

GOOD TIMES RESTAURANTS INC
Form 10-Q/A
February 15, 2012

**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 December 31, 2011

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

84-1133368

(State or Other Jurisdiction of

(I.R.S. Employer Identification
Number)

Incorporation or Organization)

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 for such shorter period that the registrant was required to file such reports), and (2) has
been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule
12b-2 of the Exchange Act). Yes No

As of February 14, 2012, there were 2,726,214 shares of the Registrant's common stock, par value \$0.001 per
share, issued and outstanding.

Explanatory Note

The sole purpose of this Amendment to the Registrant's Quarterly Report on Form 10-Q for the period ended
December 31, 2011, as filed with the Securities and Exchange Commission on February 14, 2012 (the "Original
Filing"), is to furnish the XBRL Interactive Data Files on Exhibit 101. The XBRL Interactive Data Files were
inadvertently filed on Exhibit 100 in the Original Filing.

No other changes have been made to the Form 10-Q. This Amendment No. 1 on Form 10-Q speaks as of the original
filing date of the Form 10-Q and does not modify or update any related disclosures made in the Form 10-Q

Form 10-Q

Quarter Ended December 31, 2011

| <u>INDEX</u> | | <u>PAGE</u> |
|---------------------------------------|---|--------------------|
| PART I - FINANCIAL INFORMATION | | |
| Item 1. | Financial Statements | 3 - 6 |
| | Condensed Consolidated Balance Sheets (unaudited) - December 31, 2011 and September 30, 2011 | 3 - 4 |
| | Condensed Consolidated Statements of Operations (unaudited) for the three months ended December 31, 2011 and 2010 | 5 |
| | Condensed Consolidated Statements of Cash Flow (unaudited) for the three months ended December 31, 2011 and 2010 | 6 |
| | Notes to Condensed Consolidated Financial Statements | 7 - 12 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 - 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 | | 20 |
| CERTIFICATIONS | | |

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

| | December 31, <u>2011</u> | September 30, <u>2011</u> |
|--|-------------------------------------|--------------------------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$758,000 | \$847,000 |
| Receivables, net of allowance for doubtful accounts of \$0 | 71,000 | 106,000 |
| Prepaid expenses and other | 32,000 | 47,000 |
| Inventories | 187,000 | 191,000 |
| Notes receivable | <u>4,000</u> | <u>5,000</u> |
| Total current assets | 1,052,000 | 1,196,000 |
| PROPERTY AND EQUIPMENT, at cost: | | |
| Land and building | 6,716,000 | 6,969,000 |
| Leasehold improvements | 3,564,000 | 3,617,000 |
| Fixtures and equipment | <u>7,535,000</u> | <u>7,669,000</u> |
| | 17,815,000 | 18,255,000 |
| Less accumulated depreciation and amortization | <u>(12,526,000)</u> | <u>(12,533,000)</u> |
| | 5,289,000 | 5,722,000 |
| OTHER ASSETS: | | |
| Notes receivable, net of current portion | 17,000 | 10,000 |
| Deposits and other assets | <u>74,000</u> | <u>71,000</u> |
| | 91,000 | 81,000 |
| TOTAL ASSETS | <u>\$6,432,000</u> | <u>\$6,999,000</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY**CURRENT LIABILITIES:**

Current maturities of long-term debt, net of discounts of

| | | |
|--|----------------|----------------|
| \$26,000 and \$26,000 respectively | \$203,000 | \$195,000 |
| Accounts payable | 432,000 | 496,000 |
| Deferred income | 66,000 | 101,000 |
| Liabilities related to discontinued operations | 14,000 | 14,000 |
| Other accrued liabilities | <u>938,000</u> | <u>878,000</u> |
| Total current liabilities | 1,653,000 | 1,684,000 |

LONG-TERM LIABILITIES:

Debt, net of current portion and net of discounts of \$0 and \$7,000, respectively

| | |
|-----------|-----------|
| 1,896,000 | 2,067,000 |
|-----------|-----------|

