

CHECKERS DRIVE IN RESTAURANTS INC /DE

Form 10-Q

May 06, 2003

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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 March 24, 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
(State or other jurisdiction
of incorporation or organization)

58-1654960
(I.R.S. employer
identification no.)

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4300 West Cypress Street
Suite 600 Tampa, FL

33607
(Zip code)

(Address of principal executive offices)

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 No

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

The Registrant had 12,274,486 shares of Common Stock, par value \$.001 per share, outstanding as of March 24, 2003 (excluding 48,242 shares held in treasury).

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	March 24, 2003	December 30, 2002
	<u> </u>	<u> </u>
Current Assets:		
Cash and cash equivalents	\$ 13,324	\$ 14,323
Restricted cash	4,177	3,821
Accounts, notes and leases receivable, net	2,391	2,667
Inventory	1,092	1,026
Prepaid expenses and other current assets	1,367	2,309
Property and equipment held for sale	1,277	1,619
	<u> </u>	<u> </u>
Total current assets	23,628	25,765
Property and equipment, net	44,460	43,145
Notes receivable, net less current portion	3,832	3,926
Leases receivable, net less current portion	5,718	5,810
Intangible assets, net	44,663	44,728
Other assets, net	1,622	1,661
	<u> </u>	<u> </u>
	\$ 123,923	\$ 125,035
	<u> </u>	<u> </u>
Current Liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 3,234	\$ 3,243
Accounts payable	3,721	6,243
Reserves for restaurant relocations and abandoned sites	1,336	1,446
Accrued wages and benefits	2,646	2,353
Accrued liabilities	6,301	7,194
	<u> </u>	<u> </u>
Total current liabilities	17,238	20,479
Long-term debt, less current maturities	21,227	21,684
Obligations under capital leases, less current maturities	5,961	6,057
Long-term reserves for restaurant relocations and abandoned sites	5,984	6,282
Minority interests in joint ventures	141	123
Deferred revenue	4,770	4,900
Other long-term liabilities	4,756	4,981
	<u> </u>	<u> </u>
Total liabilities	60,077	64,506
Stockholders Equity:		

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Preferred stock, \$.001 par value, authorized 2,000,000 shares, none issued at March 24, 2003 and December 30, 2002		
Common stock, \$.001 par value, authorized 175,000,000 shares, issued 12,322,728 at March 24, 2003 and 12,317,601 at December 30, 2002	12	12
Additional paid-in capital	145,709	145,678
Accumulated deficit	(81,410)	(84,629)
	<u>64,311</u>	<u>61,061</u>
Less: Treasury stock, 48,242 at March 24, 2003 and December 30, 2002, at cost	(465)	(465)
Note receivable officer		(67)
	<u>63,846</u>	<u>60,529</u>
Total stockholders equity	<u>\$ 123,923</u>	<u>\$ 125,035</u>

See accompanying notes to consolidated financial statements.

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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>March 24,</u>	<u>March 25,</u>
	<u>2003</u>	<u>2002</u>
REVENUES:		
Restaurant sales	\$ 39,719	\$ 37,093
Franchise royalty revenue	3,308	3,322
Franchise fees and other income	54	4
Total revenues	<u>\$ 43,081</u>	<u>\$ 40,419</u>
COSTS AND EXPENSES:		
Restaurant food and paper costs	12,441	11,247
Restaurant labor costs	12,048	11,787
Restaurant occupancy expenses	2,986	2,608
Restaurant depreciation and amortization	1,288	1,292
Other restaurant operating expenses	4,700	4,689
General and administrative expenses	3,189	2,989
Advertising	2,501	2,126
Bad debt expense	163	100
Non-cash compensation	23	23
Other depreciation and amortization	182	152
Restaurant retirement costs	14	375
Gain on sale of assets	(176)	(77)
Total costs and expenses	<u>39,359</u>	<u>37,311</u>
Operating income	3,722	3,108
OTHER INCOME (EXPENSE):		
Interest income	261	397
Interest expense	(695)	(814)
Income before minority interests, income tax expense and cumulative effect of a change in accounting principle	<u>3,288</u>	<u>2,691</u>
Minority interests in operations of joint ventures	(18)	(27)
Income before income tax expense and cumulative effect of a change in accounting principle	<u>3,270</u>	<u>2,664</u>

