UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 2, 2006

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**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4300 West Cypress St, Suite 600 Tampa, Florida	**33607**
(Address of principal executive offices)	**(Zip Code)**

(813) 283-7000

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ¨ No x

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 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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of June 20, 2005, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $156.2 million based on the $13.75 as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at March 2, 2006
[Common Stock, $.001 par value per share]	11,500,200 shares

DOCUMENTS INCORPORATED BY REFERENCE

None

CHECKERS DRIVE-IN RESTAURANTS, INC.

2005 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

General

Checkers Drive-In Restaurants, Inc. (Checkers), a Delaware corporation, and its wholly-owned subsidiaries (collectively, the Company) is in the business of operating and franchising Checkers and Rally s Hamburgers restaurants. We are the single largest chain of double drive-thru restaurants in the United States. Our Company is a combination of two similar quick-service restaurant chains, Checkers and Rally s Hamburgers (Rally s), which were merged in August 1999. Both companies were founded on a simple premise serve the highest quality food, made fresh-to-order, served quickly and at a fair price.

The Company has developed and owns a comprehensive system for developing and operating double drive-thru restaurants, which includes trademarks, building designs and layouts, equipment, ingredients, recipes and specifications for authorized food products, methods of inventory control and certain operational and business standards.

At January 2, 2006, there were 804 restaurant locations, consisting of 200 Company-operated restaurants and 604 franchisee-operated restaurants. Of the 804 locations, 354 are Rally s restaurants operating in 16 different states and 450 are Checkers restaurants operating in 20 different states, the District of Columbia, Mexico and the West Bank. Nine states have both Checkers and Rally s restaurants. At January 2, 2006, five Company-operated restaurants remained temporarily closed as a result of the effects of Hurricane Katrina. Checkers was founded in 1986 and Rally s was founded in 1985.

On February 17, 2006, the Company announced an agreement with Taxi Holdings Corp., an affiliate of Wellspring Capital Management, LLC, a private equity firm, and Taxi Acquisition Corp., a wholly owned subsidiary of Taxi Holdings Corp., to purchase the Company for $15.00 per share. The total transaction value is approximately $188 million, including the assumption of Checkers debt. The acquisition agreement has been approved by the Checkers Board of Directors and by the Special Committee of the Board formed to explore strategic alternatives, and is expected to close in the second quarter of 2006.

Our financial information, including the information contained in this annual report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to the above-mentioned reports, may be viewed on the Internet at www.checkers.com (under Investor Relations SEC Filings). These reports are made available on the Company s website as soon as reasonably practicable after their filing with, or furnishing to, the U.S. Securities and Exchange Commission (SEC). Copies are also available, without charge, from Checkers Drive-In Restaurants, Inc., Investor Relations, 4300 West Cypress Street, Suite 600, Tampa, FL 33607. Alternatively, reports filed with the SEC may be viewed or obtained at the SEC Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

Information contained on the Company s website is not incorporated into this annual report on Form 10-K or any of the Company s other filings and is not a part of them.

Concept and Strategy

The Company operates under two brands, Checkers® and Rally s Hamburgers®The Company s operating concept for both brands are very similar which includes: (i) offering a limited menu to permit the maximum attention to quality and speed of preparation; (ii) utilizing a distinctive restaurant design which features a double drive-thru concept that creates significant curb appeal; (iii) providing fast service using a distinctive design for its restaurants and a computerized point-of-sale system that expedites the ordering and preparation process; and (iv) unique and great tasting quality food and drinks made fresh to order at a fair price. The Company s primary strategy is to serve the drive-thru and take-out segment of the quick-service restaurant industry.

Restaurant Locations

As of January 2, 2006, there were 200 Company-operated restaurants in 11 states and 604 restaurants operated by our franchisees in 26 states, the District of Columbia, Mexico and the West Bank. The following table sets forth the locations of each restaurant:

