

CARROLS RESTAURANT GROUP, INC.
Form 10-K/A
March 14, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2017

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 incorporation or organization) (I.R.S. Employer Identification No.)

968 James Street, Syracuse, New York

13203

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class: Name of each exchange on which registered:

Common Stock, par value \$.01 per share The NASDAQ Global Market

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of March 5, 2018 Carrols Restaurant Group, Inc. had 36,538,903 shares of its common stock, \$.01 par value, outstanding. The aggregate market value of the common stock held by non-affiliates as of July 2, 2017 of Carrols Restaurant Group, Inc. was \$419,573,219.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for Carrols Restaurant Group, Inc's 2018 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A no later than 120 days after the conclusion of Carrols Restaurant Group, Inc.'s fiscal year ended December 31, 2017 are incorporated by reference into Part III of this annual report.

EXPLANATORY NOTE

Carrols Restaurant Group, Inc. (the “Company”) is filing this Amendment No. 1 (this "Form 10-K/A") to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission (the “SEC”) on March 12, 2018 (the “Original Filing”), solely for correcting the form of the Reports of Independent Registered Public Accounting Firm regarding its opinions on the financial statements and internal control over financial reporting which were included in the report on the date of the Original Filing. The change to the filed copy of the Deloitte Financial Statements Opinion does not affect Deloitte’s unqualified opinion on the Company's consolidated financial statements included in the Original Filing and this Form 10-K/A, or Deloitte’s unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In addition, pursuant to the rules of the SEC, the exhibit list included in Item 15 of Part IV of the Original Filing has been amended to contain currently-dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached as exhibits to this Form 10-K/A. For ease of reference, this Form 10-K/A amends and restates the Original Filing in its entirety, making only the amendments described above. No other amendments have been made to the Original Filing and the Company is not amending its consolidated financial statements or any other part of, or otherwise updating any other disclosures made in, the Original Filing. This Form 10-K/A speaks as of the original filing date of the Original Filing and does not reflect any events that may have occurred subsequent to the original filing date. Accordingly, this Form 10-K/A should be read in conjunction with our other filings made with the SEC subsequent to the filing of the Original Filing, including any amendments to those filings.

CARROLS RESTAURANT GROUP, INC.
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PART I—FINANCIAL INFORMATION

PART I

Throughout this Annual Report on Form 10-K/A, we refer to Carrols Restaurant Group, Inc. as “Carrols Restaurant Group” and, together with its consolidated subsidiary, as “we”, “our” and “us” unless otherwise indicated or the context otherwise requires. Any reference to “Carrols” refers to our wholly-owned subsidiary, Carrols Corporation, a Delaware corporation, and its consolidated subsidiary, unless otherwise indicated or the context otherwise requires. Any reference to “Carrols LLC” refers to Carrols’ direct subsidiary, Carrols LLC, a Delaware limited liability company, unless otherwise indicated or the context otherwise requires.

We refer to our restaurants acquired over the past three years in 2015, 2016 and 2017 as our “acquired restaurants”. All of our other restaurants, including restaurants acquired prior to 2015, are referred to as our “legacy restaurants”. We use a 52 or 53 week fiscal year ending on the Sunday closest to December 31. Our fiscal years ended December 29, 2013, December 28, 2014, January 1, 2017 and December 31, 2017 each contained 52 weeks. Our fiscal year ended January 3, 2016 contained 53 weeks.

In this Annual Report on Form 10-K/A, we refer to information, forecasts and statistics regarding the restaurant industry and to information, forecasts and statistics from Nation’s Restaurant News, the U.S. Census Bureau and the U.S. Department of Agriculture. Any reference to BKC in this Annual Report on Form 10-K/A refers to Burger King Worldwide, Inc. and its wholly-owned subsidiaries, including Burger King Corporation, and its parent company Restaurant Brands International, Inc. Unless otherwise indicated, information regarding BKC in this Annual Report on Form 10-K/A has been made publicly available by BKC.