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

| | | |
|--|----------------|----------------|
| Liabilities related to discontinued operations | 79,000 | 82,000 |
| Deferred liabilities | <u>640,000</u> | <u>646,000</u> |
| Total long-term liabilities | 2,615,000 | 2,795,000 |

Continued

3

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

| | December 31, <u>2011</u> | September 30, <u>2011</u> |
|--|-----------------------------|------------------------------|
| STOCKHOLDERS' EQUITY: | | |
| Good Times Restaurants Inc stockholder's equity: | | |
| Preferred stock, \$.01 par value; | | |
| 5,000,000 shares authorized, none issued and outstanding | | |
| as of December 31, 2011 and September 30, 2011 | - | - |
| Common stock, \$.001 par value; 50,000,000 shares authorized | | |
| 2,726,214 shares issued and outstanding | | |
| as of December 31, 2011 and September 30, 2011 | 8,000 | 8,000 |
| Capital contributed in excess of par value | 19,992,000 | 19,977,000 |
| Accumulated deficit | <u>(18,047,000)</u> | <u>(17,680,000)</u> |
| Total Good Times Restaurants Inc stockholders' equity | 1,953,000 | 2,305,000 |
| Non-controlling interest in partnerships | <u>211,000</u> | <u>215,000</u> |
| Total stockholders' equity | 2,164,000 | 2,520,000 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$6,432,000</u> | <u>\$6,999,000</u> |

See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Months Ended December 31, | |
|--|--|-----------------------------|
| | <u>2011</u> | <u>2010</u> |
| NET REVENUES: | | |
| Restaurant sales, net | \$4,747,000 | \$4,982,000 |
| Franchise revenues | <u>99,000</u> | <u>103,000</u> |
| Total revenues | 4,846,000 | 5,085,000 |
| RESTAURANT OPERATING COSTS: | | |
| Food and packaging costs | 1,662,000 | 1,758,000 |
| Payroll and other employee benefit costs | 1,684,000 | 1,759,000 |
| Occupancy and other operating costs | 1,033,000 | 1,083,000 |
| Depreciation and amortization | <u>208,000</u> | <u>204,000</u> |
| Total restaurant operating costs | 4,587,000 | 4,804,000 |
| General and administrative costs | 341,000 | 344,000 |
| Advertising costs | 211,000 | 217,000 |
| Franchise costs | 14,000 | 17,000 |
| Gain on sale of restaurant buildings and equipment | <u>(15,000)</u> | <u>(12,000)</u> |
| LOSS FROM OPERATIONS | (292,000) | (285,000) |
| OTHER INCOME AND (EXPENSES): | | |
| Unrealized income on interest rate swap | 7,000 | 13,000 |
| Interest expense, net | <u>(54,000)</u> | <u>(112,000)</u> |
| Total other income and (expenses) | <u>(47,000)</u> | <u>(99,000)</u> |
| LOSS FROM CONTINUING OPERATIONS | <u>(\$339,000)</u> | <u>(\$384,000)</u> |
| Loss from discontinued operations | <u>(11,000)</u> | <u>(4,000)</u> |
| NET LOSS | <u>(\$350,000)</u> | <u>(\$388,000)</u> |
| Income attributable to non-controlling interest | <u>(17,000)</u> | <u>(17,000)</u> |
| NET LOSS APPLICABLE TO COMMON SHAREHOLDERS | <u>(\$367,000)</u> | <u>(\$405,000)</u> |
| Net loss per share - basic and diluted | | |
| Continuing operations | (\$.12) | (\$.24) |
| Discontinued operations | (\$.00) | (\$.00) |
| Net loss applicable to common shareholders | (\$.13) | (\$.25) |
| WEIGHTED AVERAGE COMMON SHARES USED IN PER SHARE CALCULATION: | | |
| BASIC AND DILUTED | 2,726,214 | 1,594,102 |

