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CHECKERS DRIVE IN RESTAURANTS INC /DE

Form 10-Q

October 24, 2001

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 September 10, 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.)

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

33607
(Zip code)

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

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

The Registrant had 10,173,367 shares of Common Stock, par value \$.001 per share, outstanding as of September 10, 2001.

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

| | September 2001 |
|--|-------------------|
| | ----- |
| Current Assets: | |
| Cash and cash equivalents | \$ |
| Restricted cash | |
| Accounts, notes and leases receivable, net | |
| Inventory | |
| Prepaid expenses and other current assets | |
| Property and equipment held for sale | |
| | ----- |
| Total current assets | |
| Property and equipment, net | |
| Notes receivable, net - less current portion | |
| Lease receivable, net- less current portion | |

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Intangible assets, net
Other assets, net

\$
=====

Current Liabilities:

Current maturities of long-term debt and obligations under capital leases
Accounts payable
Reserves for restaurant relocations and abandoned sites
Accrued wages and benefits
Accrued liabilities

\$

Total current liabilities

Long-term debt, less current maturities
Obligations under capital leases, less current maturities
Long-term reserves for restaurant relocations and abandoned sites
Minority interests in joint ventures
Deferred revenue
Other long-term liabilities

Total liabilities

Stockholders' Equity:

Preferred stock, \$.001 par value, authorized 2,000,000 shares, none
issued at September 10, 2001 and January 1, 2001
Common stock, \$.001 par value, authorized 175,000,000 shares, issued
10,221,609 at September 10, 2001 and 9,653,623 at January 1, 2001
Additional paid-in capital
Accumulated deficit

Less: Treasury stock, 48,242 at September 10, 2001
and January 1, 2001, at cost
Note receivable - officer

Total stockholders' equity

\$
=====

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

Sept. 10, Sept
2001 20

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| | | |
|--|-----------|-------|
| REVENUES: | | |
| Restaurant sales | \$ 34,306 | \$ 31 |
| Franchise royalty revenue | 3,655 | \$ 3 |
| Franchise fees and other income | 28 | 2 |
| | ----- | ----- |
| Total revenues | \$ 37,989 | \$ 37 |
| | ----- | ----- |
| COSTS AND EXPENSES: | | |
| Restaurant food and paper costs | 11,245 | 9 |
| Restaurant labor costs | 11,346 | 10 |
| Restaurant occupancy expenses | 3,219 | 2 |
| Restaurant depreciation and amortization | 929 | 1 |
| Other restaurant operating expenses | 4,725 | 4 |
| General and administrative expenses | 3,007 | 2 |
| Advertising | 1,690 | 1 |
| Bad debt expense | 161 | |
| Other depreciation and amortization | 696 | |
| Impairment of long-lived assets | 223 | |
| Loss (gain) on sale of assets | (203) | 1 |
| | ----- | ----- |
| Total costs & expenses | 37,038 | 36 |
| | ----- | ----- |
| Operating income | 951 | 1 |
| OTHER INCOME (EXPENSE): | | |
| Interest income | 478 | |
| Interest expense | (879) | (1) |
| | ----- | ----- |
| Income before minority interests, income tax expense and extraordinary item | 550 | |
| Minority interests in operations of joint ventures | (7) | |
| | ----- | ----- |
| Income before income tax expense and extraordinary item | 543 | |
| Income tax expense (benefit) | 91 | |
| | ----- | ----- |
| Net income from continuing operations before extraordinary item | 452 | |
| Extraordinary item-gain on early extinguishment of debt, net of income taxes | - | |
| | ----- | ----- |
| Net income | \$ 452 | \$ |
| | ===== | ===== |
| Comprehensive income | \$ 452 | \$ |
| | ===== | ===== |
| Basic earnings per share: | | |
| Earnings before extraordinary item | \$ 0.05 | \$ |
| Extraordinary item | - | |
| | ----- | ----- |
| Net earnings | \$ 0.05 | \$ |
| | ===== | ===== |
| Diluted earnings per share: | | |
| Earnings before extraordinary item | \$ 0.04 | \$ |
| Extraordinary item | - | |
| | ----- | ----- |
| Net earnings | \$ 0.04 | \$ |
| | ===== | ===== |
| Weighted average number of common shares outstanding: | | |
| Basic | 10,025 | 9 |
| Diluted | 11,923 | 10 |

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See accompanying notes to condensed consolidated financial statements.

