

CARROLS CORP
Form 10-Q
May 06, 2009
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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 March 29, 2009

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

Commission File Number: 001-06553

CARROLS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

16-0958146
(I.R.S. Employer

incorporation or organization)

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

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 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 (§232.405 of this chapter) 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.

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

(Do not check if a smaller reporting company)

Carrols Corporation

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

(Do not check if a smaller reporting company)

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 1, 2009, Carrols Restaurant Group, Inc. had 21,592,462 shares of its common stock, \$.01 par value, outstanding. As of May 1, 2009, 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

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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, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,538	\$ 3,399
Trade and other receivables	5,526	5,622
Inventories	5,100	5,588
Prepaid rent	2,979	2,998
Prepaid expenses and other current assets	7,849	6,738
Deferred income taxes	4,890	4,890
Total current assets	29,882	29,235
Property and equipment, net	194,254	195,376
Franchise rights, net (Note 4)	76,086	76,870
Goodwill (Note 4)	124,934	124,934
Intangible assets, net	643	675
Franchise agreements, at cost less accumulated amortization of \$5,634 and \$5,729, respectively	5,849	5,826
Deferred income taxes	5,937	6,697
Other assets	10,100	10,585
Total assets	\$ 447,685	\$ 450,198
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 13,591	\$ 12,093
Accounts payable	20,572	18,789
Accrued interest	3,298	7,742
Accrued payroll, related taxes and benefits	17,013	15,431
Accrued income taxes	2,423	2,099
Accrued real estate taxes	2,254	3,803
Other liabilities	12,378	10,848
Total current liabilities	71,529	70,805
Long-term debt, net of current portion (Note 5)	281,281	289,202
Lease financing obligations (Note 9)	14,868	14,859
Deferred income sale-leaseback of real estate	42,850	43,447
Accrued postretirement benefits (Note 8)	1,636	1,697
Other liabilities (Note 7)	21,689	21,729
Total liabilities	433,853	441,739
Commitments and contingencies (Note 11)		
Stockholders equity:		

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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 - 21,592,462 at both dates	216	216
Additional paid-in capital	695	348
Retained earnings	11,098	6,072
Accumulated other comprehensive income (Note 13)	1,964	1,964
Treasury stock, at cost	(141)	(141)
Total stockholders' equity	13,832	8,459
Total liabilities and stockholders' equity	\$ 447,685	\$ 450,198

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, 2009 AND 2008****(In thousands of dollars, except share and per share amounts)****(Unaudited)**

	2009	2008
Revenues:		
Restaurant sales	\$ 200,989	\$ 195,393
Franchise royalty revenues and fees	354	360
Total revenues	201,343	195,753
Costs and expenses:		
Cost of sales	58,273	57,629
Restaurant wages and related expenses (including stock-based compensation expense of \$52 and \$57, respectively)	58,643	58,541
Restaurant rent expense	12,432	11,483
Other restaurant operating expenses	29,414	29,545
Advertising expense	8,011	7,824
General and administrative (including stock-based compensation expense of \$295 and \$417, respectively)	13,218	12,995
Depreciation and amortization	7,870	8,022
Impairment and other lease charges (Note 3)	291	21
Total costs and expenses	188,152	186,060
Income from operations	13,191	9,693
Interest expense	5,151	7,434
Income before income taxes	8,040	2,259
Provision for income taxes (Note 6)	3,014	813
Net income	\$ 5,026	\$ 1,446
Basic and diluted net income per share (Note 12)	\$ 0.23	\$ 0.07
Basic weighted average common shares outstanding (Note 12)	21,592,462	21,571,565
Diluted weighted average common shares outstanding (Note 12)	21,594,938	21,574,239

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 CASH FLOWS****THREE MONTHS ENDED MARCH 31, 2009 AND 2008****(In thousands of dollars)****(Unaudited)**