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Income tax expense

	_____	_____
Net income before cumulative effect of a change in accounting principle	3,270	2,664
Cumulative effect of a change in accounting principle net of income tax effect	(51)	
	_____	_____
Net income	\$ 3,219	\$ 2,664
	_____	_____
Comprehensive income	\$ 3,219	\$ 2,664
	_____	_____
Basic net earnings per share	\$ 0.26	\$ 0.24
	_____	_____
Diluted net earnings per share	\$ 0.25	\$ 0.21
	_____	_____
Weighted average number of common shares outstanding:		
Basic	12,274	10,960
Diluted	13,001	12,854

See accompanying notes to consolidated financial statements.

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

	Quarter Ended	
	March 24, 2003	March 25, 2002
Cash flows from operating activities:		
Net income	\$ 3,219	\$ 2,664
Adjustments to reconcile net earnings to cash provided by operating activities:		
Cumulative effect of a change in accounting principles	51	
Depreciation and amortization	1,470	1,444
Amortization of deferred loan costs	51	52
Provisions for bad debt	163	100
Non-cash compensation	23	23
Gain on sale of assets	(176)	(77)
Minority interest in operations of joint ventures	18	27
Change in assets and liabilities:		
Decrease in receivables	298	1,241
(Increase), decrease in inventory	(66)	152
Decrease in prepaid expenses and other current assets	942	1,088
(Increase), decrease in other assets	(12)	111
Decrease in accounts payable	(2,522)	(1,104)
Decrease in accrued liabilities	(1,335)	(595)
Net cash provided by operating activities	2,124	5,126
Cash flows from investing activities:		
Capital expenditures	(2,555)	(1,119)
Acquisitions of restaurants, net of cash acquired		(66)
Proceeds from sale of property and equipment	478	1,021
Net cash used in investing activities	(2,077)	(164)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(765)	(1,009)
Increase in restricted cash	(355)	(100)
Proceeds from exercise of stock options and warrants	7	782
Repayment of note receivable officer	67	33
Purchase of treasury stock		(209)
Net cash used in financing activities	(1,046)	(503)

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Net (decrease), increase in cash	(999)	4,459
Cash at beginning of period	14,323	7,159
	<u> </u>	<u> </u>
Cash at end of period	\$ 13,324	\$ 11,618
	<u> </u>	<u> </u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 706	\$ 745
	<u> </u>	<u> </u>
Issuance of treasury stock	\$	\$ 110
	<u> </u>	<u> </u>
Issuance of capital lease obligation for equipment	\$ 203	\$
	<u> </u>	<u> </u>

See accompanying notes to the consolidated financial statements.

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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, and its joint ventures, 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 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 the 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 quarter ended March 24, 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, it is suggested that the accompanying consolidated financial statements 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 March 24, 2003, there were 380 Rally's restaurants operating in 17 different states and there were 398 Checkers restaurants operating in 21 different states and the District of Columbia. Of the 778 total restaurants, 242 are owned by us and 536 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) New Accounting Pronouncements In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses accounting and financial accounting and reporting for obligations associated with the retirement of tangible long-lived asset retirement costs. This statement requires that the fair value of a liability for an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated present value of the asset retirement costs are capitalized as part of the carrying value of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. We have adopted the standard 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. The depreciable base of property and equipment was increased by \$10,321, net of accumulated depreciation of \$15,662 for the cumulative effect of the change as of the end of our fiscal year December 30, 2002. The asset retirement obligation, included in other long-term liabilities, recorded for the cumulative effect of the change as of December 30, 2002 was \$60,993. The impact on the consolidated income statement for the quarter ended March 24, 2003 was \$52,672, of which \$50,672 is reflected as a cumulative effect of the adoption of SFAS No. 143 and an additional \$2,000 of ongoing expense reflected in restaurant depreciation and restaurant retirement costs. Had the change in accounting principle been retroactively recorded, the pro forma net income and earnings per share would have been as follows:

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(Dollars in thousands, except per share amounts)

	Quarter Ended	
	March 24,	March 25,
	2003	2002
Net income, as reported	\$ 3,219	\$ 2,664
Change: assuming retroactive adjustment of the change in accounting principle	51	(2)
Pro forma net income	\$ 3,270	\$ 2,662
Earnings per share:		
Basic as reported	0.26	0.24
Basic pro forma	0.27	0.24
Diluted as reported	0.25	0.21
Diluted pro forma	0.25	0.21

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of the Statement are effective for exit or disposal activities that are initiated after December 31, 2002. This new standard will affect the timing of when the Company recognizes the cost for restaurant closings. We adopted SFAS No. 146 in the first quarter of fiscal 2003. The adoption of SFAS No. 146 did not materially impact our consolidated financial statements.