Region	State Name	Company	Franchise	Grand Total
Southeast	Florida	88	101	189
	Georgia	20	66	86
	Alabama		43	43
	Kentucky	1	34	35
	Tennessee	10	8	18
	Virginia		20	20
	North Carolina		12	12
	South Carolina		11	11
	Mississippi	1	9	10
	West Virginia		6	6
	Washington, D.C.		2	2
Southeast Total		120	312	432
North Central	Ohio	18	68	86
	Indiana	23	28	51
	Michigan	11	21	32
	Missouri		22	22
	Illinois		16	16
	Wisconsin		3	3
	Iowa		2	2
North Central Total		52	160	212
Northeast	Maryland		29	29
	New York		15	15
	New Jersey		18	18
	Pennsylvania	11		11
	Delaware	1	1	2
Northeast Total		12	63	75
Southwest	California		34	34
	Arizona		4	4
Southwest Total			38	38
South Central	Louisiana	16	15	31
	Arkansas		10	10
	Texas		1	1
South Central Total		16	26	42
West Bank			3	3
Mexico			2	2
Grand Total		200	604	804

During fiscal 2005, 34 restaurants were opened, consisting of 29 franchisee-operated restaurants and five Company-operated restaurants. During the same period, 18 restaurants were closed, consisting of 11 franchisee operated restaurants and seven Company-operated restaurants, including four permanent closures due to Hurricane Katrina. Also during fiscal 2005, we reacquired one restaurant from a franchisee. We sold six Company-operated restaurants to franchisees. At January 2, 2006, five Company-operated restaurants remained temporarily closed as a result of the effects of Hurricane Katrina. Our growth strategy for the next two years is to focus on the controlled development of additional franchised and Company-operated restaurants primarily in our existing core markets and to further penetrate markets currently under development by franchisees. We also intend to develop select international markets.

Site Selection

The selection of a site for a restaurant is critical to its success. Management inspects and approves each potential Company-operated restaurant site prior to final selection. In evaluating particular sites, we consider various factors including traffic count, speed of traffic, convenience of access, size and configuration, demographics and density of population, visibility and cost. We also review competition and the sales and traffic counts of national and regional chain restaurants operating in the area. The majority of Company-operated restaurants are located on leased land. We intend to continue to use leased sites where possible.

Restaurant Design and Service

Our double drive-thru restaurants have a highly visible, distinctive and uniform look that is intended to appeal to guests of all ages. Restaurants are generally 760 to 980 sq. ft., which is less than one-fourth the size of the typical restaurants of the four largest quick-service hamburger chains. New and many existing restaurants are moveable modular buildings. Our experience is that the building component of a modular restaurant generally costs less than comparably built outlets using conventional, on-site construction methods. Our restaurants, due to their small size, require only a $^{1}/2$ acre of land area, which is approximately one-third to one-half of the land area used by the four largest quick service hamburger chains. As a result of the small size of the restaurant building, our restaurants generally require a smaller capital investment and have lower occupancy and operating costs per restaurant than traditional quick-service competitors. The size of the facility also permits somewhat greater flexibility with respect to the selection of prospective sites for restaurants.

The Checkers and Rally s standard restaurant is designed around a 1950 s diner and art deco theme with the use of white and black tile in a checkerboard motif, glass block corners, a protective drive-thru cover on each side of the restaurant supported by red aluminum columns piped with white neon lights and a wide stainless steel band piped with red neon lights that adorns the restaurant as part of the exterior decor. Both Rally s and Checkers restaurants utilize a double drive-thru concept that permits simultaneous service of two automobiles from opposite sides of the restaurant. Although a substantial portion of the Company s sales are made through its drive-thru windows, service is also available through walk-up windows. While the restaurants normally do not have an interior dining area, most have parking and a patio for outdoor eating. The patios contain canopy tables and benches, are well landscaped and have outside music in order to create an attractive and fun eating experience.

Although each sandwich is made-to-order, the Company s objective is to serve guests within 30 seconds of their arrival at the drive-thru window. The Company monitors the length of time a guest is in the drive-thru lane and at the drive-thru window utilizing drive-thru timers. Each restaurant has a computerized point-of-sale system which displays each individual item ordered in front of the food and drink preparers. This enables the preparers to begin filling a second order before the prior order is completed and totaled, thereby increasing the speed of service to the guest and the opportunity to increase sales per hour. It also provides better inventory and labor cost controls and permits the monitoring of sales volumes and product utilization. The Company began accepting credit cards at all Company-operated restaurants during November of 2004 to further improve guest service.

The Company s restaurants are generally open from 12 to 15 hours per day, seven days a week, for lunch, dinner and late-night snacks.

