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CHECKERS DRIVE IN RESTAURANTS INC /DE

Form 10-Q

May 15, 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 MARCH 26, 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 49TH 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 No

The Registrant had 9,763,717 shares of Common Stock, par value \$.001 per share, outstanding as of March 26, 2001.

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ITEM 1. FINANCIAL STATEMENTS

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

	MARCH 26, 2001	JA
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,631	\$
Restricted cash	1,527	
Accounts, notes and leases receivable, net	3,738	
Inventory	1,053	
Prepaid expenses and other current assets	817	
Property and equipment held for sale	8,970	
	-----	-----
Total current assets	17,736	
Property and equipment, net	43,934	
Notes receivable, net - less current portion	6,710	
Lease receivable, net- less current portion	8,521	

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Intangible assets, net	47,692	
Other assets, net	2,177	
	-----	-----
	\$ 126,770	\$
	=====	=====
CURRENT LIABILITIES:		
Current maturities of long-term debt and obligations under capital leases	\$ 5,519	\$
Accounts payable	5,332	
Reserves for restaurant relocations and abandoned sites	1,691	
Accrued wages	2,013	
Accrued liabilities	7,289	
	-----	-----
Total current liabilities	21,844	
Long-term debt, less current maturities	29,238	
Obligations under capital leases, less current maturities	7,239	
Long-term reserves for restaurant relocations and abandoned sites	3,215	
Minority interests in joint ventures	516	
Deferred revenue	9,013	
Other long-term liabilities	3,683	
	-----	-----
Total liabilities	74,748	
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.001 par value, authorized 2,000,000 shares, none issued at March 26, 2001 and January 1, 2001	--	
Common stock, \$.001 par value, authorized 175,000,000 shares, issued 9,763,717 at March 26, 2001 and 9,653,623 at January 1, 2001	10	
Additional paid-in capital	138,895	
Accumulated deficit	(86,383)	
	-----	-----
	52,522	
Less: Treasury stock, 48,242 at March 26, 2001 and January 1, 2001, at cost	(400)	
Note receivable - officer	(100)	
	-----	-----
Total stockholders' equity	52,022	
	-----	-----
	\$ 126,770	\$
	=====	=====

See accompanying notes to the condensed consolidated financial statements.

CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

QUARTER ENDED

MARCH 26, MARCH

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	2001 -----	2000 -----
REVENUES:		
Restaurant sales	\$ 31,683	\$ 49,5
Franchise revenues and other income	3,612	2,6
	-----	-----
Total revenues	35,295	52,1
	-----	-----
COSTS AND EXPENSES:		
Restaurant food and paper costs	10,219	15,5
Restaurant labor costs	10,423	16,4
Restaurant occupancy expenses	2,528	3,8
Restaurant depreciation and amortization	970	9
Other restaurant operating expenses	4,024	5,3
General and administrative expenses	2,854	3,8
Advertising	1,847	3,7
Bad debt expense	179	1
Other depreciation and amortization	924	1,2
Gain on restaurant sales	(364)	
	-----	-----
Total costs & expenses	33,604	51,0
	-----	-----
Operating income	1,691	1,1
OTHER INCOME (EXPENSE):		
Interest income	449	2
Interest expense	(1,246)	(1,9
	-----	-----
Income (loss) before minority interests, income tax expense and extraordinary item	894	(4
Minority interests in operations of joint ventures	(14)	
	-----	-----
Income (loss) before income tax expense and extraordinary item	880	(4
Income tax expense	37	
	-----	-----
Income (loss) from continuing operations before extraordinary item	843	(5
Extraordinary item - gain on early extinguishment of debt, net of income taxes	--	1
	-----	-----
Net income (loss)	\$ 843	\$ (4
	=====	=====
Comprehensive income (loss)	\$ 843	\$ (4
	=====	=====
Basic earnings (loss) per share:		
Earnings (loss) before extraordinary item	\$ 0.09	\$ (0.
Extraordinary item	--	0.
	-----	-----
Net earnings (loss)	\$ 0.09	\$ (0.
	=====	=====
Diluted earnings (loss) per share:		
Earnings (loss) before extraordinary item	\$ 0.07	\$ (0.
Extraordinary item	--	0.
	-----	-----
Net earnings (loss)	\$ 0.07	\$ (0.
	=====	=====
Weighted average number of common shares outstanding		

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Basic	9,744	9,3
	=====	=====
Diluted	11,381	9,3
	=====	=====

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)