In November 2002, the FASB's Emerging Issues Task Force (EITF) released Issue No. 02-16, Accounting by a Reseller for Cash Consideration Received from a Vendor. The consensus reached on this issue was that cash consideration received from a vendor is presumed to be a reduction of the cost of merchandise and should be recorded as a reduction of cost of goods sold unless the consideration is for either (1) payment for assets or services and therefore revenue, or (2) a reimbursement of costs incurred to advertise the vendor's products, and therefore, a reduction of advertising expense. The Company's current accounting for funds received from vendors is consistent with EITF 02-16.

(d) 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	
	March 24,	March 25,

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	<u>2003</u>	<u>2002</u>
Net income, as reported	\$ 3,219	\$ 2,664
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	\$ (490)	\$ (1,363)
Pro forma net income	\$ 2,729	\$ 1,301
Earnings per share:		
Basic as reported	0.26	0.24
Basic pro forma	0.22	0.12
Diluted as reported	0.25	0.21
Diluted pro forma	0.21	0.10

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 weighted-average assumptions:

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Assumptions	March 24, 2003	March 25, 2002
Risk-free interest rates	1.25%	1.73%
Volatility	84%	94%
Expected lives (months)	48	48

An expected dividend yield of zero percent was used for all periods based on the Company's history of no dividend payments.

(e) 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.

(f) 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 \$6.5 million at March 24, 2003 as compared to a \$5.3 million surplus at December 30, 2002. The change to liquidity was primarily due to operating profits of \$3.3 million net of capital additions of \$2.6.

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 March 24, 2003.

Note 3: Leases Receivable

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 March 24, 2003 was approximately \$6.2 million. As of March 24, 2003, we have deferred gains of \$4.3 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 \$3.8 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 \$1.7 million and \$1.9 million for the quarter ended March 24, 2003 and March 25, 2002, respectively.

Note 4: Intangible Assets

We assess the impairment of intangible assets, including such assets as franchise rights, tradename and enterprise level goodwill annually, or 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:

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

significant negative industry or economic trends;

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

our market capitalization relative to net book value.

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 of our goodwill and tradename as of December 30, 2002. Based upon the review, no impairment charge was required and we do not believe circumstances have changed since the review date which would make it necessary to reassess their values as of the balance sheet date.

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Intangible assets consist of the following:

(Dollars in thousands)

	March 24, 2003	Dec. 30, 2002
Goodwill	\$ 24,252	\$ 24,252
Tradename	17,548	17,548
Amortizable intangible assets	2,863	2,928
Intangible assets, net	\$ 44,663	\$ 44,728

Amortizable intangible assets:

	March 24, 2003			December 30, 2002			Estimated Lives
	Gross	Accum	Net	Gross	Accum	Net	
	Amount	Amort		Amount	Amort		
Reacquired franchise rights	\$ 1,237	\$ (512)	\$ 725	\$ 1,237	\$ (494)	\$ 743	1-11 years
Other intangibles	4,191	(2,053)	2,138	4,191	(2,006)	2,185	10-25 years
	\$ 5,428	\$ (2,565)	\$ 2,863	\$ 5,428	\$ (2,500)	\$ 2,928	

Amortization for amortizable intangible assets, for each of five succeeding fiscal years are as follows:

	Total
2003	\$ 280
2004	262
2005	251
2006	251
2007	251

Note 5: 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 June 30, 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 March 24, 2003.