See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Three Months Ended | |
|---|---------------------------|--------------------|
| | December 31, | |
| | <u>2011</u> | <u>2010</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | (\$350,000) | (\$388,000) |
| Loss from discontinued operations | <u>(11,000)</u> | <u>(4,000)</u> |
| Net loss from continuing operations | (339,000) | (384,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 208,000 | 204,000 |
| Amortization of debt issuance costs | 6,000 | 28,000 |
| Stock based compensation expense | 15,000 | 15,000 |
| Unrealized gain on interest rate swap | (7,000) | (13,000) |
| Recognition of gain on sale of restaurant building | (6,000) | (8,000) |
| Gain on disposal of property and equipment | (9,000) | (4,000) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables and other | 34,000 | 64,000 |
| Inventories | 4,000 | (4,000) |
| Deposits and other | 7,000 | 62,000 |
| (Decrease) increase in: | | |
| Accounts payable | (64,000) | (264,000) |
| Accrued liabilities and deferred income | <u>37,000</u> | <u>19,000</u> |
| Net cash used in operating activities from continuing operations | (114,000) | (285,000) |
| Net cash used in operating activities from discontinued operations | <u>(14,000)</u> | <u>(9,000)</u> |
| Net cash used in operating activities | (128,000) | (294,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from the sale of fixed assets | 305,000 | 854,000 |
| Payments for the purchase of property and equipment | (70,000) | (6,000) |
| Loans made to franchisees and to others | <u>(6,000)</u> | <u>-</u> |
| Net cash provided by investing activities | 229,000 | 848,000 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from common stock sale | - | 1,727,000 |
| Principal payments on notes payable and long-term debt | (169,000) | (1,437,000) |
| Distributions paid to non-controlling interests | <u>(21,000)</u> | <u>(22,000)</u> |
| Net cash provided by (used in) financing activities | <u>(190,000)</u> | <u>268,000</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (89,000) | 822,000 |
| CASH AND CASH EQUIVALENTS, beginning of period | <u>\$847,000</u> | <u>\$429,000</u> |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$758,000</u> | <u>\$1,251,000</u> |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

| | | |
|------------------------|------------------|------------------|
| Cash paid for interest | <u>\$ 48,000</u> | <u>\$ 86,000</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 December 31, 2011 and the results of its operations and its cash flows for the three month period ended December 31, 2011. Operating results for the three month period ended December 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. The condensed consolidated balance sheet as of September 30, 2011 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these financial statements should be read in conjunction with the Company's Form 10-K for the fiscal year ended September 30, 2011.

Note 2. Recent Developments

We sold one company-owned restaurant in Littleton, Colorado to an unrelated third party. The sale closed on December 29, 2011 with net proceeds of \$308,000 which resulted in a \$9,000 gain on the sale. As described below \$100,000 of the proceeds were used to prepay principal on our Wells Fargo Bank note.

We entered into a contract for a sale leaseback transaction with an unrelated third party effective January 25, 2012 related to one company-owned restaurant in Firestone, Colorado, subject to certain buyer contingencies. We also signed a letter of intent with an unrelated third party on February 1, 2012 for the sale of one company-owned restaurant, subject to certain buyer contingencies. Neither transaction will result in significant gains or losses.

As previously disclosed in the Company's current report on Form 8-K filed December 9, 2011, we received notice from Wells Fargo Bank, N.A. (the "Bank") that the Company was not in compliance with certain covenants under the Amended and Restated Credit Agreement dated December 10, 2010 (the "Credit Agreement"), including covenants requiring that the Company's tangible net worth not be less than \$2,500,000 at any time and that the Company deliver certain landlord's disclaimer and consent documents to the Bank. As previously disclosed in the Company's current report on Form 8-K filed December 27, 2011 we entered into a First Amendment to the Amended Credit Agreement and Waiver of Defaults and a Second Amended and Restated Term Note with Wells Fargo Bank (together, the "Amendments") that waived the current covenant defaults and modified the loan covenants and note terms. The Amendments were conditioned upon the closing of the sale of the Littleton restaurant described above and provided for a prepayment of \$100,000 in principal from the proceeds from the sale of the Littleton, Colorado restaurant, the release of collateral associated with that restaurant, the waiver of certain other collateral requirements, and a revision to the amortization and maturity date of the remaining loan balance as of January 2, 2012 of \$349,000 to December 31, 2013. There was no change to the interest rate of the loan.

