

GOOD TIMES RESTAURANTS INC
Form 10-Q/A
August 22, 2014

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

**FORM 10-Q/A
(AMENDMENT NO. 1)**

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 0-18590

GOOD TIMES RESTAURANTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

NEVADA
(State or Other Jurisdiction of
Incorporation or Organization)

84-1133368
(I.R.S. Employer Identification
Number)

601 CORPORATE CIRCLE, GOLDEN, CO 80401
(Address of Principal Executive Offices, Including Zip Code)
(303) 384-1400
(Registrant's Telephone Number, Including Area Code)

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 Yes 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. No
[]
[x] []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act

Large accelerated filer [] Accelerated filer []
Non-accelerated filer [] Smaller reporting company [x]

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

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 August 11, 2014, there were 7,485,366 shares of the Registrant's common stock, par value \$0.001 per share, issued and outstanding.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A (the Amendment) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on August 14, 2014 (the Original Filing). The purpose of this Amendment is solely to amend Item 2 of Part 2 to disclose information about unregistered sales of equity securities.

No other sections were affected, but for the convenience of the reader, the Company is filing this Form 10-Q/A in its entirety with all applicable changes. This Amendment is presented as of the filing date of the Original Filing and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to make the necessary amendments to Item 2 of Part 2.

Form 10-Q**Quarter Ended June 30, 2014****INDEX****PAGE****PART I - FINANCIAL INFORMATION**

Item 1.	Financial Statements		
	Condensed Consolidated Balance Sheets (unaudited) June 30, 2014 and September 30, 2013	4	
	Condensed Consolidated Statements of Operations (unaudited) for the three and nine months ended June 30, 2014 and 2013	5	
	Condensed Consolidated Statements of Cash Flow (unaudited) for the nine months ended June 30, 2014 and 2013	6	
	Notes to Condensed Consolidated Financial Statements (unaudited)	7	12
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk		19
Item 4T.	Controls and Procedures		19

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings		20
Item 1A.	Risk Factors		20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds		20
Item 3.	Defaults Upon Senior Securities		20
Item 4.	(Removed and reserved)		20
Item 5.	Other Information		20
Item 6.	Exhibits		20
	SIGNATURES		21

CERTIFICATIONS

PART I. - FINANCIAL INFORMATION**ITEM 1.****FINANCIAL STATEMENTS****GOOD TIMES RESTAURANTS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

<u>ASSETS</u>	June 30, 2014	September 30, 2013
CURRENT ASSETS:		
Cash and cash equivalents	\$	\$
	8,188,000	6,143,000
Receivables, net of allowance for doubtful accounts of \$0	255,000	193,000
Prepaid expenses and other	153,000	106,000
Inventories	218,000	184,000
Notes receivable	<u>4,000</u>	<u>15,000</u>
Total current assets	8,818,000	6,641,000
PROPERTY, EQUIPMENT AND CAPITAL LEASES		
Land and building	4,729,000	4,628,000
Leasehold improvements	4,299,000	3,247,000
Fixtures and equipment	<u>8,561,000</u>	<u>7,420,000</u>
Total property, equipment and capital leases	17,589,000	15,295,000
Less accumulated depreciation and amortization	<u>(12,917,000)</u>	<u>(12,444,000)</u>
Total net property, equipment and capital leases	4,672,000	2,851,000
OTHER ASSETS:		
Notes receivable	11,000	0
Investment in affiliate	491,000	273,000
Goodwill	96,000	96,000
Deposits and other assets	<u>21,000</u>	<u>14,000</u>
Total other assets	<u>619,000</u>	<u>383,000</u>
TOTAL ASSETS	\$	\$
	<u>14,109,000</u>	<u>9,875,000</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$	\$
	47,000	44,000
Accounts payable	800,000	701,000
Deferred income	119,000	79,000
Other accrued liabilities	<u>1,042,000</u>	<u>983,000</u>
Total current liabilities	2,008,000	1,807,000
LONG-TERM LIABILITIES:		
Capital lease obligations due after one year	51,000	74,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

Long-term debt due after one year	8,000	20,000
Deferred and other liabilities	<u>638,000</u>	<u>653,000</u>
Total long-term liabilities	697,000	747,000

STOCKHOLDERS EQUITY:

Good Times Restaurants, Inc. stockholders' equity:

Preferred stock, \$.01 par value; 5,000,000 shares authorized, no shares issued and outstanding as of June 30, 2014 and 355,451 issued and outstanding as of September 30, 2013 (liquidation preference \$1,500,000)	0	4,000
Common stock, \$.001 par value; 50,000,000 shares authorized, 7,476,830 shares issued and outstanding as of June 30, 2014 and 4,926,214 shares issued and outstanding as of September 30, 2013	7,000	5,000
Capital contributed in excess of par value	30,973,000	26,334,000
Accumulated deficit	<u>(19,864,000)</u>	<u>(19,264,000)</u>
Total Good Times Restaurants, Inc. stockholders' equity	11,116,000	7,079,000
Non-controlling interest in partnerships	<u>288,000</u>	<u>242,000</u>
Total stockholders' equity	<u>11,404,000</u>	<u>7,321,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	\$

	<u>14,109,000</u>	<u>9,875,000</u>
--	-------------------	------------------

See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
NET REVENUES:				
Restaurant sales	\$ 7,464,000	\$ 6,394,000	\$ 19,450,000	\$ 16,092,000
Franchise royalties	<u>108,000</u>	<u>93,000</u>	<u>274,000</u>	<u>266,000</u>
Total net revenues	7,572,000	6,487,000	19,724,000	16,358,000
RESTAURANT OPERATING COSTS:				
Food and packaging costs	2,493,000	2,149,000	6,472,000	5,503,000
Payroll and other employee benefit costs	2,425,000	2,104,000	6,560,000	5,683,000
Restaurant occupancy and other operating costs	1,242,000	1,126,000	3,505,000	3,156,000
Preopening costs	80,000	29,000	449,000	29,000
Depreciation and amortization	<u>180,000</u>	<u>169,000</u>	<u>483,000</u>	<u>537,000</u>
Total restaurant operating costs	6,420,000	5,577,000	17,469,000	14,908,000
General and administrative costs	529,000	390,000	1,583,000	1,171,000
Advertising costs	292,000	275,000	779,000	704,000
Franchise costs	22,000	17,000	64,000	48,000
Gain on restaurant asset sale	<u>(7,000)</u>	<u>(6,000)</u>	<u>(19,000)</u>	<u>(86,000)</u>
Income (loss) From Operations	316,000	234,000	(152,000)	(387,000)
Other Income (Expenses):				
Interest income (expense), net	2,000	(2,000)	5,000	(45,000)
Affiliate investment income (expense)	(44,000)	(23,000)	(157,000)	(23,000)
Other income (loss)	<u>(2,000)</u>	<u>(1,000)</u>	<u>(8,000)</u>	<u>(4,000)</u>
Total other expenses, net	<u>(44,000)</u>	<u>(26,000)</u>	<u>(160,000)</u>	<u>(72,000)</u>
NET INCOME (LOSS)	\$ 272,000	\$ 208,000	<u>(\$312,000)</u>	<u>(\$459,000)</u>
Income attributable to non-controlling interests	(110,000)	(67,000)	(229,000)	(65,000)
NET INCOME (LOSS) ATTRIBUTABLE TO GOOD TIMES RESTAURANTS, INC	162,000	141,000	<u>(\$541,000)</u>	<u>(\$524,000)</u>
Preferred stock dividends	<u>0</u>	<u>(30,000)</u>	(59,000)	<u>(90,000)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>162,000</u>	<u>111,000</u>	<u>(\$600,000)</u>	<u>(\$614,000)</u>
BASIC AND DILUTED INCOME (LOSS) PER SHARE:				

