CHECKERS DRIVE IN RESTAURANTS INC /DE
Form 10-Q
August 02, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 18, 2001

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.)
14255 49/th/ Street North, Building 1 Suite 101 Clearwater, FL (Address of principal executive offices)	33762 (Zip code)

Registrant's telephone number, including area code: (727) 519-2000

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 [_]

The Registrant had 9,889,842 shares of Common Stock, par value $.001 per share, outstanding as of June 18, 2001.

TABLE OF CONTENTS

CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(UNAUDITED)

	June 18 2001
Current Assets:	
Cash and cash equivalents	$ 568
Restricted cash	1,749
Accounts, notes and leases receivable, net	4,307
Inventory	1,116
Prepaid expenses and other current assets	1,424
Property and equipment held for sale	8,720
Total current assets	17,884
Property and equipment, net	43,924
Notes receivable, net - less current portion	6,350
Lease receivable, net- less current portion	7,379

Intangible assets, net	47,053
Other assets, net	2,039
	$ 124,629
Current Liabilities:	
Current maturities of long-term debt and obligations under capital leases	$ 5,307
Accounts payable	4,410
Reserves for restaurant relocations and abandoned sites	1,582
Accrued wages and benefits	2,356
Accrued liabilities	8,325
Total current liabilities	21,980
Long-term debt, less current maturities	27,209
Obligations under capital leases, less current maturities	7,277
Long-term reserves for restaurant relocations and adandoned sites	2,777
Minority interests in joint ventures	518
Deferred revenue	7,933
Other long-term liabilities	3,875
Total liabilities	71,569
Stockholders' Equity:	
Preferred stock, $.001 par value, authorized 2,000,000 shares, none issued at June 18, 2001 and January 1, 2001	-
Common stock, $.001 par value, authorized 175,000,000 shares, issued 9,938,084 at June 18, 2001 and 9,653,623 at January 1, 2001	10
Additional paid-in capital	139,157
Accumulated deficit	(85,607)
	53,560
Less: Treasury stock, 48,242 at June 18, 2001 and January 1, 2001, at cost	(400)
Note receivable - officer	(100)
Total stockholders' equity	53,060
	$ 124,629

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended	
	June 18, 2001	June 1 2000

REVENUES:		
Restaurant sales	$ 33,208	$ 43
Franchise revenues and other income	4,029	3
Total revenues	$ 37,237	$ 47
COSTS AND EXPENSES:		
Restaurant food and paper costs	11,427	13
Restaurant labor costs	10,791	14
Restaurant occupancy expenses	2,443	2
Restaurant depreciation and amortization	970	1
Other restaurant operating expenses	4,193	4
General and administrative expenses	2,916	3
Advertising	1,933	2
Bad debt expense	162	
Other depreciation and amortization	1,055	1
Gain on sale of assets	(179)	
Total costs & expenses	35,711	44
Operating income	1,526	2
OTHER INCOME (EXPENSE):		
Interest income	456	
Interest expense	(1,149)	(1
Income before minority interests, income tax expense and extraordinary item	833	1
Minority interests in operations of joint ventures	(22)	
Income before income tax expense and extraordinary item	811	1
Income tax expense	35	
Net income from continuing operations before extraordinary item	776	1
Extraordinary item-gain on early extinguishment of debt, net of income taxes	-	
Net income	$ 776	$ 1
Comprehensive income	$ 776	$ 1
Basic earnings per share:		
Earnings before extraordinary item	$ 0.08	$
Extraordinary item	-	
Net earnings	$ 0.08	$
Diluted earnings per share:		
Earnings before extraordinary item	$ 0.07	$
Extraordinary item	-	
Net earnings	$ 0.07	$
Weighted average number of common shares outstanding:		
Basic	9,869	9
Diluted	11,908	9