This 2017 Annual Report on Form 10-K/A contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. Words such as “may”, “might”, “will”, “should”, “anticipate”, “believe”, “expect”, “intend”, “estimate”, “hope”, “plan” or similar expressions are intended to identify forward-looking statements. In addition, expressions of our strategies, intentions or plans are also forward-looking statements. These statements reflect management’s best judgment based on current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. Actual results could differ materially from those stated or implied in these forward-looking statements as a result of a number of factors, included but not limited to, the factors discussed in Item 1A-Risk Factors. We believe important factors that could cause actual results to differ materially from our expectations include the following, in addition to other risks and uncertainties discussed herein:

- Effectiveness of the Burger King® advertising programs and the overall success of the Burger King brand;
- Increases in food costs and other commodity costs;
- Competitive conditions, including pricing pressures, couponing, aggressive marketing and the potential impact of competitors’ new unit openings on sales of our restaurants;
- Our ability to integrate any restaurants we acquire;
- Regulatory factors;
- Environmental conditions and regulations;
- General economic conditions, particularly in the retail sector;
- Weather conditions;
- Fuel prices;
- Significant disruptions in service or supply by any of our suppliers or distributors;
- Changes in consumer perception of dietary health and food safety;

• Labor and employment benefit costs, including the effects of minimum wage increases, healthcare reform and changes in the Fair Labor Standards Act;

• The outcome of pending or future legal claims or proceedings;

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

• Our inability to service our indebtedness;

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

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

Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if our products cause injury, ingredient disclosure and labeling laws and regulations, reports of cases of food borne illnesses such as "mad cow" disease, and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as negative publicity regarding food quality, illness, injury or other health concerns; and

• Other factors discussed under Item 1A - "Risk Factors" and elsewhere herein.

ITEM 1. BUSINESS

Overview

Our Company

We are one of the largest restaurant companies in the United States and have been operating restaurants for more than 55 years. We are the largest Burger King® franchisee in the United States, based on number of restaurants, and have operated Burger King restaurants since 1976. As of December 31, 2017, we owned and operated 807 Burger King restaurants located in 17 Northeastern, Midwestern and Southeastern states. Burger King restaurants feature the popular flame-broiled Whopper® sandwich, as well as a variety of hamburgers, chicken and other specialty sandwiches, french fries, salads, breakfast items, snacks, smoothies, frappes and other offerings. We believe that our size, seasoned management team, extensive operating infrastructure, experience and proven operating disciplines differentiate us from many of our competitors as well as many other Burger King operators.

According to BKC, as of December 31, 2017 there were a total of 16,767 Burger King restaurants, of which almost all were franchised and 7,226 were located in the United States. Burger King is the second largest hamburger restaurant chain in the world (as measured by number of restaurants) and we believe that the Burger King brand is one of the world's most recognized consumer brands. Burger King restaurants have a distinctive image and are generally located in high-traffic areas throughout the United States. Burger King restaurants are designed to appeal to a broad spectrum of consumers, with multiple day-part meal segments targeted to different groups of consumers. We believe that the competitive attributes of Burger King restaurants include significant brand recognition, convenience of location, quality, speed of service and price.

Our Burger King restaurants are typically open seven days per week and generally have operating hours ranging from 6:00 am to midnight on Sunday to Wednesday and to 2:00 am on Thursday to Saturday.

Our existing restaurants consist of one of several building types with various seating capacities. Our typical freestanding restaurant contains approximately 2,600 square feet with seating capacity for 60 to 70 customers, has drive-thru service windows and has adjacent parking areas. As of December 31, 2017, almost all of our restaurants were freestanding. We operate our restaurants under franchise agreements with BKC.

Our acquisition of 278 Burger King restaurants on May 30, 2012 from BKC, which we refer to as the "2012 acquisition", included BKC's assignment to us of its right of first refusal on franchise restaurant transfers in 20 states as follows: Connecticut (except Hartford county), Delaware, Indiana, Kentucky, Maine, Maryland, Massachusetts (except for Middlesex, Norfolk and Suffolk counties), Michigan, New Hampshire, New Jersey, New York (except for Bronx, Kings, Nassau, New York, Queens, Richmond, Suffolk and Westchester counties), North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington DC and West Virginia (the "ROFR") pursuant to an operating agreement with BKC dated May 30, 2012, and which was amended on January 26, 2015 and December 17, 2015, which we refer to as the "amended operating agreement". In addition, pursuant to the amended

operating agreement, BKC granted us, on a non-exclusive basis, franchise pre-approval to acquire restaurants from Burger King franchisees in the 20 states covered by the ROFR until we operate 1,000 Burger King restaurants. Newly constructed or acquired restaurants beyond 1,000 or acquisitions in states not subject to the ROFR would be subject to BKC's customary approval process. The amended operating agreement also required us to remodel 455 Burger King restaurants to BKC's "20/20" restaurant image by December 31, 2016 and as of that date, we had complied with this remodel requirement.

