

CHECKERS DRIVE IN RESTAURANTS INC /DE
Form 10-K/A
April 28, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 2, 2006

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-19649

Checkers Drive-In Restaurants, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

4300 West Cypress St, Suite 600 Tampa, Florida

58-1654960
(I.R.S. Employer
Identification No.)

33607

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

(Address of principal executive offices)

(Zip Code)

(813) 283-7000

(Registrant's telephone number, including area code)

None

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

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

Title of each class	Name of each exchange on which registered
None	None
Securities registered pursuant to Section 12(g) of the Act: Common Stock	

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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

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

Class	Outstanding at March 2, 2006
-------	------------------------------

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

[Common Stock, \$.001 par value per share]

11,500,200 shares

DOCUMENTS INCORPORATED BY REFERENCE

None

Amendment No. 1 to the Annual Report on Form 10-K

For the year ended January 2, 2006

Explanatory Note

Checkers Drive-In Restaurants, Inc. (Checkers) is filing this amendment to Form 10-K (the Amendment) for the fiscal year ended January 2, 2006, as filed with the Securities and Exchange Commission on March 17, 2006 (the Original Filing). The purpose of filing this Amendment is solely to correct certain typographical errors. This Amendment does not update any disclosures to reflect developments since the date of the Original Filing.

In accordance with Rule 12b-15 of the Securities Exchange Act of 1934, we are required to include in this Amendment each Item, as amended, in its entirety.

We are amending Item 8, Financial Statements and Supplementary Data, to correct a typographical error contained in the Report of Independent Registered Public Accounting Firm issued by KPMG LLP. The original report referred to the inclusion of an audited balance sheet for the year ended December 29, 2003. Since an audited balance sheet for the year ended December 29, 2003 is not included in the Original Filing, KPMG LLP has modified its report accordingly. We have included the modified report in this Amendment.

We are amending Item 10, Directors and Executive Officers of the Registrant, to correct a typographical error in the biography of Adam Noyes and Ron Levondosky by changing the word formally to formerly.

We are amending Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, to correct a typographical error (i) in footnote 4 by changing the sentence that reads, in pertinent part, Bank of America, NA reported sole and shared voting power as to 162,834 and 631 shares of Checkers common stock, respectively, to read Bank of America, NA reported sole and shared voting power as to 162,834 and 631,574 shares of Checkers common stock, respectively and (ii) in footnote 5 by deleting in its entirety the phrase and disclaimed beneficial ownership as to 996,906 shares .

Exhibit 23.1, Consent of Independent Registered Public Accounting Firm Grant Thornton, LLP, was amended to correct a typographical error with respect to the execution date, which was inadvertently dated March 16, 2006 rather than March 14, 2006.

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as a result of this Amendment, the certifications filed pursuant to the Sarbanes-Oxley Act of 2002, included as exhibits to the Original Filing, have been amended, restated, re-executed and re-filed as of the date of this Amendment and are included as Exhibits 31.1, 31.2, 32.1 and 32.2 hereto.

As such, we have filed the following exhibits herewith:

- 23.1 Consent of Independent Registered Public Accounting Firm - Grant Thornton, LLP.
- 23.2 Consent of Independent Registered Public Accounting Firm - KPMG LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 25, 2006.
- 31.2 Certification of Chief Financial (Accounting) Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 25, 2006.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 25, 2006.
- 32.2 Certification of Chief Financial (Accounting) Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated

April 25, 2006.

Except as described above, no other changes have been made to the Original Filing and this Form 10-K/A does not amend, update or change the financial statements or any other items or disclosures in the Original Filing.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(1) Index to Consolidated Financial Statements:

	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	4
<u>Consolidated Balance Sheets - January 2, 2006 and January 3, 2005</u>	7
<u>Consolidated Statements of Income and Comprehensive Income - Years ended January 2, 2006, January 3, 2005 and December 29, 2003</u>	8
<u>Consolidated Statements of Stockholders' Equity - Years ended January 2, 2006, January 3, 2005 and December 29, 2003</u>	9
<u>Consolidated Statements of Cash Flows - Years ended January 2, 2006, January 3, 2005 and December 29, 2003</u>	10
<u>Notes to Consolidated Financial Statements</u>	11

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Checkers Drive-In Restaurants, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A(b)), that Checkers Drive-In Restaurants, Inc. maintained effective internal control over financial reporting as of January 2, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Checkers Drive-In Restaurants, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment, that Checkers Drive-In Restaurants, Inc. maintained effective control over financial reporting as of January 2, 2006, is fairly stated in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Checkers Drive-In Restaurants, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 2, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the COSO.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States) the consolidated balance sheet of Checkers Drive-In Restaurants, Inc. as of January 2, 2006, and the related consolidated statements of income and comprehensive income, stockholder's equity and cash flows for the year ended January 2, 2006 and our report dated March 14, 2006 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP
Tampa, Florida
March 14, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Checkers Drive-In Restaurants, Inc.:

We have audited the accompanying consolidated balance sheet of Checkers Drive-In Restaurants, Inc. and subsidiaries as of January 2, 2006, and the related consolidated statement of income and comprehensive income, stockholders' equity, and cash flows for the year ended January 2, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Checkers Drive-In Restaurants, Inc. and subsidiaries as of January 2, 2006 and the results of their operations and their cash flows for the year ended January 2, 2006, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Checkers Drive-In Restaurants, Inc. and subsidiaries' internal control over financial reporting as of January 2, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2006 expressed an unqualified opinion on management's assessment of, and an unqualified opinion on the effective operation of, internal control over financial reporting.

/s/ Grant Thornton LLP

Tampa, Florida

March 14, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Checkers Drive-In Restaurants, Inc.:

We have audited the accompanying consolidated balance sheet of Checkers Drive-In Restaurants, Inc. and subsidiaries as of January 3, 2005, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended January 3, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Checkers Drive-In Restaurants, Inc. and subsidiaries as of January 3, 2005, and the results of their operations and their cash flows for each of the years in the two-year period ended January 3, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG, LLP

Orlando, Florida

April 4, 2005

Certified Public Accountants

CHECKERS DRIVE-IN RESTAURANTS, INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	January 2, 2006	January 3, 2005
Current Assets:		
Cash and cash equivalents	\$ 15,104	\$ 7,075
Accounts, notes and leases receivable, net	3,790	2,633
Inventory	1,021	1,062
Prepaid rent	1,351	1,246
Deferred income tax assets	3,976	4,894
Property and equipment held for sale	1,553	1,560
Other current assets	439	383
Total current assets	27,234	18,853
Restricted cash	4,245	3,943
Property and equipment, net	55,125	55,309
Notes receivable, net - less current portion	6,221	5,082
Leases receivable, net - less current portion	4,179	4,555
Intangible assets, net	23,739	24,024
Deferred income tax assets	8,070	11,094
Other assets	984	1,170
Total assets	\$ 129,797	\$ 124,030
Current Liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 1,868	\$ 2,064
Accounts payable	4,854	4,724
Current portion of reserves for restaurant relocations and abandoned sites	444	785
Accrued wages and benefits	2,193	2,890
Current portion of accrued self insurance	1,123	1,390
Accrued liabilities	4,337	6,180
Total current liabilities	14,819	18,033
Long-term debt, less current maturities	15,059	17,082
Obligations under capital leases, less current maturities	3,618	3,694
Reserves for restaurant relocations and abandoned sites, net of current portion	1,766	3,326
Deferred revenue	4,897	4,895
Accrued self insurance, net of current portion	2,229	2,860
Other long-term liabilities	1,100	1,188
Total liabilities	43,488	51,078
Stockholders Equity:		
Preferred stock, \$.001 par value, authorized 2,000,000 shares, none issued at January 2, 2006 and January 3, 2005		
Common stock, \$.001 par value, authorized 175,000,000 shares, issued 13,283,678 at January 2, 2006 and 12,812,826 at January 3, 2005	13	13
Additional paid-in capital	154,190	150,003

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

Accumulated deficit	(49,922)	(59,092)
	104,281	90,924
Less: Treasury stock, 1,785,900 shares at January 2, 2006 and 1,785,900 shares at January 3, 2005, at cost	(17,972)	(17,972)
Total stockholders' equity	86,309	72,952
	\$ 129,797	\$ 124,030

See accompanying notes to the consolidated financial statements

CHECKERS DRIVE-IN RESTAURANTS, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

	Fiscal Year Ended		
	January 2, 2006	January 3, 2005	December 29, 2003
REVENUES:			
Restaurant sales	\$ 168,866	\$ 176,319	\$ 174,231
Franchise royalty revenue	17,942	17,125	15,136
Franchise fees and other income	346	805	952
Total revenues	187,154	194,249	190,319
COSTS AND EXPENSES:			
Restaurant food and paper costs	54,438	56,696	55,029
Restaurant labor costs	48,956	51,841	52,985
Restaurant occupancy expense	10,728	11,198	12,313
Restaurant depreciation	7,979	7,293	6,012
Other restaurant operating expenses	21,772	22,103	22,223
General and administrative expenses	15,857	13,802	14,752
Advertising	10,358	10,828	10,822
Non-cash compensation	840	544	46
Other depreciation and amortization	923	1,140	908
Impairment of long-lived assets	421	56	361
Restaurant retirement costs	(631)	(115)	(446)
(Gain) loss on sales of assets	295	(76)	(1,963)
Total costs and expenses	171,936	175,310	173,042
Operating income	15,218	18,939	17,277
OTHER INCOME (EXPENSE):			
Interest income	1,315	1,035	1,099
Interest expense	(2,094)	(2,329)	(2,629)
Income before minority interest, income tax expense (benefit) and cumulative effect of change in accounting principle	14,439	17,645	15,747
Minority interest in operations of joint ventures			(99)
Income before income tax expense (benefit) and cumulative effect of change in accounting principle	14,439	17,645	15,648
Income tax expense (benefit)	5,269	6,154	(186)
Income before cumulative effect of change in accounting principle	9,170	11,491	15,834
Cumulative effect of change in accounting principle (net of tax)			51
NET INCOME	\$ 9,170	\$ 11,491	\$ 15,783
COMPREHENSIVE INCOME	\$ 9,170	\$ 11,491	\$ 15,783
Basic earnings per share	\$ 0.81	\$ 0.99	\$ 1.31
Diluted earnings per share	\$ 0.74	\$ 0.92	\$ 1.23

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

Weighted average number of common shares outstanding:

Basic	11,324	11,633	12,047
Diluted	12,353	12,491	12,845

See accompanying notes to the consolidated financial statements

CHECKERS DRIVE-IN RESTAURANTS, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands)

	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Treasury stock	Note receivable - officer	Total equity
Balances at December 30, 2002		12	145,678	(84,629)	(465)	(67)	60,529
Non-cash compensation			46				46
Exercise of 405,591 stock options			1,225				1,225
Issuance of treasury stock under an employment agreement				(26)	141		115
Purchase of common stock for treasury					(5,082)		(5,082)
Retirement of treasury stock				(1,711)	1,711		
Note payment - officer						67	67
Income tax benefits credited to equity			784				784
Net income				15,783			15,783
Balances at December 29, 2003		12	147,733	(70,583)	(3,695)		73,467
Exercise of 221,238 stock options		1	1,430				1,431
Purchase of common stock for treasury					(14,277)		(14,277)
Income tax benefits credited to equity			296				296
Issuance of stock as non-cash compensation			544				544
Net income				11,491			11,491
Balances at January 3, 2005		13	150,003	(59,092)	(17,972)		72,952
Exercise of 406,852 stock options			2,213				2,213
Income tax benefits credited to equity			1,134				1,134
Issuance of stock as non-cash compensation			840				840
Net income				9,170			9,170
Balances at January 2, 2006	\$	\$ 13	\$ 154,190	\$ (49,922)	\$ (17,972)	\$	\$ 86,309

