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	**58-1654960**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4300 West Cypress St, Suite 600 Tampa, Florida	**33607**

(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

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

Yes ¨ No x

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 x

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

Yes x No ¨

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 x 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 x

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

[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:

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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 Checker s 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, Checker s 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)

	Jaunary 2, 2006	Jaunary 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

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

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.

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 July12, 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:

		Additions			
Description	**Balance at Beginning of year**	**Charged to Costs and Expenses**	**Charged to Other Accounts**	**Deductions Charged to Other Accounts**	**Balance at End of Year**
Year Ended January 2, 2006					
Accounts Receivable	$ 3,692	$	$	$ 168	$ 3,524
Notes Receivable	1,345			54	1,291