During 2017, we acquired a total of 64 restaurants from other franchisees in three separate transactions. In 2016, we acquired 56 restaurants in seven separate transactions, and in 2015 we acquired 55 Burger King restaurants in eight separate transactions.

For the fiscal year ended December 31, 2017, our restaurants generated total revenues of \$1,088.5 million and our comparable restaurant sales increased 5.2%. Our average annual restaurant sales for all restaurants were approximately \$1,388,000 per restaurant.

Our Competitive Strengths

We believe we have the following competitive strengths:

Largest Burger King Franchisee in the United States. We are the largest Burger King franchisee in the United States based on number of restaurants, and are well positioned to leverage the scale and marketing of one of the most recognized brands in the restaurant industry. We believe the geographic dispersion of our restaurants provides us with stability and enhanced growth opportunities in many of the markets in which we operate. We also believe that our large number of restaurants increases our ability to effectively manage the awareness of the Burger King brand in certain markets through our ability to influence local advertising and promotional activities.

Operational Expertise. We have been operating Burger King restaurants since 1976 and have developed sophisticated information and operating systems that enable us to measure and monitor key metrics for operational performance, sales and profitability that may not be available to other restaurant operators. Our focus on leveraging our operational expertise, infrastructure and systems allows us to optimize the performance of our restaurants and restaurants that we may acquire. Our size and history with the Burger King brand enable us to effectively track operating metrics and leverage best practices across our organization. We believe that our experienced management team, operating culture, effective operating systems and infrastructure enable us to operate more efficiently than many other Burger King operators, resulting in higher restaurant margins and improved overall financial results.

Consistent Operating History and Financial Strength. We believe that the quality and sophistication of our restaurant operations have driven our strong restaurant level performance. Comparable restaurant sales for our restaurants have generally outperformed the Burger King system. Our strong restaurant level operations coupled with our financial management capabilities have resulted in consistent and stable cash flows. We have demonstrated our ability to prudently manage our capital structure and financial leverage through a variety of economic cycles. We believe that our cash flow from operations, cash balances and the availability of revolving credit borrowings under our amended senior credit facility are sufficient to fund our ongoing operations and capital expenditures.

Distinct Brand with Global Recognition, Innovative Marketing and New Product Development. As a Burger King franchisee, we benefit from, and rely on, BKC's extensive marketing, advertising and product development capabilities to drive sales and generate increased restaurant traffic. Over the years, BKC has launched innovative and creative multimedia advertising campaigns that highlight the popular relevance of the Burger King brand. BKC has also introduced promotions that leverage both value and premium menu offerings as well as providing a platform for new premium sandwich offerings. We believe these campaigns continue to positively impact the brand today as BKC focuses on a well-balanced promotional mix and remains committed to focusing on fewer but more impactful new product launches and limited time offers, both of which continue to show positive trends. BKC is also aggressively working with franchisees throughout the system to encourage the renovation and remodeling of restaurants to BKC's 20/20 image, which we believe will continue to increase customer traffic and restaurant sales.

Strategic Relationship with Burger King Corporation. We believe that the structure of the 2012 acquisition strengthened our well-established relationship with BKC and has further aligned our common interests to grow our

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business. We intend to continue to expand by making acquisitions, including acquisitions resulting from the exercise of the ROFR as well as other negotiated acquisitions under our pre-approval rights. The consideration to BKC associated with the 2012 acquisition included a preferred stock equity interest in Carrols Restaurant Group, which is convertible into approximately 20.5% of our outstanding shares of common stock. Since the 2012 acquisition, two of BKC's senior executives have served on our Board of Directors. Jose Cil, Brand President, Burger King, and Matthew Dunnigan, Chief Financial Officer of Restaurant Brands International Inc., the indirect parent company of BKC, currently serve on our board of directors. Our restaurants represented approximately 11.2% of the Burger King locations in the United States as of December 31, 2017. We believe that the combination of our rights under the operating agreement, BKC's equity interest and its board level representation will continue to reinforce the alignment of our common interests with BKC for the long term.

Multiple Growth Levers. We believe our historical track record of acquiring and integrating restaurants and our commitment to remodel our restaurants provides multiple avenues to grow our business. With more than 55 years of restaurant operating experience, we have successfully grown our business through acquisitions. We have experienced increases in comparable restaurant sales, increased restaurant-level profitability and improved operating metrics at the restaurants we have acquired in the last five years. In addition, we have remodeled a total of 523 restaurants to BKC's 20/20 restaurant image as of December 31, 2017 which we believe has improved our guests' overall experience and increased customer traffic. At December 31, 2017, 618 of our restaurants had the BKC 20/20 image, which includes restaurants converted prior to our acquisition.