In fiscal 2011, we sold two Company-operated restaurants and a franchisee closed one restaurant. We continue to evaluate the near term realizable asset value of each restaurant compared to its longer term cash flow value and we may choose to sell, sublease or close a limited number of additional lower performing restaurants in fiscal 2012 as we position the company for growth in new store development and reposition our stores away from trade areas that may have shifted demographically or from our current concept direction. We will require additional capital sources to

develop additional company-owned restaurants. We anticipate that the sale of lower volume restaurants will improve our operating margins as a percentage of revenue and provide cash resources for the further reduction of our long term debt and increase our working capital.

Note 3. Discontinued Operations

During fiscal 2010 we closed two locations: one dual-branded restaurant in Commerce City, Colorado in March 2010 and one co-developed restaurant in Denver, Colorado in June 2010. Fixed assets and associated accumulated depreciation of \$406,000 related to the Commerce City location are included in the property and equipment of our condensed consolidated balance sheet. Current and long-term liabilities related to discontinued operations relate to the future estimated lease obligations of the Commerce City location.

Discontinued operations losses of \$11,000 and \$4,000 for the three month periods ended December 31, 2011 and December 31, 2010, respectively, are from results of operations and lease obligations. With respect to the Commerce City closed location, we have continuing aggregate lease obligations of \$647,000 and we have subleased the location for \$528,000 in aggregate sublease income. We have recorded an estimated discounted liability of \$93,000 related to this location. We terminated the lease on the Denver location effective February 1, 2011 and no longer remain liable for any future lease obligations.

Note 4. 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 employee 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 employees who receive equity awards.

Our net loss for the three months ended December 31, 2011 and December 31, 2010 each include \$15,000 of compensation costs related to our stock-based compensation arrangements.

During the three months ended December 31, 2011, we granted 30,000 non-statutory stock options with an exercise price of \$1.31 and a per-share weighted average fair value was \$1.07.

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:

Non-Statutory Stock Options

| | |
|-------------------------|--------|
| Expected term (years) | 7.5 |
| Expected volatility | 95.71% |
| Risk-free interest rate | 1.47% |
| Expected dividends | 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 three months ended December 31, 2011 is presented in the following table:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Yrs.) | Aggregate Intrinsic Value |
|-------------------------|----------------|--|---|--|
| Outstanding-beg of year | 166,022 | \$ 6.89 | | |
| Granted | 30,000 | \$ 1.31 | | |

| | | | | |
|--------------------------|------------------|----------------|------------|-------------|
| Exercised | - | | | |
| Forfeited | - | | | |
| Expired | <u>(19,066)</u> | <u>\$ 5.25</u> | | |
| Outstanding Dec 31, 2011 | <u>176,956</u> | <u>\$ 6.12</u> | <u>7.1</u> | <u>\$ 0</u> |
| Exercisable Dec 31, 2011 | <u>114,085</u> | <u>\$ 8.48</u> | <u>6.1</u> | <u>\$ 0</u> |

As of December 31, 2011, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was \$71,000 and is expected to be recognized over a period of 1.9 years.

There were no stock options exercised during the three months ended December 31, 2011.

Note 5. Comprehensive Income (Loss)

Comprehensive income includes net income or loss, changes in certain assets and liabilities that are reported directly in equity such as adjustments resulting from unrealized gains or losses on held-to-maturity investments and certain hedging transactions. The Company's comprehensive loss is equal to its net loss.