See accompanying notes to condensed consolidated financial statements

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

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Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	
Gain on bond repurchases	
Amortization of bond costs and discounts	
Provisions for bad debt	
Gain on sale of assets	
Minority interest in operations of joint ventures	
Change in assets and liabilities:	
Decrease (increase) in receivables	
Decrease (increase) in inventory	
Decrease (increase) in prepaid expenses and other current assets	
Decrease in other assets	
Increase (decrease) in accounts payable	
Increase (decrease) in accrued liabilities	
Net cash provided by (used in) operating activities	
Cash flows from investing activities:	
Capital expenditures	
Acquistion of restaurants, net of cash acquired	
Decrease in investments	
Proceeds from sale of property & equipment	
Net cash provided by (used in) investing activities	
Cash flows from financing activities:	
Principal payments on long-term debt and capital lease obligations	
Decrease in restricted cash	
Repayments of senior notes	
Net proceeds from issuance of common stock	
Proceeds from issuance of long-term debt	
Deferred loan costs incurred	
Distributions to minority interests	
Net cash used in financing activities	
Net decrease in cash	
Cash at beginning of period	
Cash at end of period	$
Supplemental disclosures of cash flow information	
Interest paid	$

Issuance of capital lease obligation for equipment	$
Note receivable accepted for market sale	$

See accompanying notes to condensed consolidated financial statements.

5

CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)

Note 1: Summary of Significant Accounting Policies

(a) Basis of Presentation - The accompanying unaudited condensed consolidated 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 condensed 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 two quarters ended June 18, 2001, are not necessarily an indication of the results that may be expected for the fiscal year ending December 31, 2001. 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 January 1, 2001. Therefore, it is suggested that the accompanying consolidated financial statements be read in conjunction with the Company's January 1, 2001 consolidated financial statements.

(b) Purpose and Organization - Our principal business is the operation and franchising of Checkers(R) and Rally's Hamburgers(R) (Rally's) restaurants. At June 18, 2001, there were 426 Rally's restaurants operating in 18 different states and there were 421 Checkers restaurants operating in 22 different states, the District of Columbia, Puerto Rico and the West Bank in the Middle East. Of the 847 total restaurants, 207 are owned by us and 640 are owned by franchisees. Three of the Company-owned restaurants are owned by joint venture partnerships in which we have a 50% to 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) 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.

(d) Reclassifications - Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 presentation.

Note 2: Liquidity and Capital Resources

We have a working capital deficit of $4.1 million at June 18, 2001 as compared to a $9.0 million deficit at January 1, 2001. The decrease in the deficit is primarily due to the repayment of the Textron note payable (Loan B). We repaid $2 million from operating cash flows and issued a note payable to Heller Financial, Inc. for $3.8 million over a 30 month term at an interest rate of 14%.

Although there can be no assurance, we believe that our existing cash at June 18, 2001, together with cash provided from operations will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months.

Note 3: Lease Receivables

We have capital lease receivables for restaurants previously sold which are subject to capital lease and mortgage obligations. The amount of capital lease receivables as of June 18, 2001 was approximately $8.0 million. We have

6

deferred gains of $6.2 million from these sales as of June 18, 2001, since we continue to be responsible for the payment of these obligations to the original lessors and mortgagors. The gain is being recognized over the life of the related capital leases. The deferred gains are included in the balance sheet under the captions accrued liabilities-current and deferred revenue for $0.7 million and $5.5 million, respectively.

The Company, as original lessee, has subleased the land 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.

Note 4: Revolving Line of Credit

The Company has exercised it option to extend the revolving loan facility, under Loan B, available beginning June 30, 2001 with Textron Financial Corporation that permits the Company to borrow up to 50% of collateral pledged. The credit facility is available through June 15, 2002 with an interest rate equal to LIBOR plus 4.5% (8.56% at June 18, 2001). Total collateral pledged as of June 18, 2001 was approximately $5.2 million, consisting primarily of property and equipment.