CHECKERS DRIVE-IN RESTAURANTS, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Fiscal Year Ended		
	January 2, 2006	January 3, 2005	December 29, 2003
Cash flows from operating activities:			
Net income	\$ 9,170	\$ 11,491	\$ 15,783
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,902	8,433	6,920
Amortization of deferred loan costs	181	125	255
Cumulative effect of change in accounting principle			51
Impairment of long-lived assets	421	56	361
Deferred tax expense (benefit), net	4,061	5,235	(1,194)
Non-cash stock compensation	840	544	46
Income tax effect of compensation expense of stock options	1,134	296	784
Loss (gain) on sale of property and equipment	295	(77)	(1,963)
Minority interests in operations of joint ventures			100
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(1,218)	891	(301)
Decrease (increase) in notes and leases receivable	120	(1,037)	376
Decrease (increase) in inventory	41	29	(86)
(Increase) decrease in prepaid expenses and other current assets	(163)	162	286
Decrease in other assets	5	146	17
Increase (decrease) in accounts payable	128	(386)	(1,133)
(Decrease) increase in accrued liabilities	(5,518)	612	(3,882)
Net cash provided by operating activities	\$ 18,399	\$ 26,520	\$ 16,420
Cash flows from investing activities:			
Capital expenditures	(10,935)	(19,743)	(12,630)
Acquisitions of restaurants and equity interest, net of cash acquired	(680)	(815)	(1,849)
Insurance proceeds from involuntary conversion of assets	1,000		
Proceeds from sale of assets	632	4,826	4,627
Net cash used in investing activities	\$ (9,983)	\$ (15,732)	\$ (9,852)
Cash flows from financing activities:			
(Increase) decrease in restricted cash	(305)	198	(319)
Proceeds from exercise of stock options and warrants	2,213	1,431	1,225
Proceeds from issuance of long-term debt		1,173	
Principal payments on long-term debt and capital lease obligations	(2,295)	(5,804)	(3,144)
Purchase of common stock for treasury		(14,277)	(5,082)
Proceeds from repayment of officer note			67
Distributions to minority interests			(72)
Net cash used in financing activities	\$ (387)	\$ (17,279)	\$ (7,325)
Net increase (decrease) in cash	8,029	(6,491)	(757)
Cash at beginning of period	7,075	13,566	14,323

Cash at end of period	\$ 15,104	\$ 7,075	\$ 13,566
------------------------------	-----------	----------	-----------

See accompanying notes to the consolidated financial statements

CHECKERS DRIVE-IN RESTAURANTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollars in thousands, except per share amounts)

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation - The accompanying consolidated financial statements include the accounts of Checkers Drive-In Restaurants, Inc. and its wholly-owned subsidiaries, collectively referred to as the Company.

Although there are no joint ventures as of January 2, 2006, the accounts of the joint ventures in existence prior to the end of the current fiscal year have been included with those of the Company in the accompanying consolidated financial statements. All significant inter-company accounts and transactions have been eliminated and minority interests have been established for the outside partners' interests.

The Company reports on a fiscal year, which ends 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. Fiscal years 2005 and 2003 contain 52 weeks, while fiscal year 2004 contains 53 weeks.

b) Purpose and Organization Our principal business is the operation and franchising of Checkers and Rally's restaurants. At January 2, 2006, there were 354 Rally's restaurants operating in 16 different states and 450 Checkers restaurants operating in 20 different states, the District of Columbia, Mexico and the West Bank. Nine states have both Checkers and Rally's restaurants. Of those restaurants, 200 were Company operated and 604 were operated by franchisees.

c) Earnings Per Common Share - We calculate basic and diluted earnings per share in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the year.

d) Stock Based Compensation We have chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations (APB No. 25). We account for stock based compensation to non-employees using the fair value method prescribed by SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Accordingly, compensation costs for stock options granted to employees are measured as the excess, if any, of the value of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for stock options granted to non-employees is measured as the fair value of the option at the date of grant. Such compensation costs, if any, are amortized on a straight line basis over the underlying option vesting terms.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

If the compensation cost for all option grants to employees and directors had been determined consistent with SFAS No. 123, as amended by SFAS No. 148, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

(Dollars in thousands, except per share amounts)

	For the Years Ended		
	January 2, 2006	January 3, 2005	December 29, 2003
Net income, as reported	\$ 9,170	\$ 11,491	\$ 15,783
Add: Non-cash compensation, net of related tax effects	\$ 521	\$ 337	\$ 29
Deduct: Additional stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,465)	(2,257)	\$ (1,089)
Pro forma net income	8,226	9,571	\$ 14,723
Earnings per share:			
Basic - as reported	\$ 0.81	\$ 0.99	\$ 1.31
Basic - pro forma	\$ 0.73	\$ 0.82	\$ 1.22
Diluted - as reported	\$ 0.74	\$ 0.92	\$ 1.23
Diluted - pro forma	\$ 0.67	\$ 0.77	\$ 1.14

For purposes of the pro forma disclosures assuming the use of the fair value method of accounting, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Assumptions	2005	2004	2003
Risk-free interest rates	2.99%	1.16%	1.13%
Volatility	66%	61%	66%
Expected lives (months)	48	48	48

The Company accrues compensation costs as if all instruments granted are expected to vest. The effect of actual forfeitures is recognized as they occur. An expected dividend yield of zero percent was used for all periods based on the Company's history of not making dividend payments.

On July 12, 2005, the Company awarded 64,000 shares of stock to non-employee directors at \$13.12 per share. Non-cash compensation expense of \$839,600 was recorded in the accompanying statement of operations.

On June 17, 2004, the Company awarded 50,000 shares of stock to Non-Employee directors at \$10.87 per share. Non-cash compensation expense of \$543,500 was recorded in the accompanying statement of operations.

- e) **New Accounting Pronouncements-** In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (FAS 123(R)) which addresses accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of that company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statement of operations based on their fair values. Pro-forma disclosure is no longer an alternative. The new standard will be effective for public companies in the first interim or annual reporting period beginning after June 15, 2005.

The Company will adopt Statement 123(R) on January 3, 2006, using the modified prospective method, whereby we will apply Statement 123(R) to new and modified awards beginning January 3, 2006. The modified retrospective method will not be adopted. Additionally, we will be required to recognize compensation cost as expense for the portion of outstanding unvested awards, based on the grant-date fair value of those awards calculated using the Black-Scholes option pricing model under Statement 123 for pro forma disclosures. The Company projects the compensation expense associated

with adopting FAS 123(R) will approximate \$1.2 million before taxes. This estimate applies only to options issued but not yet vested. Options issued after the effective date will increase compensation expense above this estimate. Refer to Note 1(d) of the Notes to the Consolidated Financial Statements for a pro forma calculation of the effect non-cash compensation has had on current and prior year financial results.

- f) **Cash and Cash Equivalents** - We consider all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash consists of cash on deposit with various financial institutions as collateral to support the Company's obligations for workers' compensation claims.
- g) **Receivables** - Receivables consist primarily of royalties, franchise fees and notes due from franchisees. A rollforward of the allowance for doubtful receivables is as follows:

Description	Balance at Beginning of year	Additions		Deductions Charged to Other Accounts	Balance at End of Year
		Charged to Costs and Expenses	Charged to Other Accounts		
Year Ended January 2, 2006					
Accounts Receivable	\$ 3,692	\$	\$	\$ 168	\$ 3,524
Notes Receivable	1,345			54	1,291
	\$ 5,037	\$	\$	\$ 222	\$ 4,815
Year Ended January 3, 2005					
Accounts Receivable	\$ 3,930	\$ 250	\$ (250)	\$ 238	\$ 3,692
Notes Receivable	1,095		250		1,345
	\$ 5,025	\$ 250	\$	\$ 238	\$ 5,037
Year Ended December 29, 2003					
Accounts Receivable	\$ 3,616	\$ 333	\$ 9	\$ 28	\$ 3,930
Notes Receivable	1,081		14		1,095
	\$ 4,697	\$ 333	\$ 23	\$ 28	\$ 5,025

The majority of the Company's accounts receivables are due from franchisees for royalties, rents and other franchise fees. Accounts receivable are due within 15 days from billing and in some instances the funds are drawn directly from the franchisee's account on a predetermined day. Although the Company maintains an allowance for doubtful accounts, the majority of the balance is specifically reserved for accounts aged more than one year where collection is not expected. Prior to fiscal year 2004, the Company recorded bad debt expense on a period basis as 1.5% of total royalties. As the collection of these receivables became more certain, the Company made the decision to no longer record bad debt expense for accounts receivable. In addition to the high rate of collection, the agreements with franchisees provide remedy to the Company in the event of the franchisee's default on outstanding balances through a security interest in the assets of the business. Franchisees are considered to be in default when their accounts reach 15 days past due and are sent a termination letter when the account reaches 60 days past due. Accounts receivable are written off when it is determined that they are uncollectible or are converted into the basis in the assets that are reacquired.

Notes receivables usually consist of funds extended to franchisees as consideration for the sale of restaurants. As is with the case of accounts receivables, the majority of the allowance is specifically reserved for those notes where collection is no longer expected. The assets of the restaurants sold act as collateral for those particular notes receivable. However not all notes are collateralized. In the event of default, the Company has the option to reacquire the assets ensuring the collection of the value of the note. Interest on these notes is charged at the agreed upon rate at the time the note is executed and recognized on a period basis throughout the life of the note.

- h)

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

i) **Property and Equipment** - Property and equipment are stated at cost. Assets under capital leases are stated at their fair value at the inception of the lease. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of their estimated useful lives or remaining lease term. Property and equipment held for sale includes excess restaurant facilities and land and is recorded at its estimated fair market value less disposal cost. Held for sale assets are not depreciated. The aggregate carrying value of property and equipment held for sale is periodically reviewed and adjusted downward to market value, when appropriate. Property and equipment are depreciated using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Leasehold improvements are depreciated over the shorter of their estimated useful life, generally ten years or the remaining lease term. Expenditures for major renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred.

j) **Valuation of Long-Lived Assets** We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

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

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

significant negative industry or economic trends.

Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets requires the write-down of certain intangibles and tangible property associated with under-performing assets. In applying SFAS No. 144, the Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The events we consider for triggering our impairment review include, individual restaurant performance relative to historical and projected future operating results, as well as negative economic and industry trends that occur within the restaurant industry. Once a trigger is met, we review the historical and projected cash flows of each restaurant and perform a undiscounted cash flow analysis where indicated for each restaurant based upon such results projected over a ten year period or the remaining lease term. This period of time is selected based upon the lease term and the age of the related buildings. Impairments are recorded to adjust the asset values to fair value measured as the amount recoverable under a discounted cash flow analysis, in accordance with SFAS No. 144. We recognized impairments of property, equipment and intangible assets of approximately \$0.4 million for fiscal year 2005, \$0.1 million for fiscal year 2004 and \$0.4 million for fiscal year 2003.

k) **Valuation of Intangible Assets** We assess the impairment of intangible assets on an annual basis, including such assets as franchise rights, tradename and goodwill and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

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

significant negative industry or economic trends;

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

our market capitalization relative to net book value.

During fiscal year 2003, the Company reversed \$29.7 million of the valuation allowance for deferred tax assets. As a result, \$23.5 million was recorded as a reduction of goodwill. During the year ended January 2, 2006, the Company made a correction to valuation allowances relating to State NOL deferred tax assets which were present at time of the Checkers/Rally s 1999 merger. This correction caused a reduction of goodwill of \$0.1 million.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

We performed an initial impairment review of our intangible assets as of January 1, 2002. Subsequently, we performed annual impairment reviews at each subsequent year end. Based on these reviews, no adjustment was required. We will continue our annual evaluation, unless circumstances call for us to perform an evaluation prior to then.