	QUARTER ENDED	
	MARCH 26, 2001	MARCH 27, 2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 843	\$ (425)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,894	2,167
Gain on early extinguishment of debt	--	(109)
Amortization of bond costs and discounts	--	81
Provisions for bad debt	179	180
Gain on restaurant sales	(364)	--
Minority interest in operations of joint ventures	14	(2)
Change in assets and liabilities:		
Decrease (increase) in receivables	988	(297)
Decrease (increase) in inventory	(23)	76
Decrease in prepaid expenses and other current assets	1,302	1,852
Decrease in other assets	--	38
Decrease in accounts payable	(2,042)	(75)
Decrease in accrued liabilities	(1,394)	(2,561)
	-----	-----
Net cash provided by operating activities	1,397	925
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(922)	(391)
Acquisition of restaurants, net of cash acquired	(230)	--
Decrease in investments	--	468
Proceeds from disposition of property & equipment	139	471
	-----	-----
Net cash provided by (used in) investing activities	(1,013)	548
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(732)	(1,231)
Decrease in restricted cash	320	734
Repayments of senior notes	--	(3,953)
Net proceeds from issuance of common stock	245	--
Proceeds from issuance of long-term debt	580	--
Deferred loan costs incurred	(59)	--
Distributions to minority interests	(30)	(23)

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Net cash provided by (used in) financing activities	324	(4,473)
Net increase (decrease) in cash	708	(3,000)
CASH AT BEGINNING OF PERIOD	923	4,371
CASH AT END OF PERIOD	\$ 1,631	\$ 1,371
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	1,090	1,180
Issuance of capital lease obligation for equipment	1,610	--
Note receivable accepted for market sale	2,100	--

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 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 condensed 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 quarter ended March 26, 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 March 26, 2001, there were 424 Rally's restaurants operating in 18 different

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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 845 total restaurants, 207 are owned by us and 638 are owned by franchisees.

Three of the 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) NEW ACCOUNTING PRONOUNCEMENTS - Effective January 2, 2001, we adopted Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137 and 138, which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value. Accounting for changes in the fair value of a derivative depends on the intended use and resulting designation of the derivative. For derivatives designated as hedges, changes in the fair value are either offset against the change in fair value of the assets or liabilities through earnings, or recognized in other comprehensive income in the balance sheet until the hedged item is recognized in earnings.

We enter into forward purchase contracts to manage our exposure to rising beef prices and other commodity price fluctuations. These contracts are not designated as hedging instruments, and meet the exception for "normal purchases and normal sales" as provided by SFAS 133. Therefore, these contracts are not subject to the requirements of SFAS 133. The implementation of SFAS 133 had no impact on our financial statements.

(d) CASH AND CASH EQUIVALENTS - We consider all highly liquid instruments purchased with a maturity of less than three months to be cash equivalents. Restricted cash consists of cash on deposit with various financial institutions as collateral to support the Company's obligations for potential workers' compensation claims. This cash is not available for the Company's use until such time that the applicable states and/or insurance companies permit its release.

(e) RECEIVABLES - Receivables consist primarily of royalties, franchise fees, notes due from franchisees, owner fee income, and advances to one of the Company's advertising funds which provides broadcast creative production for use by Company-owned and franchise restaurants.

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(f) INVENTORY - Inventory which consists principally of food and supplies are stated at the lower of cost (first-in, first-out (FIFO) method) or market.

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

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(h) INCOME TAXES - We account for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Under the asset or liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) 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.

(j) 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 March 26, 2001 as compared to a \$9.0 million deficit at January 1, 2001. The decrease in the deficit is primarily due to the refinancing of the Textron note payable (Note B) coming due June 15, 2001. On May 10, 2001, we issued a note payable to Heller Financial, Inc., refinancing \$5.8 million over a 30 month term at a 14% interest rate.

Although there can be no assurance, we believe that our existing cash at March 26, 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 March 26, 2001 was approximately \$9.3 million. We have deferred gains of \$7.5 million from these sales as of March 26, 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 \$0.9 million and \$6.6 million, respectively.