In May 2007, the Company entered into an interest rate swap agreement, designated as a cash flow hedge, which hedges the Company's exposure to interest rate fluctuations on the Company's floating rate original \$1,100,000 term loan, the current balance of which is \$349,000. The contract requires monthly settlements of the difference between the amounts to be received and paid under the agreement, the amount of which is recognized in current earnings as interest expense. In addition we have recognized an unrealized gain of \$7,000 for the three months ended December 31, 2011 in the accompanying Condensed Consolidated Statement of Operations to adjust the liability related to the interest rate swap to fair market value.

Note 6. 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.

In December 2011 the Company amended its note payable to Wells Fargo Bank. At the time the Company was not in compliance with certain loan covenants. Under terms of the amended note agreement, the Company is required to have tangible net worth of not less than \$2.5 million as of December 31, 2012, which is greater than the Company's current tangible net worth. In addition, for the quarter ended June 30, 2012, the Company is required to have an EBITDA coverage ratio of .3 to 1 (and increasing thereafter). The Company is also required to repay this note to the extent any new equity is sold in the Company. While no assurances can be given that the Company will be able to achieve these covenants, the Company believes that through additional financing, improved EBITDA performance and other alternatives the Company is currently pursuing, it will be able to remain in compliance with the amended covenants. If not, and if the bank elected to accelerate the note, it could adversely impact future operations. However, the Company has paid down the outstanding balance on this loan as of January 3, 2012 to \$349,000, of which \$182,000 is recorded as a current liability. In addition, the Company is under contract for a sale leaseback transaction and a signed letter of intent for the sale of one company-owned restaurant (subject to certain buyer contingencies) which together will pay off the PFGI II loan of \$1,640,000 in full and add approximately \$400,000 of additional working capital to the Company's balance sheet if such transactions are closed as contemplated.

Note 7. Related Party Transactions

In fiscal 2009 the Company entered into a loan agreement with Golden Bridge, LLC ("Golden Bridge"), pursuant to which Golden Bridge made a loan of \$185,000 to the Company. Eric Reinhard, Ron Goodson, David Grissen, Richard Stark, and Alan Teran, who were all members of the Company's Board of Directors and stockholders of the Company, are the sole members of Golden Bridge. The Company's and GTDT's obtaining of the Loan from Golden

Bridge and related transactions were duly approved in advance by the Company's Board of Directors by the affirmative vote of members thereof who did not have an interest in the transaction. The Loan was paid in full in December 2010 following the closing of the SII Investment Transaction. Amounts due to related parties that are included in notes payable are \$0 at December 31, 2011 and September 30, 2011.

Note 8. Assets Held for Sale

As of September 30, 2011 we reclassified a Firestone, Colorado property as held and used which resulted in a \$92,000 depreciation expense charge to accurately reflect the net book value of the restaurant at September 30, 2011.

Note 9. Impairment of Long-Lived Assets

We review our long-lived assets for impairment 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. The expected cash flows are based on recent historical cash flows at the restaurant level (the lowest level that cash flows can be determined).

An analysis was performed on a restaurant by restaurant basis at December 31, 2011. Assumptions used in preparing expected cash flows were as follows:

Sales projections are as follows: Fiscal 2012 sales are projected to increase 3% to 5% with respect to fiscal 2011, for fiscal years 2013 to 2024 we have used annual increases of 2% to 3%. We believe the 2% to 3% increase in the years beyond 2012 is a reasonable expectation of growth and that it would be unreasonable to expect no growth in our sales. These increases include menu price increases in addition to any real growth. Historically our weighted menu prices have increased 1.5% to 6%.

Our variable and semi-variable restaurant operating costs are projected to increase proportionately with the sales increases as well as increasing an additional 1.5% per year consistent with inflation. Our other fixed restaurant operating costs are projected to increase 1.5% to 2% per year. Food and packaging costs are projected to decrease approximately 1% as a percentage of sales in relation to our fiscal 2011 food and packaging costs as a result of menu price increases and other menu initiatives.