Experienced Management Team with a Proven Track Record. We believe that our senior management team's extensive experience in the restaurant industry and its long and successful history of developing, acquiring, integrating and operating quick-service restaurants provide us with a competitive advantage. Our management team has a successful history of integrating acquired restaurants, and over the past 20 years, we have significantly increased the number of Burger King restaurants we own and operate, largely through acquisitions. Our operations are overseen by our Chief Executive Officer, Dan Accordino, who has over 40 years of Burger King and quick-service restaurant experience, a Divisional VP, and nine Regional Directors that have an average of 27 years of Burger King restaurant experience. Our 111 district managers that have an average tenure of 16 years in the Burger King system support the Regional Directors. Our operations management is further supported by our infrastructure of financial, information systems, real estate, human resources and legal professionals.

Our Business Strategies

Our primary business strategies are as follows:

Selectively Acquire and Develop Additional Burger King Restaurants. As of December 31, 2017, we operated 807 Burger King restaurants, making us one of the largest Burger King franchisees in the world. We acquired the ROFR in the 2012 acquisition and were granted certain pre-approval rights to acquire additional franchised restaurants and to develop new restaurants. Due to the number of restaurants and franchisees in the Burger King system and our historical success in acquiring and integrating restaurants, we believe that there is considerable opportunity for future growth. There are more than 2,000 Burger King restaurants we do not own in states in which we have the ROFR and pre-approval rights. Furthermore, we believe there are additional Burger King restaurants in states not subject to the ROFR that could be attractive acquisition candidates, subject to BKC's customary approval. We believe that the assignment of the ROFR and the pre-approval to acquire and develop additional restaurants provide us with the opportunity to significantly expand our ownership of Burger King restaurants in the future. While we may evaluate and discuss potential acquisitions of additional restaurants from time to time, we currently have no understandings, commitments or agreements with respect to any material acquisitions. We may be required to obtain additional financing to fund future acquisitions. There can be no assurance that we will be able to obtain additional financing, if necessary, on acceptable terms or at all.

Improve Profitability of Restaurants We Acquire by Leveraging Our Existing Infrastructure and Best-Practices. For acquired restaurants, we believe we can realize benefits from economies of scale, including leveraging our existing infrastructure across a larger number of restaurants. Additionally, we believe that our skilled management team,

sophisticated information technology, operating systems and training and development programs support our ability to enhance operating efficiencies at any restaurants we may acquire. We have demonstrated our ability to increase

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the profitability of acquired restaurants and we believe, over time, that we will improve profitability and operational efficiency at the restaurants we have and may acquire.

Increase Restaurant Sales and Customer Traffic. BKC has identified and implemented a number of strategies to increase brand awareness, increase market share, improve overall operations and drive sales. These strategies are central to our strategic objectives to deliver profitable growth.

Products. The strength of the BKC menu has been built on a distinct flame-grilled cooking platform to make better tasting hamburgers. We believe that BKC intends to continue to optimize the menu by focusing on core products, such as the flagship Whopper® sandwich, while maintaining a balance between value promotions and premium limited time offerings to drive sales and traffic. Recent product innovation has included a multi-tier balanced marketing approach with value and premium offerings, pairing value promotions, such as the \$1.49 10-piece chicken nugget promotion and a 2 cheeseburger meal deal, with premium limited time Burger offerings, such as the Bacon King and Steakhouse King sandwiches. Promotional initiatives in 2017 included a 2 for \$4 breakfast Croissan'wich offer, 2 for \$6 Whopper sandwiches and most recently the 2 for \$6 Mix and Match featuring the Whopper and Crispy Chicken sandwich. There have also been a number of enhancements to food preparation procedures to improve the quality of BKC's existing products. These new menu platforms and quality improvements form the backbone of BKC's strategy to appeal to a broader consumer base and to increase restaurant sales.

Image. We believe that re-imaged restaurants increase curb appeal and result in increased restaurant sales. BKC's 20/20 restaurant image features a fresh, sleek, eye-catching design which incorporates easy-to-navigate digital menu boards in the dining room, streamlined merchandising at the drive-thru and flat screen televisions in the dining area. We believe the restaurant remodeling plan has improved our guests' dining experience and increased customer traffic. As of December 31, 2017 a total of 618 of our restaurants had the 20/20 restaurant image, which includes restaurants re-imaged prior to our acquisition.