We have 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: LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES

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MARCH 2
2001

Note payable (Loan A) to Textron Financial Corporation payable in 120 monthly installments, including interest at LIBOR plus 3.7% (8.78% at March 26, 2001) secured by property and equipment	\$11,54
Revolving credit note payable (Loan B) to Textron Financial Corporation payable on June 15, 2001. Installment payments of interest only are due monthly at 30%, secured by real estate, property and equipment, and subordinate to Loan A. On May 10, 2001 we issued a note payable to refinance this note. The replacement note is payable in 30 monthly installments, including interest at 14%, secured by property and equipment	5,87
Mortgages payable to FFCA Acquisition Corporation secured by thirty- two Company-owned restaurants, payable in 240 aggregate monthly installments of \$133,295, including interest at 9.5%	13,72
Obligations under capital leases, maturing at various dates through January 1, 2018, secured by property and equipment, bearing interest ranging from 10% to 17%. The leases are payable in monthly principal and interest installments ranging from \$674 to \$11,320	8,83
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	71
Various 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	1,31

Total long-term debt and obligations under capital leases	41,99
Less current installments	5,51

Long-term debt, less current maturities	\$36,47
	=====

Although we continue to be obligated, approximately \$9.3 million of the mortgage and capital lease obligations noted above pass directly through to franchisees as a result of Company-owned restaurant sales (See Note 3).

The revolving credit note payable (Loan B) can be extended until June 15, 2002 at our option, subject to certain conditions. Upon full repayment of the note, and after a 30 day waiting period, the note converts to a revolving line of credit with interest at LIBOR plus 4.5%. The facility for the line will be based upon 50% of the collateral pledged.

NOTE 5: ACCOUNTING CHARGES AND LOSS PROVISIONS

At the end of fiscal 2000, we had a reserve of \$5.3 million relating to restaurant relocations and abandoned sites. This reserve represents management's estimate of future lease obligations and is reviewed and adjusted periodically as more information becomes available regarding the ability to sublease or assign the lease and other negotiations with the landlord. During the first quarter of 2001, the Company made lease and other payments of \$394,000, relating to restaurant relocations and abandoned sites.

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NOTE 6: COMMON STOCK

As a result of a ministerial error appearing on the facing page of the Company's registration statement filed with the United States Securities and Exchange Commission in connection with the August 1999 merger of Rally's with and into the Company, a technical issue has arisen as to the effectiveness of that registration statement and the resulting legal ability of any such shareholder to hold the Company liable for the value of the Rally's shares cancelled in the merger. Management believes such possibility to be without substantial merit.

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NOTE 7: SUBSEQUENT EVENT

On April 19, 2001, we were give notice by CKG Restaurants, Inc. of their intent to relinquish the management of eighteen Rally's restaurants in California and three in Arizona on June 30, 2001. In accordance with the original operating agreement entered into on May 22, 1996, we will repossess the restaurants and operate them as Company-owned restaurants.

On April 23, 2001, we entered into an operating lease for office premises located at 4800 West Cypress Street, Tampa, Florida 33607. The lease commences on July 1, 2001 and ends on June 30, 2007. It calls for varying monthly payments totaling \$1.5 million over the life of the lease, plus property taxes and common area expenses.

On May 7, 2001, we exercised our right of first refusal to purchase eight Checkers in the Atlanta area. The purchase price for these restaurants was \$1,055,000, and we anticipate taking over the operations within the next 30 to 90 days, upon the completion of satisfactory due diligence.

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

INTRODUCTION

Checkers Drive-In Restaurants, Inc. ("Checkers"), a Delaware corporation, and its wholly-owned subsidiaries (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 March 26, 2001, there were 424 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 845 total restaurants, 207 are owned by us and 638 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,

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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 and the sales volumes of both existing and new restaurants.

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RESULTS OF OPERATIONS

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 operations and operating data for the periods indicated:

	QUARTER ----- MARCH 2001 -----
REVENUES:	
Restaurant sales	89.8
Franchise revenues and other income	10.2

Total Revenues	100.0
COSTS AND EXPENSES:	
Restaurant food and paper costs (1)	32.2
Restaurant labor costs (1)	32.9
Restaurant occupancy expenses (1)	8.0
Restaurant depreciation and amortization (1)	3.1
Other restaurant operating expenses (1)	12.7
General and administrative expenses	8.1
Advertising (1)	5.8
Bad debt expense	0.5
Other depreciation and amortization	2.6
Gain on the disposition of property and equipment	(1.0)

Total costs & expenses	95.2

Operating income	4.8
OTHER INCOME (EXPENSE):	
Interest income	1.2
Interest expense	(3.5)

Income (loss) before minority interests, income tax expense, and extraordinary item	2.5
Minority interests in operations of joint ventures	0.0

Income (loss) before income tax expense and extraordinary item	2.5
Income tax expense	0.1

Income (loss) from continuing operations before extraordinary item	2.4
Extraordinary item - gain on early extinguishment of debt, net of income taxes	0.0