Menu

The menu and flavor profile at Checkers and Rally s appeals to a more adult guest and is driven by a wide variety of seasoned, made-to-order hamburgers including the original $^{1}/4$ pound Champ Burger ®, a fully dressed made-to-order burger and the signature Big Buford®, a fully dressed double cheeseburger. Screamin Chicken®, all white-meat breaded and spicy chicken strips, the Deep Sea Double®, a double fish sandwich, all beef chili cheese dogs and Checkers / Rally s Famous Fries™ are just a few of Checkers and Rally s other unique and fast selling menu favorites. Coca-Cola products, cinnamon sugar hot apple pies and super thick shakes also play an important role at Checkers and Rally s. Carefully designed, limited menus are designed to deliver freshly prepared, quality, high taste profiled food and unmatched speed of delivery. We are engaged in product development research and work to enhance variety while maintaining ease of operations and throughput through the use of many limited time only product promotions throughout the year.

Marketing Programs

Checkers/Rally s award-winning advertising campaign, You Gotta Eat® entered its fifth year in 2005 and continued to play a significant role in driving sales and nearly doubling national brand awareness vs. 2002 awareness (Sandelman / QuickTrac). The fun, upbeat, music-driven spots continue to have high recall among current and potential guests as they combine retail call-to-action with a strong branding message in a relevant and believable format. A hit with our guests, the campaign has also served as a powerful idea that has raised morale and motivated our leadership team, employees and franchisees to drive the Company s business. Coupled with an aggressive media buying strategy, franchisees have embraced the campaign, increasing the number of Checkers/Rally s markets advertising on television to nearly 45 over the past several years. Moreover, You Gotta Eat® has been fully integrated into our print, point of purchase, outdoor, crew uniforms, bags, cups and every other consumer touch point. We will launch the sixth year of the You Gotta Eat® campaign in April of 2006.

In addition to Checkers/Rally s successful advertising campaign, the Company utilizes strategic sports sponsorships and public relations initiatives to maximize brand awareness. In 2005, Checkers/Rally s entered into its third year of its partnership as the Official Burger of both the Indianapolis 500® and NASCAR s Brickyard 400®, two of the largest single-day sporting events in the world. In February of 2005, the Company expanded its motorsports initiative by announcing its partnership with NASCAR ® and International Speedway Corporation (ISC) . Checkers and Rally s became the Official Drive-Thru restaurant and burger of NASCAR®. National media outlets delivered unprecedented coverage for Checkers and Rally s, including its highly successful fund-raising efforts for the Cure Autism Now Foundation (CAN), with nationwide public service announcements raising $100,000 for the charity. In late 2005, the Company auctioned one of a kind sports collectibles to benefit Operation Gratitude. The online auction was conducted to help fund Operation Gratitude s mission of sending care packages to U.S. troops currently deployed overseas.

Also in 2005, Checkers/Rally s continued the official burger status of the following: MLB s Tampa Bay Devil Rays®, the NFL s Miami Dolphins® and Indianapolis Colts®, the NBA s New Orleans Hornets®, the University of Florida Gators®, the Florida State University Seminoles® and the University of Louisville Cardinals®.

Checkers/Rally s National Production Fund has named Amalgamated as agency of record to handle creative advertising duties beginning in 2006.

Purchasing

All restaurants purchase food, beverages and supplies from Company-approved suppliers. All products must meet our standards and specifications, and management constantly monitors the quality of the food, beverages and supplies provided to the restaurants.

We believe that our efforts over time have achieved cost savings, improved food quality and consistency and helped decrease volatility of food and supply costs for the restaurants. All essential food and beverage products are readily available from first line suppliers or, upon short notice, alternate suppliers. Among other factors, our profitability is dependent upon our ability to anticipate and react to changes in food costs. Various factors beyond our control, such as climate changes, gas prices and adverse weather conditions, may affect food costs.

Management and Employees

A typical restaurant employs approximately 20 hourly employees, many of whom work part-time on various shifts. The management staff of a typical restaurant operated by the Company consists of a General Manager, one Assistant Manager and two Shift Managers. A General Manager is usually required to have prior restaurant management experience, preferably within the quick-service industry, and reports directly to an Area Manager. The Area Manager typically has responsibility for eight to ten restaurants and ensures that each Company-operated restaurant consistently delivers high-quality food and service. Area Managers report to Directors of Operations. The Company has an incentive compensation program for Area Managers and restaurant level managers that provides for a monthly bonus based upon the achievement of certain sales and profit goals.