Note 5: Long-Term debt and Obligations under Capital Leases

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	2
Note payable (Loan A) to Textron Financial Corporation payable in 120 monthly installments, including interest at LIBOR plus 3.7% (7.76% at June 18, 2001) secured by property and equipment.	$ 11,
Revolving credit note payable (Loan B) to Textron Financial Corporation payable on June 15, 2001. Installment payments of interest only were due monthly at 30%, secured by real estate, property and equipment, and subordinate to Loan A. The balance has been fully satisfied.	
Mortgages payable to FFCA Acquisition Corporation secured by thirty- two Company-owned restaurants, payable in 240 aggregate monthly of $133,295, including interest at 9.5%. Although we continue to be obligated, approximately $3.5 million of these mortgage obligations pass directly through to franchisees as a result of Company-owned restaurant sales.	13,
Note payable to Heller Financial secured by the equipment at Company-owned restaurants, payable in 30 monthly installments of $153,712, including interest at 14%.	3,
Obligations under capital leases, maturing at various dates through January 1, 2018, secured by property and equipment, bearing interest ranging from 7% to 16.4%. The leases are payable in monthly principal and interest installments ranging from $674 to $11,320. Although we continue to be obligated, approximately $4.5 million of these capital lease obligations pass directly through to franchisees as a result of Company-owned restaurant sales.	9,
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 $8,416 and $15,420, respectively.	
Other notes payable maturing at various dates through November 20, 2005, secured by property and equipment, bearing interest ranging from 7.7% to 9.75%. The notes are payable in monthly principal and interest installments ranging from $1,531 to $18,095.	1,
Total long-term debt and obligations under capital leases	39,
Less current installments	5,
Long-term debt, less current maturities	$ 34,

Note 6: Accounting Charges and Loss Provisions

At the end of fiscal 2000, we had reserves of $5.3 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 half of 2001, the Company made lease and other payments of $764,000, relating to restaurant relocations and abandoned sites.

Note 7: Subsequent Event

On July 2, 2001, we repossessed and began operating eighteen Rally's restaurants in California and three Rally's restaurants in Arizona. These restaurants were previously operated by CKE Restaurants, Inc.

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 one of the largest chains of double drive-thru restaurants in the United States. Our Company is a combination of two separate quick-service restaurant chains, Checkers(R) and Rally's Hamburgers(R) (Rally's), which were merged in August 1999. Although Checkers was the surviving entity for purposes of corporate law, Rally's was considered the surviving entity for accounting purposes since the shareholders of Rally's owned a majority of our outstanding stock immediately following the merger. At June 18, 2001, there were 426 Rally's restaurants operating in 18 different states and 421 Checkers restaurants operating in 22 different states, the District of Columbia, Puerto Rico and the West Bank in the Middle East. Of the 847 total restaurants, 207 are owned by us and 640 are owned by franchisees. Three of our restaurants are owned by joint venture partnerships in which we have a 50%-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 and promotion expenses relate directly to Company-owned restaurants. Other expenses, such as depreciation and amortization, and general and administrative expenses, relate to Company-owned restaurant operations and the Company's franchise sales and support functions. Our revenues and expenses are affected by the number and timing of additional restaurant openings, closings, market sales and the sales volumes of both existing and new restaurants.

8

RESULTS OF OPERATIONS

The table below sets forth the percentage relationship to total revenues, unless otherwise indicated, of certain items included in the condensed consolidated statements of income and operating data for the periods indicated:

	Quarter Ended	
	June 18, 2001	June 19, 2000
REVENUES:		
Restaurant sales	89.2%	91.8%
Franchise revenues and other income	10.8%	8.2%
Total revenues	100.0%	100.0%