Net income (loss)	2.4

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Number of Company-operated restaurants:		=====
Restaurants open at the beginning of period	195	
Opened, closed or transferred, net during the period	12	-----
Total company-owned restaurants, end of period	207	=====
Number of franchised restaurants:		
Restaurants open at the beginning of period	659	
Opened, closed or transferred, net during the period	(21)	-----
Total franchised restaurant, end of period	638	-----
Total all restaurants opened at end of period:	845	=====

(1) As a percentage of restaurant sales

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COMPARISON OF HISTORICAL RESULTS - QUARTER ENDED MARCH 26, 2001 AND QUARTER ENDED MARCH 27, 2000

REVENUES. Total revenues were \$35.3 million for the quarter ended March 26, 2001, compared to \$52.2 million for the quarter ended March 27, 2000. Company-owned restaurant sales decreased by \$17.8 million for the quarter ended March 26, 2001, to \$31.7 million, as compared to \$49.5 million for the quarter ended March 27, 2000. The primary reason for the decrease is due to the sale of 167 restaurants to franchisees during fiscal 2000. Sales at comparable restaurants, which include only the units that were in operation for the full quarters being compared, increased 12.3% for the quarter ended March 26, 2001 as compared with the quarter ended March 27, 2000. Franchise revenues and fees increased by \$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 \$10.2 million or 32.2% of restaurant sales for the quarter ended March 26, 2001, compared to \$15.5 million or 31.5% of restaurant sales for the quarter ended March 27, 2000. The increase in these costs as a percentage of restaurant sales was primarily due to the rising beef prices during the period.

Restaurant labor costs, which includes restaurant employees' salaries, wages, benefits and related taxes, totalled \$10.4 million or 32.9% of restaurant sales for the quarter ended March 26, 2001, compared to \$16.4 million or 33.1% of restaurant sales for the quarter ended March 27, 2000. Restaurant labor costs remained consistent as a percentage of restaurant sales.

Restaurant occupancy expense, which includes rent, property taxes, licenses and insurance, totalled \$2.5 million or 8.0% of restaurant sales for the quarter ended March 26, 2001 compared to \$3.8 million or 7.7% of restaurant sales for the quarter ended March 27, 2000. Restaurant occupancy expense remained consistent as a percentage of restaurant sales.

Restaurant depreciation and amortization remained consistent for the quarter ended March 26, 2001 as compared to the quarter ended March 27, 2000.

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

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These expenses totalled \$4.0 million, or 12.7% of restaurant sales for the quarter ended March 26, 2001 compared to \$5.4 million, or 10.8% of restaurant sales for the quarter ended March 27, 2000. The increase was primarily related to increases in supplies expense, repairs and maintenance, utilities, as well as support functions.

General and administrative expenses were \$2.9 million, or 8.1% of total revenues for the quarter ended March 26, 2001 compared to \$3.8 million, or 7.3% of total revenues for the quarter ended March 27, 2000. General and administrative expenses increased as a percentage of total revenues due to the decrease in total revenues, resulting from the sale of restaurants in fiscal 2000.

Advertising expense decreased to \$1.8 million, or 5.8% of restaurant sales for the quarter ended March 26, 2001 from \$3.7 million, or 7.5% of restaurant sales for the quarter ended March 27, 2000. The decrease in dollars spent was due to the sale of 167 Company-owned restaurants subsequent to the first quarter of fiscal 2000. The decrease as a percentage of sales was due to the increase in comparable store sales of 12.3%.

Bad debt expense for the quarter ended March 26, 2001 remained consistent with the quarter ended March 27, 2000.

Other depreciation and amortization decreased by \$285,000 to \$924,000. 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.

INTEREST EXPENSE. Interest expense decreased to \$1.2 million, or 3.5% of total revenues for the quarter ended March 26, 2001 from \$1.9 million, or 3.6% of total revenues for the quarter ended March 27, 2000. This decrease was primarily due to the repayment of \$40 million of debt during fiscal 2000.

INCOME TAX EXPENSE. The Company's income tax expense of \$37,000 for both periods 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.

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LIQUIDITY AND CAPITAL RESOURCES

We have a working capital deficit of \$4.1 million at March 26, 2001 as compared to a \$9.0 million deficit at January 1, 2001. The decrease in the deficit is primarily due to the refinancing of the Textron note payable (Note B) coming due June 15, 2001. On May 10, 2001, we issued a note payable to Heller Financial, Inc., refinancing \$5.8 million over a 30 month term at a 14% interest rate.

Cash and cash equivalents increased approximately \$708,000 to \$1.6 million from the fiscal year ended January 1, 2001. Cash flow from operating activities was \$1.4 million, compared to \$925,000 during the same period last year. The increase of \$472,000 is largely attributable to current quarter profit as compared to the loss during the same period last year, offset by the decreases in the balances of accounts payable and accrued liabilities due to the timing of payments in the current year.