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

Net income (loss) attributable to Common Shareholders	\$	\$		
		.02	.04	(\$.11)
				(\$.23)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	6,870,145	2,726,214	5,649,110	2,726,214
Diluted	7,376,405	2,746,848	N/A	N/A

See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended June 30,	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(\$312,000)	(\$459,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	483,000	537,000
Accretion of deferred rent	22,000	30,000
Amortization of debt issuance costs	0	6,000
Stock based compensation expense	97,000	73,000
Affiliate investment loss	157,000	23,000
Recognition of deferred gain on sale of restaurant building	(19,000)	(18,000)
Gain on sale of assets	0	(68,000)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables and other	(62,000)	30,000
Inventories	(34,000)	(31,000)
Deposits and other	(54,000)	(229,000)
(Decrease) increase in:		
Accounts payable	99,000	235,000
Accrued liabilities and deferred income	<u>81,000</u>	<u>44,000</u>
Net cash provided by operating activities	458,000	173,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in affiliate	(375,000)	(375,000)
Proceeds from sale leaseback transactions	0	3,329,000
Payments for the purchase of property and equipment	(2,304,000)	(2,287,000)
Payments received from franchisees and others	<u>0</u>	<u>5,000</u>
Net cash provided by (used in) investing activities	(2,679,000)	672,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from preferred stock sale	0	1,499,000
Expenses related to stock sale	(31,000)	0
Proceeds from warrant exercises	4,559,000	0
Proceeds from stock option exercises	12,000	0
Principal payments on notes payable and long-term debt	(32,000)	(1,582,000)
Preferred dividends paid	(59,000)	0
Net distributions paid to non-controlling interests	<u>(183,000)</u>	<u>(54,000)</u>
Net cash provided by (used in) financing activities	<u>4,266,000</u>	<u>(137,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,045,000	708,000
CASH AND CASH EQUIVALENTS, beginning of period	\$	\$

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

		<u>6,143,000</u>		<u>616,000</u>
CASH AND CASH EQUIVALENTS, end of period	\$		\$	
		8,188,000		1,324,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for interest	\$		\$	
		<u>6,000</u>		<u>51,000</u>
Preferred dividends declared	\$		\$	
		<u>59,000</u>		<u>90,000</u>

See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of June 30, 2014 and the results of its operations and its cash flows for the three and nine month periods ended June 30, 2014. Operating results for the nine month period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014. The condensed consolidated balance sheet as of September 30, 2013 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these condensed consolidated financial statements should be read in conjunction with the Company's Form 10-K for the fiscal year ended September 30, 2013.

The accompanying unaudited condensed consolidated financial statements include the accounts of Good Times Restaurants Inc and its wholly-owned subsidiaries, Good Times Drive Thru Inc and BD of Colorado, LLC, as of June 30, 2014. All significant intercompany balances and transactions have been eliminated in consolidation.

Note 2.

Recent Developments

We have one Bad Daddy's Burger Bar restaurant in Denver, Colorado that opened in February, 2014 and one in Northglenn, Colorado that opened in late July 2014. We are negotiating additional Bad Daddy's leases for development in 2014 and 2015. The \$449,000 of preopening costs shown as an operating expense in the accompanying condensed consolidated statements of operations are all related to the initial Bad Daddy's restaurants being developed by BD of Colorado, LLC.

As of June 30, 2014 we had received gross proceeds of \$4,734,000 and incurred \$175,000 of expenses related to the exercise of 602,900 and 2,460,700 A and B Warrants, respectively, for which we issued a total of 1,833,250 shares of our common stock.

As reported on the Company's current form 8K dated May 7, 2014 Hoak Public Equities, L.P., a Texas limited partnership (Hoak) and Rest Redux LLC, a Texas limited liability company with which Robert Stetson is affiliated (ReRe, and collectively with Hoak, the Investors), on May 2, 2014 entered into a Purchase Agreement with Small Island Investments Limited, a Bermuda corporation (SII), under which SII agreed to sell in a private placement pursuant to Section 4(a)(2) of the Securities Act of 1933, and the Investors agreed to purchase, 1,000,000 shares of Good Times Restaurants, Inc. common stock, par value \$0.001 per share, from SII in equal portions of 500,000 shares each, at a purchase price of \$3.05 per share, equal to an aggregate purchase price of \$3,050,000 (the Investment Transaction). The Investment Transaction had no effect on the Company's financial statements.

In connection with the closing of the Investment Transaction, the Board of Directors of the Company appointed Robert Stetson as a director of the Company effective May 2, 2014. Mr. Stetson has substantial experience in the multi-unit restaurant industry and is the former Chief Financial Officer and President-Restaurant Division of Burger

King Corp. and former Chief Financial Officer of Pizza Hut Inc. Beginning in 1994, Mr. Stetson built one of the largest public REITs focused on restaurant property development, which merged into GE Capital.

Also in connection with the Investment Transaction the Company filed an initial S3 Registration Statement with the Securities and Exchange Commission on July 2, 2014 to register the issued Common Stock for resale. The Company reported that three large shareholders have, with the Company's concurrence, exercised their contractual rights arising from their acquisition of the shares to request that their shares be registered for possible future sale. The Company is cooperating with those requests and the shareholders have not communicated any specific plan for the sale of the shares following the registration.

As reported on the Company's current form 8K dated August 4, 2014, on July 30, 2014, Good Times Drive Thru Inc. (the Borrower), the wholly-owned subsidiary of Good Times Restaurants Inc. (Good Times), entered into a Development Line Loan and Security Agreement (the Loan Agreement) with United Capital Business Lending (Lender), pursuant to which Lender agreed to loan Borrower up to \$2,100,000 (the Loan) and entered into a Collateral Assignment of Franchise Agreements, Management Agreement and Partnership Interests (the Collateral Assignment) with Lender. As of July 30, 2014, Borrower has borrowed approximately \$196,000 under the Loan Agreement. In addition, on July 30, 2014, Good Times entered into a Guaranty Agreement (the Guaranty Agreement) with Lender, pursuant to which Good Times guaranteed the repayment of the Loan. The Loan Agreement, Collateral Assignment, Notes (as defined below) and Guaranty Agreement are referred to herein as the Loan Documents.