As of January 2, 2006, we employed approximately 4,000 employees, substantially all of which were restaurant personnel. Most employees, other than restaurant management and certain corporate personnel, are paid on an hourly basis. We believe the Company provides working conditions and wages that are comparable with those of other companies within the quick-service restaurant segment. Employee relations are considered to be better than the industry average. None of the Company s employees are covered by a collective bargaining agreement.

Supervision and Training

Each new franchisee and selected restaurant managers attend a comprehensive training program. The program was developed by the Company to enhance the consistency of restaurant operations and is considered by management to be an important step in operating a successful restaurant. During this program, the attendees are taught certain basic elements that we believe are vital to the Company s operations and are provided with a complete operations manual, and other training aids designed to guide and assist them in the day-to-day operations. In addition, hands-on experience is incorporated into the program by requiring each attendee, prior to completion of the training course, to work in an existing Company-operated restaurant. Continuing training classes for both Company-operated and franchise restaurant personnel have also been developed. After a restaurant is opened, we continue to monitor the consistency and uniformity of operations for both franchised and Company-operated restaurants.

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We also employ Franchise Business Consultants, who have been fully trained by us, to assist franchisees in implementing our operating procedures once a restaurant is open. The Franchise Business Consultants rate the restaurant s hospitality, food quality, speed of service, cleanliness and maintenance of the facilities. The franchisees receive a written report of the Franchise Business Consultant s findings with deficiencies, if any, and recommended procedures to correct such deficiencies.

Restaurant Reporting

Each Company-operated restaurant has a computerized point-of-sale system coupled with a back office computer. With this system, management is able to monitor sales, labor and food costs, speed of service, guest counts and other key performance indicators. The information gathered allows management to better control labor, inventories and operating costs. These systems, at Company-operated restaurants, are polled daily by our corporate office.

Inflation

Food and labor costs are significant inflationary factors in the Company s operations. Many of our employees are paid hourly rates at to the statutory minimum wage; therefore, increases in the minimum wage increase the Company s labor costs. In addition, some of our leases require us to pay base rents with escalation provisions based on the consumer price index, percentage rents based on revenues, and to pay taxes, maintenance, insurance, repairs and utility costs, all of which are expenses subject to inflation. The Company currently has one franchisee who operates in the West Bank and one franchisee who operates in Mexico. Management does not expect any adverse affect to the Company s financial position due to these foreign franchisees. We have generally been able to offset the effects of inflation to date through small price increases. There can be no assurance that we will be able to continue to offset the effects of inflation through menu price increases.

Working Capital

The restaurant industry in general, operates with a working capital deficit because most of its 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 we 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, purchases of the Company s common stock, repayment of long-term debt or investments in high-quality short term investments.

We ended fiscal 2005 with working capital of $12.4 million as compared to $0.8 million at January 3, 2005. This increase in working capital is primarily due to an increase in Cash and cash equivalents of $8.0 million provided primarily by operating activities. Prior year s cash was significantly lower due to capital expenditures, repayment of long-term debt and the purchase of the Company s common stock.

Seasonality

The seasonality of restaurant sales due to consumer spending habits can be significantly affected by the timing of advertising, competitive market conditions and weather related events. While restaurant sales for certain quarters can be stronger, or weaker, there is no predominant pattern.

Franchise Operations

Strategy. We encourage controlled development of franchised restaurants in our existing markets, as well as in certain additional states. The primary criteria considered by us in the selection, review and approval of prospective franchisees are the availability of adequate capital to open and operate the number of restaurants franchised and prior experience in operating quick-service restaurants. Franchisees operated 604, or 75%, of the total Checkers and Rally s restaurants open at January 2, 2006. In the future, our success will continue to be impacted by our franchisees and the manner in which they operate and develop their restaurants to promote and develop the Checkers and Rally s concepts and our reputation for quality and speed of service.

Although we have established criteria to evaluate prospective franchisees, there can be no assurance that franchisees will have the business abilities or access to financial resources necessary to open the number of restaurants the franchisees currently anticipate opening in the future or that the franchisees will successfully develop or operate restaurants in their franchise areas in a manner consistent with our concepts and standards. We have registered our trademarks in various foreign countries in the event we develop additional international markets. The terms and conditions of international agreements may vary from the standard area development agreement and franchise agreement in order to comply with laws and customs different from those of the United States.

