CARROLS CORP
Form 10-Q
May 12, 2011
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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 3, 2011

OR

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

Commission File Number: 001-33174

CARROLS RESTAURANT GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**16-1287774**
(State or other jurisdiction of	**(I.R.S. Employer Identification No.)**
incorporation or organization)	
968 James Street	
Syracuse, New York	**13203**
(Address of principal executive office)	**(Zip Code)**

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

Commission File Number: 001-06553

CARROLS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**16-0958146**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
968 James Street	
Syracuse, New York	**13203**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

Carrols Restaurant Group, Inc.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Carrols Corporation

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

Carrols Restaurant Group, Inc.

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

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

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CARROLS RESTAURANT GROUP, INC. AND CARROLS CORPORATION

FORM 10-Q

QUARTER ENDED APRIL 3, 2011

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PART I FINANCIAL INFORMATION

ITEM 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

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

(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,392	$ 3,144
Trade and other receivables	6,126	5,213
Inventories	5,088	5,203
Prepaid rent	4,014	4,018
Prepaid expenses and other current assets	6,013	5,349
Refundable income taxes		869
Deferred income taxes	4,609	4,609
Total current assets	30,242	28,405
Property and equipment, net	185,672	186,850
Franchise rights, net (Note 4)	69,633	70,432
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	389	419
Franchise agreements, at cost less accumulated amortization of $6,232 and $6,102, respectively	5,575	5,629
Deferred income taxes	1,949	1,949
Other assets	8,032	7,684
Total assets	$ 426,426	$ 426,302
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	$ 16,937	$ 15,538
Accounts payable	14,823	13,944
Accrued interest	3,139	6,853
Accrued payroll, related taxes and benefits	16,738	19,504
Accrued income taxes payable	1,527	
Accrued real estate taxes	3,158	4,778
Other liabilities	9,473	7,434
Total current liabilities	65,795	68,051
Long-term debt, net of current portion (Note 5)	239,981	237,914
Lease financing obligations (Note 9)	10,061	10,061
Deferred income sale-leaseback of real estate	39,817	40,472
Accrued postretirement benefits (Note 8)	1,790	1,845
Other liabilities (Note 7)	21,066	23,052
Total liabilities	378,510	381,395
Commitments and contingencies (Note 11)		

Stockholders equity:		
Preferred stock, par value $.01; authorized 20,000,000 shares, issued and outstanding none		
Voting common stock, par value $.01; authorized 100,000,000 shares, issued and outstanding 22,053,675 shares and 21,678,203 shares, respectively	216	216
Additional paid-in capital	4,237	3,474
Retained earnings	42,069	39,823
Accumulated other comprehensive income (Note 13)	1,535	1,535
Treasury stock, at cost	(141)	(141)
Total stockholders equity	47,916	44,907
Total liabilities and stockholders equity	$ 426,426	$ 426,302

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

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

(Unaudited)

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

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In thousands of dollars)

(Unaudited)

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

Cash and cash equivalents, end of period	$ 4,392	$ 3,971
Supplemental disclosures:		
Interest paid on long-term debt	$ 7,848	$ 7,966
Interest paid on lease financing obligations	$ 245	$ 231
Accruals for capital expenditures	$ 980	$ 170
Income taxes refunded, net of payments	$ (1,319)	$ (1,392)

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

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

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

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

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

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

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

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

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

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

Current Assets and Liabilities. The carrying value of cash and cash equivalents and accrued liabilities approximates fair value because of the short maturity of those instruments.

Senior Subordinated Notes. The fair values of outstanding senior subordinated notes are based on quoted market prices. The fair values at both March 31, 2011 and December 31, 2010 were approximately $165.4 million.

Revolving and Term Loan Facilities. Rates and terms under Carrols senior credit facility are favorable to debt with similar terms and maturities that could be obtained, if at all, at March 31, 2011. Given the lack of comparative information regarding such debt, including the lack of trading in Carrols Term A debt, it is not practicable to estimate the fair value of our existing borrowings under Carrols senior credit facility at March 31, 2011.

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

2. Stock-Based Compensation

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

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

Stock Options

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

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

(1)

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

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

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

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

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

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

4. Goodwill and Franchise Rights

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

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

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

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

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

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

5. Long-term Debt

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

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

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

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

1) the applicable margin percentage ranging from 0% to 0.25% based on Carrols senior leverage ratio (as defined in the senior credit facility) plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or

2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on Carrols senior leverage ratio. At March 31, 2011 the LIBOR margin percentage was 1.0%.

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

1) four quarterly installments of approximately $4.2 million beginning on June 30, 2011; and

2) four quarterly installments of approximately $16.9 million beginning on June 30, 2012.

Under the senior credit facility, Carrols is required to make mandatory prepayments of principal on term loan A facility borrowings (a) annually in an amount up to 50% of Excess Cash Flow depending upon Carrols Total Leverage Ratio (as such terms are defined in the senior credit facility), (b) in the event of certain dispositions of assets (all subject to certain exceptions) and insurance proceeds, in an amount equal to 100%

of the net proceeds received by Carrols therefrom, and (c) in an amount equal to 100% of the net proceeds from any subsequent issuance of debt. For the year ended December 31, 2010, there was not a required prepayment based on the Excess Cash Flow for 2010, as defined. For the year ended December 31, 2009, Carrols was required to make a principal prepayment of approximately $1.0 million in the first quarter of 2010.