Under the terms of the Loan Agreement, Borrower may use up to \$750,000 of the Loan to purchase a Point of Sale System and up to \$1,350,000 of the Loan for the development of three new Good Times restaurants. Borrower may request disbursements under the Loan Agreement for development costs of Good Times restaurants on or before July 1, 2015. In connection with each disbursement under the Loan Agreement, Borrower shall execute a Promissory Note (the Notes) in the full amount of each disbursement request. The Notes incur interest at a rate of 6.69% per annum, are repayable in monthly installments of principal and interest over 84 months, and contain other customary terms and conditions. The Notes are subject to certain prepayment fees ranging between 1% and 3% of the unpaid balance at such time if Borrower repays a Note in certain circumstances prior to the thirty seventh monthly installment under such Note.

The Loan Agreement and Notes contain customary representations, warranties and affirmative and negative covenants, including without limitation, covenants to maintain certain insurance coverage and to maintain a certain debt service coverage ratio, leverage ratio, and quick ratio.

Note 3.

Stock-Based Compensation

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the grant).

The Company measures the compensation cost associated with share-based payments by estimating the fair value of stock options as of the grant date using the Black-Scholes option pricing model. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company's stock options granted during all years presented. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the recipients of the equity awards.

Our net loss for the nine months ended June 30, 2014 and June 30, 2013 includes \$97,000 and \$73,000, respectively, of compensation costs related to our stock-based compensation arrangements.

During the fiscal year ended September 30, 2013, the Company granted a total of 47,000 non-statutory stock options with exercise prices ranging from \$2.31 to \$2.44 and per-share weighted average fair values ranging from \$1.96 to \$2.09. In addition the Company granted a total of 110,421 incentive stock options with an exercise price of \$2.31 and a per-share weighted average fair values of \$1.96.

During the nine months ended June 30, 2014, we granted 89,500 incentive stock options with an exercise price of \$2.48 and a per-share weighted average fair value of \$2.12.

In addition to the exercise and grant date prices of the awards, certain weighted average assumptions that were used to estimate the fair value of stock option grants are listed in the following table:

	Fiscal 2013	Fiscal 2013	Fiscal 2014
	Incentive	Non-Statutory	Incentive
	<u>Stock Options</u>	<u>Stock Options</u>	<u>Stock Options</u>
Expected term (years)	6.5	6.4 to 7.1	6.5
Expected volatility	110.5%	106% to 112.3%	112.11%
Risk-free interest rate	1.13%	1.28% to 1.84%	1.94%

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

Expected dividends	0	0	0
--------------------	---	---	---

We estimate expected volatility based on historical weekly price changes of our common stock for a period equal to the current expected term of the options. The risk-free interest rate is based on the United States treasury yields in effect at the time of grant corresponding with the expected term of the options. The expected option term is the number of years we estimate that options will be outstanding prior to exercise considering vesting schedules and our historical exercise patterns.

A summary of stock option activity under our share-based compensation plan for the nine months ended June 30, 2014 is presented in the following table:

		Weighted	Remaining	
		Average	Contractual Life	Aggregate
	<u>Options</u>	<u>Exercise Price</u>	<u>(Yrs.)</u>	<u>Intrinsic Value</u>
Outstanding October 1, 2013	324,854 \$			
		4.35		
Granted	89,500 \$			
		2.48		
Exercised	(5,000)\$			
		2.44		
Forfeited	0			
Expired	<u>(7,117)\$</u>			
		<u>10.80</u>		
Outstanding June 30, 2014	<u>402,237 \$</u>		<u>7.3</u>	\$
		<u>3.84</u>		<u>520,000</u>
Exercisable June 30, 2014	<u>202,316 \$</u>		<u>5.7</u>	\$
		<u>5.28</u>		<u>245,000</u>

As of June 30, 2014, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was \$258,000 and is expected to be recognized over a period of 2.35 years.

The total intrinsic value of stock options exercised during the nine months ended June 30, 2014, was approximately \$6,000. Cash received from stock option exercises for the nine months ended June 30, 2008 was approximately \$12,000.

Note 4.

Warrants

In connection with the public offering in August 2013 we issued 2,200,000 warrants to purchase 2,200,000 shares of our common stock (A Warrants) and an additional 2,200,000 warrants to purchase 1,100,000 shares of our common stock (B Warrants). Additionally we issued 330,000 A warrants to purchase 330,000 shares of common stock and 330,000 B warrants to purchase 165,000 of common stock to the underwriters in connection with the public offering. Each A Warrant is exercisable on or before August 16, 2018 for one share of common stock at an exercise price of \$2.75 per share and two B Warrants were exercisable on or before May 16, 2014 for one share of common stock at an

exercise price of \$2.50 per share. Also, in connection with the public offering we issued 154,000 representative warrants to purchase 154,000 shares of common stock at an exercise price of \$3.125 to the underwriters. The representative warrants were exercisable beginning May 16, 2014 and expire on August 16, 2016.

As of June 30, 2014 we received gross proceeds of \$4,734,000 and incurred \$175,000 of expenses related to the exercise of warrants. A summary of warrant activity for the nine months ended June 30, 2014 is presented in the following table:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Outstanding at October 1, 2013	3,949,000	\$2.68
Expired	(34,650)	\$2.50
Exercised	(1,833,250)	\$2.61
Outstanding at June 30, 2014	2,081,100	\$2.78
Outstanding and exercisable at June 30, 2014	2,081,100	\$2.78

Note 5.

Preferred Stock

On March 28, 2014, Small Island Investments Limited converted all 355,451 shares of the Company's Series C Convertible Preferred Stock, par value \$0.01 per share, into 710,902 shares of the Company's Common Stock, par value \$0.001 per share. The effects of the conversion are to eliminate the Company's payment of dividends on the Series C Convertible Preferred Stock and to eliminate the possible need for the Company to redeem the Series C Convertible Preferred Stock for a cash payment. The Company filed an initial S3 Registration Statement with the Securities and Exchange Commission on July 2, 2014 to register the issued Common Stock for resale.

Note 6.

Net Income (Loss) per Common Share

Our basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive securities for this calculation consist of in-the-money outstanding stock options and warrants (which were assumed to have been

exercised at the average market price of the common shares during the reporting period). The treasury stock method is used to measure the dilutive impact of in-the-money stock options.

The following table reconciles basic weighted-average shares outstanding to diluted weighted-average shares outstanding:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Weighted-average shares outstanding basic	6,870,145	2,726,214	5,649,110	2,726,214
Effect of potentially dilutive securities				
Stock options	59,931	20,634	0	0
Warrants	<u>446,329</u>	<u>0</u>	<u>0</u>	<u>0</u>
Weighted-average shares outstanding diluted	7,376,405	2,746,848	5,649,110	2,726,214
Excluded from diluted weighted-average shares outstanding:				
Antidilutive	268,366	250,187	2,483,337	321,058

Note 7.

