

CHECKERS DRIVE IN RESTAURANTS INC /DE

Form 10-Q

July 25, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 16, 2003

OR

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

For the transition period from _____ to _____

Commission file number 0-19649

Checkers Drive-In Restaurants, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

58-1654960

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification no.)

4300 West Cypress Street
Suite 600
Tampa, FL
(Address of principal executive offices)

33607
(Zip code)

Registrant's telephone number, including area code: (813) 283-7000

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 x No "

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x No "

The Registrant had 11,731,964 shares of Common Stock, par value \$.001 per share, outstanding as of June 16, 2003 (excluding 602,431 shares held in treasury).

Table of Contents

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	PAGE
<i>Item 1</i>	<u><i>Financial Statements</i></u>	
	<u><i>Consolidated Balance Sheets June 16, 2003 and December 30, 2002</i></u>	3
	<u><i>Consolidated Statements of Income and Comprehensive Income Quarters ended June 16, 2003 and June 17, 2002 and Two Quarters ended June 16, 2003 and June 17, 2002</i></u>	4
	<u><i>Consolidated Statements of Cash Flows Two Quarters ended June 16, 2003 and June 17, 2002</i></u>	5
	<u><i>Notes to Consolidated Financial Statements</i></u>	6
<i>Item 2</i>	<u><i>Management's Discussion and Analysis of Financial Condition and Results of Operations</i></u>	9
<i>Item 3</i>	<u><i>Quantitative and Qualitative Disclosures About Market Risk</i></u>	17
<i>Item 4</i>	<u><i>Controls and Procedures</i></u>	17
PART II	<u>OTHER INFORMATION</u>	
<i>Item 1</i>	<u><i>Legal proceedings</i></u>	17
<i>Item 2</i>	<u><i>Changes in Securities and Use of Proceeds</i></u>	20
<i>Item 3</i>	<u><i>Defaults Upon Senior Securities</i></u>	20
<i>Item 4</i>	<u><i>Submission of Matters to a Vote of Security Holders</i></u>	20
<i>Item 5</i>	<u><i>Other Information</i></u>	20
<i>Item 6</i>	<u><i>Exhibits and Reports on Form 8-K</i></u>	20

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

CHECKERS DRIVE-IN RESTAURANTS, INC.**AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

(UNAUDITED)

	June 16, 2003	December 30, 2002
	<u> </u>	<u> </u>
Current Assets:		
Cash and cash equivalents	\$ 11,771	\$ 14,323
Restricted cash	4,176	3,821
Accounts, notes and leases receivable, net	2,403	2,667
Inventory	1,184	1,026
Prepaid expenses and other current assets	1,586	2,309
Property and equipment held for sale	1,277	1,619
	<u> </u>	<u> </u>
Total current assets	22,397	25,765
Property and equipment, net	45,366	43,145
Notes receivable, net less current portion	3,746	3,926
Leases receivable, net less current portion	5,592	5,810
Intangible assets, net	44,599	44,728
Other assets, net	1,587	1,661
	<u> </u>	<u> </u>
	\$ 123,287	\$ 125,035
	<u> </u>	<u> </u>
Current Liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 3,299	\$ 3,243
Accounts payable	3,974	6,243
Reserves for restaurant relocations and abandoned sites	1,255	1,446
Accrued wages and benefits	2,576	2,353
Accrued liabilities	6,233	7,194
	<u> </u>	<u> </u>
Total current liabilities	17,337	20,479
Long-term debt, less current maturities	20,774	21,684
Obligations under capital leases, less current maturities	5,572	6,057
Long-term reserves for restaurant relocations and abandoned sites	5,699	6,282
Minority interests in joint ventures	145	123
Deferred revenue	4,582	4,900
Other long-term liabilities	4,960	4,981
	<u> </u>	<u> </u>
Total liabilities	59,069	64,506
Stockholders Equity:		

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Preferred stock, \$.001 par value, authorized 2,000,000 shares, none issued at June 16, 2003 and December 30, 2002		
Common stock, \$.001 par value, authorized 175,000,000 shares, issued 12,334,395 at June 16, 2003 and 12,317,601 at December 30, 2002	12	12
Additional paid-in capital	145,780	145,678
Accumulated deficit	(77,329)	(84,629)
	<u>68,463</u>	<u>61,061</u>
Less: Treasury stock, 602,431 shares at June 16, 2003 and 48,242 shares at December 30, 2002, at cost	(4,245)	(465)
Note receivable officer		(67)
	<u>64,218</u>	<u>60,529</u>
Total stockholders equity	<u>\$ 123,287</u>	<u>\$ 125,035</u>

See accompanying notes to consolidated financial statements.

Table of Contents

CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(Dollars in thousands except per share amounts)
(UNAUDITED)

	<u>Quarter Ended</u>		<u>Two Quarters Ended</u>	
	<u>June 16,</u>	<u>June 17,</u>	<u>June 16,</u>	<u>June 17,</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
REVENUES:				
Restaurant sales	\$ 42,160	\$ 39,055	\$ 81,879	\$ 76,148
Franchise royalty revenue	3,715	3,480	7,023	6,802
Franchise fees and other income	107	171	161	175
Total revenues	\$ 45,982	\$ 42,706	\$ 89,063	\$ 83,125
COSTS AND EXPENSES:				
Restaurant food and paper costs	13,271	11,924	25,712	23,171
Restaurant labor costs	12,500	11,904	24,548	23,691
Restaurant occupancy expenses	2,851	2,850	5,837	5,458
Restaurant depreciation and amortization	1,303	1,315	2,591	2,607
Other restaurant operating expenses	5,074	5,733	9,774	10,422
General and administrative expenses	3,655	2,818	6,844	5,807
Advertising	2,500	2,197	5,001	4,323
Bad debt expense	53	100	216	200
Non-cash compensation	23	23	46	46
Other depreciation and amortization	194	155	376	307
Impairment of long lived assets	65	492	65	492
Restaurant retirement costs	18	42	32	417
Gain on sale of assets	(87)	(26)	(263)	(103)
Total costs and expenses	41,420	39,527	80,779	76,838
Operating income	4,562	3,179	8,284	6,287
OTHER INCOME (EXPENSE):				
Interest income	274	318	535	715
Interest expense	(644)	(830)	(1,339)	(1,644)
Income before minority interests, income tax expense and cumulative effect of a change in accounting principle	4,192	2,667	7,480	5,358
Minority interests in operations of joint ventures	(19)	(2)	(37)	(29)
	4,173	2,665	7,443	5,329

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Income before income tax expense and cumulative effect of a change in accounting principle				
Income tax expense	66		66	
Income before cumulative effect of a change in accounting principle	4,107	2,665	7,377	5,329
Cumulative effect of a change in accounting principle net of income tax effect			(51)	
Net income	\$ 4,107	\$ 2,665	\$ 7,326	\$ 5,329
Comprehensive income	\$ 4,107	\$ 2,665	\$ 7,326	\$ 5,329
Basic net earnings per share	\$ 0.34	\$ 0.22	\$ 0.60	\$ 0.47
Diluted net earnings per share	\$ 0.32	\$ 0.19	\$ 0.57	\$ 0.40
Weighted average number of common shares outstanding:				
Basic	12,000	11,892	12,136	11,426
Diluted	12,790	13,699	12,895	13,277

See accompanying notes to consolidated financial statements.

Table of Contents

CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(UNAUDITED)

	Two Quarters Ended	
	June 16, 2003	June 17, 2002
Cash flows from operating activities:		
Net income	\$ 7,326	\$ 5,329
Adjustments to reconcile net earnings to cash provided by operating activities:		
Cumulative effect of a change in accounting principle	51	
Depreciation and amortization	2,967	2,914
Amortization of deferred loan costs	102	99
Impairment of long-lived assets	65	492
Provisions for bad debt	216	200
Non-cash compensation	46	46
Gain on sale of assets	(263)	(103)
Minority interest in operations of joint ventures	37	29
Change in assets and liabilities:		
Decrease in receivables	445	694
(Increase), decrease in inventory	(158)	152
Decrease in prepaid expenses and other current assets	723	1,108
(Increase), decrease in other assets	(28)	111
Decrease in accounts payable	(2,269)	(583)
Decrease in accrued liabilities	(1,573)	(851)
Net cash provided by operating activities	<u>7,687</u>	<u>9,637</u>
Cash flows from investing activities:		
Capital expenditures	(5,045)	(3,260)
Acquisitions of restaurants, net of cash acquired		(109)
Proceeds from sale of property and equipment	503	1,359
Net cash used in investing activities	<u>(4,542)</u>	<u>(2,010)</u>
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(1,527)	(4,822)
Increase in restricted cash	(354)	(336)
Proceeds from exercise of stock options and warrants	55	2,484
Proceeds from issuance of long-term debt and capital lease obligations		566
Repayment of note receivable - officer	67	33
Distributions to minority interests	(17)	(20)
Purchase of treasury stock	(3,921)	(209)

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Net cash used in financing activities	(5,697)	(2,304)
Net (decrease), increase in cash	(2,552)	5,323
Cash at beginning of period	14,323	7,159
Cash at end of period	\$ 11,771	\$ 12,482
Supplemental disclosures of cash flow information		
Interest paid	\$ 1,411	\$ 1,664
Issuance of treasury stock	\$ 115	\$ 110
Issuance of capital lease obligation for equipment	\$ 203	\$

See accompanying notes to the consolidated financial statements.