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

Cash flows from operating activities:

Net income \$
Adjustments to reconcile net earnings to net cash
provided by operating activities:
Depreciation and amortization
Impairment of long-lived assets
Gain on bond repurchases
Amortization of bond costs and discounts
Provisions for bad debt
Non-cash compensation
Loss (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 in prepaid expenses and other current assets
Decrease (increase) in other assets
Increase (decrease) in accounts payable
Increase (decrease) in accrued liabilities

Net cash provided by operating activities

Cash flows from investing activities:

Capital expenditures
Acquisition 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 increase (decrease) in cash

Cash at beginning of period

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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.

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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 three quarters ended September 10, 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 September 10, 2001, there were 423 Rally's restaurants operating in 18 different states and there were 419 Checkers restaurants operating in 22 different states, the District of Columbia, Puerto Rico and the West Bank in the Middle East. Of the 842 total restaurants, 236 are owned by us and 606 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.

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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 accounting principles generally accepted in the United States of America require 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 \$3.9 million at September 10, 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), operating profits for the year of \$2.1 million, and additional capital contributions of \$1.4 million from the exercise of options and warrants into 567,986 shares of common stock.

Although there can be no assurance, we believe that our existing cash at September 10, 2001, the cash provided from operations, and the available \$2.8 million line of credit will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months.

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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 September 10, 2001 was approximately \$7.8 million. We have deferred gains of \$6.0 million from these sales as of September 10, 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 \$0.6 million and \$5.4 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 a revolving loan facility, under Loan B, 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% (8.08% at September 10, 2001). Total collateral pledged as of September 10, 2001 was approximately \$5.7 million, consisting primarily of property and equipment. There were no borrowings under the loan facility as of September 10, 2001.

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

| | September 2001 ----- |
|---|----------------------------|
| Note payable (Loan A) to Textron Financial Corporation payable in 120 monthly installments, including interest at LIBOR plus 3.7% (7.28% at September 10, 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 \$3.4 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 \$4.4 million of these capital lease obligations pass directly through to franchisees as a result of Company-owned restaurant sales. | 8, |
| 7 | |
| 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 | 38, |
| Less current installments | 5, |
| Long-term debt, less current maturities | \$ 33, ===== |

Note 6: Acquisitions

During the current year, we have acquired 37 restaurants from former

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franchisees. These acquisitions were recorded as follows:

Fair value of assets acquired:

| | | |
|--------------------------------------|----|-------|
| Inventory | \$ | 66 |
| Property and equipment | | 1,081 |
| Property and equipment held for sale | | 268 |
| | | ----- |
| Assets acquired | | 1,415 |
| Receivables forgiven | | (34) |
| Liabilities assumed | | (24) |
| | | ----- |
| Net cash | \$ | 1,357 |
| | | ===== |

In addition, on July 2, 2001, we repossessed and began operating 18 Rally's restaurants in California and 3 Rally's restaurants in Arizona which were previously operated by CKE Restaurants, Inc.

Note 7: 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 three quarters ended September 10, 2001, the Company made lease and other payments of \$1.1 million, relating to restaurant relocations and abandoned sites. Additional reserves of \$133,000 were recognized during the quarter ended September 10, 2001.

The Company recorded an impairment charge of \$223,000 for the write-off of goodwill associated with twelve franchised restaurants that were closed during the quarter ended September 10, 2001. The goodwill associated with these restaurants was recorded in 1991 when these restaurants were converted from a competing double drive-thru hamburger restaurant chain into Rally's Hamburgers restaurants.

Note 8: Subsequent Event

Subsequent to September 10, 2001, additional options and warrants were exercised into 613,311 shares of common stock for which the Company received net proceeds of \$2.6 million.