Contingent Liabilities and Liquidity

We remain contingently liable on various leases underlying restaurants that were previously sold to franchisees. We have never experienced any losses related to these contingent lease liabilities, however if a franchisee defaults on the payments under the leases, we would be liable for the lease payments as the assignor or sublessor of the lease. Currently we have not been notified nor are we aware of any leases in default by the franchisees, however there can be no assurance that there will not be in the future which could have a material effect on our future operating results.

Note 8.

Related Party Transactions

In April 2012 the Company entered into a financial advisory services agreement with Heathcote Capital LLC pursuant to which they were to provide the Company with exclusive financial advisory services in connection with a possible strategic transaction. Gary J. Heller, a member of the Company's Board of Directors, is the principal of Heathcote Capital LLC. Accordingly, the agreement constitutes a related party transaction and was reviewed and approved by the Audit Committee of the Company's Board of Directors. On March 25, 2013, the Company and Heathcote modified this agreement to exclude any transactions involving the Maxim Group LLC and for Heathcote to continue to provide non-exclusive financial advisory services to the Company. Total amounts paid to Heathcote Capital LLC were \$27,900 in fiscal 2013. On September 27, 2013, the Company and Heathcote further modified this agreement to provide for investor relations activities specifically related to the exercise of the outstanding warrants and the trading volume in the Company's stock and other corporate finance projects as determined by the CEO of the company. The modification was approved by the Audit Committee of the Company's Board of Directors. Total amounts paid to Heathcote Capital LLC for the nine months ended June 30, 2014 were \$105,800.

In April 2013 the Company entered into a management services agreement with BDFD pursuant to which the Company is providing general management services as well as accounting and administrative services. Income received from the agreement by the Company is fully recognized in income and then proportionately offset by the 48% equity investment in BDFD. Total amounts received from BDFD per the management services agreement were

\$11,000 in fiscal 2013 and \$18,000 in the nine month period ended June 30, 2014. In addition to the management services the Company performed scope of work services and total amounts received from BDFD for these services were \$18,000 in fiscal 2013 and \$40,000 in the nine month period ended June 30, 2014.

Note 9.

Impairment of Long-Lived Assets and Goodwill

Long-Lived Assets

We review our long-lived assets for impairment, including land, property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the capitalized costs of the assets to the future undiscounted net cash flows expected to be generated by the assets and the expected cash flows are based on recent historical cash flows at the restaurant level (the lowest level that cash flows can be determined).

Given the results of our impairment analysis at June 30, 2014 there are no restaurants which are impaired as their projected undiscounted cash flows show recoverability of their asset values.

Goodwill

As of June 30, 2014, the Company had \$96,000 of goodwill related to the purchase of a franchise operation in fiscal 2013. The Company tests goodwill for impairment on an annual basis or whenever indications of impairment arise including, but not limited to, a significant decline in cash flows from store operations. Such tests could result in impairment charges. Given the results of our impairment analysis at June 30, 2014 the goodwill is not impaired.

Note 10.

Income Taxes

We account for income taxes using the liability method, whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value. The deferred tax assets are reviewed periodically for recoverability, and valuation allowances are adjusted as necessary.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities for the years 2010 through 2013. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. No accrual for interest and penalties was considered necessary as of June 30, 2014.

Note 11.

Non-controlling Interests

Non-controlling interests are presented as a separate item in the equity section of the condensed consolidated balance sheet. The amount of consolidated net income or loss attributable to non-controlling interests is presented on the face of the condensed consolidated statement of operations. Changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions, while changes in ownership interest that do result in deconsolidation of a subsidiary require gain or loss recognition in net income based on the fair value on the deconsolidation date.

Note 12.

Investment in Affiliate

On April 15, 2013, the Company executed a Subscription Agreement for the purchase of 4,800 Class A Units of Bad Daddy's Franchise Development, LLC (BDFD), representing a 48% non-controlling voting membership interest in BDFD, for the aggregate subscription price of \$750,000. The subscription price was payable in two equal installments. The first \$375,000 installment was paid on the date of execution of the Subscription Agreement and the

remaining \$375,000 installment was paid in December 2013.

The Company accounts for this investment using the equity method. For the nine months ending June 30, 2014 the Company recorded a net loss of \$157,000 for its share of the joint venture's operating results. The carrying value at June 30, 2014 was \$491,000, which is represented as Investment in Affiliate in the accompanying condensed consolidated balance sheets.

Note 13.

Subsequent Events

As reported on the Company's current form 8K dated August 4, 2014, on July 30, 2014, Good Times Drive Thru Inc. (the Borrower), the wholly-owned subsidiary of Good Times Restaurants Inc. (Good Times), entered into a Development Line Loan and Security Agreement (the Loan Agreement) with United Capital Business Lending (Lender), pursuant to which Lender agreed to loan Borrower up to \$2,100,000 (the Loan) and entered into a Collateral Assignment of Franchise Agreements, Management Agreement and Partnership Interests (the Collateral Assignment) with Lender. As of July 30, 2014, Borrower has borrowed approximately \$196,000 under the Loan Agreement. In addition, on July 30, 2014, Good Times entered into a Guaranty Agreement (the Guaranty Agreement) with Lender, pursuant to which Good Times guaranteed the repayment of the Loan. The Loan Agreement, Collateral Assignment, Notes (as defined below) and Guaranty Agreement are referred to herein as the Loan Documents.

Under the terms of the Loan Agreement, Borrower may use up to \$750,000 of the Loan to purchase a Point of Sale System and up to \$1,350,000 of the Loan for the development of three new Good Times restaurants. Borrower may request disbursements under the Loan Agreement for development costs of Good Times restaurants on or before July 1, 2015. In connection with each disbursement under the Loan Agreement, Borrower shall execute a

Promissory Note (the Notes) in the full amount of each disbursement request. The Notes incur interest at a rate of 6.69% per annum, are repayable in monthly installments of principal and interest over 84 months, and contain other customary terms and conditions. The Notes are subject to certain prepayment fees ranging between 1% and 3% of the unpaid balance at such time if Borrower repays a Note in certain circumstances prior to the thirty seventh monthly installment under such Note.

The Loan Agreement and Notes contain customary representations, warranties and affirmative and negative covenants, including without limitation, covenants to maintain certain insurance coverage and to maintain a certain debt service coverage ratio, leverage ratio, and quick ratio.

Note 14.

Recent Accounting Pronouncements

There are no new accounting pronouncements that affect the Company.

Note 15.

Segment Information

All of our Good Times Burgers and Frozen Custard restaurants (Good Times) compete in the quick-service drive-through dining industry while our Bad Daddy's Burger Bar restaurants (Bad Daddy's) compete in the full-service upscale casual dining industry. We believe that providing this additional financial information for each of our brands will provide a better understanding of our overall operating results. Income (loss) from operations represents revenues less restaurant operating costs and expenses, directly allocable general and administrative expenses, and other restaurant-level expenses directly associated with each brand including depreciation and amortization, pre-opening costs and losses or gains on disposal of property and equipment. Unallocated corporate capital expenditures are presented below as reconciling items to the amounts presented in the condensed consolidated financial statements.

