

CARROLS RESTAURANT GROUP, INC.

Form 10-Q

May 14, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended April 1, 2007

OR

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

Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

13203
(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:	Name on each exchange on which registered:
Common Stock, Carrols Restaurant Group, Inc., par value \$.01 per share	The NASDAQ Global Market
Securities registered pursuant to Section 12(g) of the Act: None	

Commission File Number: 001-06553

CARROLS CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

13203
(Zip Code)

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

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 H(1)(A) and (B) of Form 10-Q and is therefore filing this form with reduced disclosure format pursuant to General Instruction H(2) of Form 10-Q.

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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrants 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 filers Accelerated filers Non-accelerated filers

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

As of May 3, 2007, Carrols Restaurant Group, Inc. had 21,550,827 shares of its common stock, \$.01 par value outstanding. As of May 3, 2007, all outstanding equity securities of Carrols Corporation, which consisted of 10 shares of its common stock, were owned by Carrols Restaurant Group, Inc.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS****(In thousands of dollars, except share and per share amounts)****(Unaudited)**

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,283	\$ 3,939
Trade and other receivables	4,174	5,364
Inventories	4,523	4,677
Prepaid rent	3,711	4,130
Prepaid expenses and other current assets	7,504	5,367
Refundable income taxes		2,806
Deferred income taxes	4,539	4,539
Total current assets	26,734	30,822
Property and equipment, net	188,545	182,742
Franchise rights, net (Note 4)	82,464	83,268
Goodwill (Note 4)	124,934	124,934
Intangible assets, net (Note 4)	1,102	1,175
Franchise agreements, at cost less accumulated amortization of \$5,571 and \$5,431, respectively	5,714	5,793
Deferred income taxes	11,136	11,136
Other assets	12,370	12,989
Total assets	\$ 452,999	\$ 452,859
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 218	\$ 2,477
Accounts payable	20,372	17,860
Accrued interest	3,835	7,861
Accrued payroll, related taxes and benefits	14,950	18,445
Accrued income taxes payable	211	
Accrued real estate taxes	2,982	4,102
Other liabilities	12,299	10,623
Total current liabilities	54,867	61,368
Long-term debt, net of current portion (Note 5)	301,941	297,432
Lease financing obligations (Note 9)	58,701	58,571
Deferred income sale-leaseback of real estate	31,083	31,391
Accrued postretirement benefits (Note 8)	6,519	6,370
Other liabilities (Note 7)	23,739	23,494
Total liabilities	476,850	478,626
Commitments and contingencies (Note 12)		

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Stockholders' deficit:

Preferred stock, par value \$.01; authorized 20,000,000 shares, issued and outstanding	none		
Voting common stock, par value \$.01; authorized 100,000,000 shares, issued and outstanding	21,550,827 shares	216	216
at both dates			
Additional paid-in capital		(2,769)	(3,108)
Accumulated deficit		(20,156)	(21,733)
Accumulated other comprehensive loss		(1,001)	(1,001)
Treasury stock, at cost		(141)	(141)
Total stockholders' deficit		(23,851)	(25,767)
Total liabilities and stockholders' deficit		\$ 452,999	\$ 452,859

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

Table of Contents**CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****THREE MONTHS ENDED MARCH 31, 2007 AND 2006****(In thousands of dollars, except shares and per share amounts)****(Unaudited)**

	2007	2006
Revenues:		
Restaurant sales	\$ 187,866	\$ 182,213
Franchise royalty revenues and fees	337	330
Total revenues	188,203	182,543
Costs and expenses:		
Cost of sales	52,557	51,913
Restaurant wages and related expenses	55,948	53,662
Restaurant rent expense	10,679	9,020
Other restaurant operating expenses	27,684	26,448
Advertising expense	8,535	6,912
General and administrative (including stock-based compensation expense of \$318 and \$0 respectively)	13,146	12,374
Depreciation and amortization	7,691	8,317
Impairment losses (Note 3)		224
Other income (Note 10)	(347)	
Total operating expenses	175,893	168,870
Income from operations	12,310	13,673
Interest expense	8,356	11,389
Loss on extinguishment of debt	1,485	
Income before income taxes	2,469	2,284
Provision for income taxes (Note 6)	892	759
Net income	\$ 1,577	\$ 1,525
Basic and diluted net income per share (Note 13)	\$ 0.07	\$ 0.10
Basic weighted average common shares outstanding (Note 13)	21,550,827	15,897,783
Diluted weighted average common shares outstanding (Note 13)	21,558,382	15,897,783

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

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	2007	2006
Cash flows provided from operating activities:		
Net income	\$ 1,577	\$ 1,525
Adjustments to reconcile net income to net cash provided from operating activities:		
Gain on disposals of property and equipment	(121)	(35)
Stock-based compensation expense	355	
Depreciation and amortization	7,691	8,317
Amortization of deferred financing costs	335	385
Amortization of unearned purchase discounts	(539)	(540)
Amortization of deferred gains from sale-leaseback transactions	(488)	(147)
Impairment losses		224
Accretion of interest on lease financing obligations	130	78
Deferred income taxes	3,016	(336)
Loss on extinguishment of debt	1,485	
Changes in other operating assets and liabilities	(6,954)	(2,204)
Net cash provided from operating activities	6,487	7,267
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(8,361)	(6,518)
Restaurant remodeling	(1,218)	(1,678)
Other restaurant capital expenditures	(1,111)	(1,445)
Corporate and restaurant information systems	(191)	(477)
Total capital expenditures	(10,881)	(10,118)
Properties purchased for sale-leaseback	(1,633)	(1,655)
Proceeds from sale-leaseback transactions	2,473	9,413
Proceeds from sales of other properties	979	
Net cash used for investing activities	(9,062)	(2,360)
Cash flows provided from (used for) financing activities:		
Repayment of term loans under prior credit facility	(118,400)	
Borrowings on revolving credit facility	11,200	
Repayments on revolving credit facility	(10,500)	
Proceeds from new senior credit facility	120,000	
Scheduled principal payments on term loans		(550)
Principal pre-payments on term loans		(8,500)
Principal payments on capital leases	(137)	(103)
Expenses from initial public offering	(16)	
Financing costs associated with issuance of debt	(1,228)	

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Net cash provided from (used for) financing activities	919	(9,153)
Net decrease in cash and cash equivalents	(1,656)	(4,246)
Cash and cash equivalents, beginning of period	3,939	9,331
Cash and cash equivalents, end of period	\$ 2,283	\$ 5,085
Supplemental disclosures:		
Interest paid on long-term debt	\$ 10,582	\$ 11,062
Interest paid on lease financing obligations	\$ 1,335	\$ 2,667
Increase (decrease) in accruals for capital expenditures	\$ 3,065	\$ (151)
Income taxes refunded	\$ (2,122)	\$ (810)

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of dollars except share and per share amounts)

1. Basis of Presentation

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

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

Business Description. At March 31, 2007 the Company operated, as franchisee, 327 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At March 31, 2007, the Company also owned and operated 77 Pollo Tropical restaurants of which 74 were located in Florida and three were located in the New York City metropolitan area, two of which were located in northern New Jersey and one of which was located in Brooklyn, New York and franchised a total of 27 Pollo Tropical restaurants; consisting of 23 in Puerto Rico, two in Ecuador and two on college campuses in Florida. At March 31, 2007, the Company owned and operated 141 Taco Cabana restaurants located primarily in Texas and franchised two Taco Cabana restaurants in New Mexico and one in Georgia.

Fiscal Year. The Company uses a 52-53 week fiscal year ending on the Sunday closest to December