	2009	2008
Cash flows provided from (used for) operating activities:		
Net income	\$ 5,026	\$ 1,446
Adjustments to reconcile net income to net cash provided from (used for) operating activities:		
Loss on disposals of property and equipment	54	62
Stock-based compensation	347	474
Impairment and other lease charges	291	21
Depreciation and amortization	7,870	8,022
Amortization of deferred financing costs	245	298
Amortization of unearned purchase discounts	(539)	(539)
Amortization of deferred gains from sale-leaseback transactions	(772)	(513)
Accretion of interest on lease financing obligations	9	60
Deferred income taxes	760	311
Accrued income taxes	324	(208)
Changes in other operating assets and liabilities:	(1,280)	(10,312)
Net cash provided from (used for) operating activities	12,335	(878)
Cash flows used for investing activities:		
Capital expenditures:		
New restaurant development	(3,834)	(7,430)
Restaurant remodeling	(2,340)	(2,638)
Other restaurant capital expenditures	(1,093)	(2,077)
Corporate and restaurant information systems	(698)	(704)
Total capital expenditures	(7,965)	(12,849)
Proceeds from sale-leaseback transactions	1,943	1,735
Proceeds from sales of other properties	249	
Net cash used for investing activities	(5,773)	(11,114)
Cash flows provided from (used for) financing activities:		
Borrowings on revolving credit facility	21,900	41,800
Repayments on revolving credit facility	(26,800)	(33,100)
Scheduled principal payments on term loans	(1,500)	
Principal payments on capital leases	(23)	(42)
Net cash provided from (used for) financing activities	(6,423)	8,658
Net increase (decrease) in cash and cash equivalents	139	(3,334)
Cash and cash equivalents, beginning of period	3,399	7,396
Cash and cash equivalents, end of period	\$ 3,538	\$ 4,062

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Supplemental disclosures:		
Interest paid on long-term debt	\$ 8,990	\$ 9,749
Interest paid on lease financing obligations	\$ 352	\$ 1,259
Accruals for capital expenditures	\$ 940	\$ 841
Income taxes paid, net	\$ 1,930	\$ 709
Capital lease obligations incurred	\$	\$ 117

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-(Continued)

(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' equity.

Business Description. At March 31, 2009 the Company operated, as franchisee, 316 quick-service restaurants under the trade name Burger King in 12 Northeastern, Midwestern and Southeastern states. At March 31, 2009, the Company also owned and operated 90 Pollo Tropical restaurants, of which 85 were located in Florida, four were in New Jersey and one was in Connecticut, and franchised a total of 25 Pollo Tropical restaurants, 21 in Puerto Rico, two in Ecuador and two on college campuses in Florida. At March 31, 2009, the Company owned and operated 153 Taco Cabana restaurants located primarily in Texas and franchised a total of four Taco Cabana restaurants, two in New Mexico, one in Texas and one in Georgia.

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 December 28, 2008 and December 30, 2007 will be referred to as the fiscal years ended December 31, 2008 and 2007, respectively. Similarly, all references herein to the three months ended March 29, 2009 and March 30, 2008 will be referred to as the three months ended March 31, 2009 and March 31, 2008, respectively. The years ended December 31, 2008 and 2007 each contained 52 weeks and the three months ended March 31, 2009 and 2008 each contained thirteen weeks.

Basis of Presentation. The accompanying unaudited consolidated financial statements for the three months ended March 31, 2009 and 2008 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, 2009 and 2008 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, 2008 contained in the Company's 2008 Annual Report on Form 10-K. The December 31, 2008 balance sheet data is derived from those audited financial statements.

Fair Value of Financial Instruments. 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 March 31, 2009 and December 31, 2008 were approximately \$142.7 million and \$111.4 million, respectively.

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Revolving and Term Loan Facilities. Rates and terms under Carrols' senior credit facility are significantly favorable to debt with similar terms and maturities that could be potentially obtainable, if at all, at March 31, 2009. Given the lack of comparative information regarding such debt it is not practicable to estimate the fair value of our existing borrowings at March 31, 2009.

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

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