The following tables present information about our reportable segments for the respective periods:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Good Times	\$	\$	\$	\$
Bad Daddy's				
	7,184,000	6,487,000	19,128,000	16,358,000
	<u>388,000</u>	<u>0</u>	<u>596,000</u>	<u>-</u>
	\$	\$	\$	\$
Income (loss) from operations				
Good Times	\$	\$	\$	(\$358,000)
	561,000	263,000	670,000	

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

Bad Daddy s	<u>(245,000)</u>	<u>(29,000)</u>	<u>(822,000)</u>	<u>(29,000)</u>
\$	\$		<u>(\$152,000)</u>	<u>(\$387,000)</u>
	316,000	234,000		
Capital Expenditures				
Good Times	\$	\$	\$	\$
	384,000	147,000	649,000	2,287,000
Bad Daddy s	778,000	0	1,639,000	0
Corporate	<u>16,000</u>	<u>0</u>	<u>16,000</u>	<u>0</u>
\$	\$	\$	\$	
	1,178,000	147,000	2,304,000	2,287,000

June 30, 2014 September 30, 2013

Property & Equipment, net		
Good Times	\$	\$
	3,004,000	2,803,000
Bad Daddy s	1,652,000	48,000
Corporate	<u>16,000</u>	<u>0</u>
\$	\$	
	4,672,000	2,851,000

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

This Form 10-Q contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and the disclosure of risk factors in the Company's form 10-K for the fiscal year ended September 30, 2013. Also, documents subsequently filed by us with the SEC and incorporated herein by reference may contain forward-looking statements. We caution investors that any forward-looking statements made by us are not guarantees of future performance and actual results could differ materially from those in the forward-looking statements as a result of various factors, including but not limited to the following:

(I)

We compete with numerous well established competitors who have substantially greater financial resources and longer operating histories than we do. Competitors have increasingly offered selected food items and combination meals, including hamburgers, at discounted prices, and continued discounting by competitors may adversely affect revenues and profitability of Company restaurants.

(II)

We may be negatively impacted if we experience consistent same store sales declines. Same store sales comparisons will be dependent, among other things, on the success of our advertising and promotion of new and existing menu items. No assurances can be given that such advertising and promotions will in fact be successful.

We may also be negatively impacted by other factors common to the restaurant industry such as: changes in consumer tastes away from red meat and fried foods; increases in the cost of food, paper, labor, health care, workers' compensation or energy; inadequate number of hourly paid employees; and/or decreases in the availability of affordable capital resources. We caution the reader that such risk factors are not exhaustive, particularly with respect to future filings. For further discussion of our exposure to market risk, refer to Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Good Times Restaurant Locations

We currently operate or franchise a total of thirty-six Good Times restaurants, of which thirty-four are in the Denver, Colorado greater metropolitan area. Two of these restaurants are dual brand, operated pursuant to a Dual Brand Test Agreement with Taco John's International in Wyoming.

	Denver, CO		
	Total	Greater Metro	Wyoming
Company-owned & Co-developed	25	25	
Franchised	9	9	
Dual brand franchised	2		2
	36	34	2

As of June 30,

	<u>2014</u>	<u>2013</u>
Company-owned restaurants	18	19
Co-developed	7	7
Franchise operated restaurants	<u>11</u>	<u>13</u>
Total restaurants:	36	39

Fiscal 2013: On March 31, 2013 we purchased a restaurant in Thornton, Colorado from the franchisee, and on May 1, 2013 we purchased a restaurant in Castle Rock, Colorado from the franchisee. In September 2013 we closed a company-owned restaurant operating in Silverthorne, Colorado whose lease term had ended.

Fiscal 2014: In December 2013 a Good Times franchisee closed a low volume restaurant in Lakewood, Colorado. In May 2014 a franchisee terminated its Good Times franchise agreement in the test dual brand concept and has stopped selling Good Times products at its North Dakota location.

Bad Daddy's Restaurant Locations

We currently operate two Bad Daddy's Burger Bar restaurants in the Denver, Colorado greater metropolitan area, one of which opened in February 2014 and the second in late July 2014.

The following presents certain historical financial information of our operations. This financial information includes results for the three and nine month periods ending June 30, 2014 and results for the three and nine month periods ending June 30, 2013.

Results of Operations

Overview

Same store sales at our Good Times restaurants increased 12% for fiscal 2013, and have increased 15.6% in the first nine months of fiscal 2014. These results reflect the continuation of the positive momentum we have experienced since fiscal 2011. The 15.6% increase in fiscal 2014 is comprised of a 8.7% increase in transactions, a 1.2% increase in our breakfast sales, a 3.3% increase in pricing and a 2.4% increase in average check from menu mix changes.

In the first quarter of fiscal 2013 we implemented a new limited item breakfast menu at Good Times that generated incremental sales of approximately 8.5% in the nine months ended June 30, 2014, compared to 7.2% for the same prior year period. Consistent with our brand position of offering fresh, all natural, handcrafted products, we elected to come to market with authentic, Hatch Valley New Mexico green chile burritos at a price point of \$2 each, which we believe is both an excellent value for our customer and is highly differentiated from any other offerings in the quick service restaurant category. Because we do not offer a broad breakfast menu, we are highly labor efficient for that day part resulting in a relatively low breakeven point and higher incremental profitability.

Our outlook for fiscal 2014 for Good Times is cautiously optimistic based on the last two years of positive sales trends and the results of our first three quarters; however our sales trends are influenced by many factors and we began to compare to higher prior year sales trends in April 2014. Our average transaction decreased slightly in fiscal 2013 compared to fiscal 2012 due to the implementation of breakfast which has a lower average transaction than our other day parts. We are continuing to manage our marketing communications to balance growth in customer traffic and the average customer expenditure.

Net Revenues

Net revenues for the three months ended June 30, 2014 increased \$1,085,000 or 16.7% to \$7,572,000 from \$6,487,000 for the three months ended June 30, 2013, of which \$697,000 came from the Good Times concept.

Good Times same store restaurant sales increased 12.5% during the three months ended June 30, 2014 for the restaurants that were open for the full three month periods ending June 30, 2014 and June 30, 2013. Restaurants are included in same store sales after they have been open a full fifteen months. Restaurant sales increased \$68,000 due to one restaurant purchased from a franchisee in May of 2013. Restaurant sales decreased \$197,000 due to one company-owned restaurant closed in September 2013.

Good Times franchise revenues for the three months ended June 30, 2014 increased \$15,000 to \$108,000 from \$93,000 for the three months ended June 30, 2013 due to an increase in franchise royalties and fees. Same store Good Times franchise restaurant sales increased 12.1% during the three months ended June 30, 2014 for the franchise restaurants that were open for the full periods ending June 30, 2014 and June 30, 2013. Dual branded franchise restaurant sales decreased 12.2% during the three months ended June 30, 2014, compared to the same prior year period, primarily due to the closure of one dual branded restaurant in April 2014.