Salvage value has been estimated on a restaurant by restaurant basis considering each restaurant's particular equipment package and building size.

Given the results of our impairment analysis at December 31, 2011 there are no restaurants which are impaired as their projected undiscounted cash flows show recoverability of their asset values.

Our impairment analysis included a sensitivity analysis with regard to the cash flow projections that determine the recoverability of each restaurant's assets. The results indicate that even with a 15% decline in our projected cash flows we would still not have any potential impairment issues. However if we elect to sublease, close or otherwise exit a restaurant location impairment could be required. We have experienced higher than normal food and packaging costs as a percentage of restaurant sales in recent years and we do not believe these costs will remain at these levels in future years. However for purposes of our cash flow projections in the asset impairment analysis we have assumed our food and packaging costs will remain at these higher levels.

Each time we conduct an impairment analysis in the future we will compare actual results to our projections and assumptions, and to the extent our actual results do not meet expectations, we will revise our assumptions and this could result in impairment charges being recognized.

All of the judgments and assumptions made in preparing the cash flow projections are consistent with our other financial statement calculations and disclosures. The assumptions used in the cash flow projections are consistent with other forward-looking information prepared by the company, such as those used for internal budgets, discussions with third parties, and/or reporting to management or the board of directors.

In fiscal 2010 we closed two company operated restaurants resulting in total charges of \$396,000. Projecting the cash flows for the impairment analysis involves significant estimates with regard to the performance of each restaurant, and it is reasonably possible that the estimates of cash flows may change in the near term resulting in the need to write down operating assets to fair value. If the assets are determined to be impaired, the amount of impairment recognized

is the amount by which the carrying amount of the assets exceeds their fair value. Fair value would be determined using forecasted cash flows discounted using an estimated average cost of capital and the impairment charge would be recognized in income from operations.

Note 10. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company categorizes its assets and liabilities recorded at fair value based upon the following fair value hierarchy established by the Financial Accounting Standards Board:

Level 1: Quoted market prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than defined in Level 1, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are not corroborated by observable market data.

The following table summarizes financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011:

Level 2:

Interest Rate Swap liability:

| | |
|-------------------------------|-----------------|
| Balance at September 30, 2011 | \$57,000 |
| Balance at December 31, 2011 | <u>\$50,000</u> |
| Net change | \$ 7,000 |

The unrealized gains for the three month periods ending December 31, 2011 and December 31, 2010 of \$7,000 and \$13,000, respectively, are reported in the Condensed Consolidated Statement of Operations. There were no transfers in or out of Level 3 for the three month period ending December 31, 2011.

Note 11. 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 2008 through 2011. 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 December 31, 2011.

Note 12. Non-controlling Interests

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

Note 13. Subsequent Events

We entered into a contract for a sale leaseback transaction with an unrelated third party effective January 25, 2012 related to one company-owned restaurant in Firestone, Colorado, subject to certain buyer contingencies. We also signed a letter of intent with an unrelated third party on February 1, 2012 for the sale of one company-owned restaurant, subject to certain buyer contingencies. Neither transaction will result in significant gains or losses.

Note 14. Recent Accounting Pronouncements

There are no current pronouncements that affect the Company.

Note 15. Stock Transactions

None.

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, 2011. 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.

Restaurant Locations

We currently operate or franchise a total of forty-three Good Times restaurants, of which forty are in Colorado, with thirty eight in the Denver greater metropolitan area, one in Colorado Springs and one in Silverthorne. Six of these restaurants are "dual brand", operated pursuant to a Dual Brand Test Agreement with Taco John's International, of which there is one in North Dakota, two in Wyoming, and three in Colorado.

| | Total | Denver, CO Greater Metro | Colorado Other | Wyoming | North Dakota |
|------------------------------------|--------------|-------------------------------------|---------------------------|----------------|-------------------------|
| Good Times co-owned & co-developed | 23 | 22 | 1 | | |
| Good Times franchised | 14 | 13 | 1 | | |
| Dual brand co-owned | 1 | 1 | | | |
| Dual brand franchised | 5 | 2 | | 2 | 1 |
| Total | 43 | 38 | 2 | 2 | 1 |