Cash flow from investing activities decreased by \$1.0 million due primarily to capital expenditures. The capital expenditures related to

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point-of-purchase menu boards.

Cash provided by financing activities was \$324,000. We paid down a total of \$732,000 on our long-term debt during the quarter. We received \$825,000 from the issuance of common stock and long-term debt. We also reduced our restricted cash by \$320,000.

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 have never had 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.

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FIRST ALBANY CORP. V. CHECKERS DRIVE-IN RESTAURANTS, INC. ET AL. This putative class action was filed on September 29, 1998, in the Delaware Chancery Court in and for New Castle County, Delaware by First Albany Corp., as custodian for the benefit of Nathan Suckman, an alleged stockholder of 500 shares of the Company's common stock. The complaint named the Company and certain of its current and former officers and directors as defendants, including William P. Foley, II, James J. Gillespie, Harvey Fattig, Joseph N. Stein, Richard A. Peabody, James T. Holder, Terry N. Christensen, Frederick E. Fisher, Clarence V. McKee, Burt Sugarman, C. Thomas Thompson and Peter C. O'Hara. The complaint also named Rally's and Giant as defendants. The complaint arose out of the proposed merger announced on September 28, 1998 between Checkers, Rally's and Giant and alleged generally, that certain of the defendants engaged in an unlawful scheme and plan to permit Rally's to acquire the public shares of Checkers stock in a "going-private" transaction for grossly inadequate consideration and in breach of the defendants' fiduciary duties. The plaintiff allegedly initiated the complaint on behalf of all stockholders of Checkers as of September 28, 1998, and sought, among other relief, certain declaratory and injunctive relief against the consummation of the proposed merger, or in the event the proposed merger was consummated, rescission of the proposed merger and costs and disbursements incurred in connection with bringing the action. The plaintiff voluntarily dismissed the claim on February 23, 2001.

DAVID J. STEINBERG AND CHAILE B. STEINBERG, INDIVIDUALLY AND ON BEHALF OF THOSE SIMILARLY SITUATED V. CHECKERS DRIVE-IN RESTAURANTS, INC., ET AL. This class action was filed on October 2, 1998, in the Delaware Chancery Court in and for New Castle County, Delaware by David J. Steinberg and Chaile B. Steinberg, alleged stockholders of an unspecified number of shares of our common stock. The complaint named Checkers and certain of its current and former officers and directors as defendants, including William P. Foley, II, James J. Gillespie, Harvey Fattig, Joseph N. Stein, Richard A. Peabody, James T. Holder, Terry N. Christensen, Frederick E. Fisher, Clarence V. McKee, Burt Sugarman, C. Thomas Thompson and Peter C. O'Hara. The complaint also named Rally's and Giant as defendants. As with the FIRST ALBANY complaint described above, this complaint arose out of the proposed merger announced on September 28, 1998 between Checkers, Rally's and Giant and alleged generally, that certain of the defendants engaged in an unlawful scheme and plan to permit Rally's to acquire the public shares of Checkers's common stock in a "going-private" transaction for grossly inadequate consideration and in breach of the defendant's fiduciary duties. The plaintiffs allegedly initiated the complaint on behalf of all stockholders of Checkers as of September 28, 1998, and sought, among other relief, certain declaratory and injunctive relief against the consummation of the proposed merger, or in the event the proposed merger was consummated, rescission of the proposed merger and costs and disbursements incurred in connection with bringing the action. The plaintiff voluntarily dismissed the claim on February 23, 2001.

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

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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.

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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

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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.

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

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(a) Exhibits:

- 3.1 By-Laws Certificate of Incorporation and Articles of Incorporation of CheckerCo, Inc., a wholly-owned subsidiary of the Registrant, dated January 16, 2001.

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23.1 Consent of KPMG LLP.

(b) Reports on 8-K:

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

None

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SIGNATURE

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

CHECKERS DRIVE-IN RESTAURANTS, INC.

(Registrant)

Date: May 15, 2001

By: /s/ DANIEL J. DORSCH

President and Chief Executive Officer

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MARCH 26, 2001 FORM 10-Q
CHECKERS DRIVE-IN RESTAURANTS, INC.
EXHIBIT INDEX

EXHIBIT # -----	EXHIBIT DESCRIPTION -----
3.1	By-laws, Certificate of Incorporation and Articles of Incorporation of CheckerCo, Inc., a wholly-owned subsidiary of the Registrant, dated January 16, 2001.
23.1	Consent of KPMG LLP.