000, respectively, which we believe are among the highest in the quick-casual and quick-service segments. For the year ended December 31, 2006, aggregate revenues for our Hispanic Brands were \$382.5 million, which represented 50.9% of our total consolidated revenues.

***Pollo Tropical:*** Our Pollo Tropical restaurants are known for their fresh grilled chicken marinated in our own blend of tropical fruit juices and spices. Our menu also features other items including roast pork, sandwiches, grilled ribs offered with a selection of sauces, Caribbean style made from scratch side dishes and salads. Most menu items are made fresh daily in each of our Pollo Tropical restaurants, which feature open display cooking that enables customers to observe the preparation of menu items, including chicken grilled on large, open-flame grills. Pollo Tropical opened its first restaurant in 1988 in Miami. As of December 31, 2006, we owned and operated a total of 76 Pollo Tropical restaurants, of which 74 were located in Florida, one located in the New York City metropolitan area in northern New Jersey and one in Brooklyn, New York. For the year ended December 31, 2006, the average sales transaction at our company-owned Pollo Tropical restaurants was \$9.05 reflecting, in part, strong dinner traffic, with dinner sales representing the largest sales day-part of Pollo Tropical restaurant sales. For the year ended December 31, 2006, our Pollo Tropical restaurants generated total revenues of \$154.2 million.

***Taco Cabana:*** Our Taco Cabana restaurants serve fresh Tex-Mex and traditional Mexican style food, including sizzling fajitas, quesadillas, enchiladas, burritos, tacos, other Tex-Mex dishes, fresh-made flour tortillas, frozen margaritas and beer. Most menu items are made fresh daily in each of our Taco Cabana restaurants, which feature open display cooking that enables customers to observe the preparation of menu items, including fajitas cooking on a grill and a machine making fresh tortillas. A majority of our Taco Cabana restaurants are open 24 hours a day, generating customer traffic and restaurant sales across multiple day-parts by offering a convenient and quality experience to our customers. Taco Cabana pioneered the Mexican patio café concept with its first restaurant in San Antonio, Texas in 1978. As of December 31, 2006, we owned and operated 143 Taco Cabana restaurants located in Texas, Oklahoma and New Mexico,



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of which 137 were located in Texas. For the year ended December 31, 2006, the average sales transaction at our company-owned Taco Cabana restaurants was \$7.31 with dinner sales representing the largest sales day-part of Taco Cabana restaurant sales. For the year ended December 31, 2006, our Taco Cabana restaurants generated total revenues of \$228.3 million.

**Burger King:** Burger King is the second largest hamburger restaurant chain in the world (as measured by the number of restaurants and system-wide sales) and we are the largest franchisee in the Burger King system, based on number of restaurants. Burger King restaurants are part of the quick-service restaurant segment which is the largest of the five major segments of the U.S. restaurant industry based on 2006 sales. Burger King restaurants feature the popular flame-broiled Whopper sandwich, as well as a variety of hamburgers and other sandwiches, fries, salads, breakfast items and other offerings. According to BKC, historically it has spent between 4% and 5% of its annual system sales on marketing, advertising and promotion to sustain and increase its high brand awareness. We benefit from BKC's marketing initiatives as well as its development and introduction of new menu items. As of December 31, 2006, we operated 328 Burger King restaurants located in 12 Northeastern, Midwestern and Southeastern states. For the year ended December 31, 2006, the average sales transaction at our Burger King restaurants was \$5.23. For the year ended December 31, 2006, our Burger King restaurants generated total revenues of \$368.9 million.

**Corporate Information:** Carrols Restaurant Group is a Delaware Corporation, incorporated in 1986. Carrols Restaurant Group conducts all of its operations through its direct and indirect subsidiaries and has no assets other than the shares of Carrols, its direct wholly-owned subsidiary. Prior to November 21, 2006 Carrols Restaurant Group was known as Carrols Holdings Corporation. On November 21, 2006, we amended our certificate of incorporation to change our name to Carrols Restaurant Group, Inc.