Intangible assets consist of the following:

	January 2, 2006	January 3, 2005
Goodwill	\$ 3,975	\$ 4,094
Reacquired franchise rights	591	591
Tradenname	17,548	17,548
Amortizable intangible assets	1,625	1,791
Intangible assets, net	\$ 23,739	\$ 24,024

Amortizable intangible assets:

	January 2, 2006			January 3, 2005			Estimated Lives
	Gross Amount	Accum Amort	Net	Gross Amount	Accum Amort	Net	
Reacquired franchise rights	\$ 1,182	\$ (421)	\$ 761	\$ 1,182	\$ (338)	\$ 844	25 years
Other intangibles	3,009	(2,145)	864	3,009	(2,062)	947	25 years
Total amortizable intangible assets:	\$ 4,191	\$ (2,566)	\$ 1,625	\$ 4,191	\$ (2,400)	\$ 1,791	

Amortization for amortizable intangible assets, for each of the next five fiscal years is as follows:

	Total
2006	\$ 163
2007	163
2008	163
2009	163
2010	163

l) **Deferred Loan Costs** - Deferred loan costs incurred in connection with the Company's primary debt facility and mortgages payable to GE Capital Franchise Finance Corporation are amortized using the effective interest method over the life of the related debt.

m) **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 when substantially all of the Company's obligations per location are satisfied (generally at the opening of the restaurant). Franchise fees are nonrefundable. Franchise fees and area development franchise fees received prior to substantial completion of the Company's obligations are deferred. The Company receives royalty fees from franchisees based on a percentage of each restaurant's gross revenues. Royalty fees are recognized as earned.

Gains associated with the sale of certain Company-operated restaurants to franchisees with associated mortgages and capital leases are recognized over the life of the related obligations. During fiscal years 1999 and 2000, several Company-operated restaurants were sold to franchisees with associated mortgages and capital leases. As a result of the sales, we have recorded lease receivables for those restaurants sold which are subject to capital lease and mortgage obligations. The amount of capital lease receivables as of January 2, 2006 was approximately \$4.6 million. We have recorded deferred gains of \$2.8 million from these sales since we continue to be responsible for the payment of the obligations to the original lessors and mortgagors. The deferred gains are included in the consolidated balance sheet under the captions *Accrued liabilities* and *Deferred revenues* for \$0.3 million and \$2.5 million, respectively as of January 2, 2006 and will be recognized over the next 15 years. Additionally, the Company has deferred approximately \$0.3 million of gains in accordance with SFAS No. 66, where notes receivable were accepted as consideration for sales of certain Company-operated restaurants. These notes as well as the associated deferred gains are scheduled to be collected and recognized over the term of the notes, which are due over the next five years.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

In September 2004, the Company recorded a deferred gain of \$1.5 million in accordance with SFAS No. 98 related to the sales-leaseback transaction for three parcels of surplus property in Georgia that were swapped with three Company-operated restaurants located in Florida. The surplus reserve recorded under EITF 94-3 was recharacterized as a deferred gain for the Georgia properties acquired. The remaining \$1.3 million deferred gain will be recognized over the remaining lease term.

- n) **Advertising** - The Company expenses advertising costs as incurred. To the extent we participate in independent advertising cooperatives, we expense our contributions as incurred.
- o) **Income Taxes** - We account for income taxes under Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under the asset and 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 basis. 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. The tax benefits must be reduced by a valuation allowance in certain circumstances. Realization of the deferred tax benefits is dependant on generating sufficient taxable income prior to expiration of any net operating loss carryforwards (NOL s). The deferred tax assets are reviewed periodically for recoverability, and valuation allowances are adjusted as necessary. 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.
- p) **Leases and Leasehold Assets** - The Company accounts for leases and assets associated with leased property in accordance with SFAS No. 13, Accounting for Leases. We amortize leasehold assets over the shorter of ten years or the remaining lease term. To the extent the assets are added after the initial lease start-up period, generally one year, the depreciable life may extend into a subsequent option period. Likewise, for purposes of recognizing rent expense, the Company utilizes the lease commencement date through the end of the lease or option term, unless renewal of lease options has been determined to be reasonably assured. In the instance the Company is obligated to pay rent based on a percentage of sales, such rent expense is recognized once the minimum sales volume is expected to be achieved. We have subleased, under operating leases, land associated with the sale of Company-operated restaurants. The revenue from these subleases is recorded as an offset against rent expense, as we continue to be responsible for the rent payments to the original lessors. The sublease rental income recorded for January 2, 2006, January 3, 2005 and December 29, 2003, was \$8.5 million, \$7.8 million and \$7.6 million, respectively. We have considered our exposure for both capital and operating subleases, and have recorded a loss accrual for those operating subleases with rents from tenants below the rents the Company is obligated to pay under the original lease.
- q) **Supplemental Disclosures of Cash Flow Information**

	January 2, 2006	January 3, 2005	December 29, 2003
Interest paid	\$ 2,124	\$ 2,473	\$ 2,624
Income taxes paid	\$ 419	\$ 234	\$ 104
Capital lease obligations incurred	\$	\$	\$ 203

During fiscal 2005 the Company acquired one restaurant located in the Miami, Florida market from a franchisee. During fiscal 2004, the Company acquired seven restaurants located in the Jacksonville, Florida market from a franchisee. During fiscal 2003, we acquired three restaurants from former franchisees. We also acquired the minority partner s share in a restaurant previously operated as a joint venture.

These acquisitions were recorded as follows:

	January 2, 2006	Fiscal Year Ended January 3, 2005	December 29, 2003
Fair value of assets acquired	\$ 680	\$ 1,999	\$ 1,849
Receivables forgiven		(307)	
Liabilities assumed		(877)	
Cash paid	\$ 680	\$ 815	\$ 1,849

In conjunction with the sale of restaurants in fiscal 2003 the Company accepted notes of approximately \$1.0 with maturities through December 2010.

- r) **Disclosures about Fair Values of Financial Instruments** - The carrying amounts of cash and cash equivalents, prepaid expenses, receivables, accounts payable, accrued liabilities, lease commitments and long-term debt are a reasonable estimate of their fair value, based upon their short maturity or quoted market prices. Interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues that are not quoted on an exchange. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.
- s) **Segment Reporting** - As of January 2, 2006, the Company and franchisees operated 200 and 604 restaurants, respectively, under either the Checkers or Rally s Hamburgers brand name, as part of a single operating segment within the quick-service restaurant industry.
- t) **Use of Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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. Certain of the more significant estimates include the valuation of property and equipment, intangible assets, reserves for restaurant relocations and abandoned sites, allowances for doubtful accounts and valuation of deferred tax assets and liabilities.
- u) **Reclassifications** - Certain items in the 2004 and 2003 consolidated financial statements have been reclassified to conform to the 2005 presentation.

Note 2: ACQUISITIONS

On October 10, 2005, the Company acquired one restaurant located in the Miami, Florida market from a franchisee. The purchase price for the restaurants totaled \$0.7 million for cash and assumed liabilities.

On April 8, 2004, the Company acquired seven restaurants located in the Jacksonville, Florida market from a franchisee. The purchase price for the restaurants totaled \$2.0 million, including \$0.8 million in cash, \$0.9 million relating to the assumption of liabilities and \$0.3 million relating to the forgiveness of amounts owed by the franchisee to the Company.

On September 9, 2003, the Company acquired three franchisee-operated restaurants located in the Tampa market. The purchase price for the restaurants, including land on which they are located, totaled approximately \$1.6 million.

On August 12, 2003, the Company acquired the minority partner s interest in a joint venture restaurant located in Tampa, Florida. The purchase price totaled approximately \$0.2 million.

Note 3: ACCOUNTING CHARGES & LOSS PROVISIONS**Restaurant Impairment Charges**

Certain charges have been referred to as impairment of long-lived assets. These items represent estimates of the impact of management decisions, which have been made at various points in time in response to the Company's sales and profit performance, and the then-current revenue and profit strategies.

The Company recorded impairment charges of \$0.4 million for fiscal years 2005 and 2003. These charges related to the impairment of two restaurants, in each year, based on the review of their current and projected operating results. The Company recorded impairment charges of \$0.1 million during fiscal year 2004. These charges related to the impairment of drive-thru equipment deemed obsolete in 2004.

Restaurant Retirement Costs

During fiscal 2005, the Company recognized a benefit of \$0.6 million primarily due to re-opening a closed restaurant in the Detroit market which was previously contained in the Reserve for restaurant relocation and abandoned sites. During fiscal 2004, the Company recognized a benefit of \$0.1 million, resulting from adjustments recorded to reflect management's expectation of future obligations net of management's successful negotiation out of lease obligations previously reserved for. During fiscal 2003, the Company recognized a benefit of \$0.4 million, resulting from management's successful negotiation out of lease obligations previously reserved for. The Company remains directly obligated to make lease payments on 10 vacant sites plus four other sites which are subleased for amounts less than the Company's original lease obligation. While the lease agreements do allow the Company to sublease the property, they do not allow for cancellation.

The following table summarizes the components of the charges for restaurant retirement costs and impairment charges:

Description	Balance at Beginning of Year	Expense Additions and Changes in Estimate	Cash Outlays	Asset Write-Offs and Other Changes	Balance at End of Year
Year ended January 2, 2006					
Impairment of long-lived assets	\$	\$ 421	\$	\$ (421)	
Accrual for closed restaurant expenses presented as restaurant retirement costs	4,111	(796)	(788)	(317)	2,210
	\$ 4,111	\$ (375)	\$ (788)	\$ (738)	\$ 2,210
Year ended January 3, 2005					
Impairment of long-lived assets	\$	\$ 56	\$	\$ (56)	\$
Accrual for closed restaurant expenses presented as restaurant retirement costs	5,601	(329)	(1,161)		4,111
	\$ 5,601	\$ (273)	\$ (1,161)	\$ (56)	\$ 4,111
Year ended December 29, 2003					
Impairment of long-lived assets	\$	\$ 361	\$	\$ (361)	\$
Accrual for closed restaurant expenses presented as restaurant retirement costs	7,728	(446)	(1,681)		5,601
	\$ 7,728	\$ (85)	\$ (1,681)	\$ (361)	\$ 5,601

The ending balance each year in the reserves for restaurant relocations and abandoned sites consists of our estimates for the ongoing costs of each restaurant which has been closed or was never developed. Those costs include rent, property taxes, and in some cases, the cost to relocate the modular restaurant to a storage facility. The cash outlays for these costs have been estimated for various terms ranging from less than one year to 11 years. In some instances, the properties are either subleased or have the potential to be subleased for an amount less than the obligation. In these cases, the amount of the initial reserve is reduced by either the actual amounts collected or an estimate based on local market conditions.

Although all additions or reductions are charged to Restaurant retirement costs, this expense category also includes other expenses. Other expenses in this category totaled \$0.2 million in both 2005 and 2004, \$0 in 2003.

Note 4: RELATED PARTY TRANSACTIONS

The Company has had transactions with certain companies or individuals, which are related parties by virtue of having stockholders in common, by being officers/directors or because they are controlled by significant stockholders or officers/directors of the Company.

The Company and its franchisees each pay a percentage of sales to the Checkers/Rally's National Production Fund, Inc. (the Fund), established for the purpose of creating and producing advertising for the chain. The Fund is not included in the consolidated financial statements, although the Company's contributions to the Fund are included in the advertising expenses in the consolidated statements of operations. Additionally, certain Company-operated restaurants and franchises participate in similar advertising co-ops, which are accounted for similarly to the Fund.

During 2005, a sibling of Adam Noyes, Vice-President of Purchasing and Operations Services, purchased a franchise from an existing franchisee of Checkers. The franchise royalties paid by such sibling of Adam Noyes to Checkers during 2005 were approximately \$53,000. The franchise agreement between the Company and sibling was a standard agreement without any special terms or conditions.

During 2005, 2004, and 2003, we incurred \$22,000, \$107,000 and \$26,000, respectively in legal fees related to the Mittman litigation and other Corporate matters to the law firm of Christensen, Miller, Fink, Jacob, Glaser, Weil and Shapiro for which a Director of the Company, Terry N. Christensen, is a partner.

During 2003, the Company engaged Peter O Hara, one of its current Directors, to provide temporary consulting services at a monthly fee of \$12,000. Fees for fiscal 2003 were \$48,000.