COSTS AND EXPENSES:		
Restaurant food and paper costs (1)	34.4%	31.4%
Restaurant labor costs (1)	32.5%	32.8%
Restaurant occupancy expenses (1)	7.4%	6.8%
Restaurant depreciation and amortization (1)	2.9%	2.5%
Other restaurant operating expenses (1)	12.6%	10.9%
General and administrative expenses	7.8%	7.3%
Advertising (1)	5.8%	6.8%
Bad debt expense	0.4%	0.4%
Other depreciation and amortization	2.8%	2.6%
Gain on sale of assets	(0.5%)	(0.1%)
Total costs & expenses	95.9%	93.8%
Operating income	4.1%	6.2%
OTHER INCOME (EXPENSE):		
Interest income	1.2%	0.3%
Interest expense	(3.1%)	(3.5%)
Income before minority interests, income tax expense, and extraordinary item	2.2%	3.0%
Minority interests in operations of joint ventures	(0.0%)	(0.0%)
Income before income tax expense and extraordinary item	2.2%	3.0%
Income tax expense	0.1%	0.1%
Net income from continuing operations before extraordinary item	2.1%	2.9%
Gain on early extinguishment of debt, net of income taxes	0.0%	0.3%
Net income	2.1%	3.2%
Number of Company-operated restaurants:		
Restaurants open at the beginning of period	207	367
Opened, closed or transferred, net during the period	-	(80)
Total company-owned restaurants, end of period	207	287
Number of franchised restaurants:		
Restaurants open at the beginning of period	638	537
Opened, closed or transferred, net during the period	2	64
Total franchised restaurant, end of period	640	601
Total all restaurants opened at end of period:	847	888

(1) As a percentage of restaurant sales

Comparison of Historical Results - Quarter Ended June 18, 2001 and Quarter Ended June 19, 2000

Revenues. Total revenues were $37.2 million for the quarter ended June 18, 2001, compared to $47.1 million for the quarter ended June 19, 2000. Company-owned restaurant sales decreased by $10.0 million for the quarter ended

June 18, 2001, to $33.2 million, as compared to $43.2 million for the quarter ended June 19, 2000 due primarily to the decrease in Company-owned restaurants by approximately 120, due to market sales in 2000, as compared to the quarter ended June 19, 2000. Sales at comparable restaurants, which include only the units that were in operation for the full quarters being compared, increased 13.6% for the quarter ended June 18, 2001 as compared with the quarter ended June 19, 2000.

Costs and expenses. Restaurant food and paper costs totalled $11.4 million or 34.4% of restaurant sales for the quarter ended June 18, 2001, compared to $13.6 million or 31.4% of restaurant sales for the quarter ended June 19, 2000. The increase in these costs as a percentage of restaurant sales was due to increased beef prices accompanied with promotional sales during the quarter.

Restaurant labor costs, which includes restaurant employees' salaries, wages, benefits and related taxes, totalled $10.8 million or 32.5% of restaurant sales for the quarter ended June 18, 2001, compared to $14.2 million or 32.8% of restaurant sales for the quarter ended June 19, 2000. Restaurant labor costs remained consistent as a percentage of restaurant sales.

Restaurant occupancy expense, which includes rent, property taxes, licenses and insurance, totalled $2.4 million or 7.4% of restaurant sales for the quarter ended June 18, 2001 compared to $2.9 million or 6.8% of restaurant sales for the quarter ended June 19, 2000. The increase in restaurant occupancy expense as a percentage of restaurant sales is primarily due to increasing insurance costs.

Restaurant depreciation and amortization remained consistent for the quarter ended June 18, 2001 as compared to the quarter ended June 19, 2000.

Other restaurant expense includes all other restaurant level operating expenses, and specifically includes utilities, maintenance and other costs. These expenses totalled $4.2 million, or 12.6% of restaurant sales for the quarter ended June 18, 2001 compared to $4.7 million, or 10.9% of restaurant sales for the quarter ended June 19, 2000. The increase was primarily related to increases in repairs and maintenance as we continue to refurbish the restaurants. In addition, utility costs also increased during the quarter ended June 18, 2001.

General and administrative expenses were $2.9 million, or 7.8% of total revenues for the quarter ended June 18, 2001 compared to $3.4 million, or 7.3% of total revenues for the quarter ended June 19, 2000. The decrease in costs is due primarily to a decrease in corporate payroll by approximately $0.4 million. The increase as a percentage of total revenues is due to the decrease in total revenues, resulting from the sale of restaurants in fiscal 2000.