12

As of December 31,

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|-------------|-------------|
| Company-owned restaurants | 17 | 20 |
| Co-developed restaurants | 7 | 7 |
| Franchise operated restaurants | <u>19</u> | <u>21</u> |
| Total restaurants | 43 | 48 |

Fiscal 2011: In December 2010 a franchisee operating a Good Times restaurant in Grand Junction, Colorado terminated their franchise agreement and closed the restaurant. In September 2011 the company terminated a franchise agreement with a franchisee operating a Good Times restaurant in Longmont, Colorado. In February 2011 we sold one dual branded company-owned restaurant in Colorado Springs, Colorado, and in May 2011 we sold one company-owned Good Times restaurant in Colorado Springs, Colorado.

Fiscal 2012: In December 2011 a franchisee's franchise agreement expired for a restaurant operating in Boise, Idaho and the franchisee closed the restaurant. Also in December 2011 we sold one company-owned restaurant in Littleton, Colorado. We anticipate that franchisees may close up to two low volume franchised restaurants in fiscal 2012 and we may close one or two lower volume company operated restaurants, which would result in improved overall operating margins and more efficient allocation of overhead resources.

The following presents certain historical financial information of our operations. This financial information includes results for the three month period ending December 31, 2011 and results for the three month period ending December 31, 2010.

Results of Operations

Net Revenues

Net revenues for the three months ended December 31, 2011 decreased \$239,000 (4.7%) to \$4,846,000 from \$5,085,000 for the three months ended December 31, 2010. Same store restaurant sales increased \$140,000 (3.4%) during the three months ended December 31, 2011 for the restaurants that were open for the full three month periods ending December 31, 2011 and December 31, 2010. Restaurants are included in same store sales after they have been open a full fifteen months and only Good Times restaurants are included with dual branded restaurants excluded. Restaurant sales decreased \$342,000 due to two company-owned stores sold in fiscal 2011 and one company-owned store sold in December, 2011. Restaurant sales decreased \$8,000 due to one company-owned dual branded restaurants not included in same store sales. Restaurant sales also decreased \$25,000 due to one non-traditional company-owned restaurant not included in same store sales.

The positive same store sales results for the first fiscal quarter of 2012 reflect the continuation of the positive momentum we have experienced beginning in the last fiscal quarter of 2010 and continuing through all of fiscal 2011.

Our outlook for fiscal 2012 is optimistic based on the last seventeen months' of positive sales trends, however our sales trends are influenced by many factors and the macroeconomic environment remains challenging for smaller restaurant chains. Our average transaction increased in fiscal 2011 compared to fiscal 2010 and we are continuing to manage our marketing communications to balance growth in customer traffic and their average expenditure.

Franchise revenues for the three months ended December 31, 2011 decreased \$4,000 to \$99,000 from \$103,000 for the three months ended December 31, 2010 due to a decrease in franchise fees and royalties. Same store Good Times franchise restaurant sales increased 2.2% during the three months ended December 31, 2011 for the franchise restaurants that were open for the full periods ending December 31, 2011 and December 31, 2010. Dual branded franchise restaurant sales remained constant during the three months ended December 31, 2011, compared to the same prior year period. In September 2011 the company terminated a franchise agreement with a franchisee operating a Good Times restaurant in Longmont, Colorado.

Restaurant Operating Costs

Restaurant operating costs as a percent of restaurant sales were 96.6% during the three months ended December 31, 2011 compared to 96.4% in the same prior year period.