Franchisee Support. We maintain a staff of well-trained and experienced Franchise Business Consultants whose primary responsibilities are to help train and assist franchisees in opening new restaurants and to monitor the operation and performance of existing restaurants. This support is provided as part of the Company s franchise program. Upon the opening of a new franchised restaurant by a franchisee, we typically send a support team to the restaurant to assist the franchisee during the first week the restaurant is open. This team monitors compliance with the Company s standards as to quality of product and speed of service. In addition, the team assists with on-site training for restaurant personnel. This training is in addition to the training provided to the franchisee and the franchisee s management team described under Supervision and Training above.

Franchise Agreements. The franchise agreement grants to the franchisee an exclusive license at a specified location to operate a restaurant in accordance with the Checkers and Rally s systems and to utilize the Company s trademarks, service marks and other rights of the Company relating to the sale of its menu items. The term of the current franchise agreement is generally 20 years. Upon expiration of the franchise term, the franchisee will generally be entitled to acquire a successor franchise for the restaurants on the terms and conditions of the Company s then current form of franchise agreement if the franchisee remains in compliance with the franchise agreement throughout its term and if certain other conditions are met, including the payment of a fee equal to 25% of the then current franchise fee.

In some instances, we grant to the franchisee the right to develop and open a specified number of restaurants within a limited period of time and in a defined geographic area (the Franchised Area) and thereafter to operate each restaurant in accordance with the terms and conditions of a franchise agreement. In that event, the franchisee ordinarily signs two agreements, an area development agreement and a franchise agreement. Each area development agreement establishes the number of restaurants the franchisee is to construct and open in the Franchised Area during the term of the area development agreement (normally a maximum of five years). The requirements of the area development agreement are dependent on many factors, including the residential, commercial and industrial characteristics of the area, geographic factors, population of the area and the previous experience of the franchisee. The franchisee s development schedule for the restaurants is set forth in the area development agreement. The Company may terminate the area development agreement of any franchisee that fails to meet its development schedule.

The franchise agreement and area development agreement require that the franchisee select proposed sites for restaurants within the franchised area and submit information regarding such sites to us for our review, although final site selection is at the discretion of the franchisee. We do not arrange or make any provisions for financing the development of restaurants by our franchisees. Each franchisee is required to purchase all fixtures, equipment, inventory, products, ingredients, materials and other supplies used in the operation of its restaurants from approved suppliers, all in accordance with the Company s specifications. We provide a training program for management personnel of our franchisees at our corporate office. Under the terms of the franchise agreement, the Company has mandated standards of quality, service and food preparation for franchised restaurants. Each franchisee is required to comply with all of the standards for restaurant operations as published in the Company s operations manual.

We may terminate a franchise agreement for several reasons including the franchisee s bankruptcy or insolvency, default in the payment of indebtedness to the Company or suppliers, failure to maintain standards set forth in the franchise agreement or operations manual, continued violation of any safety, health or sanitation law, ordinance or governmental rule or regulation or cessation of business. In such event, we may also elect to terminate the franchisee s area development agreement.

Franchise Fees and Royalties. Under the current franchise agreement, a franchisee is generally required to pay application fees, site approval fees and an initial franchise fee totaling, in the aggregate, $30,000 for each restaurant opened by the franchisee. If a franchisee is awarded the right to develop an area pursuant to an area development agreement, the franchisee typically pays the Company a $5,000 development fee per restaurant, which will be applied to the franchise fee as each restaurant is developed. Each franchisee is also generally required to pay the Company a semi-monthly royalty of 4% of the restaurant s gross sales (as defined in the franchise agreement) and to expend certain amounts for advertising and promotion. Beginning on June 1, 2003, the Company began an incentive program to existing franchisees, whereby the franchise fee of $30,000 was reduced to $15,000 and royalties were reduced to 2% during the first year of operation. This incentive program expired December 31, 2005.

Competition

Our restaurant operations compete in the quick-service restaurant industry, which is highly competitive with respect to price, concept, quality and speed of service, location, attractiveness of facilities, guest recognition, convenience, food quality and variety. The industry includes many quick-service chains, including national chains, which have significantly greater resources than the Company that can be devoted to advertising, product development and new restaurants, and which makes them less vulnerable to fluctuations in food, paper, labor and other costs. In certain markets, we also compete with other quick-service double drive-thru hamburger chains with operating concepts similar to the Company. The quick-service restaurant industry is often significantly affected by many factors, including changes in local, regional or national economic conditions affecting consumer spending habits,

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demographic trends and traffic patterns, changes in consumer taste, consumer concerns about the nutritional quality of quick-service food and increases in the number, type and location of competing quick-service restaurants. We compete primarily on the basis of speed of service, price, value, food quality and taste. All of the major chains have increasingly offered selected food items and combination meals, including hamburgers, at temporarily or permanently discounted prices. Increased competition, additional discounting and changes in marketing strategies by one or more of these competitors could have an adverse effect on the Company s sales and earnings in the affected markets. In addition, with respect to selling franchises, we compete with many franchisors of restaurants and other business concepts.