Advertising expense decreased to $1.9 million, or 5.8% of restaurant sales for the quarter ended June 18, 2001 from $2.9 million, or 6.8% of restaurant sales for the quarter ended June 18, 2001. The decrease in dollars spent was due to the decrease of approximately 120 Company-owned restaurants as compared to the quarter ended June 19, 2000. The decrease as a percentage of sales was due to the increase in comparable store sales of 13.6%.

Bad debt expense for the quarter ended June 18, 2001 remained consistent with the quarter ended June 19, 2000.

Other depreciation and amortization decreased by $154,000 to $1.06 million. The decrease was due primarily to decreased amortization resulting from the early repayment of debt at the end of fiscal 2000. Deferred financing costs were written down as a result of the early repayment, decreasing amortization expense.

Interest expense. Interest expense decreased to $1.1 million, or 3.1% of total revenues for the quarter ended June 18, 2001 from $1.6 million, or 3.5% of total revenues for the quarter ended June 19, 2000. This decrease was primarily due to the repayment of $40 million of debt near and after the end of the quarter ended June 19, 2000.

Income tax expense. The Company's income tax expense for both periods remained consistent and represents estimated state income taxes. No federal income tax expense has been recorded due to the availability of net operating losses from prior years operations.

Comparison of Historical Results - Two Quarters Ended June 18, 2001 and Two Quarters Ended June 19, 2000

Revenues. Total revenues were $72.5 million for the two quarters ended June 18, 2001, compared to $99.3 million for the two quarters ended June 19, 2000. Company-owned restaurant sales decreased by $27.9 million for the two quarters ended June 18, 2001, to $64.9 million, as compared to $92.8 million for the two quarters ended June 19, 2000, due primarily to a decrease in Company-owned restaurants by approximately 160, due to market sales in 2000, as compared to the two quarter ended June 19, 2000. Sales at comparable restaurants, which include only the units that were in operation for the full two quarters being compared, increased 13.0% for the two quarters ended June 18, 2001 as compared with the two quarters ended June 19, 2000. Franchise revenues and fees increased by $1.1 million, primarily as a result of the Company-owned restaurant sales, resulting in an increase in royalties.

Costs and expenses. Restaurant food and paper costs totalled $21.6 million or 33.4% of restaurant sales for the two quarters ended June 18, 2001, compared to $29.1 million or 31.4% of restaurant sales for the two quarters ended June 19, 2000. The increase in these costs as a percentage of restaurant sales was due to increased beef prices accompanied with promotional sales during the two quarters.

Restaurant labor costs, which includes restaurant employees' salaries, wages, benefits and related taxes, totalled $21.2 million or 32.7% of restaurant sales for the two quarters ended June 18, 2001, compared to $30.6 million or 33.0% of restaurant sales for the two quarters ended June 19, 2000. Restaurant labor costs remained consistent as a percentage of restaurant sales.

Restaurant occupancy expense, which includes rent, property taxes, licenses and insurance, totalled $5.0 million or 7.7% of restaurant sales for the two quarters ended June 18, 2001 compared to $6.8 million or 7.3% of restaurant sales for the two quarters ended June 19, 2000. The increase in restaurant occupancy expense as a percentage of restaurant sales is primarily due to increasing insurance costs.

Restaurant depreciation and amortization remained consistent for the two quarters ended June 18, 2001 as compared to the two quarters ended June 19, 2000.

Other restaurant expense includes all other restaurant level operating expenses, and specifically includes utilities, maintenance and other costs.

These expenses totalled $8.2 million, or 12.7% of restaurant sales for the two quarters ended June 18, 2001 compared to $10.1 million, or 10.9% of restaurant sales for the two quarters ended June 19, 2000. The increase was primarily related to increases in repairs and maintenance as we continue to refurbish the restaurants. In addition, utilities costs also increased during the two quarters ended June 18, 2001.