## **Industry**

### ***The Restaurant Market***

According to Technomic, total restaurant industry revenues in the United States for 2005 were \$330.8 billion, an increase of 5.6% over 2004. Sales in the overall U.S. restaurant industry are projected by Technomic to increase at a compound annual growth rate of 5.3% from 2005 through 2010.

### ***Quick-Casual Restaurants***

Our Hispanic Brands operate in the quick-casual restaurant segment, combining the convenience of quick-service restaurants with the menu variety, use of fresh ingredients and food quality more typical of casual dining. We believe that the quick-casual restaurant segment is one of the fastest growing segments of the restaurant industry. According to Technomic, sales growth in 2005 of quick-casual chains in the Technomic Top 500 restaurant chains was 11.8% as compared to 7.0% for the overall Top 500 restaurant chains, which includes all five major segments.

Quick-casual restaurants are primarily distinguished by the following characteristics:

*Quick-service or self-service format.* Meals are purchased prior to receiving food. In some cases, payment may be made at a separate station from where the order was placed. Also, servers may bring orders to the customer's table.

*Check averages between \$7 and \$10.* Technomic reports that the average check at quick-casual restaurants in 2005 ranged between \$7 and \$10, which was higher than the average check at traditional quick-service restaurants.

*Food prepared to order.* We believe that in quick-casual concepts, customization of orders and open display cooking are common.

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*Fresh ingredients.* Many concepts use the word "fresh" in their concept positioning and feature descriptive menus highlighting these fresh ingredients.

*Broader range of menu offerings.* Typically quick-casual concepts provide greater variety and diversity in their menu offerings relative to traditional quick-service restaurants.

*Enhanced decor.* Wooden tables, upholstered seating and track lighting are some of the design features commonly found in quick-casual establishments.

We believe that our Hispanic Brands are positioned to benefit from growing consumer demand for quick-casual restaurants because of food quality, value and differentiation of flavors, as well as the increasing acceptance of ethnic foods. We also believe that our Hispanic Brands will benefit from two significant demographic factors: the expected population growth rates in regions in which our restaurants are currently located and the expected rate of growth of the Hispanic population in the United States, both as projected by the U.S. Census Bureau in its 2001 Statistical Abstract of the United States.

Our Burger King restaurants are part of the quick-service restaurant segment that Technomic indicates is the largest of the five major segments of the U.S. restaurant chain industry. Technomic identifies ten major types of restaurants comprising the quick-service segment: Hamburger; Pizza; Chicken; Other Sandwich; Mexican; Frozen Dessert; Donut; Beverage; Cafeteria/Buffer; and Family Steak. According to Technomic, the quick-service restaurants included in the Top 100 quick-service restaurant companies in 2005 were divided by menu category as follows (percentages are based on total sales for the quick-service segment):

According to Technomic, sales at all quick-service restaurants in the United States were \$168.8 billion in 2005, representing 51% of total U.S. restaurant industry sales. Sales in this segment are projected by Technomic to increase at a compound annual growth rate of 5.5% from 2005 through 2010.

Quick-service restaurants are distinguished by the following characteristics:

*High speed of service and efficiency.* Quick-service restaurants typically have order taking and cooking platforms designed specifically to order, prepare and serve menu items with speed and efficiency. Fast and consistent food service is a characteristic of quick-service restaurants.

*Convenience.* Quick-service restaurants are typically located in places that are easily accessed and convenient to customers' homes, places of work and commuter routes.

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*Limited menu choice and service.* The menus at most quick-service restaurants have a limited number of standardized items. Typically, customers order at a counter or drive thru and pick up food that then is taken to a seating area or consumed off the restaurant premises.

*Value prices.* At quick-service restaurants, average check amounts are generally lower than other major segments of the restaurant industry.

Our Burger King restaurants operate in the hamburger segment of the quick-service restaurant segment. The hamburger segment of the quick-service restaurant segment in the United States, which generated \$56.4 billion in sales in 2005, is the largest segment of the quick-service restaurant segment in the United States, according to Technomic.