Trademarks and Service Marks

We believe that our rights in our trademarks and service marks are important to our marketing efforts and a valuable part of our business. We own a number of trademarks and service marks that have been registered, or for which applications are pending, with the United States Patent and Trademark Office including but not limited to: Rally s Hamburgers®, One of a Kind Fries®, Big Buford®, Checkers®, Checkers Famous Fries™ , Checkers Burger Fries Colas®, Champ Burger® and You Gotta Eat®. It is the Company s policy to pursue registration of its marks whenever possible and to vigorously oppose any infringement of its marks.

Foreign Operations

The Company received royalties from franchisees in two foreign markets: West Bank and Mexico. Royalty revenues recorded in connection with these franchises totaled $22,000, $37,000 and $2,000 in fiscal 2005, 2004 and 2003, respectively.

Government Regulation

The restaurant industry is subject to numerous federal, state and local government regulations, including those relating to the preparation and sale of food and building and zoning requirements. In addition, the Company is subject to laws governing its relationship with employees, including minimum wage requirements, overtime, working and safety conditions and citizenship requirements. Many of our employees are paid hourly rates based upon the federal and state minimum wage laws. Legislation increasing the minimum wage has resulted in higher labor costs to the Company. An increase in the minimum wage rate, employee benefit costs or other costs associated with employees could have a material adverse effect on the Company s business, financial condition and results of operations.

The Company is also subject to extensive federal and state regulations governing franchise operations and sales which impose registration and disclosure requirements on franchisors in the offer and sale of franchises and in certain cases, dictate substantive standards that govern the relationship between franchisors and franchisees, including limitations on the ability of franchisors to terminate franchisees and alter franchise arrangements.

Environmental Matters

The Company is subject to various federal, state and local environmental laws. These laws govern discharges to air and water from the Company s restaurants, as well as handling and disposal practices for solid and hazardous waste. These laws may impose liability for damages for the costs of cleaning up sites of spills, disposals or other releases of hazardous materials. The Company may be responsible for environmental conditions relating to its restaurants and the land on which the restaurants are located or were located, regardless of whether the restaurants or land in question are leased or owned and regardless of whether such environmental conditions were created by the Company or by a prior owner, tenant, or other third party.

We are not aware of any environmental conditions that would have a material adverse effect on our businesses, assets or results of operations taken as a whole. We cannot be certain that environmental conditions relating to prior, existing or future restaurants will not have a material adverse effect on the Company. Moreover, there is no assurance that: (1) future laws, ordinances or regulations will not impose any material environmental liability; or (2) the current environmental condition of the properties will not be adversely affected by tenants or other third parties or by the condition of land or operations in the vicinity of the properties.

See Item 7, Risk Factors that May Affect Results of Operations and Financial Condition, for additional risk factors applicable to the Company.

Special Note Regarding Forward-Looking Statements

Certain statements in this Form 10-K under Item 1. Business , Item 3. Legal Proceedings , Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-K constitute

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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 , will , 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 eating habits; consumer perceptions of food safety; consumer acceptance of new products; consumer purchase frequency; increases in the costs of food, paper, labor, health care, workers compensation or energy; economic downturns, franchisee performance, 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 including the Sarbanes-Oxley Act of 2002; continued NASDAQ listing; weather conditions; construction schedules, results of existing and future litigation and other factors referenced in this Form 10-K in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Risk Factors That May Affect Results of Operations and Financial Condition and Item 8 Financial Statements and Supplementary Data under footnote 12 (d) Commitments and Contingencies Litigation .

ITEM 1A. RISK FACTORS

Risks Related to the Food Service Industry

Food service businesses may be affected by changes in consumer tastes, national, regional and local economic and political conditions, demographic trends, and the impact on consumer eating habits of new information regarding diet, nutrition and health. The performance of individual restaurants may be adversely affected by factors such as traffic patterns, demographics and type, number and location of competing restaurants.