Advertising and Promotion. We believe that we will continue to benefit from BKC's advertising support of its menu items, product enhancement and re-imaging initiatives. BKC has established a data driven marketing process which has focused on driving restaurant sales and traffic, while targeting a broad consumer base with inclusive messaging. This strategy uses multiple touch points to advertise our products, including digital advertising, social media and on-line video in addition to traditional television advertising. BKC has a food-centric marketing strategy which focuses consumers on the food offerings, the core asset, and balances value promotions and premium limited time offerings to drive profitable restaurant sales and traffic.

Operations. We believe that improving restaurant operations and enhancing the customer experience are key components to increasing the profitability of our restaurants. We believe we will benefit from BKC's ongoing initiatives to improve food quality, simplify restaurant level execution and monitor operational performance, all of which are designed to improve the customer experience and increase customer traffic.

Strategically Remodel to Elevate Brand Profile and Increase Profit Potential. In 2018, we plan to remodel 30 to 35 locations to BKC's 20/20 image, to rebuild 5 to 7 restaurants and to construct 10 to 15 new restaurants (including relocations of 2 to 3 existing restaurants). We believe there are opportunities to increase profitability by remodeling additional restaurants including restaurants that we have acquired or may acquire in the future.

Restaurant Economics

Selected restaurant operating data for our restaurants is as follows:

	Year Ended			
	January 3, 2016	January 1, 2017	December 31, 2017	
Average annual sales per restaurant (all restaurants) (1)	\$1,274,372	\$1,311,516	\$1,387,850	
Legacy restaurants	\$1,274,607	\$1,312,234	\$1,393,662	
Acquired restaurants	\$1,257,742	\$1,305,419	\$1,364,093	
Average sales transaction	\$6.64	\$6.85	\$7.15	
Drive-through sales as a percentage of total sales	66.0	% 67.0	% 67.9	%
Day-part sales percentages:				
Breakfast	13.2	% 13.8	% 13.7	%
Lunch	32.8	% 32.4	% 32.3	%
Dinner	20.4	% 20.4	% 20.6	%
Afternoon and late night	33.6	% 33.4	% 33.4	%

(1) Average annual sales per restaurant are derived by dividing restaurant sales by the average number of restaurants operating during the period on a 52-week basis.

Restaurant Capital Costs

The initial cost of the franchise fee, equipment, seating, signage and other interior costs of a standard new Burger King restaurant currently is approximately \$450,000 (which excludes the cost of the land, building and site improvements). In the markets in which we primarily operate, the cost of land generally ranges from \$500,000 to \$900,000 and the cost of building and site improvements generally ranges from \$850,000 to \$1,025,000.

With respect to development of freestanding restaurants, if we acquire the land to construct the building, we typically seek to thereafter enter into an arrangement to sell and leaseback the land and building under a long-term lease.

Historically, we have been able to acquire and finance many of our locations under such leasing arrangements. Where we are unable to purchase the underlying land, we enter into a long-term lease for the land followed by construction of the building using cash generated from our operations or with borrowings under our senior credit facility.

The cost of securing real estate and developing and equipping new restaurants can vary significantly and depends on a number of factors, including the local economic conditions and the characteristics of a particular site. Accordingly, the cost of opening new restaurants in the future may differ substantially from the historical cost of restaurants previously opened and the estimated costs above.

BKC's 20/20 restaurant design draws inspiration from its signature flame-grilled cooking process and incorporates a variety of innovative elements to a backdrop that evokes the industrial look of corrugated metal, brick, wood and concrete. The cost of remodeling a restaurant to the BKC 20/20 image varies depending upon the age and condition of the restaurant and the amount of new equipment needed and can range from \$250,000 to \$650,000 per restaurant with a projected cost of approximately \$550,000 per restaurant in 2017 and an average cost of \$450,000 over the past three years. The total cost of a remodel has increased over time due to construction cost increases and the replacement of certain kitchen equipment at the time of the remodel which is incremental to the cost to upgrade to the BKC 20/20 design. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent and Future Events Affecting our Results of Operations".

Site Selection

We believe that the location of our restaurants is a critical component of each restaurant's success. We evaluate potential new sites on many critical criteria including accessibility, visibility, costs, surrounding traffic patterns, competition and demographic characteristics. Our senior management determines the acceptability of all acquisition prospects and new sites, based upon analyses prepared by our real estate, financial and operations professionals.