We believe that the quick-service and quick-casual restaurant segments meet consumers' desire for a convenient, reasonably priced restaurant experience. In addition, we believe that the consumers' need for meals prepared outside of the home, including takeout, has increased significantly over historical levels as a result of the greater numbers of working women and single parent families. For example, according to the U.S. Bureau of Labor Statistics, the percentage of mothers with children under age six participating in the workforce has increased from 39% in 1975 to 64% in 2002. According to the U.S. Census Bureau, the number of children living in households with two parents has decreased from approximately 85% in 1970 to 70% in 2001.

### **Our Competitive Strengths**

We believe we have the following strengths:

***Strong Hispanic Brands.*** We believe that the following factors have contributed, and will continue to contribute, to the success of our Hispanic Brands:

freshly-prepared food at competitive prices with convenience and value;

a variety of menu items including signature dishes with Hispanic flavor profiles designed to appeal to consumers' desire for freshly-prepared food and menu variety;

successful dinner day-part representing the largest sales day-part at both of our Hispanic Brands, providing a higher average check size than other day-parts;

broad consumer appeal that attracts both the growing Hispanic consumer base, with increasing disposable income to spend on items such as traditional foods prepared at restaurants rather than at home, and non-Hispanic consumers in search of new flavor profiles, grilled rather than fried entree choices and varied product offerings at competitive prices in an appealing atmosphere;

ability to control the consistency and quality of the customer experience and the strategic growth of our restaurant operations through our system consisting of primarily company-owned restaurants compared to competing brands that focus on franchising;

high market penetration of company-owned restaurants in our core markets that provides operating and marketing efficiencies, convenience for our customers and the ability to effectively manage and enhance brand awareness;

well positioned to continue to benefit from the projected population growth in Florida and Texas;

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established infrastructure at our Hispanic Brands to manage operations and develop and introduce new menu offerings, positioning us to build customer frequency and broaden our customer base; and

well positioned to continue to capitalize on the home meal replacement trend.

For the year ended December 31, 2006, aggregate revenues for our Hispanic Brands were \$382.5 million which represented 50.9% of our total consolidated revenues.

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***Primarily Company-Owned Hispanic Brand Restaurants Enable us to Control our Hispanic Brands.*** As of December 31, 2006, our Hispanic Brands were comprised of 219 company-owned and 30 franchised restaurants, of which only five of these franchised restaurants were located in the United States. Our Hispanic Brand restaurants in the United States are primarily company-owned and we therefore exercise control over the day-to-day operations of our company-owned restaurants unlike many of our competitors that have multiple franchisees operating as a single brand. Consequently, our success does not depend on our control of our franchisees, or support by them of our marketing programs, new product offerings, strategic initiatives or new restaurant development strategies. In addition, because our Hispanic Brand restaurants are primarily company-owned, we believe we are less susceptible to third party franchisees adversely affecting the long-term development potential of our brands and we believe we are better able to provide customers a more consistent experience relative to competing brands that utilize franchisee-operated restaurants.

***Strong Restaurant Level Economics and Operating Metrics for our Hispanic Brands.*** We believe that we benefit from attractive restaurant level economics and operating profitability for our Hispanic Brands. We believe that the average annual sales at our company-owned Hispanic Brand restaurants for the year ended December 31, 2006 of \$2,135,000 for our Pollo Tropical restaurants and \$1,643,000 for our Taco Cabana restaurants, respectively, are among the highest in the quick-casual and quick-service segments. For the year ended December 31, 2006 our Pollo Tropical restaurants generated a Segment EBITDA margin of 18.4% which included general and administrative expenses of 5.8% of total Pollo Tropical revenues. For the year ended December 31, 2006, our Taco Cabana restaurants generated Segment EBITDA margins of 14.7%, which included general and administrative expenses of 5.1% of total Taco Cabana revenues. We believe that the average annual sales at our company-owned Hispanic Brand restaurants and the operating margins of our Hispanic Brands generate unit economics and returns on invested capital which will enable us to accelerate and sustain new unit growth.