Summary of Related Party Transactions (in thousands):

	Fiscal Year Ended	
	January 2, 2006	January 3, 2005
<u>Balance Sheet Amounts</u>		
Accounts receivable	\$ 30	\$ 4
Accounts payable	370	8
Accrued liabilities	439	538

	Fiscal Year Ended		
	January 2, 2006	January 3, 2005	December 30, 2003
<u>Expense Amounts</u>			
Legal fees	\$ 22	\$ 107	\$ 26
Advertising	6,870	7,148	7,555
General and administrative			17
Consulting fees			48
	\$ 6,892	\$ 7,255	\$ 7,646

Note 5: LEASE RECEIVABLE

As a result of the sale of Company-operated restaurants in 2000 and 1999, we have recorded capital lease receivables for those restaurants sold which are subject to capital lease and mortgage obligations. The amount of capital lease receivables as of January 2, 2006 was approximately \$4.6 million. As of January 2, 2006, we have deferred gains of \$2.8 million from these sales since we continue to be responsible for the payment of these obligations to the original lessors and mortgagors. The gains are being recognized over the remaining life of the related capital leases, approximately 14 years. The deferred gains are included in the consolidated balance sheets under the captions Accrued liabilities and Deferred revenue for \$0.3 million and \$2.5 million, respectively, as of January 2, 2006, and \$0.4 million and \$2.8 million as of January 3, 2005.

We have subleased, under operating leases, land associated with the sale of Company-operated restaurants. The revenue from these subleases is recorded as an offset against rent expense, as we continue to be responsible for the rent payments to the original lessors. The sublease rental income recorded for January 2, 2006, January 3, 2005 and December 29, 2003, was \$8.5 million, \$7.8 million and \$7.6 million, respectively. We have considered our exposure for both capital and operating subleases, and have recorded a loss accrual for those operating subleases with rents from tenants below the rents the Company is obligated to pay under the original lease.

Following is a schedule, for the next five years and thereafter, of future minimum lease payments receivable for operating leases at January 2, 2006:

Fiscal Year Ended	
2006	\$ 8,731
2007	7,689
2008	6,673
2009	5,058
2010	3,855
Thereafter	12,569
Total	\$ 44,575

Note 6: PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	January 2,	January 3,	Estimated
	2006	2005	Useful Lives
Land	\$ 11,564	\$ 11,861	
Leasehold and land improvements	16,626	16,441	1-20 years
Buildings	43,795	41,592	5-20 years
Equipment, furniture and fixtures	32,999	32,507	3-10 years
	104,984	102,401	
Less accumulated depreciation	(50,468)	(48,494)	
	54,516	53,907	
Property held under capital leases	3,652	4,296	3-20 years
Less accumulated depreciation	(3,043)	(2,894)	
	609	1,402	
Net property and equipment	\$ 55,125	\$ 55,309	

Depreciation expense of property and equipment was approximately \$8.7 million, \$8.2 million and \$6.6 million for the fiscal years 2005, 2004 and 2003, respectively.

Note 7: CREDIT FACILITIES

The Company had a credit facility with U.S. Bancorp Equipment Finance, Inc. in 2003 that allowed it to borrow up to \$3 million, which was available through December 31, 2004. On December 17, 2004, the Company extended the term through April 30, 2005. The agreement allowed the Company to borrow at 2.2% plus the 7-year interest rate swap published in the Federal Reserve Statistical Release. The Company utilized approximately \$1.2 million of this line for two new restaurants located in Indiana and Louisiana during the fourth quarter of 2004. During fiscal year 2002, the Company had received separate commitments from two lenders for financing. The commitments were for obligations up to \$15

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

million in the aggregate for property development. The credit facility with Merrill Lynch was available through October 1, 2003 with an interest rate equal to the 5-year swap rate plus 440 basis points. The credit facility with CNL Franchise Network, LP (CNL) was available through December 31, 2003. The agreement committed CNL to enter into a sale-leaseback transaction for properties to be developed and operated by the Company as Checkers or Rally s restaurants. There were no credit facilities maintained by the Company as of January 2, 2006.

Note 8: LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES

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

(Dollars in thousands)

	January 2, 2006	January 3, 2005
Note payable (Loan A) to GE Capital Franchise Finance Corporation payable in 120 monthly installments, maturing July 1, 2010, including interest at LIBOR plus 3.7% (8.0% at January 2, 2006) secured by property and equipment.	\$ 4,295	\$ 5,791
Mortgages payable to GE Capital Franchise Finance Corporation secured by thirty Company-owned restaurants, payable in 240 aggregate monthly installments of \$125, maturing January 1, 2019, including interest at 9.5%.	11,191	11,577
Note payable to US Bancorp secured by two Company-owned restaurants, payable in 84 aggregate monthly installments of \$18, maturing January 1, 2012, including interest at 2.2% plus the 7 year swap rate (6.7% at January 2, 2006)	1,028	1,166
Obligations under capital leases, maturing at various dates through December 1, 2019, secured by property and equipment, bearing interest ranging from		
7.0% to 10%. The leases are payable in monthly principal and interest installments averaging \$8.	2,297	2,401
Obligations under capital leases, maturing at various dates through January 1, 2016, secured by property and equipment, bearing interest ranging from		
10.4% to 16.3%. The leases are payable in monthly principal and interest installments averaging \$44.	1,734	1,905
Total long-term debt and obligations under capital leases	20,545	22,840
Less current installments	(1,868)	(2,064)
Long-term debt, less current maturities	\$ 18,677	\$ 20,776

Although we continue to be obligated, approximately \$4.6 million of the mortgage and capital lease obligations noted above pass directly through to franchisees as a result of Company-operated restaurant sales (See Note 5).

Aggregate maturities of long-term debt for the next five years and thereafter are as follows:

Fiscal Year Ended	Amount
2006	\$ 1,455
2007	1,581
2008	1,718
2009	1,868
2010	1,325
Thereafter	8,567
Total	\$ 16,514

The following are minimum lease payments that will have to be made in each of the years indicated based upon capital leases in effect as of January 2, 2006:

Fiscal Year Ended	Amount
2006	\$ 827
2007	752
2008	658
2009	585
2010	524
Thereafter	3,524
Total minimum lease payments	\$ 6,870
Less amount representing interest	(2,839)
Present value of minimum lease payments	4,031
Less current portion	(413)
	\$ 3,618

The Company is subject to certain restrictive financial and non-financial covenants under certain of its debt and lease agreements, including EBITDA and a Fixed Charge Coverage ratio. We were in compliance with all financial and non-financial covenants at January 2, 2006.

Note 9: INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the Company to recognize income tax benefits and liabilities for loss carryforwards and other income tax assets and liabilities. The tax benefits must be reduced by a valuation allowance in certain circumstances. Realization of the deferred tax benefits is dependant on generating sufficient taxable income prior to expiration of any net

operating loss carryforwards (NOL s). The deferred tax assets are reviewed periodically for recoverability, and valuation allowances are adjusted as necessary. Management believes it is more likely than not that the recorded deferred tax assets, net of valuation allowance provided, will be realized.

Under the provisions of SFAS No. 109, the components of the deferred income tax assets and liabilities recognized in the Company s Consolidated Balance Sheet at January 2, 2006 and January 3, 2005 were as follows (in thousands):

	January 2, 2006	January 3, 2005
Deferred tax assets:		
Net operating loss carryforwards	\$ 40,615	\$ 42,026
Accruals, reserves and other	7,952	7,424
Alternative minimum tax and tax credit carryforward	2,176	2,081
Deferred tax assets	\$ 50,743	\$ 51,531
Deferred tax liabilities:		
Difference between book and tax basis of property, equipment and intangibles	\$ (9,108)	\$ (5,337)
Other	(161)	(81)
Deferred tax liabilities	\$ (9,269)	\$ (5,418)
	41,474	46,113
Less valuation allowance	(29,428)	(30,125)
Net deferred tax assets	\$ 12,046	\$ 15,988

The deferred tax asset related to net operating loss (NOL) carryforwards represents the tax effect for total NOL s created in prior years at a 35% rate for federal NOL s and all applicable rates for state NOL s.

As a result of the Merger in 1999, both companies (Checkers and Rally s) experienced an ownership change as defined by Internal Revenue Code Section 382. Pursuant to IRC Section 382, the surviving entity or post-merger Checkers is significantly limited in utilizing the net operating loss carryforwards that were generated before the Merger to offset taxable income arising after the ownership change. As of August 9, 1999 Rally s and Checkers had pre-merger federal net operating loss carryforwards of approximately \$52.7 million and \$67.0 million, respectively for a combined total of \$119.7 million. Federal taxable income over the past six years has reduced the remaining carryforward to \$94.2 million. We believe that the limitations imposed by IRC Section 382 restrict the prospective utilization of the remaining pre-merger federal net operating loss carryforwards to approximately \$20.5 million the life of the net operating losses. The remaining pre-merger federal net operating loss carryforwards of \$73.7 million expire before becoming available under these limitations. As a result the valuation allowance has been specifically attached to these NOL s and not allocated to all deferred tax assets. The federal and state net operating loss carryforwards are subject to limitation in any given year and will expire through 2018 based upon the year originally incurred. The Company has approximately \$7.8 million of post-merger federal net operating loss carryforward available through 2020, and approximately \$2.1 million of federal alternative minimum tax credit carryforwards available indefinitely. In addition to the federal NOL s available, the Company has similar NOL s available in many of the states that it currently operates in. These NOL s are subject to similar IRC Section 382 limitations in many of those states.

Management believes that it is more likely than not that the net deferred tax assets will be realized, as a result of the Company s improved operating results for the past four years, net changes in temporary differences, the utilization of net operating losses, and projected future operating results.

The following transactions affected the deferred tax assets for the periods indicated:

	January 2, 2006	Fiscal Year Ended January 3, 2005	December 29, 2003
Cummulative effect of change in accounting principle	\$	\$	\$ 17
Goodwill, for initial recognition of acquired tax benefits that previously were included in the valuation allowance	\$ (119)	\$	\$ (23,508)
Stockholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes.	\$ (1,134)	\$ (296)	\$ (784)

Income tax expense (benefit) from continuing operations consists of the following:

	January 2, 2006	Fiscal Year Ended January 3, 2005	December 29, 2003
Current-State	\$	\$ 109	\$ 66
Current-Federal	74	514	158
	74	623	224
Deferred - State	38	728	(87)
Deferred - Federal	5,157	4,803	(323)
	5,195	5,531	(410)
Total income tax expense (benefit)	\$ 5,269	\$ 6,154	\$ (186)

The significant components of deferred income tax expense (benefit) attributable to income from continuing operations are as follows:

	January 2, 2006	Fiscal Year Ended January 3, 2005	December 29, 2003
Deferred tax expense (benefit) (exclusive of the effects of other components listed below)	\$ 5,773	\$ 5,593	\$ 5,784
Charge in lieu of taxes resulting from initial recognition of acquired tax benefits that are allocated to reduce goodwill related to the acquired entity	119		23,508
(Decrease) increase in the beginning-of-the-year balance of the valuation allowance for deferred tax assets	(697)	(62)	(29,702)
Total deferred income tax expense (benefit)	\$ 5,195	\$ 5,531	\$ (410)

The total tax benefit for 2003 is primarily the result of the reversal of \$29.7 million of the valuation allowance and the deduction for stock options charged directly to equity of \$784,000. Since the deferred tax assets of pre-merger Checkers Drive-In Restaurants, Inc. (Pre-merger Checkers) had a 100% valuation allowance recorded against them, the reversal of the valuation allowance related to all Pre-merger Checkers deferred tax assets existing on the merger date reduced goodwill originally recorded for the merger transaction. As a result of the reversal of the valuation allowance, goodwill was reduced by \$23.5 million and a benefit from income taxes was recorded for \$6.2 million.

During the year ended January 3, 2005, the Company identified certain previously unrecognized deferred tax assets and deferred tax liabilities which existed at the August 9, 1999 merger date that increased goodwill and decreased net deferred tax assets by approximately \$3.1 million as of January 3, 2005.

During the year ended January 2, 2006, the Company made a revision to valuation allowances relating to State NOL deferred tax assets which were present at time of the Checkers/Rally's 1999 merger. This revision resulted in a reduction of goodwill of \$0.1 million.