Table of Contents

CHECKERS DRIVE-IN RESTAURANTS, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1: Summary of Significant Accounting Policies

(a) Basis of Presentation The accompanying unaudited consolidated financial statements include the accounts of Checkers Drive-In Restaurants, Inc., its wholly-owned subsidiaries, its joint ventures, as well as four of its advertising cooperatives collectively referred to as the Company. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included.

The accounts of our joint ventures and four advertising cooperatives have been included with those of the Company in these unaudited consolidated financial statements. Intercompany balances and transactions have been eliminated in consolidation and minority interests have been established for outside partners' interests. The Company reports on a fiscal year which will end on the Monday closest to December 31st. Each quarter consists of three 4-week periods, with the exception of the fourth quarter which consists of four 4-week periods.

The operating results for the first two quarters ended June 16, 2003, are not necessarily an indication of the results that may be expected for the fiscal year ending December 29, 2003. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 30, 2002. Therefore, the accompanying consolidated financial statements should be read in conjunction with the Company's December 30, 2002 consolidated financial statements.

(b) Purpose and Organization Our principal business is the operation and franchising of Checkers® and Rally's Hamburgers® (Rally's) restaurants. At June 16, 2003, there were 379 Rally's restaurants operating in 17 different states and there were 402 Checkers restaurants operating in 21 different states and the District of Columbia. Of the 781 total restaurants, 242 are owned by us and 539 are owned by franchisees. Two of the Company-owned restaurants are owned by joint venture partnerships in which we have a 51% and 75% ownership interest.

Our restaurants offer high quality food, serving primarily the drive-thru and take-out segments of the quick-service restaurant industry. Checkers commenced operations in April 1986 and began offering franchises in January 1987. Rally's opened its first restaurant in January 1985 and began offering franchises in November 1986.

(c) Pro forma Diluted Earnings per Share If the compensation cost for all option grants to employees and directors had been determined consistent with SFAS No. 123, as amended by SFAS No. 148, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

(Dollars in thousands, except per share amounts)

	Quarter Ended		Two Quarters Ended	
	June 16, 2003	June 17, 2002	June 16, 2003	June 17, 2002
Net income, as reported	\$ 4,107	\$ 2,665	\$ 7,326	\$ 5,329
Add/deduct: Additional stock-based compensation expense/benefit determined under fair value based method for all awards, net of related tax effects	\$ 555	\$ (417)	\$ 65	\$ (1,780)
Pro forma net income	\$ 4,662	\$ 2,248	\$ 7,391	\$ 3,549
Earnings per share:				
Basic as reported	0.34	0.22	0.60	0.47
Basic pro forma	0.39	0.19	0.61	0.31
Diluted as reported	0.32	0.19	0.57	0.40
Diluted pro forma	0.36	0.16	0.57	0.27

Table of Contents

For purposes of the pro forma disclosures assuming the use of the fair value method of accounting, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Assumptions	June 16, 2003		June 17, 2002	
Risk-free interest rates	1.25%	6.53%	1.75%	6.53%
Volatility	84%	108%	92%	108%
Expected lives (months)	48		48	

The Company accrues compensation costs as if all instruments granted are expected to vest. The effect of actual forfeitures is recognized as they occur. An expected dividend yield of zero percent was used for all periods based on the Company's history of no dividend payments.

(d) Use of Estimates The preparation of the financial statements in conformity with generally accepted accounting principles 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 date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(e) Reclassifications Certain amounts in the 2002 financial statements have been reclassified to conform to the current quarter 2003 presentation.

Note 2: Liquidity and Capital Resources

The restaurant industry, in general, operates with a working capital deficit because most of our investments are in long-term restaurant operating assets. We do not normally require large amounts of working capital to maintain operations since sales are for cash, purchases are on open accounts and meat and produce inventories are limited to a three-to-five day supply to assure freshness. We do not have significant levels of accounts receivable or inventory, and receive credit from our trade suppliers. Funds available from cash sales not needed immediately to pay our trade suppliers are used for non-current capital expenditures.

We had a working capital surplus of \$5.1 million at June 16, 2003 as compared to a \$5.3 million surplus at December 30, 2002. The change to liquidity was primarily due to operating profits of \$7.3 million net of capital additions of \$5.0 million and purchase of treasury shares for \$3.9 million.

The Company is subject to certain restrictive financial and non-financial covenants under certain of its debt agreements, including EBITDA and a Fixed Charge Coverage ratio. We were in compliance with all of the covenants as of June 16, 2003.

Note 3: Leases Receivable

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

As a result of the sale of Company-owned restaurants in 1999 and 2000, we have recorded capital leases receivable for those restaurants sold which are subject to capital lease and mortgage obligations. The amount of capital leases receivable as of June 16, 2003 was approximately \$6.1 million. As of June 16, 2003, we have deferred gains of \$4.1 million from these sales since we continue to be responsible for the payment of these obligations to the original lessors and mortgagors. The gains are being recognized over the life of the related capital leases. The deferred gains related to these sales are included in the consolidated balance sheet under the captions accrued liabilities-current and deferred revenue for \$0.5 million and \$3.6 million, respectively.

We have subleased the property associated with the sale of Company-owned restaurants under operating leases. The revenue from these subleases is offset against rent expense, as we continue to be responsible for the rent payments to the original lessors. Sublease rental income totaled \$3.5 million and \$3.7 million for the two quarters ended June 16, 2003 and June 17, 2002, respectively.

Note 4: Line of Credit

The Company has two separate loan facilities that permit the Company to borrow up to \$15 million in the aggregate. The credit facility with Merrill Lynch is available through October 1, 2003 with an interest rate equal to the 5-year swap rate plus 4.4%. Each amount borrowed requires repayment in sixty installments of principal and interest. As security for borrowings, the Company will provide new restaurant equipment and new modular buildings as collateral. The credit facility with CNL Franchise Network, LP (CNL) is available through December 31, 2003. The agreement commits CNL to enter into sales-leaseback transactions for properties to be developed and operated by the Company as Checkers or Rally's restaurants. The lease agreements will have a primary term of 20 years with two successive ten-year renewal options. There were no borrowings or sales-leaseback transactions under these loan facilities as of June 16, 2003.

Table of Contents**Note 5: Long-term debt and Obligations under Capital Leases**

Long-term debt and obligations under capital leases consist of the following:

(Dollars in thousands)

	June 16, 2003	December 30, 2002
	<u> </u>	<u> </u>
Note payable (Loan A) to Textron Financial Corporation payable in 120 monthly installments, maturing July 1, 2010, including interest at LIBOR plus 3.7% (5.02% at June 16, 2003) secured by property and equipment.	\$ 9,345	\$ 9,881
Mortgages payable to GE Capital Franchise Finance Corporation secured by thirty-three Company-owned restaurants, payable in 240 aggregate monthly installments of \$133, maturing January 1, 2019, including interest at 9.5%.	12,941	13,119
Obligations under capital leases, maturing at various dates through December 1, 2019, secured by property and equipment, bearing interest ranging from 7.0% to 10%. The leases are payable in monthly principal and interest installments averaging \$88.	3,218	3,270
Obligations under capital leases, maturing at various dates through January 1, 2016, secured by property and equipment, bearing interest ranging from 10.3% to 16.4%. The leases are payable in monthly principal and interest installments averaging \$108.	3,748	4,105
Notes payable to former Rally's franchise owners for acquisition of markets, secured by the related assets acquired, with maturities through May 1, 2004, bearing interest at 7.5% and 7.75%. The notes are payable in monthly principal and interest installments of \$8 and \$15.	163	281
Other notes payable, maturing at various dates through September 17, 2004, secured by property and equipment, bearing interest at 7.70%. The notes are payable in monthly principal and interest installments of \$18.	230	328
	<u> </u>	<u> </u>
Total long-term debt and obligations under capital leases	29,645	30,984
Less current installments	(3,299)	(3,243)
	<u> </u>	<u> </u>
Long-term debt, less current maturities	\$ 26,346	\$ 27,741
	<u> </u>	<u> </u>

Although we continue to be obligated, approximately \$6.1 million of the mortgage and capital lease obligations noted above pass directly through to franchisees as a result of Company-owned restaurant sales (See Note 3).