***Well Positioned to Continue to Capitalize on Growing Population in Core Markets Served by Our Hispanic Brands.*** We expect sales from our Hispanic Brand restaurants in Florida and Texas to benefit from the projected continued overall population growth in these markets, which is projected by the U.S. Census Bureau to grow at a faster rate than the national average. According to the U.S. Census Bureau, the U.S. population is forecast to grow by 4.5% from 2005 to 2010 and the population in Florida and Texas is forecast to grow by 9.9% and 8.2%, respectively, during that same period.

***Well Positioned to Continue to Capitalize on the Growth of the Hispanic Population in the United States.*** We expect sales from our Hispanic Brand restaurants to benefit from the population growth of the U.S. Hispanic population which is projected by the U.S. Census Bureau to grow at a faster rate than the national average. The U.S. Census Bureau forecasts that the growth of the Hispanic population is expected to outpace overall population growth and increase from 11.8% of the total U.S. population in 2000 to 18.2% by 2025.

***Largest Burger King Franchisee.*** We are Burger King's largest franchisee and are well positioned to leverage the scale and marketing of one of the most recognized brands in the restaurant industry. The size of our Burger King business has contributed significantly to our large aggregate restaurant base, enabling us to enhance operating efficiencies and realize benefits across all three of our brands from economies of scale with respect to our management team and management information and operating systems. In addition, our Burger King business has significantly contributed, and is expected to continue to significantly contribute, to our consolidated operating cash flows. For the year ended December 31, 2006, revenues for our Burger King restaurants were \$368.9 million, which represented 49.1% of our total consolidated revenues.

***Infrastructure in Place for Growth.*** We believe that our operating disciplines, seasoned management, operational infrastructure and marketing and product development capabilities, supported by our corporate and restaurant management information systems and comprehensive training and development programs, will support significant expansion. We expect to leverage our significant investment in corporate infrastructure as we grow our business.

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***Experienced Management Team.*** We believe that our senior management team's extensive experience in the restaurant industry, knowledge of the demographic and other characteristics of our core markets and its long and successful history of developing, acquiring, integrating and operating quick-service and quick-casual restaurants, provide us with a competitive advantage.

### **Business Strategy**

Our primary business strategy is as follows:

***Develop New Hispanic Brand Restaurants in Core and Other Markets.*** We believe that we have significant opportunities to develop new Pollo Tropical and Taco Cabana restaurants in their respective core markets within Florida and Texas and expand into new markets both within Florida and Texas as well as other regions of the United States. Our Pollo Tropical restaurants are primarily concentrated in South and Central Florida and our Taco Cabana restaurants are primarily concentrated in larger cities in Texas. By increasing the number of restaurants we operate in a particular market, we believe that we can continue to increase brand awareness and effectively leverage our field supervision, corporate infrastructure and marketing expenditures. We also believe that the appeal of our Hispanic Brands and our high brand recognition in our core markets provide us with opportunities to expand into other markets in Florida and Texas. In addition, we believe that there are a number of geographic regions in the United States outside of Florida and Texas where the size of the Hispanic population and its influence on the non-Hispanic population provide significant opportunities for development of additional Hispanic Brand restaurants. In March 2006, we opened our first Pollo Tropical restaurant in the New York City metropolitan area, located in northern New Jersey. In December 2006, we opened a second Pollo Tropical restaurant in the New York City metropolitan area in Brooklyn, New York. In addition, we currently are exploring opportunities for expansion of the Taco Cabana concept in new markets. During the year ended December 31, 2006, we opened eight Pollo Tropical restaurants (including two restaurants in the Northeast as described above) and nine Taco Cabana restaurants in Texas. In 2007, we currently plan to open between seven and ten Pollo Tropical restaurants and between ten and twelve additional Taco Cabana restaurants.