The Company's income tax paid represents income taxes assessed for federal alternative minimum tax and at the state level for states where the Company does not have any available net operating losses available or the state has suspended the use of net operating losses during those years.

The following is a reconciliation of the income tax expense (benefit) computed by applying the federal statutory income tax rate to net income (loss) before income taxes to the income tax provision shown on the Consolidated Statements of Income:

	Fiscal Year Ended		
	January 2, 2006	January 3, 2005	December 29, 2003
Federal expense computed at 35%	\$ 5,054	\$ 6,176	\$ 5,477
State and local income taxes, net of federal income tax expense	436	544	507
Permanent differences and other	319	(504)	24
Change in deferred tax asset valuation allowance allocated to income tax (benefit)	(540)	(62)	(6,194)
Total income tax expense (benefit)	\$ 5,269	\$ 6,154	\$ (186)

\$0.1 million of the change in valuation allowance was, in part, associated to Goodwill, rather than income tax benefit as the adjustment related to NOL's which were associated with pre-merger losses. The resulting change in valuation allowance was \$0.7 million related to federal and state net operating loss (NOL) carryforwards and is presented in the significant components of deferred income tax expense (benefit) attributable to income from continuing operations table above.

Note 10: STOCKHOLDERS' EQUITY

a) Stock-Based Compensation Plans In 1994, the Company adopted a Stock Option Plan for Non-Employee Directors, as amended (the Directors Plan). The Directors Plan was amended on August 6, 1997 by the approval of the Company's stockholders to increase the number of shares subject to the Directors Plan from 16,667 to 416,667. It provided for the automatic grant to each non-employee director upon election to the Board of Directors a non-qualified, ten-year option to acquire shares of the Company's common stock, with the subsequent automatic grant on the first day of each fiscal year thereafter during the time such person is serving as a non-employee director of a non-qualified ten-year option to acquire additional shares of common stock. Prior to the August 6, 1997 amendment, one-fifth of the shares of common stock subject to each initial option grant became exercisable on a cumulative basis on each of the first five anniversaries of the grant of such option. One-third of the shares of common stock subject to each subsequent option grant became exercisable on a cumulative basis on each of the first three anniversaries of the date of the grant of such option. Each Non-Employee Director serving on the Board as of July 26, 1994 received options to purchase 1,000 shares. Each new Non-Employee Director elected or appointed subsequent to that date also received options to purchase 1,000 shares. Each Non-Employee Director has also received additional options to purchase 250 shares of Common Stock on the first day of each fiscal year. On August 6, 1997 the Directors Plan was amended to provide: (i) an increase in the option grant to new Non-Employee Directors to 8,333 shares, (ii) an increase in the annual options grant to 1,667 shares and (iii) the grant of an option to purchase 25,000 shares to each Non-Employee Director who was a Director both immediately prior to and following the effective date of the amendment, and includes up to 5,000,000 shares. Options granted to Non-Employee Directors on or after August 6, 1997 are exercisable immediately upon grant. On September 15, 2000, the Directors Plan was amended a second time to provide for a special one-time grant of 550,000 options to the members of the Board of Directors. It was also amended to allow the Board of Directors to make additional discretionary grants under the directors' plan, at their sole discretion.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

On September 26, 2001 the Company adopted the 2001 stock option plan (2001 Plan), approved by the shareholders at the 2001 shareholders meeting. The 2001 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights and restrictive shares to eligible salaried individuals. The number of shares eligible for the plan is 1,500,000.

The 2001 Plan and the Directors Plan provide that the shares granted come from the Company's authorized but unissued or reacquired common stock. The exercise price of the options granted pursuant to these Plans will not be less than 100 percent of the fair market value of the shares on the date of grant. An option may vest and be exercisable immediately as of the date of the grant and all options will expire after ten years from the date granted.

As of January 2, 2006, there are 30,089 securities available for future issuance under the 2001 Stock Option Plan. The availability to issue additional options under the 1994 Directors Plan for Non-Employee Directors has expired.

On May 25, 2004, the shareholders approved the 2004 Stock Award Plan for Non-Employee Directors. The purpose of the 2004 Plan is to attract and retain the best available individuals to serve as independent directors to the Company. Under the terms of the 2004 Plan, the Company is authorized to grant (i) automatic, non-discretionary stock awards and (ii) stock options or shares of restricted stock that may be awarded in such amounts and with such terms and conditions as determined under the 2004 Plan. All options granted under the 2004 Plan will be non-qualified stock options that do not qualify as incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code).

Each Non-Employee director who is currently serving on the Company's Board of Directors will be automatically granted a stock award annually, on the effective date of the 2004 Plan, of 10,000 shares of common stock; subject, however, to such restrictions as to vesting, forfeiture, resale or other terms and conditions as may be imposed by the Committee at the time of the award. Each non-employee director that is elected to the Board of Directors after May 25, 2004 will be awarded annually, on the effective date of the 2004 Plan, 7,000 shares of common stock; subject, however, to such restrictions as to vesting, forfeiture, resale or other terms and conditions as may be imposed by the Committee at the time of such award. The first stock grant took place on June 17, 2004, with the five Non-Employee directors each receiving 10,000 shares of stock at \$10.87 per share, resulting in non-cash compensation expense in the third quarter 2004 of \$0.5 million. On July 12, 2005 64,000 shares of stock were granted to the Board of Directors under this plan at \$13.12 per share.

A summary of the status of all options granted to employees, directors, and to non-employees at January 2, 2006, January 3, 2005 and December 29, 2003, and changes during the years then ended is presented in the table below:

(Shares represented in thousands)

	January 2, 2006		January 3, 2005		December 29, 2003	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding shares at beginning of year	2,771	\$ 7.97	2,239	\$ 7.05	2,808	\$ 6.01
Granted at price equal to market	328	13.12	902	10.48	393	9.57
Granted at price greater than market						
Granted at price less than market						
Exercised	(407)	5.44	(219)	6.43	(406)	3.02
Forfeited	(108)	10.29	(116)	10.22	(544)	6.46
Expired	(3)	10.38	(35)	11.82	(12)	6.48
Outstanding at end of year	2,581	\$ 8.92	2,771	\$ 7.97	2,239	\$ 7.06
Exercisable at end of year	1,909	\$ 7.97	1,993	\$ 7.07	1,707	\$ 6.17
Weighted average of fair value of options		\$ 6.83		\$ 4.99		\$ 4.78

Fair value of options granted during the year was \$6.83 per share for options granted July 12, 2005.

The following table summarizes information about stock options outstanding at January 2, 2006:

(Shares represented in thousands)

Range of Exercise Prices	Outstanding as of January 2, 2006	Wtd. Avg. Remaining Contractual Life (Yrs)	Wtd Avg. Exercise Price	Number Exercisable January 2, 2006	Wtd. Avg. Exercise Price
\$1.28-\$2.00	130	4.1	\$ 1.901	130	\$ 1.901
\$2.01-\$4.00	276	2.6	2.911	276	2.912
\$4.01-\$8.00	432	5.2	5.690	432	5.690
\$8.01-\$10.00	327	7.6	9.631	273	9.631
\$10.01-\$12.00	980	7.5	10.601	707	10.780
\$12.01-\$14.00	355	9.5	13.056	10	12.360
\$14.01-\$16.00	55	1.1	15.210	55	15.210
\$16.01-\$61.56	26	0.5	18.938	26	18.938
	2,581	6.5	\$ 8.917	1,909	\$ 7.970

On August 5, 1999, the Company's shareholders approved an employee stock purchase plan (Stock Purchase Plan). The Stock Purchase Plan offers eligible employees the opportunity to purchase common shares of the Company through voluntary regular payroll deductions. The Company will make matching contributions to the Stock Purchase Plan relating to the employees contributions made the previous year, and which have remained in the Stock Purchase Plan for the full year. The Company will make a matching contribution equal to one-half of the contributions by officers and employee-directors of the Company and one-third of contributions by those employees who are not officers or employee-directors subject to certain limitations. Any employee contributions, and any of the Company's matching contributions for that employee, are delivered to the broker administering the Stock Purchase Plan and the broker opens individual accounts for the participants. The broker utilizes the employee's voluntary contributions, and any matching contributions by the Company, to purchase the Company's stock at prevailing market rates. The Company made \$53,445, \$30,200 and \$76,535 in matching contributions during 2005, 2004 and 2003 respectively, for employee contributions made in 2004, 2003 and 2002.

b) Stock Based Compensation During fiscal 2005, the Company granted stock options of 327,500 on July 12, 2005 at an exercise price of \$13.12 and fair value per option of \$6.83, to employees under the 2001 Plan. The Company also granted common stock to members of the Board of Directors under the Directors Plan of 64,000 on July 12, 2005 at an exercise price of \$13.12. During fiscal 2004, the Company granted stock options of 580,000 on May 25, 2004 at an exercise price of \$10.14 to employees under the 2001 Plan. The Company also awarded stock options of 30,000 on November 8, 2004 at an exercise price of \$12.36 to its Chief Executive Officer. In addition, the Company granted stock options to members of the Board of Directors under the Directors Plan of 8,335 on December 30, 2003 at an exercise price of \$10.47, 150,000 on February 25, 2004 at an exercise price of \$11.70, and 125,000 on May 25, 2004 at an exercise price of \$10.14. During fiscal 2003, the Company granted stock options of 175,000 on August 21, 2003 at an exercise price of \$9.63 and 10,000 on January 3, 2005 at an exercise price of \$10.17 to employees under the 2001 Plan. In addition, the Company granted stock options to members for the Board of Directors under the Directors Plan of, 8,335 on December 31, 2002 at an exercise price of \$6.26 and 200,000 on August 21, 2003 at an exercise price of \$9.63.

On June 1, 2000, the Board of Directors approved the grant of 160,229 stock options to officers and key employees. At the date of grant, additional shares of the stock had to be approved for allocation to the 1991 employee stock option plan by the shareholders of the Company. The shareholders approved the additional allocation on September 15, 2000. The resulting compensation expense for fiscal year 2003 was \$46,000.

c) Stock Repurchase Program - The 1,300,000 share Stock Repurchase Program, originally announced on March 19, 2003, was increased by 500,000 shares by the Company's Board of Directors on May 25, 2004, bringing the total of shares available for repurchase to 1,800,000. The Company purchased the remaining 1,096,600 shares under this program during fiscal 2004 for \$12.0 million.

On October 12, 2004, the Company announced the conclusion of its Stock Repurchase Program publicly announced on March 19, 2003, and subsequently amended and increased by the Board of Directors on May 25, 2004. On October 12, 2004, the Company also announced that the Board of Directors had approved a new share repurchase program, authorizing the Company to repurchase up to 1,200,000 shares of its common stock from time to time in the open market or in privately negotiated block purchase transactions. The Company purchased 189,267 shares under the new share repurchase program during fiscal 2004 for \$2.3 million.

The Company did not repurchase any equity securities during the year ended January 2, 2006.

Note 11: QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table represents selected quarterly financial data for the periods indicated (in thousands, except per share data). Earnings (loss) per share are computed independently for each of the quarters presented. Accordingly, the sum of the quarterly earnings (loss) per share in fiscal 2005 and 2004 does not necessarily equal the total computed for the year:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year Ended January 2, 2006					
Revenues	\$ 44,393	\$ 45,686	\$ 43,167	\$ 53,908	\$ 187,154
Income from operations	4,288	4,735	2,137	4,058	15,218
Net income	2,517	3,068	1,228	2,357	9,170
Earnings per share					
Basic	0.23	0.27	0.11	0.21	0.81
Diluted	0.21	0.25	0.10	0.19	0.74
Year Ended January 3, 2005					
Revenues	\$ 43,011	\$ 45,628	\$ 44,975	\$ 60,635	\$ 194,249
Income from operations	4,287	5,154	3,338	6,162	18,939
Net income	2,479	3,189	1,641	4,182	11,491
Earnings per share					
Basic	0.21	0.26	0.14	0.38	0.99
Diluted	0.19	0.25	0.13	0.35	0.92

During the fourth quarter of 2005, the Company recorded a recovery of \$0.8 million related to the re-opening of a closed restaurant in the Detroit market which was previously reserved for in the Reserve for restaurant relocation and abandoned sites. This benefit was partially offset by expenses related to closed restaurants. In addition, a benefit of \$0.7 million was recognized as an adjustment to the reserve for workers compensation claims, based on actuarial estimates.