Note 6: Accounting Charges and Loss Provisions

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

At the end of fiscal 2002, we had reserves of \$7.7 million relating to restaurant relocations and abandoned sites. These reserves represent management's estimate of future lease obligations and are reviewed and adjusted periodically, as more information becomes available related to our ability to sublease or assign the lease and other negotiations with the landlord. Through the second quarter ended June 16, 2003, the Company made lease and other payments of \$0.8 million against this reserve.

We account for long-lived assets under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The Company regularly completes an evaluation of long-lived assets during the year, based on our review, an impairment charge of \$65 thousand was recorded during the quarter ended June 16, 2003.

Table of Contents

Note 7: Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the Company to recognize income tax benefits and liabilities for loss carryforwards and other income tax assets and liabilities. The tax benefits must be reduced by a valuation allowance in certain circumstances. Realization of the deferred tax benefits is dependant on generating sufficient taxable income prior to expiration of any net operating loss carryforwards (NOL s). The deferred tax assets are reviewed periodically for recoverability, and valuation allowances are adjusted as necessary.

As a result of the Merger in 1999, both companies experienced an ownership change as defined by Internal Revenue Code Section 382. Pursuant to IRC Section 382, the surviving entity or post-merger Checkers is significantly limited in utilizing the net operating loss carryforwards that were generated before the Merger to offset taxable income arising after the ownership change. As of August 9, 1999, Rally s and Checkers had Federal net operating loss carryforwards of approximately \$52.7 million and \$67.0 million, respectively for a combined total of \$119.7 million. Federal taxable income of \$1.7 million and \$0.8 million for 2001 and 2002, respectively, has reduced the remaining carryforward to \$117.2 million. We believe that the limitations imposed by IRC Section 382 could restrict the prospective utilization of the remaining pre-merger federal net operating loss carryforward to approximately \$49.6 million over the carryforwards life of the net operating losses. The remaining pre-merger federal net operating loss carryforward of \$67.6 million could expire before becoming available under these limitations. The \$49.6 million federal net operating loss carryforwards are subject to limitation in any given year and will expire in 2018. The Company has approximately \$10.4 million of post-merger federal net operating loss carryforward available through 2020, and approximately \$1.8 million of federal alternative minimum tax credit carryforwards available indefinitely. In addition to the federal NOL s available, the Company has similar NOL s available in many of the states that it currently operates in. These NOL s are subject to similar IRC Section 382 limitations in many of those states.

A valuation allowance has been provided for 100 percent of the net deferred tax assets since it cannot be determined that it is more likely than not that the deferred tax assets will be realized. When realization of the deferred tax assets are deemed more likely than not to occur, the benefit related to the deductible temporary differences will be recognized as a reduction of income tax expense and an adjustment to the carrying value of goodwill. Should 100% of the valuation allowance be realized, the adjustment to goodwill would be approximately \$18 million.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Checkers Drive-In Restaurants, Inc. (Checkers), a Delaware corporation, its wholly-owned subsidiaries, and its joint ventures (collectively, the Company) is the largest chain of double drive-thru restaurants in the United States. Our Company is a combination of two separate quick-service restaurant chains, Checkers® and Rally s Hamburgers® (Rally s), which were merged in August 1999. Although Checkers was the surviving entity for purposes of corporate law, Rally s was considered the surviving entity for accounting purposes since the shareholders of Rally s owned a majority of our outstanding stock immediately following the merger. At June 16, 2003, there were 379 Rally s restaurants operating in 17 different states and 402 Checkers restaurants operating in 21 different states and the District of Columbia. Of the 781 total restaurants, 242 are owned by us and 539 are owned by franchisees. Two of our restaurants are owned by joint venture partnerships in which we have a 51% and 75% ownership interest. Our restaurants offer high quality food, serving primarily the drive-thru and take-out segments of the quick-service restaurant industry. Checkers commenced operations in April 1986 and began offering franchises in January 1987. Rally s opened its first restaurant in January 1985 and began offering franchises in November 1986.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

We receive revenues from restaurant sales, franchise fees, royalties, and merchandise sales. Restaurant food and paper costs, labor costs, occupancy expense, other operating expenses, depreciation and amortization, and advertising relate directly to Company-owned restaurants. Other expenses, such as depreciation and amortization, and general and administrative expenses, relate to Company-owned restaurant operations and the Company's franchise sales and support functions. Our revenues and expenses are affected by the number and timing of additional restaurant openings, closings, market sales and the sales volumes of both existing and new restaurants.

Table of Contents**Special Note Regarding Forward-Looking Statements**

Certain statements in this Form 10-Q under Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Part II, Item 1. Legal Proceedings and elsewhere in this Form 10-Q constitute forward-looking statements which we believe are within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. Also, when we use words such as believes, expects, anticipates or similar expressions, we are making forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Some of the risks that should be considered include:

(i) The fact that we compete with numerous well established competitors who have substantially greater financial resources and longer operating histories than us, which enables them to engage in heavy and sustained discounting as well as substantial advertising and promotion. While this competition is already intense, if it increases, it could have an even greater adverse impact on revenues and profitability of company and franchise restaurants.

(ii) The fact that we anticipate the need to continue the improvement in same restaurant sales if we are to achieve improved profitability. Sales increases will depend, among other things, on the success of our advertising and promotion efforts and the success of other operating and training initiatives, all of which are speculative.

We may also be negatively impacted by other factors common to the restaurant industry such as changes in consumer tastes away from red meat and fried foods; consumer acceptance of new products; consumer frequency; increases in the costs of food; paper, labor, health care, workers compensation or energy; an inadequate number of available hourly paid employees; and/or decreases in the availability of affordable capital resources; development and operating costs. Other factors which may negatively impact the Company include, among others, adverse publicity; general economic and business conditions; availability, locations, and terms of sites for restaurant development; changes in business strategy or development plans; quality of management; availability, terms and deployment of capital; the results of financing efforts; business abilities and judgment of personnel; availability of qualified personnel; changes in, or failure to comply with, government regulations; weather conditions; construction schedules, uninterrupted product supply, results of existing and future litigation and other risk factors referenced in this Form 10-Q and in our annual report on Form 10-K for the year ended December 30, 2002.

RESTAURANTS OPERATING IN THE SYSTEM FOR THE QUARTERS ENDED

	<u>Sept. 10,</u> <u>2001</u>	<u>Dec. 31,</u> <u>2001</u>	<u>March 25,</u> <u>2002</u>	<u>June 17,</u> <u>2002</u>	<u>Sept. 9,</u> <u>2002</u>	<u>Dec. 30,</u> <u>2002</u>	<u>March 24,</u> <u>2003</u>	<u>June 16,</u> <u>2003</u>
Company-operated:								
Beginning of quarter	207	236	235	255	253	248	248	242
Openings/transfers in	29	1	23	2				
Closings/transfers out		(2)	(3)	(4)	(5)		(6)	
End of quarter	236	235	255	253	248	248	242	242
Franchise:								
Beginning of quarter	640	606	586	540	541	541	536	536

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Openings/transfers in	1	5		3	7	3	2	4
Closings/transfers out	(35)	(25)	(46)	(2)	(7)	(8)	(2)	(1)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
End of quarter	606	586	540	541	541	536	536	539
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	842	821	795	794	789	784	778	781
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**RESULTS OF OPERATIONS**

The table below sets forth the percentage relationship to total revenues, unless otherwise indicated, of items included in the Company's consolidated statements of income for the periods indicated:

	Quarter Ended		Two Quarters Ended	
	June 16, 2003	June 17, 2002	June 16, 2003	June 17, 2002
REVENUES:				
Restaurant sales	91.7%	91.5%	91.9%	91.6%
Franchise royalty revenue	8.1%	8.1%	7.9%	8.2%
Franchise fees and other income	0.2%	0.4%	0.2%	0.2%
Total revenues	100.0%	100.0%	100.0%	100.0%
COSTS AND EXPENSES:				
Restaurant food and paper costs (1)	31.5%	30.5%	31.4%	30.4%
Restaurant labor costs (1)	29.6%	30.5%	30.0%	31.1%
Restaurant occupancy expenses (1)	6.8%	7.3%	7.1%	7.2%
Restaurant depreciation and amortization (1)	3.1%	3.4%	3.2%	3.4%
Other restaurant operating expenses (1)	12.0%	14.7%	11.9%	13.7%
General and administrative expenses	7.9%	6.6%	7.7%	7.0%
Advertising (1)	5.9%	5.6%	6.1%	5.7%
Bad debt expense	0.1%	0.2%	0.2%	0.2%
Non-cash compensation	0.1%	0.1%	0.1%	0.1%
Other depreciation and amortization	0.4%	0.4%	0.4%	0.4%
Impairment of long lived assets	0.1%	1.2%	0.1%	0.6%
Restaurant retirement costs	0.0%	0.1%	0.0%	0.5%
Gain on sale of assets	(0.2%)	(0.1%)	(0.3%)	(0.1%)
Total costs & expenses	90.1%	92.6%	90.7%	92.4%
Operating income	9.9%	7.4%	9.3%	7.6%
OTHER INCOME (EXPENSE):				
Interest income	0.6%	0.7%	0.6%	0.8%
Interest expense	(1.4%)	(1.9%)	(1.5%)	(2.0%)
Income before minority interests, income tax expense and cumulative effect of a change in accounting principle	9.1%	6.2%	8.4%	6.4%
Minority interests in operations of joint ventures	0.0%	0.0%	0.0%	0.0%
Income before income tax expense	9.1%	6.2%	8.4%	6.4%
Income tax expense	(0.2%)	0.0%	(0.1%)	0.0%
Income before cumulative effect of a change in accounting principle	8.9%	6.2%	8.3%	6.4%
Cumulative effect of change in accounting principle net of income tax effect	0.0%	0.0%	(0.1%)	0.0%

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Net income	8.9%	6.2%	8.2%	6.4%
------------	------	------	------	------

(1) As a percentage of restaurant sales

Table of Contents

Comparison of Historical Results Quarter Ended June 16, 2003 and Quarter Ended June 17, 2002

Revenues. Total revenues were \$46.0 million for the quarter ended June 16, 2003, compared to \$42.7 million for the quarter ended June 17, 2002. Company-owned restaurant sales increased by \$3.1 million for the quarter ended June 16, 2003, to \$42.2 million, as compared to \$39.1 million for the quarter ended June 17, 2002 due primarily to the increase in sales at comparable restaurants of 11.9% for the quarter ended June 16, 2003.

Franchise royalty revenue increased to \$3.7 million for the quarter ended June 16, 2003, compared to \$3.5 million for the quarter ended June 17, 2002, due to franchisee comparable restaurant sales growth of 4.0%. There were 541 locations at the end of the second quarter in 2002 as compared to 539 at the end of the second quarter of 2003.

Franchise fees and other income was \$107,000 for the second quarter of 2003, as compared to \$171,000 for the second quarter of 2002. Four franchise locations were opened during the quarter ended June 16, 2003.

Costs and expenses. Restaurant food and paper costs totaled \$13.3 million or 31.5% of restaurant sales for the quarter ended June 16, 2003, compared to \$11.9 million or 30.5% of restaurant sales for the quarter ended June 17, 2002. The increase in food and paper costs as a percentage of restaurant sales was due primarily to higher beef prices compared to the same quarter one year ago. Additionally, promotional campaigns run in the current year had higher food costs than those run in the prior year.

Restaurant labor costs, which include restaurant employees' salaries, wages, benefits and related taxes, totaled \$12.5 million or 29.6% of restaurant sales for the quarter ended June 16, 2003, compared to \$11.9 million or 30.5% of restaurant sales for the quarter ended June 17, 2002. Restaurant labor costs decreased as a percentage of restaurant sales due to the increase in comparable restaurant sales, as well as labor efficiencies and operational changes put in place by management. Service times and throughput have improved by effectively utilizing the same labor force.

Restaurant occupancy expense, which includes rent, property taxes, licenses and insurance, totaled \$2.9 million or 6.8% of restaurant sales for the quarter ended June 16, 2003 likewise, this category totaled \$2.9 million or 7.3% of restaurant sales for the quarter ended June 17, 2002. The expense remained the same given the relatively fixed nature of this category, yet the decrease as a percentage of restaurant sales was due to the increase in comparable restaurant sales.

Restaurant depreciation and amortization remained constant at \$1.3 million for both quarters ended June 16, 2003 and June 17, 2002. This expense represented 3.1% of restaurant sales for the quarter ended June 16, 2003, and 3.4% of restaurant sales for the quarter ended June 17, 2002. Depreciation was constant despite capital additions since June 17, 2002, as the Company recorded significant fixed asset impairment charges in 2002 based on the application of SFAS No. 144, which reduced the assets' depreciable bases.

Other restaurant operating expenses includes all other restaurant level operating expenses, and specifically includes utilities, maintenance and other costs. These expenses totaled \$5.1 million for the second quarter of 2003 compared to \$5.7 million in the same quarter of 2002. As a percentage of restaurant sales, this expense was 12.0% for the quarter ended June 16, 2003 compared to 14.7% for the quarter ended June 17, 2002. Utilities, the largest component of this category, decreased to 4.7% as a percentage of restaurant sales as of June 16, 2003 compared to 5.1% for the quarter ended June 17, 2002. Repairs and maintenance decreased to 3.3% as a percentage of sales for the quarter ended June 16,

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

2003 as compared to 4.8% for the same quarter of the prior year. Other costs also decreased to 4.0% of restaurant sales compared to 4.8% for the same quarter of the prior year. The decrease in the percentage of restaurant sales was due to decreased repairs and maintenance costs and to the comparable restaurant sales increase during the current quarter relative to the same quarter last year.

General and administrative expenses were \$3.7 million, or 7.9% of total revenues for the quarter ended June 16, 2003 compared to \$2.8 million, or 6.6% of total revenues for the quarter ended June 17, 2002. Costs were higher for the quarter ended June 16, 2003 as compared to the quarter ended June 17, 2002 due to increased professional fees for income tax related matters, legal costs to protect the Company's trademarks and rights, and to assure compliance with the Sarbanes-Oxley Act of 2002 in the current year.

Advertising expense increased to \$2.5 million, or 5.9% of restaurant sales for the quarter ended June 16, 2003 from \$2.2 million, or 5.6% of restaurant sales for the quarter ended June 17, 2002. The increase in advertising was due to the increased spending on media for the motor sports initiative which began in the second quarter of the current year, while the decrease of the expense as a percentage of sales was due to increased comparable restaurant sales.

Bad debt expense decreased to \$53,000, or 0.1% of total revenues for the quarter ended June 16, 2003 compared to \$100,000, or 0.2% of total revenues for the quarter ended June 17, 2002. The decrease was due to improved collections experienced during the past several quarters.

Table of Contents

Non-cash compensation resulted from certain options granted and modified in fiscal 2000. Non-cash compensation recognized for the quarter ended June 16, 2003 and for the quarter ended June 17, 2002 was \$23,000 for those options granted with a vesting period through June 2003.

Other depreciation and amortization increased to \$194,000 compared to \$155,000. The majority of the increase was due to enhanced technology and other capital additions relating to corporate infrastructure added in the last half of 2002 and the first two quarters of 2003.

Restaurant retirement costs decreased to \$18,000 for the quarter ended June 16, 2003 compared to \$42,000 for the quarter ended June 17, 2002. These expenses relate to the estimated future costs related to surplus properties. In the fourth quarter of 2002, the lease reserve was increased for all remaining surplus sites to 100% of all future lease obligations because the current economy and the lack of current alternative investment opportunities hindered the Company's ability to negotiate out of these sites on reasonable terms. Notwithstanding, management continues to attempt to negotiate out of these leases. The expense in the current year is attributable to removal of signage at surplus sites as well as accretion due to adoption of SFAS No. 143 Accounting for Asset Retirement Obligations .

Gain on sale of assets increased to \$87,000 for the quarter ended June 16, 2003 from \$26,000 for the quarter ended June 17, 2002. The increase in the gain for the current year is due to the sale of one modular building.

Interest expense. Interest expense decreased to \$0.6 million, or 1.4% of total revenues for the quarter ended June 16, 2003 from \$0.8 million, or 1.9% of total revenues for the quarter ended June 17, 2002. This decrease in interest expense was due to the decrease in debt by \$1.9 million since June 17, 2002.