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

Net revenues for the nine months ended June 30, 2014 increased \$3,366,000 or 20.6% to \$19,724,000 from \$16,358,000 for the nine months ended June 30, 2013, of which \$2,770,000 came from the Good Times concept.

Good Times same store restaurant sales increased 15.6% during the nine months ended June 30, 2014 for the restaurants that were open for the full nine month periods ending June 30, 2014 and June 30, 2013. Restaurants are included in same store sales after they have been open a full fifteen months. Restaurant sales increased \$856,000 due to two restaurants purchased from franchisees in fiscal 2013. Restaurant sales decreased \$541,000 due to one company-owned store closed in September 2013.

Good Times franchise revenues for the nine months ended June 30, 2014 increased \$8,000 to \$274,000 from \$266,000 for the nine months ended June 30, 2013 due to an increase in franchise royalties and fees. Same store Good Times franchise restaurant sales increased 15.1% during the nine months ended June 30, 2014 for the franchise restaurants that were open for the full periods ending June 30, 2014 and June 30, 2013. Dual branded franchise restaurant sales decreased 19.5% during the nine months ended June 30, 2014, compared to the same prior year period largely due to the closure of two restaurants in December of 2012 and another in April 2014.

Bad Daddy s restaurant sales were \$388,000 and \$596,000 for the three and nine month periods ended June 30, 2014, respectively. Our first Bad Daddy s location opened in Denver, Colorado in February 2014.

Restaurant Operating Costs

Restaurant operating costs as a percent of restaurant sales were 85.8% during the three months ended June 30, 2014 compared to 87.2% in the same prior year period and were 89.8% during the nine months ended June 30, 2014 compared to 92.6% in the same prior year period. The current year includes 1.1% and 2.3% for the three and nine months ended June 30, 2104, respectively, of preopening costs related to our initial Bad Daddy s Burger Bar restaurants in Colorado.

The changes in restaurant-level costs are explained as follows:

	Three months ended	Nine months ended
	<u>June 30, 2014</u>	<u>June 30, 2014</u>
Restaurant-level costs for the period ended June 30, 2013	87.2%	92.6%
Decrease in food and packaging costs	(.2%)	(.9%)
Decrease in payroll and other employee benefit costs	(.4%)	(1.5%)
Decrease in occupancy and other operating costs	(1.2%)	(1.6%)
Decrease in depreciation and amortization	<u>(.2%)</u>	<u>(.9%)</u>
Restaurant-level costs, before preopen costs, for the period ended June 30, 2014	85.2%	87.7%
Increase in preopening costs	.6%	2.1%
Restaurant-level costs for the period ended June 30, 2014	85.8%	89.8%

Food and Packaging Costs

For the three months ended June 30, 2014 food and packaging costs for our Good Times concept increased \$208,000 to \$2,357,000 (33.3% of restaurant sales) from \$2,149,000 (33.6% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2014 food and packaging costs for the Good Times concept increased \$749,000 to \$6,252,000 (33.2% of restaurant sales) from \$5,503,000 (34.2% of restaurant sales) compared to the same prior year period.

For the nine month period ended June 30, 2014 food and packaging costs for our Good Times concept decreased as a percentage of restaurant sales compared to the same prior year period primarily due to lower commodity costs during the first four months of the fiscal year, compared to the same prior year period. We have seen dramatic increases in commodity costs since February 2014, primarily in beef, bacon and dairy. The weighted average menu price increases taken so far in fiscal 2014 are 2.4%. The total menu price increases taken during fiscal 2013 were 2.2%. As we anticipate continued cost pressure on several core commodities, particularly beef, bacon and dairy for fiscal 2014 we may implement additional moderate menu price increases for the balance of fiscal 2014.

For the three and nine months ended June 30, 2014 food and packaging costs as a percentage of restaurant sales for our Bad Daddy s concept were 36.1% and 37%, respectively, primarily due to higher than normal promotional discounting used to drive trial in our initial months of opening.

Payroll and Other Employee Benefit Costs

For the three months ended June 30, 2014 our payroll and other employee benefit costs for our Good Times concept increased \$82,000 to \$2,186,000 (30.9% of restaurant sales) from \$2,104,000 (32.9% of restaurant sales) compared to the same prior year period. The \$82,000 increase is attributable to a decrease of \$94,000 in payroll and other employee benefits for the three months ending June 30, 2014 due to the closure of one company-owned restaurant in September of 2012, offset by: 1) an increase of \$21,000 in payroll and other employee benefits for the three months ending June 30, 2014 due to the purchase of one franchise owned restaurant in May, 2013, and 2) an increase of \$155,000 due to additional payroll costs as a result of increased same store sales compared to the same prior year period. Due to the semi-variable nature of payroll and other employee benefit costs these costs will decrease as a percentage of restaurant sales as restaurant sales increase.

For the nine months ended June 30, 2014 our payroll and other employee benefit costs for our Good Times concept increased \$487,000 to \$6,170,000 (32.7% of restaurant sales) from \$5,683,000 (35.3% of restaurant sales) compared to the same prior year period. The \$487,000 increase is attributable to a decrease of \$271,000 in payroll and other employee benefits for the nine months ending June 30, 2014 due to the closure of one company-owned restaurant in September of 2012, offset by: 1) an increase of \$263,000 in payroll and other employee benefits for the nine months ending June 30, 2014 due to the purchase of two franchise owned restaurants in January and May, 2013, and 2) an increase of \$495,000 due to additional payroll costs as a result of increased same store sales compared to the same

prior year period. Due to the semi-variable nature of payroll and other employee benefit costs these costs will decrease as a percentage of restaurant sales as restaurant sales increase.

For the three and nine months ended June 30, 2014 payroll and other employee benefit costs for our Bad Daddy's concept were \$239,000 (61.6% of restaurant sales) and \$391,000 (65.5% of restaurant sales) for our first restaurant which opened in February 2014. Payroll and other employee benefit costs are abnormally high due to the lower opening sales volume and the inclusion of costs related to training and regional management. We anticipate that these costs as a percentage of restaurant sales will decline for the balance of the fiscal year as sales increase and an additional location is opened in late July 2014.

Occupancy and Other Operating Costs

For the three months ended June 30, 2014 our occupancy and other operating costs for our Good Times concept increased \$22,000 to \$1,147,000 (16.2% of restaurant sales) from \$1,125,000 (21.3% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2014 our occupancy and other operating costs for our Good Times concept increased \$210,000 to \$3,365,000 (17.9% of restaurant sales) from \$3,155,000 (19.6% of restaurant sales) compared to the same prior year period.

The increase for the Good Times concept in the three and nine month periods ending June 30, 2014 is partially attributable to the purchase of the two franchise owned restaurants in fiscal 2013 as well as increases in rent, property taxes, utilities, restaurant repairs and bank credit card fees compared to the same prior year periods, offset by a decrease in costs due to the closure of one company-owned restaurant in September of 2012. Due to the fixed nature of occupancy costs they will decrease as a percentage of restaurant sales as restaurant sales increase.