On October 15, 2001, SETLA, LLC, an affiliate of ALTES, LLC, which currently owns 50 Rally's Hamburgers(R) restaurants acquired an additional 60 Rally's Hamburgers(R) restaurants from Snapp's Restaurants, Inc. within the State of Ohio. In addition, SETLA, LLC has acquired the rights to develop an additional 12 restaurants, replacing units where Snapp's Restaurants, Inc. previously ceased operations. Associated with this transaction, Checkers Drive - In Restaurants, Inc. will recognize \$180,000 in franchise transfer fees associated with the transaction during the quarter ended December 31, 2001.

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ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Checkers Drive-In Restaurants, Inc. ("Checkers"), a Delaware

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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 September 10, 2001, there were 423 Rally's restaurants operating in 18 different states and 419 Checkers restaurants operating in 22 different states, the District of Columbia, Puerto Rico and the West Bank in the Middle East. Of the 842 total restaurants, 236 are owned by us and 606 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.

Restaurants Operating in the System For the Quarters Ended

| | January 3, 2000 | March 27, 2000 | June 19, 2000 | Sept. 11, 2000 | January 1, 2001 | Ma |
|------------------------|--------------------|-------------------|------------------|-------------------|--------------------|-------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Company-operated: | | | | | | |
| Beginning of quarter | 463 | 367 | 367 | 287 | 224 | |
| Openings/transfers in | - | - | - | 1 | - | |
| Closings/transfers out | (96) | - | (80) | (64) | (29) | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| End of quarter | 367 | 367 | 287 | 224 | 195 | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Franchise: | | | | | | |
| Beginning of quarter | 471 | 540 | 537 | 601 | 649 | |
| Openings/transfers in | 83 | 3 | 81 | 65 | 42 | |
| Closings/transfers out | (14) | (6) | (17) | (17) | (32) | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| End of quarter | 540 | 537 | 601 | 649 | 659 | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 907 | 904 | 888 | 873 | 854 | |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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

| | Quarter Ended | |
|--|-------------------|------------------|
| | Sept. 10, 2001 | Sept. 11 2000 |
| REVENUES: | | |
| Restaurant sales | 90.3% | 84.4% |
| Franchise royalty revenue | 9.6% | 9.7% |
| Franchise fees and other income | 0.1% | 5.9% |
| Total revenues | 100.0% | 100.0% |
| COSTS AND EXPENSES: | | |
| Restaurant food and paper costs (1) | 32.8% | 30.2% |
| Restaurant labor costs (1) | 33.1% | 34.2% |
| Restaurant occupancy expenses (1) | 9.4% | 8.3% |
| Restaurant depreciation and amortization (1) | 2.7% | 3.8% |
| Other restaurant operating expenses (1) | 13.8% | 13.4% |
| General and administrative expenses | 7.9% | 7.5% |
| Advertising (1) | 4.9% | 5.3% |
| Bad debt expense | 0.4% | 0.5% |
| Other depreciation and amortization | 1.8% | 2.6% |
| Impairment of long-lived assets | 0.6% | 0.0% |
| Loss (gain) on sale of assets | (0.5%) | 5.0% |
| Total costs & expenses | 97.5% | 96.0% |
| Operating income | 2.5% | 4.0% |
| OTHER INCOME (EXPENSE): | | |
| Interest income | 1.3% | 0.8% |
| Interest expense | (2.3%) | (4.2%) |
| Income before minority interests, income tax expense, and extraordinary item | 1.5% | 0.6% |
| Minority interests in operations of joint ventures | (0.0%) | (0.0%) |
| Income before income tax expense and extraordinary item | 1.5% | 0.6% |
| Income tax expense | 0.3% | (1.5%) |
| Net income from continuing operations before extraordinary item | 1.2% | 2.1% |
| Extraordinary income-gain on early extinguishment of debt, net of income taxes | 0.0% | 0.0% |
| Net income | 1.2% | 2.1% |
| Number of Company-operated restaurants: | | |
| Restaurants open at the beginning of period | 207 | 287 |
| Opened, closed or transferred, net during the period | 29 | (63) |
| Total company-owned restaurants, end of period | 236 | 224 |
| Number of franchised restaurants: | | |