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

CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

6. Income Taxes

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

	Three Months Ended March 31,	
	2011	2010
Current	$ 1,077	$ 1,452
Deferred		(20)
	$ 1,077	$ 1,432

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

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

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

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Other Liabilities, Long-Term

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

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

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

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

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

8. Postretirement Benefits

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

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Service cost	$ 7	$ 8
Interest cost	25	27

Amortization of net gains and losses	24	24
Amortization of prior service credit	(90)	(90)
Net periodic postretirement benefit income	$ (34)	$ (31)

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

9. Lease Financing Obligations

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

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. Business Segment Information

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

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

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

11. Commitments and Contingencies

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

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

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

12. Net Income per Share

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

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CARROLS RESTAURANT GROUP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

13. Comprehensive Income

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

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

14. Other Income

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

15. Recent Accounting Developments

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

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ITEM 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CARROLS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

(Unaudited)

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

Common stock, par value $1; authorized 1,000 shares, issued and outstanding 10 shares		
Additional paid-in capital	(3,407)	(4,083)
Retained earnings	49,695	47,447
Accumulated other comprehensive income (Note 12)	1,535	1,535
Total stockholder s equity	47,823	44,899
Total liabilities and stockholder s equity	$ 426,426	$ 426,302

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

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CARROLS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In thousands of dollars)

(Unaudited)

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

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

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CARROLS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In thousands of dollars)

(Unaudited)

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

Cash and cash equivalents, end of period	$ 4,392	$ 3,971
Supplemental disclosures:		
Interest paid on long-term debt	$ 7,848	$ 7,966
Interest paid on lease financing obligations	$ 245	$ 231
Accruals for capital expenditures	$ 980	$ 170
Income taxes refunded, net of payments	$ (1,319)	$ (1,392)

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

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

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

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

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

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

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

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

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

Current Assets and Liabilities. The carrying value of cash and cash equivalents and accrued liabilities approximates fair value because of the short maturity of those instruments.

Senior Subordinated Notes. The fair values of outstanding senior subordinated notes are based on quoted market prices. The fair values at both March 31, 2011 and December 31, 2010 were approximately $165.4 million.

Revolving and Term Loan Facilities. Rates and terms under the Company s senior credit facility are favorable to debt with similar terms and maturities that could be obtained, if at all, at March 31, 2011. Given the lack of comparative information regarding such debt, including the lack of trading in our Term A debt, it is not practicable to estimate the fair value of existing borrowings under the Company s senior credit facility at March 31, 2011.

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

2. Stock-Based Compensation

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

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

Stock Options

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

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

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

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

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

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

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

4. Goodwill and Franchise Rights

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

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

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

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

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

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

5. Long-term Debt

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

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

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

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

1) the applicable margin percentage ranging from 0% to 0.25% based on the Company s senior leverage ratio (as defined in the senior credit facility) plus the greater of (i) the prime rate or (ii) the federal funds rate for that day plus 0.5%; or

2) Adjusted LIBOR plus the applicable margin percentage in effect ranging from 1.0% to 1.5% based on the Company s senior leverage ratio. At March 31, 2011 the LIBOR margin percentage was 1.0%.

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

1) four quarterly installments of approximately $4.2 million beginning on June 30, 2011; and

2) four quarterly installments of approximately $16.9 million beginning on June 30, 2012.

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

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

6. Income Taxes

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

	Three Months Ended March 31,	
	2011	2010
Current	$ 1,077	$ 1,452
Deferred		(20)
	$ 1,077	$ 1,432

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

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

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

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

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Other Liabilities, Long-Term

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

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

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

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

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

8. Postretirement Benefits

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

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

	Three Months Ended March 31,	
	2011	2010
Service cost	$ 7	$ 8
Interest cost	25	27

Amortization of net gains and losses	24	24
Amortization of prior service credit	(90)	(90)
Net periodic postretirement benefit income	$ (34)	$ (31)

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

9. Lease Financing Obligations

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

10. Business Segment Information

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

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

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

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

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

11. Commitments and Contingencies

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

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

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Comprehensive income

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

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

13. Other Income

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

14. Recent Accounting Developments

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

15. Guarantor Financial Statements

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

Cabana Beverages, Inc.

Cabana Bevco LLC

Carrols LLC

Carrols Realty Holdings Corp.

Carrols Realty I Corp.

Carrols Realty II Corp.

Carrols J.G. Corp.

Quanta Advertising Corp.

Pollo Franchise, Inc.

Pollo Operations, Inc.

Taco Cabana, Inc.

TP Acquisition Corp.

TC Bevco LLC

T.C. Management, Inc.

TC Lease Holdings III, V and VI, Inc.

Get Real, Inc.

Texas Taco Cabana, L.P.

TPAQ Holding Corporation

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

CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING BALANCE SHEET

March 31, 2011

(In thousands of dollars)

(Unaudited)

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

Total liabilities	264,578	212,492	(98,467)	378,603
Commitments and contingencies				
Stockholder s equity	47,823	145,615	(145,615)	47,823
Total liabilities and stockholder s equity	$ 312,401	$ 358,107	$ (244,082)	$ 426,426

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING BALANCE SHEET

December 31, 2010

(In thousands of dollars)

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

Commitments and contingencies				
Stockholder s equity	44,899	142,571	(142,571)	44,899
Total liabilities and stockholder s equity	$ 310,348	$ 356,715	$ (240,761)	$ 426,302

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended March 31, 2011

(In thousands of dollars)

(Unaudited)

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

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CARROLS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended March 31, 2010

(In thousands of dollars)

(Unaudited)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:				
Restaurant sales	$	$ 194,667	$	$ 194,667
Franchise royalty revenues and fees		477		477