Food service businesses such as ours can also be materially and adversely affected by widespread negative publicity of any type, but particularly regarding food quality, illness, obesity, injury or other health concerns with respect to certain foods. The risk of food-borne illness cannot be completely eliminated, despite the implementation control systems to manage food safety and quality. Any outbreak of such illness attributed to our restaurants or within the food service industry, or any widespread negative publicity regarding our brands or the quick-service restaurant industry in general could have a material adverse effect on our financial condition and results of operations.

Dependence on frequent deliveries of fresh produce and groceries subject food service businesses such as ours to the risk that shortages or interruptions in supply, caused by adverse weather or other conditions, could adversely affect the availability, quality and cost of ingredients.

In addition, unfavorable trends or developments concerning factors such as inflation, cost of food, labor, fuel, utilities, technology, insurance and employee benefits (including increases in hourly wages and workers compensation and other insurance premiums), increases in the number and locations of competing restaurants, regional weather conditions and the availability of experienced management and hourly employees may also adversely affect the food service industry in general. Changes in economic conditions affecting our customers could reduce traffic in some or all of our restaurants or impose practical limits on pricing, either of which could have a material adverse effect on our financial condition and results of operations. Our continued success will depend, in part, on our ability to anticipate, identify and respond to changing conditions.

Risks Associated with Development

We intend to grow primarily through developing additional new franchisee and Company-owned restaurants. Development involves substantial risks, including the risk of (i) the availability of financing to the Company and to franchisees at acceptable rates and upon acceptable terms; (ii) development costs exceeding budgeted or contracted amounts; (iii) delays in the completion of construction; (iv) the inability to identify, or the unavailability of, suitable sites on acceptable leasing or purchase terms; (v) developed properties not achieving desired revenue or cash flow levels once opened; (vi) competition for suitable development sites; (vii) incurring substantial unrecoverable costs in the event that a development project is abandoned prior to completion; (viii); the inability to obtain all required governmental permits; (ix) changes in governmental rules, regulations and interpretations; and (x) changes in general economic and business conditions.

Although we intend to manage our development to reduce such risks, we cannot assure you that present or future development will perform in accordance with our expectations. We cannot assure you that we will complete the development and construction of the restaurants, or that any such development will be completed in a timely manner or within budget, or that any restaurants will generate our expected returns on investment. Our inability to expand in accordance with our plans or to manage our growth could have a material adverse effect on our results of operations and financial condition.

Risks Related to Entering New Markets

We cannot assure you that we will be able to successfully expand or acquire critical market presence for our brands in new geographical markets, as we may encounter well-established competitors with substantially greater financial resources. We may be unable to find attractive locations, acquire name recognition, successfully market our products or attract new customers. Competitive circumstances and consumer characteristics in new market segments and geographical markets may differ substantially from those in the market segments and geographical markets in which we have experience. We cannot assure you that we will be able to profitably operate new company-owned or franchised restaurants in new geographical markets. Management decision to curtail or cease investment in certain locations or markets may result in impairment charges.

Risks Related to Competition

The quick-service restaurant industry is highly competitive with respect to price, service, location, personnel and the type and quality of food, and there are many well-established competitors. Each of our restaurants competes directly and indirectly with a large number of national and regional restaurant chains, as well as with locally-owned quick-service restaurants, fast casual restaurants, and sandwich shops and other similar types of businesses. The trend toward a convergence in grocery, deli and restaurant services may increase the number of our competitors. Such increased competition could have a material adverse affect on our financial condition and results of operations. Some of our competitors have substantially greater financial, marketing, operating and other resources than we have, which may give them a competitive advantage. Certain of our competitors have introduced a variety of new products and engaged in substantial price discounting in recent years and may continue to do so in the future. There can be no assurance as to the success of any of our new products, initiatives or overall strategies, or assurance that competitive product offerings, pricings and promotions will not have an adverse effect upon our financial condition and results of operations.

Risks Related to Increased Labor Costs

We have a substantial number of employees who are paid wage rates at or slightly above the minimum wage. As federal and state minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees, but also the wages paid to the employees at wage rates which are above minimum wage. If competitive pressures or other factors prevent us from offsetting the increased costs by price increases, our profitability may decline. In addition, various other proposals that would require employers to provide health insurance for all of their employees are being considered from time to time in Congress and various states. The imposition of any requirement that we provide health insurance to all employees on terms materially different from our existing programs could have a material adverse impact on the results of operations and financial condition of the Company.