During the fourth quarter of 2004, the Company recorded a recovery of \$2.0 million of legal expenses related to the successful outcome of the Mittman litigation, which was partially offset by \$0.9 million for increased fees related to Sarbanes-Oxley compliance and a \$0.9 million adjustment to depreciation and disposals for leasehold assets.

During the fourth quarter of 2003, a gain on the sale of property and equipment of \$1.5 million was recognized and was primarily due to the sale of 22 restaurants in the California, Phoenix and Nashville markets. In addition, the Company's recorded an income tax benefit in the fourth quarter of 2003, which represents current tax expense of \$224,000 and a deferred tax benefit of \$410,000 (See note 9).

Note 12: COMMITMENTS AND CONTINGENCIES

- a) **Lease Commitments** - The Company leases land and buildings generally under agreements with terms of, or renewable to, 10 to 20 years. Some of the leases contain contingent rental provisions based on percentages of gross sales. The leases generally obligate the Company for the cost of property taxes, insurance and maintenance. Rent expense, net of sublease rental income (See note 5), totaled \$8.0 million, \$8.7 million and \$10.0 million in 2005, 2004 and 2003, respectively. The Company is the sublessor on 173 operating leases and the lessor on 13 owned properties.

Following is a schedule, by year, of future minimum lease commitments for operating leases at January 2, 2006:

Year	Amount
2006	\$ 17,843
2007	15,983
2008	13,083
2009	9,646
2010	7,523
Thereafter	33,793
Total	\$ 97,871

These commitments also include minimum rent payments of \$2.2 million for properties which have been accrued for as part of the reserve for restaurant relocations and abandoned sites as of January 2, 2006.

- b) **Self Insurance** - The Company was partially self-insured for workers' compensation claims up to \$250,000 per occurrence and \$3.5 million in aggregate. We utilize third party actuarial experts' estimates of expected losses based on statistical analyses of historical industry data as well as our own estimates based on our actual historical data. These assumptions are adjusted when warranted by changing circumstances. Should a greater number of claims occur compared to what was estimated or the cost of those claims is higher than anticipated, reserves might not be sufficient and additional expense may be recorded. Should the actual experience be more favorable than estimated, a resulting expense reduction may be recorded. The Company is partially self-insured for general liability up to \$100,000 per claim and automotive liability losses subject to per occurrence and aggregate annual liability limitations as well. The Company maintained \$4.2 million and \$3.8 million in restricted cash as of January 2, 2006 and January 3, 2005, respectively, as collateral securing self-insured workers' compensation claims until they are settled. The Company is also self-insured, subject to umbrella policies, for health care claims for eligible participating employees subject to certain deductibles and limitations.
- c) **Employment Contracts** - Effective September 15, 2005 the Company approved an amendment to the employment agreement with its Vice President of Purchasing and Operation Services. The Vice President of Purchasing and Operation Services' agreement, dated September 19, 2003, was amended to provide that his annual salary, as of September 15, 2005, be increased to Two Hundred and Twenty-Five Thousand Dollars (\$225,000). Effective November 8, 2004, the Company approved an amendment to the employment agreement with its Chief Executive Officer. The Chief Executive Officer's employment agreement dated September 26, 2003, was amended to: (a) extend the initial term of employment until September 25, 2006; (b) increase (retroactively to September 26, 2004) his annual salary to Three Hundred Fifty Thousand Dollars (\$350,000); and (c) grant him, effective at the close of business on November 8, 2004, 30,000 options to be issued pursuant to the Company's 2001 Employee Stock Option Plan. The options granted vest proportionately over three years, unless the officer is terminated for reason other than cause. In such case, the options vest immediately and the executive shall have two years from date of termination to exercise the options. Both Officers are entitled to participate in the Company's incentive bonus plan. Both agreements may be terminated at any time for cause. The agreements contain confidentiality and non-competition provisions.
- d) **Litigation - *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, Case No. 95-4644-CI-21. 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, Case No. 97-3565-CI-21. The Complaints, as amended, assert a number of claims for relief, including claims for breach of contract, fraudulent inducement to contract, post-contract fraud, breaches of implied duties of good faith and fair dealings in connection with various franchise agreements and an area development agreement, battery, defamation, negligent retention of employees, and violation of Florida's Franchise Act. During the pendency of the actions, the corporate plaintiffs were obligated to deposit into an escrow account created pursuant to a stipulated court order all National Production Fund (NPF) contributions and royalty fees due the Company in accordance with the applicable franchise agreements.

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

On September 9, 2005, the Company settled the above referenced litigation for a recovery amounting to \$0.8 million. On October 13, 2005, pursuant to the terms of the settlement agreement, both complaints were dismissed, with prejudice.

Checkers Drive-In Restaurants, Inc. and Checkers of Puerto Rico, Inc. v. Suncheck I, Inc., Suncheck III, Inc., Suncheck IV, Inc., Suncheck X, Inc., Swaincheck, Inc., Starcheck Corporation, A&E Burgers, Inc., Suncheck Ponce II, Inc., Mooncheck of Puerto Rico, Inc., Villanueva, Inc., Executive Restaurant Management, Inc., Cerex Investments, Inc., Ratito, Inc., Antunez & Sons Produce, Inc., Mark Antunez, Mario Rivera, Raul Ramirez, a/k/a Raul Ramirez Fernandez, a/k/a Raul Jose Ramirez Fernandez, Ronald Rivas, Carlos Del Pozo, a/k/a Carlos Del Pozo Carafa, Robert E. Swain, Benedetto A. Cerilli Family Trust, Raul Cal, Jorge Tirado, Jose Toro, Jerry Algarin, Jimmie Algarin, Lilitana Agarín, Angel Sanchez, Rene Mercado, Marisol Mercado, Ingacio Arias, Carmen Martínez, Juan Carrion, Luis Cortez, Sr., Luis Cortez, Jr., Alfredo Ramirez, Miquel Perez Comas, a/k/a Miquel Perez, James Dooley, Ruben Lugo, Edgar Ortiz, Benigno Contreras, Jr., and Sebastian Estarellas. In November 2000, Checkers initiated this arbitration proceeding to recover unpaid royalties and advertising fees from former franchisees in Puerto Rico and the respective personal guarantors. Some of the respondents filed a counterclaim seeking in excess of three million dollars in damages under contract and tort theories. On February 20, 2004, the arbitration tribunal entered an Order on Checkers' Amended Motion to Dismiss Amended Counterclaim (the Order). In the Order, the tribunal: (1) dismissed two of the seven counts asserted against Checkers in the Counterclaim; and (2) granted Checkers' Motion to Dismiss with respect to portions of each of the remaining counts in the Counterclaim. The tribunal also ruled that there is no basis for imposing liability on Checkers for the acts or omissions of Suncheck of Puerto Rico, Inc. The counterclaimants voluntarily dismissed a third count, and filed a motion seeking to amend the Counterclaim to replead the count, which was denied. This case was consolidated with Suncheck X, Inc. and Executive Restaurant Management, Inc., Claimants v. Checkers Drive-In Restaurants, Inc., Suncheck Corporation and Checkers of Puerto Rico, Inc. Checkers denies the allegations of the counterclaims and is vigorously defending the proceedings. The final arbitration hearing began on September 20, 2005. The final hearing could not be completed within the time originally allotted for the final hearing. The final hearing concluded on February 24, 2006. The panel has thirty (30) days from the end of the hearing to issue a ruling. The Company does not expect to incur any significant loss associated with this matter.

Checkers Drive-In Restaurants, Inc. v. The Data Broker LLC and The NTI Corporation d/b/a Chase Communications. On March 1, 2005, Checkers Drive-In Restaurants, Inc. filed this lawsuit in the Circuit Court for the Thirteenth Judicial Circuit in and for Hillsborough County, Florida. In its two count Complaint, Checkers asserted a claim for interpleader and sought injunctive relief to enjoin the defendants from interfering with the frame relay services being provided to Checkers. Checkers filed the lawsuit because both of the defendants were: (1) making conflicting demands for payment from Checkers for the network service; and (2) threatening to disrupt, and were disrupting Checkers' network services. The NTI Corporation d/b/a Chase Communications (Chase) filed a Counterclaim against Checkers for breach of contract. Chase was seeking damages from Checkers in the amount of \$119,540. Checkers vigorously denied the allegations in Chase's Counterclaim. Two additional parties, Unique Communications, Inc. (Unique) and MCI, Inc. moved to intervene in this case. Although the Court permitted Unique and MCI to intervene, the Court limited the extent of their participation. Neither Unique nor MCI formally asserted any claims against Checkers. However, near the conclusion of the litigation MCI made an informal demand to Checkers for payment in excess of \$225,000 for network services. Checkers denied any liability to MCI. Checkers is not aware of any formal efforts MCI has taken to pursue its claim for payment.

Checkers, The Data Broker, LLC and Chase entered into a Stipulation whereby the parties agreed to the disbursement of the interpled funds, among other things. On December 22, 2005, the entire action, including the Complaint, counterclaims and crossclaims, was dismissed with prejudice.

KWJ, Inc. v. Checkers Drive-In Restaurants, Inc. On January 25, 2006, the Company sent KWJ, Inc. (KWJ), a franchisee in Chicago, Illinois operating a single restaurant, a notice of termination of its franchise agreement dated May 19, 2000, for failure to pay amounts owed to the Client pursuant to a promissory note dated January 1, 2002. On or about January 30, 2006, KWJ filed a Complaint in Arbitration against the Company with the American Arbitration Association, AAA Case No. 33 114 Y 00035 06. The Complaint in Arbitration seeks damages in excess of \$5,000,000 for alleged breach of the franchise agreement and alleged violation of the Illinois Franchise Disclosure Act. The Complaint in Arbitration asserts that the Company failed to disclose certain information regarding use and administration of the National Production Fund (NPF), failed to properly use and account for NPF funds in accordance with the franchise agreement and for the specific benefit of KWJ, and interfered with KWJ's right to transfer the franchise. The Company disputes the factual and legal basis of the claims asserted in the Complaint for Arbitration and intends to vigorously defend this matter. The Company does not expect to incur any significant loss associated with this proceeding.

Pipefitters Local No. 636 Defined Benefit Plan v. Checkers Drive-In Restaurants Inc et. al. On March 3, 2006, the Registrant was notified that a state court civil action had been filed against it and all of the members of the Registrant's Board of Directors in the Hillsborough County, Florida Circuit Court. The style of the action is Pipefitters Local No. 636 Defined Benefit Plan v. Checkers Drive-In Restaurants Inc et. al. Case No. 06-CA-001825.

Plaintiff's complaint alleges that each of seven individual defendants, collectively comprising all of the members of Registrant's Board of Directors, individually breached the fiduciary duties owing to shareholders by voting to approve a merger agreement with Taxi Holdings Corp. (Taxi Holdings), an affiliate of Wellspring Capital Management LLC, a private equity firm, and Taxi Acquisition Corp., a wholly owned subsidiary of Taxi Holdings Corp. If the merger agreement is hereafter approved by the Registrant's shareholders, the Registrant will

emerge as a wholly-owned subsidiary of Taxi Holdings Corp. and its shareholders will receive cash consideration of \$15.00 per common share owned in exchange for their shares of the Registrant. A separate count alleges that the Registrant aided and abetted the individual defendants breach of fiduciary duties.

The complaint seeks, among other relief, the court's designation of class action status, a declaration that entry into the merger agreement was in breach of the defendants' fiduciary duties and therefore was unlawful and unenforceable, and entry of an order enjoining the defendants from taking further action to consummate the proposed merger. The Registrant's Board of Directors is of the unanimous belief that the Plaintiff's action is without merit, and intends for the Registrant and themselves to vigorously defend against it.