General and administrative expenses were $5.8 million, or 8.0% of total revenues for the two quarters ended June 18, 2001 compared to $7.2 million, or 7.3% of total revenues for the two quarters ended June 19, 2000. The decrease in costs is due primarily to a decrease in corporate payroll by approximately $1.3 million. The increase as a percentage of total revenues is due to the decrease in total revenues, resulting from the sale of restaurants in fiscal 2000.

Advertising expense decreased to $3.8 million, or 5.8% of restaurant sales for the two quarters ended June 18, 2001 from $6.7 million, or 7.2% of restaurant sales for the two quarters ended June 19, 2000. The decrease in dollars spent was due to a decrease in Company-owned restaurants by approximately 160 as compared to the two quarter ended June 19, 2000. The decrease as a percentage of sales was due to the increase in comparable store sales of 13.0% over the two quarters.

Other depreciation and amortization decreased by $437,000 to $2.0 million. The decrease was due primarily to decreased amortization resulting from the early repayment of debt at the end of fiscal 2000. Deferred financing costs were written down as a result of the early repayment, decreasing amortization expense.

Interest expense. Interest expense decreased to $2.4 million, or 3.3% of total revenues for the two quarters ended June 18, 2001 from $3.5 million, or 3.6% of total revenues for the two quarters ended June 19, 2000. This decrease was primarily due to the repayment of $40 million of debt near and after the end of the quarter ended June 19, 2000.

Income tax expense. The Company's income tax expense remained consistent and represents estimated state income taxes. No federal income tax expense has been recorded due to the availability of net operating losses from prior years operations.

Liquidity and Capital Resources

At June 18, 2001, we had a working capital deficit of $4.1 million as compared to a $9.0 million deficit at January 1, 2001. The decrease in the deficit is primarily due to the repayment of the Textron note payable (Loan B). We repaid $2 million from operating cash flows and issued a note payable to Heller Financial, Inc. for $3.8 million payable over 30 months at an interest rate of 14%. The Company, and the restaurant industry in general, operates with a working capital deficit because all of our restaurant sales are for cash, while we receive credit from our trade suppliers. In addition, we maintain relatively low levels of accounts receivable and inventory.

Cash and cash equivalents decreased approximately $355,000 to $568,000 from the fiscal year ended January 1, 2001. Cash flow from operating activities was $3.9 million compared to an outflow of $1.1 million during the same period last year. The increase of $5.0 million is largely attributable to current profits and a net decrease in the balances of accounts payable and accrued liabilities due to the timing of payments in the prior year.

Cash flow used for investing activities was $1.7 million related primarily to capital expenditures. The capital expenditures related to point-of-purchase menu boards and building refurbishments. Point-of-sale equipment was acquired during the period under capital lease obligations of approximately $2.3 million. In addition, 17 restaurants were reacquired during the two quarters ended June 18, 2001 by assuming $312,000 in liabilities.

Cash used by financing activities was $2.5 million. We paid down $2 million of the Textron note payable (Loan B) prior to refinancing the remaining $3.9 million in addition to monthly principal payments of approximately $1.6 million. We received $580,000 from the issuance of long-term debt and $507,000 from the issuance of common stock from the exercise of stock options and warrants during the two quarters ended June 18, 2001.

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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

12

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. 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 Checkers 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 and 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 parties reached a tentative settlement on January 11, 2001. In the event the settlement is not consummated, we intend to defend vigorously.

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. In the original action filed by the Company in July 1995, against Mr. Gagne and Tampa Checkmate Food Services, Inc., (hereinafter "Tampa Checkmate") a company controlled by Mr. Gagne, Checkers sought to collect on a promissory note and foreclose on a mortgage securing the promissory note issued by Tampa Checkmate and Mr. Gagne and obtain declaratory relief regarding the rights of the respective parties under Tampa Checkmate's franchise agreement with Checkers. The counterclaim, as amended, 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 and sought a judgment for damages in an unspecified amount, punitive damages, attorneys' fees and such other relief as the court may deem appropriate.