Income tax expense. The Company recorded \$66,000 in income tax expense for the second quarter of 2003 for estimated state income taxes. It is estimated that available federal net operating losses will reduce taxable income to zero based upon operations during the first two quarters of the year. Management will continue to review future realization of deferred tax assets. When realization of the deferred tax assets are deemed more likely than not to occur, the benefit related to the deductible temporary differences will be recognized as a reduction of income tax expense and an adjustment to the carrying value of goodwill.

Comparison of Historical Results Two Quarters Ended June 16, 2003 and Two Quarters Ended June 16, 2003

Revenues. Total revenues were \$89.1 million for the two quarters ended June 16, 2003, compared to \$83.1 million for the two quarters ended June 17, 2002. Company-owned restaurant sales increased by \$5.8 million for the two quarters ended June 16, 2003, to \$81.9 million, as compared to \$76.1 million for the two quarters ended June 17, 2002, due primarily to an increase in comparable restaurant sales of 9.2% for the two quarters ended June 16, 2003 as compared with the two quarters ended June 17, 2002.

Franchise royalties revenue increased by \$0.2 million, to \$7.0 million for the two quarters ended June 16, 2003, while franchise fees and other income remained relatively constant at \$0.2 million. Comparable restaurant sales at franchise locations increased 1.6% through June 16, 2003, as compared to sales through June 17, 2002.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Costs and expenses. Restaurant food and paper costs totaled \$25.7 million or 31.4% of restaurant sales for the two quarters ended June 16, 2003, compared to \$23.2 million or 30.4% of restaurant sales for the two quarters ended June 17, 2002. The increase in food and paper costs as a percentage of restaurant sales is due to increased beef costs for the first half of 2003 relative to the same period of 2002. In addition, gross margin for the promotional campaigns run in the current year were less favorable to the Company compared to the promotions that ran through the second quarter of 2002.

Restaurant labor costs, which include restaurant employees' salaries, wages, benefits and related taxes, totaled \$24.5 million or 30.0% of restaurant sales for the two quarters ended June 16, 2003, compared to \$23.7 million or 31.1% of restaurant sales. Restaurant labor costs decreased as a percentage of restaurant sales due to the increase in comparable restaurant sales, as well as labor efficiencies and operational changes put in place by management. Service times and throughput have improved by effectively utilizing the same labor force.

Restaurant occupancy expense, which includes rent, property taxes, licenses and insurance, totaled \$5.8 million or 7.1% of restaurant sales for the two quarters ended June 16, 2003 compared to \$5.5 million or 7.2% of restaurant sales for the two quarters ended June 17, 2002. While occupancy expense increased due to the reduction in sublease rental income and increase in property tax expense in the current year, it decreased as a percentage of restaurant sales, due to an increase in comparable restaurant sales.

Table of Contents

Restaurant depreciation and amortization totaled \$2.6 million or 3.2% of restaurant sales for the two quarters ended June 16, 2003, compared to \$2.6 million or 3.4% for the two quarters ended June 17, 2002. Depreciation was constant despite capital additions since June 17, 2002, as the Company recorded significant fixed asset impairment charges in 2002 based on the application of SFAS No. 144, which reduced the assets depreciable bases.

Other restaurant expense includes all other restaurant level operating expenses, and specifically includes utilities, maintenance and other costs. These expenses totaled \$9.8 million, or 11.9% of restaurant sales for the two quarters ended June 16, 2003 compared to \$10.4 million, or 13.7% of restaurant sales for the two quarters ended June 17, 2002. Utilities, the largest component of this category, decreased to 4.6% as a percentage of restaurant sales through June 16, 2003 compared to 4.8% for the two quarters ended June 17, 2002. Repairs and maintenance decreased to 3.4% as a percentage of sales compared to 4.5% for the same two quarters in 2002. Other costs decreased to 3.9% of restaurant sales compared to 4.4% for the same two quarters of the prior year. Decrease in the category is attributable to the increase in comparable restaurant sales as well as the decrease in repair and maintenance performed to date in the current year.

General and administrative expenses were \$6.8 million, or 7.7% of total revenues for the two quarters ended June 16, 2003 compared to \$5.8 million, or 7.0% of total revenues for the two quarters ended June 17, 2002. Costs were higher for the two quarters ended June 16, 2003 as compared to the two quarters ended June 17, 2002 due to increased professional fees for income tax related matters, legal costs to protect the Company's trademarks and rights, and to assure compliance with the Sarbanes-Oxley Act of 2002 in the current year.

Advertising expense increased to \$5.0 million, or 6.1% of restaurant sales for the two quarters ended June 16, 2003 from \$4.3 million, or 5.7% of restaurant sales for the two quarters ended June 17, 2002. The increase was due to increased spending on television media in previously franchise run markets, increases in contribution rates to several of the advertising cooperative funds, as well as the motor sports initiative which began in the second quarter of the current year.

Bad debt expense remained consistent at \$0.2 million for the first half of 2003 and 2002, respectively.

Non-cash compensation resulted from certain options granted and modified in fiscal 2000. Non-cash compensation recognized for the two quarters ended June 16, 2003 and the two quarters ended June 17, 2002 was \$46,000 for those options granted with a vesting period through June 2003.

Other depreciation and amortization increased by \$69,000 to \$0.4 million. The majority of the increase was due to enhanced technology and other capital additions relating to corporate infrastructure added in the last half of 2002 and the first two quarters of 2003.

Restaurant retirement costs decreased \$385,000 to \$32,000 for the two quarters ended June 16, 2003 compared to \$417,000 for the two quarters ended June 17, 2002. These expenses relate to the estimated future costs related to surplus properties. In the fourth quarter of 2002, the lease reserve was increased for all remaining surplus sites to 100% of all future lease obligations because the current economy and the lack of current alternative investment opportunities hindered the Company's ability to negotiate out of these sites on reasonable terms. Notwithstanding, management continues to attempt to negotiate out of these leases. The expense in the current year is attributable to lease payments for the closing of one Company-owned restaurant, removal of signage at surplus sites, and accretion due to adoption of SFAS No. 143 Accounting for Asset Retirement Obligations .

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Interest expense. Interest expense decreased \$0.3 million to \$1.3 million, or 1.5% of total revenues for the two quarters ended June 16, 2003 from \$1.6 million, or 2.0% of total revenues for the two quarters ended June 17, 2002. This decrease in interest expense is due to the decrease in overall debt, the Company's repayment of debt bearing a 14% interest rate in April 2002, and the decrease in interest rates.

Income tax expense. The Company recorded \$66,000 in income tax expense for the two quarters ended June 16, 2003 for estimated state income taxes. It is estimated that available federal net operating losses will reduce taxable income to zero based upon operations during the first two quarters of the year. Management will continue to review future realization of deferred tax assets. When realization of the deferred tax assets are deemed more likely than not to occur, the benefit related to the deductible temporary differences will be recognized as a reduction of income tax expense and an adjustment to the carrying value of goodwill.

Cumulative effect of a change in accounting principle. We have adopted SFAS No. 143, Accounting for Asset Retirement Obligations, for fiscal 2003, and have recorded the impact of such obligations on our balance sheet and income statement for estimated costs to return the premises to their previous states for those leased premises with such contractual obligations. By adopting this statement, the cumulative effect on the income statement for the two quarters ended June 16, 2003 was \$50,672. This cost represents the amount of expense that would have been recorded through the end of our fiscal year ending December 30, 2002 had SFAS No. 143 been applied since the inception of each of our leases meeting the criteria of

Table of Contents

SFAS No. 143. We will recognize approximately \$2,000 of ongoing expense quarterly due to the adoption of SFAS No. 143, which is reflected in restaurant depreciation and restaurant retirement costs. In the event that additional leases are entered into by the Company that meet the criteria of SFAS No. 143, or conditions change that effect the assumptions used to estimate the retirement obligations, adjustments to the obligations will be recorded and expensed in the period made.

Liquidity and Capital Resources

We had a working capital surplus of \$5.1 million at June 16, 2003 as compared to a \$5.3 million surplus at December 30, 2002. The change to liquidity was primarily due to operating profits of \$7.3 million net of capital additions of \$5.0 million and purchase of treasury shares for \$3.9 million.

The Company is subject to certain restrictive financial and non-financial covenants under certain of its debt agreements, including EBITDA and a Fixed Charge Coverage ratio. We were in compliance with all of the covenants as of June 16, 2003.

