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Carrols Restaurant Group, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Reza Vahabzadeh – Lehman Brothers.

Reza Vahabzadeh – Lehman Brothers

Just on that last point, Paul, when you say you can adjust the terms of the lease finance obligation, how can it be helpful to you and over what time frame can you possibly adjust the terms.

Alan Vituli

Paul, why don't you first just explain that the covenants treat that as debt, as conventional debt and converting them to operating leases takes them totally out of the purview of the covenants.

Paul R. Flanders

That's the basic issue. These leases have one or two terms that we could restructure, unilaterally, to remove the debt. And in most cases, or in some cases at least, those are purchase options.

I will give you an example. I was looking at one of these leases yesterday where we retained these purchase options, obviously, because I think we thought that at some point in time they could be of value perhaps in refinanced leases, and we have refinanced some of these leases but we have cases where the appraised value of the properties was significantly above what our minimum purchase option was, and the economics of this would imply that it would not be to our advantage and we have elected not to buy that property.

Now we have held on to the purchase option but as a practical matter there probably isn't an economic value that we are going to be able to take advantage of because we probably are never going to buy that property. So we have the ability to just cancel the purchase option. And that solves the accounting problem.

Reza Vahabzadeh – Lehman Brothers

So it just helps your cushion against the covenants, essentially.

Alan Vituli

Correct.

Reza Vahabzadeh – Lehman Brothers

With the sale/lease-back transactions that you are contemplating, would you anticipate lower net debt at the end of the fourth quarter from where you are today?

Alan Vituli

Yes.

Reza Vahabzadeh – Lehman Brothers

And I forget how much you have on the revolver right now.

Paul R. Flanders

At the end of September we had \$17.0 million drawn.

Reza Vahabzadeh – Lehman Brothers

And your cash position?

Paul R. Flanders

Nominal. About \$2.5 million to \$3.0 million.

Reza Vahabzadeh – Lehman Brothers

On the operation side, how would you characterize the competitive conditions and dynamics for Taco Cabana?

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