The case was tried before a jury in August of 1999. The court entered a directed verdict and an involuntary dismissal as to all claims alleged against Robert G. Brown, George W. Cook, and Jared Brown. The court also entered a directed verdict and an involuntary dismissal as to certain other claims alleged against Checkers and the remaining individual counterclaim defendants, James E.

Mattei, Herbert G. Brown and James F. White, Jr. The jury returned a verdict in favor of Checkers, James E. Mattei, Herbert G. Brown and James F. White, Jr. as to all counterclaims brought by Checkmate Food Services, Inc. and in favor of Mr. Mattei as to all claims alleged by Tampa Checkmate and Mr. Gagne. In response to certain jury interrogatories, however, the jury made the following determination: (i) that Mr. Gagne was fraudulently induced to execute a certain unconditional guaranty and that Checkers was therefore not entitled to enforce its terms; (ii) that Checkers, H. Brown and Mr. White fraudulently induced Tampa Checkmate to execute a certain franchise agreement whereby Tampa Checkmate was damaged in the amount of $151,331; (iii) that Checkers, H. Brown and Mr. White violated a provision of the Florida Franchise Act relating to that franchise agreement whereby Tampa Checkmate and Mr. Gagne were each damaged in the amount of $151,331; and (iv) that none of the defendants violated Florida's Deceptive and Unfair Trade Practices Act relating to that franchise agreement.

We believe that the responses to the jury interrogatories described above are "advisory" because of certain pre-trial orders entered by the Court. As a result, we believe that the responses contained in the jury interrogatories are not binding on the trial court, and that it is incumbent on the trial court to weigh the evidence and enter its own verdict. The trial court nonetheless determined that the responses to the jury interrogatories described above are binding upon it and entered a final judgment accordingly. We believe that the entry of the judgment was erroneous and we have filed a notice of appeal to the Court of Appeals for the Second District of Florida.

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. In July 1997, Checkers filed an Adversary Complaint in the Tampa Checkmate bankruptcy proceedings entitled Checkers Drive-In Restaurants, Inc. v. Tampa Checkmate Food Services, Inc. The Adversary Complaint sought a preliminary and permanent injunction enjoining Tampa Checkmate's continued use of Checkers' marks and trade dress notwithstanding the termination of its franchise agreement on April 8, 1997. Tampa Checkmate filed a counterclaim to Checkers complaint that essentially contained the same claims set forth in the amended counterclaim filed in the state court action. The court granted Checkers' motion for preliminary injunction on July 23, 1998, and Tampa Checkmate de-identified its restaurant. On December 15, 1998, the Court granted Checkers motion to convert Tampa Checkmate's bankruptcy proceedings from a Chapter 11 proceeding to a Chapter 7 liquidation. The bankruptcy court has granted Checkers' motion to lift the automatic stay imposed by 11 U.S.C. ss.362 to allow Checkers to proceed with the disposition of the property which is the subject of its mortgage. The

13

counterclaim in the bankruptcy proceedings remains pending, but we believe the merits of the counterclaim were already determined by state court proceedings described above.

Dorothy Hawkins v. Checkers Drive-In Restaurants, Inc. and KPMG Peat Marwick. On March 4, 1999, a state court complaint was filed in the Circuit Court in and for Pinellas County, Florida, Civil Division. The complaint alleges that Mrs. Hawkins was induced into purchasing a restaurant site and entering into a franchise agreement with Checkers based on misrepresentations and omissions made by Checkers. The complaint asserts claims for breach of contract, breach of the implied covenant of good faith and fair dealing, violation of Florida's Deceptive Trade Practices Act, fraudulent concealment, fraudulent inducement, and negligent representation. The Company denies the material allegations of the complaint and intends to defend this lawsuit vigorously.

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:

None.

(b) Reports on 8-K:

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

None

SIGNATURE

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

Checkers Drive-In Restaurants, Inc.
(Registrant)

Date: July 30, 2001

By: /s/ Daniel J. Dorsch
President and Chief Executive Officer