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| | | |
|--|------|-----|
| Restaurants open at the beginning of period | 640 | 601 |
| Opened, closed or transferred, net during the period | (34) | 48 |
| | 606 | 649 |
| Total franchised restaurant, end of period | | |
| | 842 | 873 |
| Total all restaurants opened at end of period: | 842 | 873 |

(1) As a percentage of restaurant sales

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Comparison of Historical Results - Quarter Ended September 10, 2001 and Quarter Ended September 11, 2000

Revenues. Total revenues were \$38.0 million for the quarter ended September 10, 2001, compared to \$37.8 million for the quarter ended September 11, 2000. Company-owned restaurant sales increased by \$2.4 million for the quarter ended September 10, 2001 to \$34.3 million, as compared to \$31.9 million for the quarter ended September 11, 2000 due primarily to changes in Company-owned restaurants operated during the quarters being compared. Fifty-one of the net 63 restaurant decrease during the quarter ended September 11, 2000 occurred during the first week of the quarter as compared to 21 of the 29 net restaurant increase during the quarter ended September 10, 2001 occurred during the third week of the quarter.

Sales at comparable restaurants, which include only the units that were in operation during the entire quarters being compared, increased 13.6% for the quarter ended September 10, 2001 as compared with the quarter ended September 11, 2000.

Franchise fees decreased by approximately \$2 million for the quarter ended September 10, 2001 as compared to the quarter ended September 11, 2000 due to the franchise fee income recognized from the sale of 61 Company-owned restaurants during the quarter ended September 11, 2000.

Costs and expenses. Restaurant food and paper costs totalled \$11.2 million or 32.8% of restaurant sales for the quarter ended September 10, 2001, compared to \$9.6 million or 30.2% of restaurant sales for the quarter ended September 11, 2000. The increase in these costs as a percentage of restaurant sales was due to increased beef and cheese prices during the quarter as compared to the prior year.

Restaurant labor costs, which includes restaurant employees' salaries, wages, benefits and related taxes, totalled \$11.3 million or 33.1% of restaurant sales for the quarter ended September 10, 2001, compared to \$10.9 million or 34.2% of restaurant sales for the quarter ended September 11, 2000. Restaurant labor costs decreased as a percentage of restaurant sales due to volume efficiencies gained from increased sales.

Restaurant occupancy expense, which includes rent, property taxes, licenses and insurance, totalled \$3.2 million or 9.4% of restaurant sales for the quarter ended September 10, 2001 compared to \$2.7 million or 8.3% of restaurant sales for the quarter ended September 11, 2000. The increase in restaurant occupancy expense as a percentage of restaurant sales is due to additional reserves for abandoned sites, higher rental rates for the restaurants in the California market operated as Company-owned restaurants since operations

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were taken over from CKE Restaurants, Inc. on July 2, 2001, and increasing insurance costs.

Restaurant depreciation and amortization totaled \$929,000 or 2.7% of restaurant sales for the quarter ended September 10, 2001, compared to \$1.2 million or 3.8% for the quarter ended September 11, 2000. The decrease is the result of restaurant depreciation expense being a fixed cost and per restaurants sales increasing.

Other restaurant expense includes all other restaurant level operating expenses, and specifically includes utilities, maintenance and other costs. These expenses totalled \$4.7 million, or 13.8% of restaurant sales for the quarter ended September 10, 2001 compared to \$4.3 million, or 13.4% of restaurant sales for the quarter ended September 11, 2000. These costs have remained consistent for the two quarters.

General and administrative expenses were \$3.0 million, or 7.9% of total revenues for the quarter ended September 10, 2001 compared to \$2.8 million, or 7.5% of total revenues for the quarter ended September 11, 2000. These costs have remained consistent for the two quarters.

Advertising expense was \$1.7 million for the both the quarter ended September 10, 2001 and the quarter ended September 11, 2000. The decrease of 0.4% from 5.3% to 4.9% as a percentage of sales is due to restaurant sales increases, primarily at comparable restaurants.

Bad debt expense, related to franchisee royalty revenue, remained consistent for the quarters ended September 10, 2001 and September 11, 2000.