Cash and cash equivalents decreased approximately \$2.6 million to \$11.8 million since the fiscal year ended December 30, 2002. Cash flow provided by operating activities is \$7.7 million compared to \$9.6 million for the same period last year. Current year cash flows are attributable to current profits, a decrease in outstanding accounts receivable and prepaid expenses, offset by the significant decrease in accounts payable and accrued liabilities, due to quicker payment on food and paper purchases to take advantage of vendor term discounts offered.

Cash flow used for investing activities was \$4.5 million and related primarily to capital expenditures for restaurant level renovations and technology enhancements company-wide offset by proceeds from the sale of capital assets.

Cash used by financing activities was \$5.7 million. The most significant activity was our stock repurchase program, whereby we purchased 574,241 shares of common stock utilizing \$3.9 million. In addition, we made principal payments of \$1.5 million on our debt and capital lease obligations and increased restricted cash by \$0.4 million. These outlays were offset against receipts of \$0.1 million for the repayment of an officer note and issuance of common stock from the exercise of stock options through June 16, 2003.

Critical Accounting Policies:

Our critical accounting policies are as follows:

Revenue Recognition Franchise fees and area development franchise fees are generated from the sale of rights to develop, own and operate restaurants. Such fees are based on the number of potential restaurants in a specific area which the franchisee agrees to develop pursuant to the terms of the franchise agreement between the Company and the franchisee and are recognized as income on a pro rata basis when substantially all of the Company's obligations per location are satisfied (generally at the opening of the restaurant). Franchise fees are nonrefundable. Franchise fees and area development franchise fees received prior to substantial completion of the Company's obligations are deferred. The Company receives royalty fees from franchisees based on a percentage of each restaurant's gross revenues. Royalty fees are recognized as

earned.

Gains associated with the sale of certain Company-owned restaurants to franchisees with associated mortgages and capital leases are recognized over the life of the related capital leases. During fiscal years 1999 and 2000, several Company-owned restaurants were sold to franchisees with associated mortgages and capital leases. As a result of the sales, we have recorded lease receivables for those restaurants sold which are subject to capital lease and mortgage obligations. The amount of capital lease receivables as of June 16, 2003 was approximately \$6.1 million. We have recorded deferred gains of \$4.1 million from these sales since we continue to be responsible for the payment of the obligations to the original lessors and mortgagors. The deferred gains are included in the balance sheet under the captions accrued liabilities-current and deferred revenues for \$0.5 million and \$3.6 million, respectively and will be recognized over the next 17 years. Additionally, the Company has deferred approximately \$0.4 million of gains in accordance with SFAS No. 66, where notes receivable were accepted as consideration for sales of certain Company-owned restaurants. These notes as well as the associated deferred gains are scheduled to be collected and recognized over the term of the notes, which are due over the next 7 years.

Table of Contents

Valuation of Long-Lived Assets We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

- o significant underperformance relative to expected historical or projected future operating results;

- o offers from current or potential franchisees for restaurants below carrying value;

- o significant underperformance relative to expected historical or projected future operating results; and

- o significant negative industry or economic trends.

Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. In applying SFAS No. 144, we reviewed historical and projected cash flows of all restaurants and performed a discounted cash flow analysis where indicated for each restaurant based upon such results projected over a ten year period. This period of time was selected based upon the lease term and the age of the related buildings, which we believe is appropriate. Impairments or recoveries are recorded to adjust the asset values to the amount recoverable under the discounted cash flow analysis, in accordance with SFAS No. 144. The Company regularly completes an evaluation of long-lived assets during the year, based on our review, an impairment charge of \$65 thousand was recorded during the quarter ended June 16, 2003.

Valuation of Intangible Assets and Goodwill We assess the impairment of intangible assets, including such assets as franchise rights, tradename and enterprise level goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

- o significant underperformance relative to expected historical or projected future operating results;

- o significant negative industry or economic trends;

- o significant decline in our stock price for a sustained period; and

- o our market capitalization relative to net book value.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

In accordance with SFAS No. 142 Goodwill and Other Intangible Assets we have ceased to amortize approximately \$24 million of goodwill and \$17.5 million for the intangible value of our tradename. We performed an impairment review on December 30, 2002. Based upon our review, no impairment was required, and we do not believe circumstances have changed since the review date which would make it necessary to reassess their values subsequent to the balance sheet date. We will perform our annual evaluation at December 29, 2003, unless circumstances call for us to perform an evaluation prior to then.

Allowance for doubtful accounts and accrued liabilities Management must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts and notes receivable and related historical bad debts, franchise concentrations, franchise credit-worthiness, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Current portion of accounts, notes and leases receivable totaled \$7.3 million, or \$2.4 million, net of allowance for doubtful accounts of \$4.9 million as of June 16, 2003.

Management's current estimated range of liability related to some of the pending litigation is based on claims for which we can estimate the amount and range of loss. We have recorded the minimum estimated liability related to those claims, where there is a range of loss. Because of the uncertainties related to both the amount and range of loss on the remaining pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates accordingly. Such revisions in our estimates of the potential liability could materially impact our results of operation and financial position.

Reserves for restaurant relocations and abandoned sites consist of our estimates for the ongoing costs of each location which has been closed or was never developed. Those costs include rent, property taxes, and in some cases, the cost to relocate the modular restaurant to a storage facility. The cash outlays for these costs have been estimated for the remaining terms of the lease obligations, ranging from less than 1 year to 13 years. Although the Company has negotiated out of several of these sites, the current economic outlook and lack of alternative investment opportunities have hindered the Company's ability to successfully negotiate out of the remaining sites. As a result, management believes that cash outlays for these sites will continue through lease maturity, and the reserve reflects this.

Accounting for income taxes The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the Company to recognize income tax benefits and liabilities for loss carryforwards and other income tax assets and liabilities. The tax benefits must be reduced by a valuation allowance in certain circumstances. Realization of the deferred tax benefits is dependant on generating sufficient taxable income prior to expiration of any net operating loss carryforwards (NOL's). The deferred tax assets are reviewed periodically for recoverability, and valuation allowances are provided for as necessary. As of June 16, 2003, the Company has deferred tax assets available to reduce future income taxes. Currently there is a valuation allowance recorded for 100 percent of the net deferred tax assets. A change in the valuation allowance requires that it is more likely than not that a portion of the recorded deferred tax assets will be realized.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and foreign exchange rate fluctuations:

Our exposure to financial market risks relates to the impact that interest rate changes could have on our debt. An increase in short-term and long-term interest rates would result in a reduction of pre-tax earnings. Substantially all of our business is transacted in U.S. dollars. Accordingly, foreign exchange rate fluctuations do not have a significant impact on the Company and are not expected to in the foreseeable future.

Commodity Price Risk:

We purchase certain products which are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions and other factors which are not considered predictable or within our control. Although many of the products purchased are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements contain risk management techniques designed to minimize price volatility. Typically, we use these types of purchasing techniques to control costs as an alternative to directly managing financial instruments to hedge commodity prices. In many cases, we believe it will be able to address commodity cost increases, which are significant and appear to be long-term in nature by adjusting our menu pricing or changing our product delivery strategy. However, increases in commodity prices could result in lower restaurant-level operating margins.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 15d-14(c). Based upon that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in enabling the Company to record, process, summarize and report information required to be included in the Company's periodic SEC filings within the required time period. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Jonathan Mittman et al. v. Rally's Hamburgers, Inc., et al. In January and February 1994, two putative class action lawsuits were filed, purportedly on behalf of the stockholders of Rally's, in the United States District Court for the Western District of Kentucky, Louisville division, against Rally's, Burt Sugarman and GIANT Group, Ltd. and certain of Rally's former officers and directors and its auditors. The cases were subsequently consolidated under the case name Jonathan Mittman et. al. vs. Rally's Hamburgers, Inc., et. al. The complaints allege that the

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

defendants violated the Securities Exchange Act of 1934, among other claims, by issuing inaccurate public statements about Rally s in order to arbitrarily inflate the price of its common stock. The plaintiffs seek compensatory and other damages, and costs and expenses associated with the litigation. On April 15, 1994, Rally s filed a motion to dismiss and a motion to strike. On April 5, 1995, the Court struck certain provisions of the complaint but otherwise denied Rally s motion to dismiss. In addition, the Court denied plaintiffs motion for class certification; the plaintiffs renewed this motion, and despite opposition by the defendants, the Court granted such motion for class certification on April 16, 1996, certifying a class from July 20, 1992 to September 29, 1993. Motions for Summary Judgment were filed by the parties in September 2000, and rulings by the Court are pending. The defendants deny all wrongdoing and intend to defend themselves vigorously in this matter. Management is unable to predict the outcome of this matter at the present time or whether or not certain available insurance coverages will apply; however, if the Company is found to be liable, such a result may have a material adverse impact on the Company s financial condition and results of operations.