Our staff of real estate and development professionals is responsible for new restaurant development. Before developing a new restaurant, we conduct an extensive site selection and evaluation process that includes in depth demographic, market and financial analyses. By selectively increasing the number of restaurants we operate in a particular market, we believe that we can continue to increase brand awareness and effectively leverage our field supervision, corporate infrastructure and marketing expenditures. Where possible, we intend to continue to utilize real estate leasing as a means of reducing the amount of cash invested in new restaurants. We believe that cash generated from operations, borrowings under our senior credit facility and leasing will enable us to continue to pursue our strategy of new restaurant development.

In addition to opportunities for expansion of our Hispanic Brands within our core markets, we believe there are significant growth opportunities in areas contiguous to our core markets and beyond such markets. We plan to open new restaurants in existing and new markets that may be either freestanding buildings or restaurants contained within strip shopping centers, which we sometimes refer to as in-line restaurants, to further leverage our existing brand awareness. Developing in-line restaurants allows us to selectively expand our brand penetration and visibility in certain of our existing markets, while doing so at a lower cost than developing a restaurant as a freestanding building. In addition, development of in-line restaurants permits us to further penetrate markets where freestanding opportunities may be limited.

***Increase Comparable Restaurant Sales.*** Our strategy is to grow sales in our existing restaurants by continuing to develop new menu offerings and enhance the effectiveness of our proprietary advertising and promotional programs for our Hispanic Brands, further capitalize on attractive industry and

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demographic trends and enhance the quality of the customer experience at our restaurants. We also believe that our Burger King restaurants are well positioned to benefit from BKC's initiatives with respect to the Burger King brand.

***Continue to Improve Income from Operations and Leverage Existing Infrastructure.*** We believe that our continuing development of new company-owned Hispanic Brand restaurants, combined with our strategy to increase sales at our existing Hispanic Brand restaurants, will increase revenues generated by our Hispanic Brands as a percentage of our consolidated revenues and position us to continue to improve our overall income from operations. We also believe that our large restaurant base, skilled management team, sophisticated management information and operating systems, and training and development programs support our strategy of enhancing operating efficiencies for our existing restaurants and profitably growing our restaurant base. Our operating systems allow us to effectively manage restaurant labor and food costs, effectively manage our restaurant operations and ensure consistent application of operating controls at each of our restaurants. In addition, our size and, in the case of Burger King, the size of the Burger King system, enable us to realize certain benefits from economies of scale, including leveraging our existing infrastructure as we grow.

***Utilize Financial Leverage to Maintain an Efficient Capital Structure to Support Growth.*** We intend to continue utilizing financial leverage in an effort to enhance returns to our stockholders. We believe our operating cash flows will allow us to allocate sufficient capital towards new store development and repayment of our outstanding indebtedness as part of our strategy to support earnings growth, while providing the flexibility to alter our capital allocation depending on changes in market conditions and available expansion opportunities.

**Overview of Restaurant Concepts**

***Pollo Tropical Restaurants***

Our Pollo Tropical quick-casual restaurants combine freshly-prepared, distinctive menu items and an inviting tropical setting with the convenience and value of quick-service restaurants. Pollo Tropical restaurants offer a unique selection of food items reflecting tropical and Caribbean influences and feature fresh grilled chicken marinated in our own blend of tropical fruit juices and spices. Chicken is grilled in view of customers on large, open-flame grills. Pollo Tropical also features additional menu items such as roast pork, a line of TropiChops® (a bowl containing rice, black beans and chicken or pork), sandwiches and grilled ribs that feature a selection of sauces. We also feature an array of Caribbean style made from scratch side dishes, including black beans and rice, yucatan fries and sweet plantains, as well as more traditional menu items such as french fries, corn and tossed and caesar salads. We also offer uniquely Hispanic desserts, such as flan and tres leches.

Our Pollo Tropical restaurants typically incorporate high ceilings, large windows, tropical plants, light colored woods, decorative tiles, a visually distinctive exterior entrance tower, lush landscaping and other signature architectural features, all designed to create an airy, inviting and tropical atmosphere. We design our restaurants to conveniently serve a high volume of customer traffic while retaining an inviting, casual atmosphere.