Other depreciation and amortization decreased by \$300,000 to \$700,000. 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.

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Interest expense. Interest expense decreased to \$880,000, or 2.3% of

total revenues for the quarter ended September 10, 2001 from \$1.6 million, or 4.2% of total revenues for the quarter ended September 11, 2000. This decrease was primarily due to the restructuring of our capital during the current year and fiscal 2000.

Income tax expense. The Company's income tax expense for the quarter

ended September 10, 2001 was \$91,000, which represents estimated federal and state income taxes. The increase of \$677,000 is the result of a non-recurring \$623,000 favorable tax ruling received from the state of Michigan during the quarter ended September 11, 2000 and estimated federal income tax expense of \$54,000, resulting from estimated alternative minimum tax.

Comparison of Historical Results - Three Quarters Ended September 10, 2001 and Three Quarters Ended September 11, 2000

Revenues. Total revenues were \$110.5 million for the three quarters

ended September 10, 2001, compared to \$137.1 million for the three quarters ended September 11, 2000. Company-owned restaurant sales decreased by \$25.5 million for the three quarters ended September 10, 2001, to \$99.2 million, as

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compared to \$124.7 million for the three quarters ended September 11, 2000, due primarily to an average decrease of approximately 80 Company-owned restaurants operated during the comparable periods. Sales at comparable restaurants, which include only the units that were in operation for the full three quarters being compared, increased 13.2% for the three quarters ended September 10, 2001 as compared with the three quarters ended September 11, 2000. Franchise royalties increased by \$1.3 million, primarily as a result of the Company-owned restaurant sales to franchisees.

Costs and expenses. Restaurant food and paper costs totalled \$32.9

million or 33.2% of restaurant sales for the three quarters ended September 10, 2001, compared to \$38.7 million or 31.1% of restaurant sales for the three quarters ended September 11, 2000. The increase in these costs as a percentage of restaurant sales was due to increased beef and cheese prices, accompanied with promotional sales during the three quarters.

Restaurant labor costs, which includes restaurant employees' salaries, wages, benefits and related taxes, totalled \$32.6 million or 32.8% of restaurant sales for the three quarters ended September 10, 2001, compared to \$41.5 million or 33.3% of restaurant sales for the three quarters ended September 11, 2000. Restaurant labor costs are beginning to decrease as a percentage of sales due to efficiencies related to volume.

Restaurant occupancy expense, which includes rent, property taxes, licenses and insurance, totalled \$8.2 million or 8.3% of restaurant sales for the three quarters ended September 10, 2001 compared to \$9.8 million or 7.9% of restaurant sales for the three quarters ended September 11, 2000. The increase in restaurant occupancy expense as a percentage of restaurant sales is due to higher rental rates in the California market and increasing insurance costs.

Restaurant depreciation and amortization remained consistent at 2.9% and 3.0% of sales, respectively, for the three quarters ended September 10, 2001 as compared to the three quarters ended September 11, 2000. The decrease in dollars expensed is due to a significant amount of the assets becoming fully depreciated.

Other restaurant expense includes all other restaurant level operating expenses, and specifically includes utilities, maintenance and other costs. These expenses totalled \$12.9 million, or 13.0% of restaurant sales for the three quarters ended September 10, 2001 compared to \$14.3 million, or 11.5% of restaurant sales for the three quarters ended September 11, 2000. The increase as a percentage of sales was primarily related to increased repairs and maintenance during the first half of the current year as compared to the previous year, as we continued the refurbishment of our restaurants that began in the third quarter of 2000. In addition, utilities costs also increased during the three quarters ended September 10, 2001.

General and administrative expenses were \$8.8 million, or 7.9% of total revenues for the three quarters ended September 10, 2001 compared to \$10.0 million, or 7.3% of total revenues for the three quarters ended September 11, 2000. The decrease in costs is due primarily to a decrease in corporate payroll by approximately \$1.5 million.