Greenfelder et al. v. White, Jr., et al. On August 10, 1995, a state court complaint was filed in the Circuit Court of the Sixth Judicial Circuit in and for Pinellas County, Florida, Civil Division, entitled *Gail P. Greenfelder and Powers Burgers, Inc. v. James F. White, Jr., Checkers Drive-In Restaurants, Inc., Herbert G. Brown, James E. Mattei, Jared D. Brown, Robert G. Brown and George W. Cook*, Case No. 95-4644-CI-21. A companion complaint was also filed in the same Court on May 21, 1997, entitled *Gail P. Greenfelder, Powers Burgers of Avon Park, Inc., and Power Burgers of Sebring, Inc. v. James F. White, Jr., Checkers Drive-In Restaurants, Inc., Herbert G. Brown, James E. Mattei, Jared D. Brown, Robert G. Brown and George W. Cook*, Case No. 97-3565-CI-21.

Table of Contents

The original complaint alleged, generally, that certain officers of the Company intentionally inflicted severe emotional distress upon Ms. Greenfelder, who is the sole stockholder, president and director of Powers Burgers, Inc., a Checkers franchisee. The present versions of the Amended Complaints in the two actions assert a number of claims for relief, including claims for breach of contract, fraudulent inducement to contract, post-contract fraud, breaches of implied duties of good faith and fair dealings in connection with various franchise agreements and an area development agreement, battery, defamation, negligent retention of employees, and violation of Florida's Franchise Act. The Company has asserted counterclaims in the two actions for unpaid royalty and national advertising fund contributions and for declaratory judgments terminating the plaintiffs' franchise agreements with the Company.

The Company had previously entered into a tentative agreement to resolve the above-referenced litigation that was subject to the negotiation of a satisfactory formal written agreement. The parties, however, were unable to negotiate the terms of a satisfactory settlement agreement and the Company intends to proceed to vigorously defend the claims made in the Amended Complaints and prosecute its counterclaims. No trial date has been scheduled for the matter as of July 24, 2003.

Checkers Drive-In Restaurants, Inc. v. Tampa Checkmate Food Services, Inc., et al. On August 10, 1995, a state court counterclaim and third party complaint was filed in the Circuit Court of the Thirteenth Judicial Circuit in and for Hillsborough County, Florida, Civil Division, entitled Tampa Checkmate Food Services, Inc., Checkmate Food Services, Inc. and Robert H. Gagne v. Checkers Drive-In Restaurants, Inc., Herbert G. Brown, James E. Mattei, James F. White, Jr., Jared D. Brown, Robert G. Brown and George W. Cook.

A Complaint was originally filed by the Company in July of 1995 against Mr. Gagne (Gagne) and Tampa Checkmate Food Services, Inc. (Tampa Checkmate), a company controlled by Mr. Gagne, to collect on a promissory note in the original principal amount of \$1,007,295 (the promissory note) and foreclose on a mortgage securing the promissory note issued by Tampa Checkmate, enforce the terms of a personal guaranty executed by Mr. Gagne, and obtain declaratory relief regarding the rights of the respective parties under Tampa Checkmate's franchise agreement with the Company. The counterclaim and third party complaint, as amended, generally alleged that Mr. Gagne, Tampa Checkmate and Checkmate Food Services, Inc. (Checkmate) were induced into entering into various franchise agreements with personal guarantees to the Company based upon misrepresentations by the Company and the named individuals and alleged violations of Florida's Franchise Act, Florida's Deceptive and Unfair Trade Practices Act, and breaches of implied duties of good faith and fair dealings in connection with a settlement agreement and franchise agreement between various of the parties.

The action was tried before a jury in August of 1999. The Company's action against Tampa Checkmate to collect the promissory note was stayed by virtue of Tampa Checkmate's bankruptcy filing (see discussion below). The Court entered a directed verdict and an involuntary dismissal as to all claims alleged against Jared D. Brown, Robert G. Brown, and George W. Cook and also entered a directed verdict and an involuntary dismissal as to certain other claims asserted against the Company and the remaining individual Counterclaim Defendants, Herbert G. Brown (H. Brown), James E. Mattei (Mattei), James F. White, Jr. (White). The jury rendered a verdict in favor of the Company, H. Brown, Mattei, and White as to all claims asserted by Checkmate and in favor of Mattei as to all claims asserted by Tampa Checkmate and Gagne. In response to certain jury interrogatories, however, the jury made the following determinations: (i) That Gagne was fraudulently induced to execute a certain Unconditional Guaranty and that the Company was therefore not entitled to enforce its terms; (ii) That Tampa Checkmate was fraudulently induced to execute a certain franchise agreement by the actions of the Company, H. Brown, and White, jointly and severally, and that Tampa Checkmate was damaged as a result thereof in the amount of \$151,331; (iii) That the Company, H. Brown, and J. White, jointly and severally, violated § 817.416(2)(a)(1) of the Florida Franchise Act relating to the franchise agreement and that Tampa Checkmate was damaged as a result thereof in the amount of \$151,330 and that Gagne was damaged as a result thereof in the amount of \$151,330; and (iv) That the Company, H. Brown, and J. White did not violate Florida's Deceptive and Unfair Trade Practices Act relating to the Ehrlich Road franchise agreement.

The foregoing judgments were appealed to the Second District Court of Appeal and on November 14, 2001, the Appeals Court (i) affirmed the \$151,331 judgment, plus statutory interest from August of 1999, entered in favor of Tampa Checkmate and against the Company and White for fraudulent inducement, but reversed as to Brown and that portion of the judgment awarding Tampa Checkmate statutory interest prior to the jury's verdict in August of 1999; (ii) affirmed the \$151,331 judgment, plus statutory interest from August of 1999, entered in favor of Tampa Checkmate and against the Company and White for violation of § 817.416(2)(a)(1) of the Florida Franchise Act, but reversed as to Brown; and

(iii) reversed, *in toto*, the judgment entered in favor of Gagne. Reciprocal motions for attorney fees remain pending in the state court.

Table of Contents

On February 4, 2002, the state trial court granted a motion filed by Tampa Checkmate and entered summary judgment as to the Company's affirmative defenses of setoff and recoupment. In lieu of filing a *supercedes* bond, the Company satisfied the foregoing two judgments and appealed the summary judgment to the Second District Court of Appeal. That appeal remains pending. The reciprocal motions for attorney fees also remain pending in the state court. The Company believes the liability to Tampa Checkmate under the two judgments, and any liability for the payment of attorney fees, is subject to the Company's right of setoff arising from Tampa Checkmate's liability to the Company under the promissory note described above.

On or about July 15, 1997, Tampa Checkmate filed a Chapter 11 petition in the United States Bankruptcy Court for the Middle District of Florida, Tampa Division entitled *In re: Tampa Checkmate Food Services, Inc.*, and numbered as 97-11616-8G-1 on the docket of said Court. As noted above, the bankruptcy filing stayed the Company's claim against Tampa Checkmate to collect the promissory note. The Company filed a motion in the Bankruptcy Court to establish its right to set-off, or in the alternative, recoup, the full amount due the Company under the promissory note against the judgments. On March 17, 2001 and May 23, 2001, the Bankruptcy Court entered orders recognizing the Company's right to setoff the amount owed by Tampa Checkmate under the promissory note against the judgments and lifting the automatic stay to allow the Company to proceed to effect the setoff and/or recoupment permitted by this Court to include proceeding in state court or other appropriate forum to determine the amounts owed, if any, by the Debtor (Tampa Checkmate) to Checkers.

The Company has filed a motion in the Bankruptcy Court to determine the amounts owed under the promissory note. Tampa Checkmate has opposed the motion by asserting that the February 4, 2002 order entered in the state court proceedings referenced above was dispositive of the Company's claim of setoff and the Bankruptcy Court accepted Tampa Checkmate's argument and determined that it would apply whatever determination was made by the Second District Court of Appeal regarding the Company's appeal of the February 4, 2002 order to the Company's motion.