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

(Dollars in thousands)

	March 24, 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% (5.03% at March 24, 2003) secured by property and equipment.	\$ 9,616	\$ 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%.	13,031	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.	3,348	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.	3,934	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.	214	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.	279	328
	<u> </u>	<u> </u>
Total long-term debt and obligations under capital leases	30,422	30,984
Less current installments	(3,234)	(3,243)
	<u> </u>	<u> </u>
Long-term debt, less current maturities	<u>\$ 27,188</u>	<u>\$ 27,741</u>

Although we continue to be obligated, approximately \$6.2 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 7: Accounting Charges and Loss Provisions

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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. During the first quarter ended March 24, 2003, the Company made lease and other payments of \$0.4 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), which we adopted on January 1, 2002. SFAS 144 requires the write-down of certain intangibles and tangible property associated with under-performing sites. 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, no impairment charges were deemed necessary for the quarter ended March 24, 2003.

Note 8: 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

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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.

Note 9: Subsequent Events

Pursuant to our stock repurchase program, under which our Board of Directors has authorized the repurchase of up to 1.3 million shares in accordance with applicable securities regulations. Between March 25, 2003 and April 28, 2003, the Company repurchased 201,741 shares of common stock to be held as treasury stock for approximately \$1.2 million. Our stock repurchase program is used to offset the dilutive effect of stock option exercises and to increase shareholder value. The repurchased common stock will be included in treasury stock as a reduction of stockholders' equity.

On April 14, 2003, the Company issued 20,052 shares of common stock previously held as treasury stock to our former Chief Executive Officer, Daniel J. Dorsch, as compensation in accordance with his employment agreement.

Daniel Dorsch resigned on April 29, 2003 as President, Chief Executive Officer and as a member of the Board of Directors. The Board of Directors, on May 1, 2003, appointed Keith Sirois as interim Chief Executive Officer. Mr. Sirois will also continue to serve as the Company's Vice President of Franchise Operations.

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 March 24, 2003, there were 380 Rally 's restaurants operating in 17 different states and 398 Checkers restaurants operating in 21 different states and the District of Columbia. Of the 778 total restaurants, 242 are owned by us and 536 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.

We receive revenues from restaurant sales, franchise fees and royalties. Restaurant food and paper costs, labor costs, occupancy expense, other operating expenses, depreciation and amortization, and advertising relate directly to Company-owned restaurants.

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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.

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>June 18,</u>	<u>Sept. 10,</u>	<u>Dec. 31,</u>	<u>March 25,</u>	<u>June 17,</u>	<u>Sept. 9,</u>	<u>Dec. 30,</u>	<u>March 24,</u>
<u>2001</u>	<u>2001</u>	<u>2001</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2003</u>

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Company-operated:								
Beginning of quarter	207	207	236	235	255	253	248	248
Openings/transfers in		29	1	23	2			
Closings/transfers out			(2)	(3)	(4)	(5)		(6)
End of quarter	207	236	235	255	253	248	248	242
Franchise:								
Beginning of quarter	638	640	606	586	540	541	541	536
Openings/transfers in	5	1	5		3	7	3	2
Closings/transfers out	(3)	(35)	(25)	(46)	(2)	(7)	(8)	(2)
End of quarter	640	606	586	540	541	541	536	536
	847	842	821	795	794	789	784	778

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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	
	March 24, 2003	March 25, 2002
REVENUES:		
Restaurant sales	92.2%	91.8%
Franchise royalty revenue	7.7%	8.2%
Franchise fees and other income	0.1%	0.0%
Total revenues	100.0%	100.0%
COSTS AND EXPENSES:		
Restaurant food and paper costs(1)	31.3%	30.3%
Restaurant labor costs(1)	30.3%	31.8%
Restaurant occupancy expenses(1)	7.5%	7.0%
Restaurant depreciation and amortization(1)	3.2%	3.5%
Other restaurant operating expenses(1)	11.8%	12.6%
General and administrative expenses	7.4%	7.4%
Advertising(1)	6.3%	5.7%
Bad debt expense	0.4%	0.2%
Non-cash compensation	0.1%	0.1%
Other depreciation and amortization	0.4%	0.4%
Restaurant retirement costs	0.0%	0.9%
Gain on sale of assets	(0.4%)	(0.2%)
Total costs & expenses	91.4%	92.3%
Operating income	8.6%	7.7%
OTHER INCOME (EXPENSE):		
Interest income	0.6%	1.0%
Interest expense	(1.6%)	(2.0%)
Income before minority interests, income tax expense and cumulative effect of a change in accounting principle	7.6%	6.7%
Minority interests in operations of joint ventures	(0.0%)	(0.1%)
Income before income tax expense and cumulative effect of a change in accounting principle	7.6%	6.6%
Income tax expense	0.0%	0.0%
Net income before cumulative effect of a change in accounting principle	7.6%	6.6%
Cumulative effect of a change in accounting principle	0.1%	0.0%
Net income	7.5%	6.6%