Risks Related to Advertising

Some of our competitors have greater financial resources which enable them to purchase significantly more television and radio advertising than we are able to purchase. Checkers/Rally s award-winning advertising campaign, You Gotta Eat®, entered its fifth year in 2005 and continues to play a significant role in driving sales and increasing brand awareness. The Company also utilizes strategic sports sponsorships and public relations initiatives to maximize brand awareness, partnering with NASCAR® and International Speedway Corporation (ISC) to become the Official Drive-Thru restaurant and burger of NASCAR®. However, should our competitors increase spending on advertising and promotion, should the cost of television or radio advertising increase, or our advertising funds decrease for any reason, including implementation of reduced spending strategies, or should our advertising and promotion be less effective than our competitors advertising, there could be a material adverse effect on our results of operations and financial condition.

Risks Related to Franchise Operations

At January 2, 2006, approximately 75% of the total Checkers and Rally s restaurants were franchised. Our ability to sell franchises and to realize gains from such sales is uncertain. The opening and success of franchised restaurants depends on various factors, including the demand for our franchises and the selection of appropriate franchisee candidates, the availability of suitable sites, the negotiation of acceptable lease or purchase terms for new locations, permitting and regulatory compliance, the ability to meet construction schedules, the availability of financing, and the financial and other capabilities of our franchisees and area developers. We cannot assure you that area developers planning the opening of franchised restaurants will have the business abilities or sufficient access to financial resources necessary to open the restaurants required by their agreements. We cannot assure you that franchisees will successfully participate in our strategic initiatives or operate their restaurants in a manner consistent with our concept and standards. In addition, certain federal and state laws govern our relationships with our franchisees. See Risks Related to Government Regulations below.

Risks Related to Government Regulations

See Item 1, Business - Government Regulation. The restaurant industry is subject to extensive federal, state and local governmental regulations, including those relating to the preparation and sale of food and those relating to building and zoning requirements. We and our franchisees are also subject to licensing and regulation by state and local departments relating to health, sanitation and safety standards and to laws governing our relationships with employees, including minimum wage requirements, overtime, working conditions and citizenship requirements. See Risks Related to Increased Labor Costs above. The inability to obtain or maintain such licenses or publicity resulting from actual or alleged violations of such laws could have an adverse effect on our results of operations and financial condition. We also are subject to federal regulation and certain state laws governing the offer and sale of franchises. Many state franchise laws impose substantive requirements on franchise agreements, including limitations on non-competition provisions and on provisions concerning the termination or non-renewal of a franchise. Some states require that certain materials be registered before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could adversely affect us and our franchises. Changes in, and the cost of compliance with, government regulations could have a material adverse effect on our results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We operated 200 restaurants as of January 2, 2006. We held ground leases on 164 of these restaurants and owned the land on the remaining 36. Our leases are generally written for an initial term of 10 to 20 years with one or more five-year renewal options. Some leases require the payment of additional rent equal to a percentage of annual revenues in excess of specified amounts. When practicable, we prefer to lease the land for our restaurants.

As of January 2, 2006, we leased 360 parcels of land. Of these, 164 parcels were used for Company-operated restaurants, 173 parcels were subleased, 10 parcels were surplus vacant and 13 parcels were sites under development. In addition, we owned 57 parcels of land. Of these, 36 parcels were Company-operated restaurants, 13 parcels were subleased and the remaining eight properties were vacant at January 2, 2006.

We have 31 properties, some of which are subleased, that are held under mortgage with GE Capital Franchise Finance Corporation Mortgages and 11 that act as collateral to our primary debt with the GE Capital Franchise Finance Corporation. An additional 34 restaurants have building and equipment which is held as collateral; 32 with GE Capital Franchise Finance Corporation and two with U.S. Bancorp Equipment Finance, Inc.

Our executive offices are located in approximately 19,300 square feet of leased office space at 4300 West Cypress Street, Suite 600, Tampa, Florida 33607.

ITEM 3. LEGAL PROCEEDINGS

See Note 12(d) Commitments and Contingencies-Litigation in Item 8, Financial Statements and Disclosures, in Part II of this Annual Report on Form 10-K.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the National Market System of the NASDAQ Stock Market under the symbol CHKR . As of March 2,2006, there were approximately 17,000 stockholders of record of our common stock. The following table sets forth the high and low closing sales prices of the Company s common stock, as reported on the NASDAQ National Market, for the periods indicated.

2005