Dorothy Hawkins v. Checkers Drive-In Restaurants, Inc. On March 4, 1999, a state court complaint was filed in the Circuit Court of the Sixth Judicial Circuit in and for Pinellas County, Florida, Civil Division, entitled *Dorothy Hawkins v. Checkers Drive-In Restaurants, Inc.* The Complaint generally alleges that Dorothy Hawkins (Hawkins) was induced into entering into a franchise agreement based upon misrepresentations by the Company and its officers, that the Company violated provisions of Florida's Franchise Act and Florida's Deceptive and Unfair Trade Practices Act, breached the franchise agreement and the implied duties of good faith and fair dealings relating thereto and engaged in other wrongful conduct. The matter was tried by the court sitting without a jury commencing on September 30, 2002 and ending on October 4, 2002. On March 20, 2003, the trial court entered its Findings of Fact, Conclusions of Law, and Judgment in favor of the Company and against Hawkins and dismissed each of the causes of action asserted by Hawkins. The trial court's final judgment was not appealed by Hawkins.

Suncheck X, Inc. and Executive Restaurant Management, Inc. v. Checkers Drive-In Restaurants, Inc., Suncheck Corporation and Checkers of Puerto Rico, Inc. The case was filed October 25, 2001, and is before the American Arbitration Association, Tampa, Florida. The Claimants seek undisclosed damages under contract and tort theories. The case has been stayed, subject to the outcome of a lawsuit filed by Checkers Drive-In Restaurants, Inc. in the Circuit Court for the Thirteenth Judicial Circuit, Hillsborough County, Florida to disqualify Claimants' counsel based on conflict of interest. In light of the stay, no final hearing date has been set and no discovery has taken place. Checkers Drive-In Restaurants, Inc. vigorously denies the allegations set forth in the complaint.

Checkers Drive-In Restaurants, Inc. and Checkers of Puerto Rico, Inc. v. Suncheck I, Inc., Suncheck III, Inc., Suncheck IV, Inc., Suncheck X, Inc., Swaincheck, Inc., Starcheck Corporation, A&E Burgers, Inc., Suncheck Ponce II, Inc., Mooncheck of Puerto Rico, Inc., Villanueva, Inc., Executive Restaurant Management, Inc., Cerex Investments, Inc., Ratito, Inc., Antunez & Sons Produce, Inc., Mark Antunez, Mario Rivera, Raul Ramirez, a/k/a Raul Ramirez Fernandez, a/k/a Raul Jose Ramirez Fernandez, Ronald Rivas, Carlos Del Pozo, a/k/a Carlos Del Pozo Carafa, Robert E. Swain, Benedetto A. Cerilli Family Trust, Raul Cal, Jorge Tirado, Jose Toro, Jerry Algarin, Jimmie Algarin, Liliana Agarin, Angel Sanchez, Rene Mercado, Marisol Mercado, Ingacio Arias, Carmen Martinez, Juan Carrion, Luis Cortez, Sr., Luis Cortez, Jr., Alfredo Ramirez, Miquel Perez Comas, a/k/a Miquel Perez, James Dooley, Ruben Lugo, Edgar Ortiz, Benigno Contreras, Jr., and Sebastian Estarellas. The case was filed November 9, 2000, and is before the American Arbitration Association, Tampa, Florida. Checkers Drive-In Restaurants, Inc. initiated this arbitration proceeding to recover unpaid royalties and advertising fees from former franchisees in Puerto Rico and the respective personal

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

guarantors. Some of the respondents filed a counterclaim seeking undisclosed damages under contract and tort theories. The case has been stayed, subject to the outcome of a lawsuit filed by Checkers Drive-In Restaurants, Inc. in the Circuit Court for the Thirteenth Judicial Circuit, Hillsborough County, Florida to disqualify Claimants' counsel based on conflict of interest. In light of the stay, no final hearing date has been set and no discovery has taken place. Checkers Drive-In Restaurants, Inc. vigorously denies the allegations in the counterclaim.

YUGOTTAEAT, Inc. v. Checkers Drive-In Restaurants, Inc. and Kasheed Ahmad, d/b/a Checkers Elmont. On February 13, 2003, a Complaint was filed against the Company in the United States District Court for the Eastern District of New York, Brooklyn Office. The Complaint asserts claims under federal and state law contesting the Company's right to use its Yougottaeat service mark. On May 1, 2003, the United States District Court for the Eastern District of New York denied YUGOTTAEAT, Inc. motion pursuant to Rule 65(a), citing their failure to show a likelihood of their succeeding on the merits. An appeal is pending; however, unless District Court is reversed on appeal, YUGOTTAEAT, Inc.'s counsel have represented to the court that it will withdraw its claim without prejudice. Checkers Drive-In Restaurants, Inc. vigorously denies the allegations set forth in the complaint.

Table of Contents

We are also involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting of shareholders for fiscal 2003 on May 28, 2003. The following matters were voted upon at the meeting: the election of David Gotterer and Burt Sugarman as directors to serve until the annual shareholders meeting in 2006 and approval of the appointment of KPMG LLP as our independent auditors for fiscal 2003. The term of office of Peter C. O Hara, Terry Christensen and Willie D. Davis continued after the meeting.

The following are the total number of votes cast for, against, withheld, abstentions, and non-votes as to the matters set forth above:

	<u>For</u>	<u>Against/ Withheld</u>	<u>Abstentions</u>	<u>Broker Non-votes</u>
1. The election of David Gotterer	10,541,178	941,045		
2. The election of Burt Sugarman	10,078,390	1,403,833		
3. The ratification and approval of the appointment of KPMG LLP as our independent auditors.	11,444,480	28,044	9,699	

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

(a) Exhibits:

- 99.1 Written statement of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 25, 2003
- 99.2 Written statement of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 25, 2003

(b) Reports on 8-K:

The following reports on Form 8-K were filed during the quarter covered by this report:

On April 29, 2003, Checkers Drive-In Restaurants, Inc. issued a press release regarding the resignation of Daniel J. Dorsch as CEO, President and Director.

On May 1, 2003, Checkers Drive-In Restaurants, Inc. issued a press release naming Keith E. Sirois as Interim CEO and President.

On May 7, 2003, the Registrant issued a news release entitled Checkers/Rallys Named Official Burger of the Indianapolis 500, Brickyard 400 ; and issued a corresponding Video News Release.

Table of Contents

On May 12, 2003, the Registrant issued a news release entitled New Screamin' Chicken Sandwiches from Checkers and Rally's.

On May 21, 2003, the Registrant issued a news release entitled Double Drive-Thru's Focus on Speed and Service Accelerates Indy 500 Race-Week Event.

On May 23, 2003, the Registrant issued a news release entitled Checkers(R)/Rally's(R) Sponsoring Sarah Fisher for Indianapolis 500; Double Drive-Thru Chain Steps up Again in Motor Sports Commitment: CHECKERS/RALLY'S SPONSORING SARAH FISHER FOR INDIANAPOLIS 500.

On May 28, 2003, Checkers Drive-In Restaurants, Inc. issued a press release naming Keith E. Sirois as President and Chief Executive Officer.

On June 6, 2003, Checkers Drive-In Restaurants, Inc. issued a press release entitled Checkers Drive-In Restaurants, Inc. to Present at the US Bancorp Piper Jaffray Consumer Conference.

On June 11, 2003, the Registrant issued a news release entitled CHECKERS DRIVE-IN UPDATES GUIDANCE.

On June 13, 2003, Checkers Drive-In Restaurants, Inc. issued a press release entitled Checkers(r)/Rally's(r) Unveils 80-City Road to the Brickyard 400(r) National Tour; Official Burger of Brickyard 400 Takes Indianapolis Motor Speedway Relationship to the Streets.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Checkers Drive-In Restaurants, Inc.

(Registrant)

Date: July 25, 2003

By: /s/ Keith E. Sirois

Chief Executive Officer

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-Q

Date: July 25, 2003

By: /s/ David G. Koehler

Treasurer and Chief Financial Officer

Table of Contents

CERTIFICATIONS

I, Keith E. Sirois, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Checkers Drive-In Restaurants, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

July 25, 2003

/s/ Keith E. Sirois

Keith E. Sirois

Chief Executive Officer

Table of Contents

I, David G. Koehler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Checkers Drive-In Restaurants, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

July 25, 2003

/s/ David G. Koehler

David G. Koehler

Table of Contents

June 16, 2003 FORM 10-Q

Checkers Drive-In Restaurants, Inc.

Index to Exhibits

<u>Exhibit Number</u>	<u>Exhibit Title</u>
99.1	Written statement of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 25, 2003
99.2	Written statement of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 25, 2003