(1) As a percentage of restaurant sales

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Comparison of Historical Results Quarter Ended March 24, 2003 and Quarter Ended March 25, 2002

Revenues. Total revenues were \$43.1 million for the quarter ended March 24, 2003, compared to \$40.4 million for the quarter ended March 25, 2002. Company-owned restaurant sales increased by \$2.6 million for the quarter ended March 24, 2003, to \$39.7 million, as compared to \$37.1 million for the quarter ended March 25, 2002 due primarily to the increase in sales at comparable restaurants of 6.4% for the quarter ended March 24, 2003.

Franchise royalty revenue stayed constant at \$3.3 million through March 24, 2003, despite the decrease of franchise locations. There were 540 locations at the end of the first quarter in 2002 as compared to 536 at the end of the first quarter of 2003.

Franchise fees and other income was \$54,000 for the first quarter of 2003, as compared to \$4,000 for the first quarter of 2002, due to the opening of two franchise locations during the quarter ended March 24, 2003.

Costs and expenses. Restaurant food and paper costs totalled \$12.4 million or 31.3% of restaurant sales for the quarter ended March 24, 2003, compared to \$11.2 million or 30.3% of restaurant sales for the quarter ended March 25, 2002. The increase in food and paper costs as a percentage of restaurant sales was due primarily to the promotional campaign run during the first half of the first quarter of 2003, which had a higher food cost compared to the promotions that ran in the first quarter of 2002.

Restaurant labor costs, which include restaurant employees' salaries, wages, benefits and related taxes, totalled \$12.0 million or 30.3% of restaurant sales for the quarter ended March 24, 2003, compared to \$11.8 million or 31.8% of restaurant sales for the quarter ended March 25, 2002. Restaurant labor costs decreased as a percentage of restaurant sales due to 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, totalled \$3.0 million or 7.5% of restaurant sales for the quarter ended March 24, 2003 compared to \$2.6 million or 7.0% of restaurant sales for the quarter ended March 25, 2002. The increase was due to increases in several of the expenses in this category, such as general liability and property insurance as well as property tax expense. Likewise, many of the restaurants acquired in the first quarter of 2002 have slightly higher than average lease cost.

Restaurant depreciation and amortization remained constant at \$1.3 million for both quarters ended March 24, 2003 and March 25, 2002. This expense represented 3.2% of restaurant sales for the quarter ended March 24, 2003, or 3.5% of restaurant sales for the quarter ended March 25, 2002. Depreciation was constant despite capital additions since March 25, 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 \$4.7 million for the first quarter of 2002 and 2003. As a percentage of restaurant sales, this expense was 11.8% for the quarter ended March 24, 2003 compared to 12.6% for the quarter ended March 25, 2002. Utilities, the largest component of this category, decreased to 4.7% as a percentage of restaurant sales as of March 24, 2003 compared to 4.8% for the quarter ended March 25, 2002. Repairs and maintenance decreased to 3.1% as a percentage of sales for the quarter ended March 24, 2003 as compared to 3.9% for the same quarter of the

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prior year. Other costs increased slightly to 4.0% of restaurant sales compared to 3.9% for the same quarter of the prior year. The decrease in the percentage of restaurant sales was due largely to the comparable restaurant sales increase during the current quarter relative to the same quarter last year.

General and administrative expenses were \$3.2 million, or 7.4% of total revenues for the quarter ended March 24, 2003 compared to \$3.0 million, or 7.4% of total revenues for the quarter ended March 25, 2002. Costs were higher for the quarter ended March 24, 2003 as compared to the quarter ended March 25, 2002 due to increased professional fees in the current year.

Advertising expense increased to \$2.5 million, or 6.3% of restaurant sales for the quarter ended March 24, 2003 from \$2.1 million, or 5.7% of restaurant sales for the quarter ended March 25, 2002. The increase in advertising was due to the increased spending on media for markets which were previously franchise-operated as well as an overall increase in contribution rates for the national and regional advertising funds for which the Company participates in.