Advertising expense decreased to \$5.5 million, or 5.5% of restaurant sales for the three quarters ended September 10, 2001 from \$8.4 million, or 6.7% of restaurant sales for the three quarters ended September 11, 2000. The decrease in dollars spent was due to an average decrease of approximately 80 Company-owned restaurants operated during the three quarter ended September 10, 2001 as compared to the three quarters ended September 11, 2000. The decrease as a percentage of sales was due primarily to the increase in store sales over the three quarters.

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Other depreciation and amortization decreased by \$243 to \$2.7 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.

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Interest expense. Interest expense decreased to \$3.3 million, or 3.0%

of total revenues for the three quarters ended September 10, 2001 from \$5.1 million, or 3.7% of total revenues for the three quarters ended September 11, 2000. This decrease was primarily due to the restructuring of our capital during the current year and fiscal 2000.

Income tax expense. The Company's income tax expense for the three

quarters ended September 10, 2001 was \$163,000, which represents estimated federal and state income taxes. The increase of \$675,000 is the result of a non-recurring \$623,000 favorable tax ruling received from the state of Michigan during the quarter ended September 11, 2000 and estimated federal income tax expense of \$54,000, resulting from estimated alternative minimum tax.

Liquidity and Capital Resources

At September 10, 2001, we had a working capital deficit of \$3.9 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), operating profits for the year of \$2.1 million, and additional capital contributions of \$1.4 million from the exercise of options and warrants into 567,986 shares of common stock. Subsequent to September 10, 2001, additional options and warrants were exercised into 613,311 shares of common stock, raising \$2.6 million dollars.

The Company, and the restaurant industry in general, operates with a working capital deficit because most of our investments are in long-term restaurant operating assets. The Company does not have significant levels of accounts receivable or inventory and receives 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.

Cash and cash equivalents have increased approximately \$1.4 million to \$2.3 million since the fiscal year ended January 1, 2001. Cash flow from operating activities was \$8.2 million compared to \$1.0 million during the same period last year. Current year cash flows are largely attributable to current profits, a decrease in outstanding accounts receivable and prepaid expenses, and a net decrease in the balances of accounts payable and accrued liabilities.

Cash flow used for investing activities was \$4.0 million related primarily to capital expenditures at existing restaurants and the acquisition of 20 restaurants from former franchisees. The capital expenditures related primarily to point-of-purchase menu boards and building refurbishments. Point-of-sale equipment was acquired during the period under capital lease obligations amounting to approximately \$2.7 million.

Cash used by financing activities was \$2.8 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 \$2.8 million. We received \$580,000 from the issuance of long-term debt and \$1.4 million from the issuance of common stock from the exercise of stock options and

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warrants during the three quarters ended September 10, 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.

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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.

Greenfelder et al. v. White, Jr., et al. On August 10, 1995, a state

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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

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Deceptive and Unfair Trade Practices Act relating to that franchise agreement.

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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 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.

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

We held our annual meeting of shareholders for fiscal 2001 on September 26, 2001. The following matters were voted upon at meeting: the election of Peter C. O'Hara, Terry N. Christensen, Willie D. Davis and Daniel J. Dorsch as directors to serve until the annual shareholders meeting in 2004; the ratification and approval of the Company's 2001 Employee Stock Option Plan; and the ratification and approval of the appointment of KPMG LLP as our independent auditors for fiscal 2001.

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

| | For ----- | Against/ Withheld ----- | Abstentions ----- | Br Non- ----- |
|--|--------------|-------------------------------|----------------------|---------------------|
| 1. The election of Peter C. O'Hara | 8,766,176 | 488,267 | - | |
| 2. The election of Terry N. Christensen | 8,428,475 | 825,968 | - | |
| 3. The election of Willie D. Davis | 8,427,793 | 826,650 | - | |
| 4. The election of Daniel J. Dorsch | 8,761,334 | 493,109 | - | |
| 5. The ratification and approval of the Company's 2001 Employee Stock Option Plan. | 3,460,175 | 2,141,574 | 31,516 | 3,62 |
| 6. The ratification and approval of the appointment of KPMG LLP as our independent auditors. | 9,214,287 | 24,295 | 15,861 | |

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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: October 23, 2001

By: /s/ David G. Koehler

Treasurer and Chief Financial Officer