Our Pollo Tropical restaurants are generally open for lunch, dinner and late night orders seven days per week from 11:00 am to midnight and offer sit-down dining, counter take-out and drive-thru service to accommodate the varied schedules of families, business people and students. Our menu offers a variety of portion sizes to accommodate a single customer, family or large group. Pollo Tropical restaurants also offer an economical catering menu, with special prices and portions to serve parties in excess of 25 people.

Our Pollo Tropical restaurants typically provide seating for 80 to 100 customers and provide drive-thru service. As of December 31, 2006, all of our company-owned Pollo Tropical restaurants were freestanding buildings except for seven locations contained within strip shopping centers and two street-level storefront

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locations. Our typical freestanding Pollo Tropical restaurant ranges between 2,800 and 3,200 square feet. We anticipate that many of our new Pollo Tropical restaurants located in markets outside of Florida (including in the New York City metropolitan area) will be in-line restaurants located within strip-retail shopping centers or will be street-level storefront locations and will not offer drive-thru service. Consequently, such restaurants may be larger than our typical freestanding Pollo Tropical restaurants to provide more seating to accommodate increased sit-down dining.

### ***Taco Cabana Restaurants***

Our Taco Cabana quick-casual restaurants combine generous portions of freshly-prepared Tex-Mex and traditional Mexican style food with the convenience and value of quick-service restaurants. The restaurants typically provide interior, semi-enclosed and patio dining areas with a festive Mexican theme. Menu items include flame-grilled beef and chicken fajitas served on sizzling iron skillets, quesadillas, enchiladas, burritos, tacos and other traditional Mexican and American breakfasts, other Tex-Mex dishes and fresh flour tortillas. Our Taco Cabana restaurants also offer a variety of beverage choices, including frozen margaritas and beer. Most of the menu items offered at Taco Cabana are prepared at each restaurant from fresh meat, chicken and produce delivered by suppliers to the restaurant, usually three times each week. Taco Cabana utilizes fresh ingredients and prepares many items from scratch. In order to simplify operations and provide a more consistent product, Taco Cabana also uses a number of pre-prepared items.

Our typical Taco Cabana restaurants average approximately 3,200 square feet (exclusive of the exterior dining area) and provide seating for approximately 80 customers, with additional outside patio seating for approximately 50 customers. As of December 31, 2006, all of our company-owned Taco Cabana restaurants were freestanding buildings except for four locations contained within retail malls and two locations contained within strip shopping centers. Taco Cabana restaurants are typically distinctive in appearance, conveying a Mexican theme and permitting easy identification by passing motorists. Our Taco Cabana restaurants feature rounded fronts, as well as Southwest accents such as a clay tile roof, heavy wood beams and a trellis that shades the patio area, and the use of bright colors outside and inside. Corrugated metal wall panels, aged wood finishes and distressed stainless steel counter tops are featured inside.

Taco Cabana's interior restaurant design features open display cooking that enables customers to observe fajitas cooking on a grill, a machine making fresh flour tortillas and the preparation of other food items. Upon entry, the customer places an order selected from an overhead menu board, proceeds down a service line to where the order is picked up, and then passes a salsa bar en route to the dining area. The distinctive salsa bar offers Taco Cabana customers our own freshly-prepared Tex-Mex ingredients such as salsa de fuego (made with charred peppers and tomatoes), pico de gallo and salsa (all made from scratch throughout the day at each restaurant), as well as cilantro, pickled jalapeno slices, crisp chopped onions and fresh sliced limes. Depending on the season, time of day and personal preference, our customers can choose to dine in the restaurant's brightly colored and festive interior dining area or in either the semi-enclosed or outdoor patio areas.

Our Taco Cabana restaurants provide the convenience of drive-thru windows as well as the ability for customers to dine-in or take-out. A majority of our Taco Cabana restaurants are open 24 hours a day, although, hours of operation are continually evaluated for economic viability on a market and individual restaurant basis.