Bad debt expense increased to \$163,000, or 0.4% of total revenues for the quarter ended March 24, 2003 compared to \$100,000, or 0.2% of total revenues for the quarter ended March 25, 2002. The increase in this expense was due to the write off of specifically identified uncollectible receivables.

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Non-cash compensation resulted from certain options granted and modified in fiscal 2000. Non-cash compensation recognized for the quarter ended March 24, 2003 and for the quarter ended March 25, 2002 was \$23,000 for those options granted with a vesting period through mid-2003.

Other depreciation and amortization increased to \$182,000 compared to \$152,000. 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 quarter of 2003.

Restaurant retirement costs decreased to \$14,000 for the quarter ended March 24, 2003 compared to \$0.4 million for the quarter ended March 25, 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 will continue to attempt to negotiate out of these leases. The expense in the current year is attributable to the estimated lease payments for the closing of one Company-owned restaurant.

Gain on sale of assets increased to \$0.2 million for the quarter ended March 24, 2003 from \$0.1 million for the quarter ended March 25, 2002. The increase in the gain for the current year is due to the sale of two modular buildings which were previously classified as held for sale.

Interest expense. Interest expense decreased to \$0.7 million, or 1.6% of total revenues for the quarter ended March 24, 2003 from \$0.8 million, or 2.0% of total revenues for the quarter ended March 25, 2002. This decrease in interest expense was due primarily to the decrease of \$2.8 million in debt bearing a 14% interest rate in April 2002.

Income tax expense. The Company recorded no income tax expense for the first quarter of 2003. It is estimated that available federal and state net operating losses will reduce taxable income to zero based upon operations during the first quarter 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. The cumulative effect on the income statement for the quarter ended March 24, 2003 by adopting this statement 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 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

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We had a working capital surplus of \$6.5 million at March 24, 2003 as compared to a \$5.3 million surplus at December 30, 2002. The change to liquidity was primarily due to operating profits of \$3.3 million for the first quarter of the year net of capital additions of \$2.6 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 March 24, 2003.

Cash and cash equivalents decreased approximately \$1.0 million to \$13.3 million since the fiscal year ended December 30, 2002. Cash flow provided by operating activities is \$2.1 million compared to \$5.1 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 \$2.1 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 \$1.0 million. We made principal payments of \$0.8 million on our debt and capital lease obligations and increased restricted cash by \$0.4 million. These outlays were offset against receipts of \$74,000 for the repayment of an officer note and issuance of common stock from the exercise of stock options through March 24, 2003.

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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 March 24, 2003 was approximately \$6.2 million. We have recorded deferred gains of \$4.3 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 \$3.8 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.

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:

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

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

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

significant negative industry or economic trends.

Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets requires the write-down of certain intangibles and tangible property associated with under-performing sites. 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 effect of applying these standards resulted in a reduction of property, equipment and intangible assets of approximately \$7.4 million for the fiscal year 2002, \$1.2 million for the fiscal year 2001 and \$0.6 million for the fiscal year 2000.

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:

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

significant negative industry or economic trends;

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

our market capitalization relative to net book value.

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.

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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, net of allowance for doubtful accounts of \$4.9 million as of March 24, 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 has increased the reserve to reflect this. In 2002, loss from restaurant closures was \$5.2 million.

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 March 24, 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.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses accounting and financial reporting for obligations associated with the retirement of tangible long-lived asset retirement costs. This statement requires that the fair value of a liability for an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated present value of the asset retirement costs are capitalized as part of the carrying value of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. We have adopted the standard 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. The depreciable base of property and equipment was increased by \$10,321, net of accumulated depreciation of \$15,662 for the cumulative effect of the change as of the end of our fiscal year December 30, 2002. The asset retirement obligation, included in other long-term liabilities, recorded for the cumulative effect of the change as of December 30, 2002 was \$60,993. The impact on the consolidated income statement for the quarter ended March 24, 2003 was \$52,672, of which \$50,672 is reflected as a cumulative effect of the adoption of SFAS No. 143 and an additional \$2,000 of ongoing expense reflected in restaurant depreciation and restaurant retirement costs.

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In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of the Statement are effective for exit or disposal activities that are initiated after December 31, 2002. This new standard will affect the timing of when the Company recognizes the cost for restaurant closings. We adopted SFAS No. 146 in the first quarter of fiscal 2003. Adoption of SFAS No. 146 did not materially impact our consolidated financial statements.