Checkers Drive-In Restaurants Inc v. Titan Holdings, Inc. and Mark Mitchell. On October 27, 2005, Checkers sent a Formal Notice of Default to Titan Holdings, Inc. (Titan), the operator of sixty-two (62) franchised locations pursuant to three (3) separate franchise agreements. Titan failed to timely cure the monetary defaults set forth in the Formal Notice of Default. On November 10, 2005, Checkers sent a Formal Notice of Termination to Titan, pursuant to which the three (3) franchise agreements were terminated. On December 1, 2005, Checkers, Titan and Titan's lender entered into a Post Termination Cure Agreement, which, among other things, provided an opportunity for Titan to make a post termination cure of the amounts owed to Checkers and granted Titan a temporary license to operate the Checkers® restaurants during the interim time period. Titan defaulted in the payments owed under the Post Termination Cure Agreement and the temporary license granted thereunder automatically terminated.

On March 7, 2006, Checkers filed a Complaint for Injunctive Relief and Damages (the Complaint) against Titan and Mark Mitchell in the United States District Court for the Middle District of Florida, Tampa Division, Case No. 8:06-cv-367-T-26TGW. The Complaint seeks injunctive relief and damages for breach of contract, trademark infringement, trade dress infringement and unfair competition. On March 8, 2006, the Tampa Division transferred the case to the Orlando Division and it was assigned Case No. 6:06-cv-300-ORL-28KRS. Oral argument on the pending motion for temporary injunction is scheduled for March 27, 2006.

On March 7, 2006, Checkers also began the process of initiating state court eviction actions in Florida, Alabama and Mississippi with respect to sixty (60) of the locations that were either leased or subleased by Titan from Checkers.

We are 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.

Note 13: IMPACT OF HURRICANE KATRINA

During the last week of August 2005, restaurants in Florida, Louisiana, Mississippi and Alabama were affected by Hurricane Katrina. Thirty-five Company-owned restaurants and 33 franchised locations experienced closings as the hurricane approached and passed through these states. Most of the restaurants impacted by this hurricane suffered only minimal damage and have reopened. As of the date of this filing, one franchise and seven Company-owned restaurants (all in the New Orleans market) remain closed as a result of this hurricane. The Company estimates that the impact to sales due to closures was \$3.8 million. The Company has property and business interruption insurance coverage for these sites and records insurance recoveries when property losses become known and insurance recoveries are probable. Insurance recoveries for business interruption claims are recognized when all contingencies associated with those claims are resolved. The assets related to four sites deemed a total loss in New Orleans have been disposed of in the fourth quarter of 2005. The Company recorded a loss for insurance deductible of \$300,000 in Loss on Sale of Assets and received insurance proceeds of \$1.0 million for property damage related to Hurricane Katrina during the year ended January 2, 2006. An additional \$0.1 million in insurance receivables remained outstanding in Accounts, notes and leases receivable, net .

The Company has repaired buildings and replaced equipment as expeditiously as possible. Training and Human Resource personnel were deployed to recruit and train crew and restaurant management. The Company believes the regional limitations to employ staff and reopen the impacted restaurants will affect our results of operations during 2006. Earnings in 2006 will also be impacted by the timing and amount of insurance recoveries.

On September 13, 2005, the Company and its franchisee partners announced the establishment of the Checkers/Rally's Employee Relief Fund, Inc, a not-for-profit corporation, (the Employee Relief Fund) to aid both Company and franchised-restaurant employees who were impacted by Hurricane Katrina. The Company made an initial donation of \$25,000 to the Employee Relief Fund. The Employee Relief Fund is accepting voluntary donations from vendor partners, franchisees, employees and the public. Distributions from the Employee Relief Fund are underway to those employees most in need. The Employee Relief Fund is not a consolidated subsidiary of Checkers Drive-In Restaurants, Inc.

Note 14: SUBSEQUENT EVENTS

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

On February 17, 2006, the Company announced an Agreement and Plan of Merger with Taxi Holdings Corp., an affiliate of Wellspring Capital Management, LLC, a private equity firm and Taxi Acquisition Corp., a wholly owned subsidiary of Taxi Holdings Corp., to purchase the Company for \$15.00 per share. The total transaction value is approximately \$188 million, including the assumption of Checkers' debt. The acquisition agreement has been approved by the Checkers Board of Directors and by the Special Committee of the Board formed to explore strategic alternatives, and is expected to close in the second quarter of 2006. The Agreement and Plan of Merger is filed as Exhibit 2.1 to the Company's Current Report on Form 8-K/A filed with the SEC on February 22, 2006.

On February 28, 2006, the Company acquired five franchise-owned restaurants located in the Daytona, Florida market. The purchase price for the restaurants totaled \$2.1 million. The assets purchased were five (5) franchisee-owned restaurants, one (1) of which was sold in fee to the Company and four (4) of which were leased locations which were assigned to the Company. The purchased assets also included food inventory, paper goods, equipment and the five (5) modular buildings associated with these locations.

On February 28, 2006, the Company acquired seven franchisee-owned restaurants located in the Tallahassee, Florida market. The purchase price for the restaurants, including land on which they are located, totaled \$1.0 million. The assets

purchased were seven (7) franchisee-owned restaurants, two (2) of which were sold in fee to the Company and five (5) of which were leased locations which were assigned to the Company. The purchased assets also included food inventory, paper products, equipment and the seven (7) buildings associated with these locations.

Subsequent to year end, Titan Holdings, Inc. (Titan), the operator and franchisee of sixty-two franchised locations in Mobile, Alabama, West Palm Beach and Orlando, Florida market areas defaulted on the payments owed under a Post Termination Cure Agreement (Agreement). The Agreement allowed Titan temporary license to operate the franchised Checkers® restaurants during the interim Agreement period. As of January 2, 2006, the Company had receivables associated with Titan including \$2.9 million of accounts and notes receivable and \$2.6 million of capital lease receivables. The Company also has \$1.3 million in Deferred revenue associated with the sale of the then Company-operated restaurants to Titan on March 30, 2000 for \$10.3 million in cash and notes. The Company has collected \$0.3 million of the amounts outstanding at year end, and no reserve for the uncollected net asset balance of \$4.2 million has been established as of the balance sheet date.

The Company is currently examining and considering various options, including acquisition and operation of the restaurants by the Company or by new or existing franchisees. Management believes that the outstanding net assets of \$4.2 million are recoverable based on its assessment of the probable outcome of these alternatives and the resulting settlement of these receivables. Management believes that the alternatives above will result in sustained positive operating results for these restaurants. Depending upon the ultimate form of the settlement of these accounts, it is possible that a loss for accounting purposes could be recognized notwithstanding the overall economic recovery of these amounts. However, such accounting losses are not currently expected.

The Company filed a complaint against the franchisee on March 7, 2006, as discussed in Note 12(d) Commitments and Contingencies-Litigation .

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT****MANAGEMENT**

The following table sets forth the names and ages of the Directors of the Company and the positions they hold.

Name	Age	Position
Peter C. O Hara	50	Chairman of the Board of Directors (term expiring in 2008)
Keith E. Sirois	54	President, Chief Executive Officer and Director (term expiring in 2008)
David Gotterer	77	Director (term expiring in 2006)
Burt Sugarman	67	Director (term expiring in 2006)
Terry N. Christensen	65	Director (term expiring in 2007)
Willie D. Davis	71	Director (term expiring in 2007)
Gary Lieberthal	60	Director (term expiring in 2008)

Directors

PETER C. O HARA has served as a director since June 1998, as Chairman of the Board since December 2002 and Vice Chairman from September 1999 to December 2002. He has served as president of Capital Management of L.I., N.Y., Inc. since March of 1994. Capital Management of L.I., N.Y., Inc. was a Checkers franchise area developer for Long Island, New York through October 2001.

KEITH E. SIROIS has served as President and Chief Executive Officer since May 1, 2003 and was appointed a director on February 26, 2004. He served as Vice President of Franchise Operations from September 1999 until May 1, 2003 and as Director of Franchise Operations from September 1998 to September 1999. Mr. Sirois served as a franchise business consultant with Checkers from August 1996 to September 1998. From March 1992 to September 1996, Mr. Sirois served as Vice President of Operations for Heartwise Express, Inc. in Chicago, Illinois.

TERRY N. CHRISTENSEN has served as a director since November 1996. Mr. Christensen has been a partner in the law firm of Christensen, Miller, Fink, Jacobs, Glaser, Weil & Shapiro, LLP since May 1988. Christensen, Miller, Fink, Jacobs, Glaser, Weil & Shapiro, LLP performed legal services for us in 2005, 2004 and 2003. Such services have related to litigation, compliance with securities laws and other business matters.

WILLIE D. DAVIS has served as a director since August 1999. Mr. Davis has been the President and a director of All-Pro Broadcasting, Inc., a holding company operating several radio stations, for more than the past five years. Mr. Davis currently also serves on the board of directors of Sara Lee Corporation, Dow Chemical Company and MGM Mirage.

GARY LIEBERTHAL has served as a director since July 2004. Mr. Lieberthal is presently retired; previous to his retirement, Mr. Lieberthal served as Chairman and Chief Executive Officer of Columbia Pictures Television.

DAVID GOTTERER has served as a director since August 1999. From 1989 to August 1999, he served as a Member of the Board of Directors of Rally s. Mr. Gotterer was a partner in the accounting firm of Mason & Company, LLP in New York, New York, from June 1953 until February 2003. Mr. Gotterer has been an independent consultant since February 2003.

BURT SUGARMAN has served as a director since June 1997. Mr. Sugarman has been the Chairman of the Board, President and Chief Executive Officer of GIANT GROUP, LTD. for the past six years and also served as a director of Santa Barbara Restaurant Group until its merger with CKE Restaurants, Inc. Mr. Sugarman served as Chairman of the Board of Rally s Hamburgers, Inc. from November 1994 to October 1997.

Executive Officers

Set forth below is a description of the business experience and the ages of our executive officers, other than Mr. Sirois, whose experience is described above. Executive officers serve at the discretion of our Board of Directors.

S. PATRIC PLUMLEY (57) is Senior Vice President and Chief Financial Officer and Treasurer. He joined the Company in December 2003. Mr. Plumley most recently served as the Senior Vice President and Chief Financial Officer of Fresh Brands, Inc. from January 27, 2003 to September 12, 2003. He was the Senior Vice President and Chief Financial Officer of Eagle Food Centers, Inc. from 1997 until January 2003.

STEVE COHEN (54) has served as our Senior Vice President of Human Resources since December 1997. From May 1995 to December 1997, Mr. Cohen was the Field Human Resources Manager for EZCorp in Austin, Texas.

ADAM NOYES (36) has served as Senior Vice President of Purchasing and Operations Services since March 2006. He was formerly the Vice President of Operations and Purchasing from August 2000 to March 2006. He served as Vice President of Purchasing and Quality Assurance from October 1998 to August 2000. He was Senior Director of Purchasing from May 1998 to September 1998 and Director of Purchasing from June 1996 to April 1998. Prior to this, Mr. Noyes served Checkers in the capacity of restaurant support services from April 1991 to May 1996.

RICHARD TURER (44) has served as Vice President of Marketing since September 1999. From July 1998 to September 1999, Mr. Turer served as Director of Marketing for Checkers and Rally s brands. From May 1995 to July 1998, he was self-employed and operated Mill House McCabe, a marketing and promotional company, in Sparta, New Jersey.

BRIAN R. DOSTER (47) has served as Vice President, Corporate Counsel and Secretary since November 2000. He served previously as Assistant General Counsel and Assistant Secretary of Checkers from April 1999 to September 1999. From November 1985 to April 1999, he was a corporate attorney for Amoco Corporation in Chicago, Illinois. Mr. Doster has also serves as Chairman of the Board of Directors of Tampa Community Health Centers, Inc., a not for profit provider of health services, and has been a director since January 2002.