For the three and nine months ended June 30, 2014 occupancy and other operating costs for our Bad Daddy's concept were \$101,000 and \$166,000, respectively, which are related to our first restaurant that opened in February 2014.

Preopening Costs

For the three and nine month periods ended June 30, 2014 our new store preopening costs were \$80,000 and \$449,000, respectively, compared to \$29,000 for the same prior year periods. All of the preopening costs are related to the initial Bad Daddy's restaurants being developed by BD of Colorado, LLC the first of which opened in February 2014 and the second of which opened in late July 2014.

Depreciation and Amortization

For the three months ended June 30, 2014, our depreciation and amortization for our Good Times concept decreased \$24,000 to \$145,000 (2% of restaurant sales) from \$169,000 (2.6% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2014, our depreciation and amortization for our Good Times concept decreased \$116,000 to \$421,000 (2.2% of restaurant sales) from \$537,000 (3.3% of restaurant sales) compared to the same prior year period.

The decrease in the three and nine month periods ended June 30, 2014 for our Good Times concept is mainly attributable to a decrease in amortization expense as loan fees related to the termination of the Wells Fargo Bank note were recorded in October 2012, as well as declining depreciation expense in our aging company-owned and co-developed restaurants.

For the three and nine months ended June 30, 2014 depreciation and amortization for our Bad Daddy's concept were \$22,000 and \$36,000, respectively.

General and Administrative Costs

For the three months ended June 30, 2014, general and administrative costs increased \$139,000 to \$529,000 (7% of total revenues) from \$390,000 (6% of total revenues) for the same prior year period.

For the nine months ended June 30, 2014, general and administrative costs increased \$412,000 to \$1,583,000 (8% of total revenues) from \$1,171,000 (7.2% of total revenues) for the same prior year period.

The increase for the three and nine month periods ended June 30, 2014 was mainly attributable to increases in payroll and employee benefit costs, training costs, directors fees, professional services and financial relations costs. In particular our financial relations costs increased \$84,000 for the nine month period ended June 30, 2014 compared to the same prior year period.

Advertising Costs

For the three months ended June 30, 2014 advertising costs increased \$17,000 to \$292,000 (3.9% of restaurant sales) from \$275,000 (4.3% of restaurant sales) for the same prior year period.

For the nine months ended June 30, 2014 advertising costs increased \$75,000 to \$779,000 (4% of restaurant sales) from \$704,000 (4.4% of restaurant sales) for the same prior year period.

Advertising costs for our Good Times concept consists primarily of contributions made to the advertising materials fund and regional advertising cooperative based on a percentage of restaurant sales. The percentage contribution for the three and nine month periods ended June 30, 2014 remained the same as the prior year period.

Advertising costs of \$11,000 and \$31,000 for the three and nine month periods ended June 30, 2014, respectively, are attributable to our Bad Daddy's concept and consisted primarily of menu development and printing costs as well as direct mail costs related to the opening of our first restaurant in February 2014.

Franchise Costs

For the three months ended June 30, 2014, franchise costs increased \$5,000 to \$22,000 (.3% of Good Times total revenues) from \$17,000 (.3% of Good Times total revenues) for the same prior year period.

For the nine months ended June 30, 2014, franchise costs increased \$16,000 to \$64,000 (.3% of Good Times total revenues) from \$48,000 (.3% of Good Times total revenues) for the same prior year period.

Gain on Sale of Assets

For the three months ended June 30, 2014, our gain on the sale of restaurant assets increased \$1,000 to \$7,000 from \$6,000 for the same prior year period.

For the nine months ended June 30, 2014, our gain on the sale of restaurant assets decreased \$67,000 to \$19,000 from \$86,000 for the same prior year period.

The prior year nine month period includes a gain of \$68,000 on the sale of one Good Times restaurant in a sale leaseback transaction.

Gain or Loss from Operations

We had consolidated income from operations of \$316,000 in the three months ended June 30, 2014 compared to consolidated income from operations of \$234,000 for the same prior year period.

We had a consolidated loss from operations of (\$152,000) in the nine months ended June 30, 2014 compared to a consolidated loss from operations of (\$387,000) for the same prior year period.

Our Good Times concept had income from operations of \$561,000 in the three month period ended June 30, 2014 compared to income from operations of \$263,000 in the same prior year period, which represents a \$298,000 increase

over the prior period.

Our Good Times concept had income from operations of \$670,000 in the nine month period ended June 30, 2014 compared to a loss from operations of \$358,000 in the same prior year period, which represents a \$1,028,000 increase over the prior period.

The increase in income from operations for the Good Times concept for the three and nine month periods is due primarily to the increase in net revenues offset by other matters discussed in the "Restaurant Operating Costs", "General and Administrative Costs" and Franchise Costs sections of Item 2 above.

Our loss from operations for the Bad Daddy's concept was \$245,000 and \$822,000 for the three and nine month periods ended June 30, 2014, respectively, compared to a loss of \$29,000 in the same prior year periods. The loss was due to matters discussed in the "Restaurant Operating Costs" and "General and Administrative Costs" sections of Item 2 above.

Affiliate Investment Loss

The net loss from affiliate investment activities consists of the Company's share of net earnings or loss of its affiliates as they occur. The Company's net investment loss for the three and nine month periods ended June 30, 2014 was \$44,000 and \$157,000, respectively, compared to a loss of \$23,000 in the same prior year periods. The loss from investment activities is related to our 48% ownership in the Bad Daddy's Franchise Development, LLC which is a result of initial costs of developing the Bad Daddy's franchise program.

Net Income or Loss

The net income was \$272,000 for the three months ended June 30, 2014 compared to net income of \$208,000 for the same prior year period.

The net loss was (\$312,000) for the nine months ended June 30, 2014 compared to a net loss of (\$459,000) for the same prior year period.

The change from the three and nine month periods ended June 30, 2014 to June 30, 2013 was primarily attributable to the change in our loss from operations for the three and nine month periods ended June 30, 2014, as well as a decrease in net interest expense related to the decrease in our long term notes payable, offset by an increase in our affiliate investment loss.

Liquidity and Capital Resources

Cash and Working Capital: As of June 30, 2014, we had a working capital excess of \$6,810,000. Because restaurant sales are collected in cash and accounts payable for food and paper products are paid two to four weeks later, restaurant companies often operate with working capital deficits. We anticipate that working capital deficits may be incurred in the future and possibly increase if and when new Good Times or Bad Daddy's restaurants are opened. We believe that we will have sufficient capital to meet our working capital, long term debt obligations and recurring capital expenditure needs in fiscal 2014 and beyond.