In November 2002, the FASB 's Emerging Issues Task Force (EITF) released Issue No. 02-16, Accounting by a Reseller for Cash Consideration Received from a Vendor. The consensus reached on this issue was that cash consideration received from a vendor is presumed to be a reduction of the cost of merchandise and should be recorded as a reduction of cost of goods sold unless the consideration is for either (1) payment for assets or services and therefore revenue, or (2) a reimbursement of

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costs incurred to advertise the vendor's products, and therefore, a reduction of advertising expense. The Company's current accounting for funds received from vendors is consistent with EITF 02-16.

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

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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 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*. A companion complaint was also filed in the same Court on May 21, 1997, entitled *Gail P.*

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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.

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 entered into a tentative agreement to resolve the above-referenced litigation that is subject to the negotiation of a satisfactory formal written settlement agreement. The proposed agreement calls for the Company to pay the Plaintiffs a total of \$902,301 consisting of an immediate payment to the Plaintiffs of accrued royalty fees and National Production Fund (i.e., advertising) contributions due the Company under the Plaintiffs' franchise agreements which were placed in escrow pursuant to a stipulated court order and the remainder to be paid in equal monthly installments ending in August of 2005. As of March 24, 2003, the amount before-described escrow account totaled \$638,119. The before-described negotiations have been protracted and there is no assurance that a final agreement can be achieved between the parties.

The Company has made demand upon its Directors and Officers insurance carrier to pay a portion of the before-described settlement amount in accordance with its contract of insurance. The insurance company has denied the demand, but negotiations between the Company and the insurance company to resolve the dispute are currently underway.

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

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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.

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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 decision, like all final judgments, is subject to being appealed by Hawkins. In the event such an appeal is filed, the Company intends to continue to vigorously defend the matter.

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,

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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 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.

YOGOTTAEAT, 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

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New York, Brooklyn Office. The Complaint asserts claims under federal and state law contesting the Company's right to use its Yougottaeat service mark. No investigation or discovery has been conducted as of the date of this note and no estimate of possible loss or range of loss resulting from the lawsuit can be made at this time. Checkers Drive-In Restaurants, Inc. vigorously denies the allegations set forth in the complaint.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1

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- Lease agreement between GE Capital Franchise Finance Corporation, GECFFC, formerly FFCA Acquisition Corporation, and Checkers Drive-In Restaurants, Inc. dated December 23, 1999.
- 10.2 Mortgage agreement between GE Capital Franchise Finance Corporation, GECFFC, formerly FFCA Acquisition Corporation, and Checkers Drive-In Restaurants, Inc. dated December 18, 1998.
- 10.3 Mortgage agreement between GE Capital Franchise Finance Corporation, GECFFC, formerly FFCA Acquisition Corporation, and Rally 's Hamburgers, Inc. dated December 18, 1998.
- 99.1 Written statement of Chairman of the Board of Directors pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 5, 2003.
- 99.2 Written statement of Chief Executive Officer (interim) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 5, 2003
- 99.3 Written statement of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 5, 2003

(b) Reports on 8-K:

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

On March 19, 2003, the Registrant issued a news release entitled Fourth Quarter and Full Year 2002 Results.

On March 19, 2003, the Registrant issued a news release entitled Checkers Announces Stock Repurchase.

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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: May 5, 2003

By:

/s/ PETER C. O HARA

Chairman of the Board of Directors

Date: May 5, 2003

By:

/s/ KEITH E. SIROIS

Chief Executive Officer (interim)

Date: May 5, 2003

By:

/s/ DAVID G. KOEHLER

Treasurer and Chief Financial Officer

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CERTIFICATIONS

I, Peter C. O Hara, 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.

May 5, 2003

/s/ PETER C. O HARA

Peter C. O Hara

Chairman of the Board of Directors

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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.

May 5, 2003

/s/ KEITH E. SIROIS

Keith E. Sirois

Chief Executive Officer (interim)

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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;
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 - 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.

May 5, 2003

/s/ DAVID G. KOEHLER

David G. Koehler

Vice-President and Chief Financial Officer

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March 24, 2003 FORM 10-Q

Checkers Drive-In Restaurants, Inc.

Index to Exhibits

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