### ***Burger King Restaurants***

Burger King is the second largest hamburger restaurant chain in the world (as measured by the number of restaurants and system-wide sales). According to BKC, as of December 31, 2006, there were a total of 11,184 Burger King restaurants in 66 countries and U.S. territories, including 7,502 or 67% located in the United States and Canada. According to BKC, its total worldwide restaurant sales as of June 30, 2006 were approximately \$12.4 billion, of which approximately \$8.5 billion were in the United States and Canada.



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Have It Your Way<sup>®</sup> service, flame broiling, generous portions and competitive prices characterize the Burger King system marketing strategy. Our Burger King restaurants feature flame-broiled hamburgers and other sandwiches, the most popular of which is the WHOPPER<sup>®</sup> sandwich. The WHOPPER is a large, flame-broiled hamburger on a toasted bun garnished with mayonnaise, lettuce, onions, pickles and tomatoes. The basic menu of all Burger King restaurants consists of hamburgers, cheeseburgers, chicken and fish sandwiches, breakfast items, french fries, onion rings, salads, chili, shakes, desserts, soft drinks and other beverages. In addition, promotional menu items are introduced periodically for limited periods. We believe that BKC continually seeks to develop new products as it endeavors to enhance the menu and service of Burger King restaurants.

Our Burger King restaurants are typically open seven days per week and currently have minimum operating hours from 6:00 am to 11:00 pm. We anticipate that minimum operating hours will be extended in 2007 from 11:00 pm to midnight. Burger King restaurants are quick-service restaurants of distinctive design and are generally located in high-traffic areas throughout the United States. We believe that the primary competitive advantages of Burger King restaurants are:

brand recognition;

convenience of location;

speed of service;

quality; and

price.

Burger King restaurants are designed to appeal to a broad spectrum of consumers, with multiple day-part meal segments targeted to different groups of consumers.

Our Burger King restaurants consist of one of several building types with various seating capacities. BKC's traditional freestanding restaurant contains approximately 2,800 to 3,200 square feet with seating capacity for 90 to 100 customers, has drive-thru service windows, and has adjacent parking areas. As of December 31, 2006, 316 of our 328 Burger King restaurants were freestanding. We operate all of our Burger King restaurants under franchise agreements with BKC. See Operations Burger King Franchise Agreements and Franchise Fees, Royalties and Early Successor Program below.

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Selected restaurant operating data for our three restaurant concepts is as follows:

	Year Ended December 31,		
	2004(1)	2005(1)	2006(1)
<b><i>Pollo Tropical:</i></b>			
Average annual sales per company-owned restaurant (in thousands)	\$ 2,018	\$ 2,092	\$ 2,135
Average sales transaction	\$ 8.25	\$ 8.72	\$ 9.05
Drive-through sales as a percentage of total sales	42.5%	41.7%	41.7%
Day-part sales percentages:			
Lunch	45.7%	45.8%	46.7%
Dinner and late night (2)	54.3%	54.2%	53.3%
<b><i>Taco Cabana:</i></b>			
Average annual sales per company-owned restaurant (in thousands)	\$ 1,604	\$ 1,614	\$ 1,643
Average sales transaction	\$ 6.88	\$ 7.08	\$ 7.31
Drive-through sales as a percentage of total sales	47.2%	47.6%	47.6%
Day-part sales percentages:			
Breakfast	16.0%	16.5%	16.8%
Lunch	23.1%	23.2%	23.4%
Dinner	25.4%	25.6%	25.1%
Late night (9 pm to midnight)	14.1%	13.7%	13.9%
Other (2 pm to 5 pm and midnight to 6 am)	21.4%	21.0%	20.8%
<b><i>Burger King:</i></b>			
Average annual sales per restaurant (in thousands)	\$ 1,034	\$ 1,048	\$ 1,114
Average sales transaction	\$ 4.74	\$ 5.03	\$ 5.23
Drive-through sales as a percentage of total sales	61.8%	62.3%	62.8%
Day-part sales percentages:			