RON LEVONDOSKY (51) is our Senior Vice President of Operations as of March 2006. He was formerly the Vice President of Franchise Operations from May 2003 to March 2006. Prior to that, he was a Senior Franchise Business Consultant upon joining the Company on June 4, 2001. Prior to Checkers, Mr. Levondosky was an Area Director of Operations with Labor Ready, Inc. from May of 2000 through May of 2001 and the Vice President of Operations with Hot n Now LLC from October of 1994 through April of 2000.

Family Relationships

No family relationships exist between any of the directors and the executive officers of the Company. There are no arrangements or understandings between any director and any other person concerning service or nomination as a director.

Involvement in Certain Legal Proceedings

On February 15, 2006, a federal grand jury indicted Terry Christensen on one count of conspiracy and one count of intercepting wire communications in connection with legal matters unrelated to the Company. Mr. Christensen has plead not guilty, denies the allegations set forth in the indictment and intends to vigorously defend the charges made against him. Mr. Christensen has served as a director of the Company since

November 1996.

Audit Committee and Audit Committee Financial Expert

The Company has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. During 2005, the Audit Committee consisted of David Gotterer, Willie D. Davis and Peter C. O Hara. The Board of Directors has determined that Mr. Gotterer qualifies as an audit committee financial expert and is independent, both within the meaning of applicable regulatory guidelines.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and greater than 10% shareholders to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required, by SEC regulations, to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms furnished to the Company and written representations from the Company's officers and directors, the Company believes that, except as set forth below, all of its directors and officers complied on a timely basis with Section 16(a) filing requirements for the fiscal year ended January 2, 2006.

Burt Sugarman, a director of the Company, failed to file any Form 4s related to the disposition of 64,023 shares of stock by GIANT GROUP LTD. during fiscal 2005. Mr. Sugarman is Chairman of the Board and Chief Executive Officer of GIANT GROUP LTD., and is deemed to beneficially own shares of the Company's common stock held by GIANT GROUP LTD.

Code of Ethics

The Company has adopted a written code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons serving similar functions. The Company has also adopted a code of ethics for all employees in addition to the foregoing. This code of ethics is available to the public without charge, by request to Checkers Drive-In Restaurants, Inc., Legal Department, 4300 West Cypress Street, Suite 600, Tampa, FL 33607 and at the Company's website at www.checkers.com.

Aggregated Option Exercises in Fiscal Year 2005 and Fiscal Year End Option Values

Set forth below is information with respect to our common stock options exercised by the named executive officers during fiscal year 2005 and the number and value of unexercised stock options held by such executives at the end of the fiscal year.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options at FY-End (#) Exercisable/Unexercisable	Value of Unexercised In - the - Money Options
				at FY-End (\$) (1) Exercisable/Unexercisable
Keith E. Sirois			123,333 /106,667	783,615 /326,035
S. Patric Plumley			15,001 /49,999	71,655 /149,995
Steven Cohen			118,304 /43,333	941,170 /151,365
Adam Noyes			100,625 /43,333	749,242 /151,365
Rich Turer			88,667 / 43,333	605,520 /151,365

(1) Based upon the difference between the exercise price and closing price of our common stock as reported on the NASDAQ National Market on January 3, 2006 of \$14.93.

Compensation of Directors

Directors who are our employees receive no extra compensation for their services as directors. Directors who are not employees receive a director's fee of \$2,500 per quarter. In addition, these independent directors receive \$2,500 for each board meeting (\$5,000 in cases of in-person attendance), \$1,000 for each committee meeting they attend, plus out-of-pocket expenses. Each non-employee director who is currently serving on the Company's Board of Directors will be automatically granted a stock award annually, on the effective date of the 2004 Plan, of 10,000 shares of common stock; subject, however, to such restrictions as to vesting, forfeiture, resale or other terms and conditions as may be imposed by the Compensation Committee at the time of the award.

Employment Agreements

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

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The Compensation Committee of the Board of Directors is responsible for executive compensation decisions. During fiscal year 2005, the Committee was comprised of Messrs. Christensen, Sugarman and O'Hara. No member of this Committee was at any time during the 2005 fiscal year or at any other time an officer or employee of the Company, and no member had any relationship with the Company other than that which has been presented in Note 4 of the Consolidated Financial Statements, Item 8 of Part II of this Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**Equity Compensation Plan Information**

The following table summarizes information about our equity compensation plans as of January 2, 2006. All outstanding awards relate to our common stock. Shares awarded under all of the following plans may be from the Company's treasury or may otherwise be acquired in the open market.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	2,580,755	\$ 8.92	30,089(1)
Equity compensation plans not approved by security holders			

Edgar Filing: CHECKERS DRIVE IN RESTAURANTS INC /DE - Form 10-K/A

Total	2,580,755	\$	8.92	30,089
-------	-----------	----	------	--------

- (1) Includes shares of common stock of the Company authorized for awards under the 2001 Stock Option Plan and includes no shares for the Company's Employee Stock Purchase Plan, as these shares are purchased on the open market. For a summary of the terms of our stock option plans, see Note 10 of our consolidated financial statements, Item 8, Part II of this Annual Report on Form 10-K.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of March 2, 2006, relating to the beneficial ownership of the common stock by (a) all persons known by us to beneficially own more than 5% of the outstanding shares of the common stock, (b) each director and executive officer and, (c) all officers and directors as a group. We had 11,500,200 shares of common stock (net of treasury) outstanding as of March 2, 2006.

Name and Address of Beneficial Owner(1)(2)	Number of Shares Beneficially Owned(1)	Percentage of Shares Outstanding(3)
Bank of America Corporation(4)	1,055,244	9.18%
F&C Asset Management plc(5)	996,960	8.67%
Burt Sugarman(6)	890,318	7.55%
Peter C. O Hara(7)	269,789	2.30%
Terry N. Christensen(8)	216,831	1.85%
Willie D. Davis(9)	199,156	1.72%
David Gotterer(10)	260,615	2.22%
Gary Lieberthal(11)	22,333	*
Steven M. Cohen(12)	121,206	1.04%
Adam Noyes(13)	102,769	*
Keith E. Sirois(14)	125,730	1.08%
Richard Turer(15)	94,007	*
Brian R. Doster(16)	90,989	*
S. Patric Plumley(17)	18,773	*
Ronald Levondosky(18)	31,895	*
All officers and directors as a group (13 persons)(19)	2,205,756	18.87%

* Represents less than 1% of our outstanding common stock.

- (1) Unless otherwise noted, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Unless otherwise indicated below, the address and business telephone number for each person and entity named in the table is: c/o Checkers Drive-In Restaurants, 4300 West Cypress Street, Suite 600, Tampa, Florida, 33607; telephone number: (813) 283-7000.

- (2) A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days after March 2, 2006, upon the exercise of options. Each beneficial owner's percentage ownership is determined by assuming that options that are held by such person (but not those held by any other person) and which are exercisable within 60 days after March 2, 2006 have been exercised.
- (3) Percentage calculation assumes owners' derivative securities exercisable within 60 days after March 2, 2006 have been exercised.
- (4) In Amendment No. 7 to its Schedule 13G filed on February 8, 2006, Bank of America Corporation reported shared voting power as to 794,493 shares of Checkers' common stock and shared dispositive power as to 1,055,244 shares. Also on Amendment No. 7 to the same Schedule 13G, NB Holdings Corporation reported shared voting power as to 794,493 shares of Checkers' common stock and shared dispositive power as to 1,055,244 shares, Bank of America, NA reported sole and shared voting power as to 162,834 and 631,574 shares of Checkers' common stock, respectively, and sole and shared dispositive power as to 176,757 and 878,402 shares, respectively, Bank of America Securities LLC reported sole voting power as to 85 shares and sole dispositive power as to 85 shares, Columbia Management Group, LLC reported shared voting power as to 631,574 shares of Checkers' common stock and shared dispositive power as to 877,243 shares and Columbia Management Advisors, LLC reported sole voting power as to 631,574 shares of Checkers' common stock and sole dispositive power as to 877,243 shares. These entities listed their principal business address as 100 Tryon Street, Floor 25, Bank of America Corporate Center, Charlotte, NC 28255.
- (5) In the Schedule 13G filed on January 26, 2006, F&C Asset Management plc reported sole voting power as to 996,960 shares of Checkers' common stock and sole dispositive power as to 996,960 shares. F&C Asset Management plc listed its principal business address as 80 George Street, Edinburgh EH2 3BU, United Kingdom.
- (6) Includes 286,271 shares subject to options held by Mr. Sugarman that are exercisable within 60 days after March 2, 2006. Includes 238,655 shares held by GIANT GROUP, LTD. Mr. Sugarman is Chairman of the Board and Chief Executive Officer of, and may be deemed to control, GIANT GROUP, LTD. Mr. Sugarman disclaims beneficial ownership of the GIANT GROUP, LTD. shares.
- (7) Includes 205,002 shares subject to options held by Mr. O Hara that are exercisable within 60 days after March 2, 2006.
- (8) Includes 192,324 shares subject to options held by Mr. Christensen that are exercisable within 60 days after March 2, 2006.
- (9) Includes 61,792 shares subject to options held by Mr. Davis that are exercisable within 60 days after March 2, 2006.
- (10) Includes 240,615 shares subject to options held by Mr. Gotterer that are exercisable within 60 days after March 2, 2006.
- (11) Includes 8,333 shares subject to options held by Mr. Lieberthal that are exercisable within 60 days after March 2, 2006.
- (12) Includes 118,304 shares subject to options held by Mr. Cohen that are exercisable within 60 days after March 2, 2006.
- (13) Includes 100,325 shares subject to options held by Mr. Noyes that are exercisable within 60 days after March 2, 2006.
- (14) Includes 123,333 shares subject to options held by Mr. Sirois that are exercisable within 60 days after March 2, 2006.
- (15) Includes 88,667 shares subject to options held by Mr. Turer that are exercisable within 60 days after March 2, 2006.
- (16) Includes 86,667 shares subject to options held by Mr. Doster that are exercisable within 60 days after March 2, 2006.
- (17) Includes 15,001 shares subject to options held by Mr. Plumley that are exercisable within 60 days after March 2, 2006.
- (18) Includes 30,334 shares subject to options held by Mr. Levondosky that are exercisable within 60 days after March 2, 2006.
- (19) Includes an aggregate of 1,557,268 shares subject to options held by officers and directors of Checkers that are exercisable within 60 days after March 2, 2006. Also includes 238,655 shares beneficially owned by GIANT GROUP, LTD. See Footnote (6) above.

Changes in Control

On February 16, 2006, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Taxi Holdings Corp., a Delaware corporation ("Parent"), and Taxi Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Parent ("Merger Sub"). Parent and Merger Sub are affiliates of Wellspring Capital Management LLC, a private equity firm ("Wellspring").

Pursuant to the terms of the Merger Agreement, Merger Sub will merge with and into the Company, with the Company as the surviving corporation (the "Merger"). In the Merger, each share of common stock of the Company, other than those held by the Company, Parent or their respective subsidiaries, and other than those shares with respect to which dissenters rights are properly exercised, will be converted into the right to receive \$15.00 per share in cash (the "Merger Consideration"). All outstanding options granted by the Company to acquire shares of its common stock, whether or not vested or exercisable, will be cancelled upon the effective time of the Merger and holders of such cancelled options will be entitled to receive an amount in cash equal to the excess, if any, of the Merger Consideration over the exercise price per share for each share subject to the option.

Completion of the Merger is subject to customary closing conditions, including (i) approval by the holders of a majority of the Company's outstanding shares of common stock, (ii) receipt of committed financing and (iii) expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The parties currently expect that the Merger will be completed during the second fiscal quarter of 2006.

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which is filed as Exhibit 2.1 to the Company's Current Report on Form 8-K/A filed with the SEC on February 22, 2006.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tampa, State of Florida on April 25, 2006.

CHECKERS DRIVE-IN RESTAURANTS, INC.

By: /s/ Keith E. Sirois
Keith E. Sirois
President, Chief Executive Officer and Director