Financing:

Public Offering: On August 21, 2013 we completed a public offering of 2,200,000 shares of common stock, together with warrants to purchase 2,200,000 shares of our common stock (A Warrants) and additional warrants to purchase 1,100,000 shares of our common stock (B Warrants) with a per unit purchase price of \$2.50. One share of common stock was sold together with one A Warrant, with each A Warrant being exercisable on or before August 16, 2018 for one share of common stock at an exercise price of \$2.75 per share, and together with one B Warrant, with two B Warrants being exercisable on or before May 16, 2014 for one share of common stock at an exercise price of \$2.50 per share. Additionally we issued 330,000 A warrants to purchase 330,000 shares of common stock and 330,000 B warrants to purchase 165,000 of common stock to the underwriters in connection with the public offering with the same terms as the A and B warrants sold in the offering. Also in connection with the public offering we issued 154,000 representative warrants to purchase 154,000 of common stock at an exercise price of \$3.125 to the underwriters. The representative warrants were exercisable beginning May 16, 2014 and expire on August 16, 2016. As of June 30, 2014 we had received \$4,563,000 in net proceeds from the exercise of 602,900 A warrants and 2,460,700 B warrants.

We intend to use the net proceeds from this offering as well as the warrant exercise proceeds for the remodeling and reimagining of existing Good Times Burgers & Frozen Custard restaurants; for the development of new Bad Daddy's Burger Bar restaurants through BD of Colorado LLC; as working capital reserves and for future investment at the discretion of our Board of Directors.

Capital Expenditures

Planned capital expenditures for the balance of fiscal 2014 include those discussed above as well as normal recurring capital expenditures for existing Good Times restaurants and the remainder of the new point of sale equipment for our Good Times locations.

Cash Flows

Net cash provided by operating activities was \$458,000 for the nine months ended June 30, 2014. The net cash provided by operating activities for the nine months ended June 30, 2014 was the result of a net loss of \$312,000 as well as cash and non-cash reconciling items totaling \$770,000 (comprised of depreciation and amortization of \$483,000, stock-based compensation expense of \$97,000, an affiliate investment loss of \$157,000, an increase in accounts payable and accrued liabilities of \$180,000, an increase in receivables and inventories of \$96,000 and a net increase in other operating assets and liabilities of \$51,000).

Net cash provided by operating activities was \$173,000 for the nine months ended June 30, 2013. The net cash provided by operating activities for the nine months ended June 30, 2013 was the result of a net loss of \$459,000 as well as cash and non-cash reconciling items totaling \$632,000 (comprised of depreciation and amortization of \$537,000, stock-based compensation expense of \$73,000, a gain on sale of assets of \$86,000, accretion of deferred rent of \$30,000, an increase in accounts payable of \$235,000, an increase in deposits and other assets of \$229,000 and a net increase in other operating assets and liabilities of \$72,000).

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10-Q/A

Net cash used in investing activities for the nine months ended June 30, 2014 was \$2,679,000 which reflects \$375,000 paid to BDFD for our affiliate investment and \$2,304,000 for the purchases of property and equipment. Details of the \$2,304,000 are as follows:

•
\$1,639,000 in costs for the development of our first three Bad Daddy's locations in Colorado

•
\$204,000 for the reimaging of existing Good Times locations

•
\$286,000 for the purchase of new point of sale equipment for our Good Times locations

•
\$175,000 for miscellaneous capital expenditures related to our Good Times locations

Net cash provided by investing activities for the nine months ended June 30, 2013 was \$672,000 which reflects proceeds from sale leaseback transactions of \$3,329,000 offset by the purchase of a two franchise restaurants for \$1,331,000, the purchase of real estate underlying a company-owned restaurant for \$763,000, \$193,000 for miscellaneous restaurant related capital expenditures and a \$375,000 investment in an affiliate.

Net cash provided by financing activities for the nine months ended June 30, 2014 was \$4,266,000, which includes principal payments on notes payable, long term debt and capital leases of \$32,000, distributions to non-controlling interests of \$183,000, preferred dividends of \$59,000, stock sale costs of \$31,000 and proceeds from the exercise of warrants and stock options of \$4,571,000.

Net cash used in financing activities for the nine months ended June 30, 2013 was \$137,000, which includes net proceeds of \$1,499,000 from the sale of preferred stock, net principal payments on notes payable, long term debt and capital leases of \$1,582,000 and distributions to non-controlling interests of \$54,000.

Contingencies

We remain contingently liable on various leases underlying restaurants that were previously sold to franchisees. We have never experienced any losses related to these contingent lease liabilities, however if a franchisee defaults on the payments under the leases, we would be liable for the lease payments as the assignor or sublessor of the lease.

Currently we have not been notified nor are we aware of any leases in default under which we are contingently liable, however there can be no assurance that there will not be in the future, which could have a material effect on our future operating results.

Impact of Inflation

The weighted average menu price increase taken so far in fiscal 2014 at our Good Times locations was 2.4%. The total menu price increases taken during fiscal 2013 were 2.2%. We anticipate cost pressure on several core commodities,

including beef, bacon and dairy for fiscal 2014. However, we anticipate our food and packaging costs as a percentage of sales will be slightly lower in fiscal 2014 than in fiscal 2013 from a combination of price increases, product sales mix changes and recipe modifications. We may implement additional moderate price increases in fiscal 2014, which may or may not be sufficient to recover increased commodity costs or increases in other operating expenses.

Seasonality

Revenues of the Company are subject to seasonal fluctuation based primarily on weather conditions adversely affecting restaurant sales in December, January, February and March.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4T.

CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this report on form 10Q, the Company's Chief Executive Officer and Controller (its principal executive officer and principal financial officer, respectively) have concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting that occurred

during the Company's fiscal quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is periodically subject to legal proceedings which are incidental to its business. These legal proceedings are not expected to have a material impact on the Company.

ITEM 1A. RISK FACTORS

Not required.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Between May 21, 2014 and August 20, 2014, the Company issued 484,600 shares of common stock at an exercise price of \$2.75 per share issued upon exercise of A Warrants, with an aggregate value of \$1,332,650. The A Warrants were issued pursuant to a Registration Statement on Form S-1 filed with and declared effective by the SEC on August 15, 2013 (the "Original Registration Statement"). The Company understands that the SEC does not view the shares underlying the warrants as being "sold" for securities law purposes until the warrants are exercised, and therefore it is the view of the SEC that the Company should have filed a post-effective amendment to the Original Registration Statement prior to issuing these shares. The sale of these shares upon exercise of the A Warrants was therefore not exempt from registration requirements under federal and state securities laws. Consequently, the holders of A Warrants who purchased such shares may seek to rescind the sale. Promptly upon learning of the requirement to file a post-effective amendment, the Company undertook corrective steps to comply. Pending the Company's filing of a post-effective amendment to the Original Registration Statement, which is in process, the Company has ceased accepting cash exercises of A Warrants.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

EXHIBITS

(a)

Exhibits. The following exhibits are furnished as part of this report:

<u>Exhibit No.</u>	<u>Description</u>
*31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
*31.2	Certification of Controller pursuant to 18 U.S.C. Section 1350
*32.1	Certification of Chief Executive Officer and Controller pursuant to Section 906
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
*filed herewith

20

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: August 22, 2014

GOOD TIMES RESTAURANTS INC.

/s/ Boyd E. Hoback

Boyd E. Hoback

President and Chief Executive Officer

/s/ Susan M. Knutson

Susan M. Knutson

Controller

21