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

| | Three months ended <u>December 31, 2011</u> |
|---|--|
| Restaurant-level costs for the period ended December 31, 2010 | 96.4% |
| Decrease in food and packaging costs | (.3%) |
| Increase in payroll and other employee benefit costs | .2% |
| Change in occupancy and other operating costs | - |
| Increase in depreciation and amortization | <u>.3%</u> |
| Restaurant-level costs for the period ended December 31, 2011 | 96.6% |
| <i>Food and Packaging Costs</i> | |

For the three months ended December 31, 2011 our food and paper costs decreased \$96,000 to \$1,662,000 (35.0% of restaurant sales) from \$1,758,000 (35.3% of restaurant sales) compared to the same prior year period. The \$96,000 decrease is due to lower sales compared to the same prior year period.

In fiscal 2011 our weighted food and packaging costs increased approximately 5% and we implemented a total of 4.7% in menu price increases during the same period. We anticipate continued cost pressure on several core commodities, including beef, bacon and dairy for the balance of fiscal 2012. However, we anticipate our food and packaging costs as a percentage of sales will decrease in fiscal 2012 from a combination of price increases, product sales mix changes and recipe modifications.

Payroll and Other Employee Benefit Costs

For the three months ended December 31, 2011 our payroll and other employee benefit costs decreased \$75,000 to \$1,684,000 (35.5% of restaurant sales) from \$1,759,000 (35.3% of restaurant sales) compared to the same prior year period. Payroll and other employee benefits decreased \$113,000 in the three months ending December 31, 2011 due to the sale of two company-owned restaurants in February and May of 2011. The \$113,000 decrease was offset by a \$38,000 increase in payroll and employee benefit costs in the remaining restaurants due to increased sales compared to the same prior year period.

Occupancy and Other Operating Costs

For the three months ended December 31, 2011 our occupancy and other operating costs decreased \$50,000 to \$1,033,000 (21.8% of restaurant sales) from \$1,083,000 (21.7% of restaurant sales) compared to the same prior year period.

We experienced a \$96,000 decrease in occupancy and other operating costs compared to the same prior year period due to the sale of two company-owned restaurants in February and May of 2011. The \$96,000 decrease was offset by increases in rent, property taxes, repairs and maintenance and bank supplies and fees in the remaining restaurants, compared to the same prior year period.

Depreciation and Amortization

For the three months ended December 31, 2011, our depreciation and amortization increased \$4,000 to \$208,000 (4.4% of restaurant sales) from \$204,000 (4.1% of restaurant sales) compared to the same prior year period.

The increase in depreciation and amortization for the three month period ended December 31, 2011 is due primarily to an increase related to the restaurant reclassified from held for sale to held and used, offset by a decrease of \$18,000

due to the sale of two company-owned restaurants in fiscal 2011.

General and Administrative Costs

For the three months ended December 31, 2011, general and administrative costs decreased \$3,000 to \$341,000 (7.0% of total revenues) from \$344,000 (6.8% of total revenues) for the same prior year period.

Advertising Costs

For the three months ended December 31, 2011 advertising costs decreased \$6,000 to \$211,000 (4.4% of restaurant sales) from \$217,000 (4.3% of restaurant sales) for the same prior year period. The decrease is due to lower total restaurant sales in the current period compared to the same prior year period from the closure of restaurants.

Contributions are made to the advertising materials fund and regional advertising cooperative based on a percentage of sales and the percentage contribution for fiscal 2011 remained the same as the prior year period.

Franchise Costs

For the three months ended December 31, 2011, franchise costs decreased \$3,000 to \$14,000 (.3% of total revenues) from \$17,000 (.3% of total revenues) for the same prior year period.

Gain on Sale of Assets

For the three months ended December 31, 2011, our gain on the sale of assets increased \$3,000 to \$15,000 from \$12,000 for the same prior year period. The current three month period ending December 31, 2011 includes a gain of \$9,000 related to the sale of one company-owned restaurant in December 2011.

Loss from Operations

We had a loss from operations of \$292,000 in the three months ended December 31, 2011 compared to a loss from operations of \$285,000 for the same prior year period.

The increase in loss from operations for the three month period is due primarily to the decrease in net revenues offset by other matters discussed in the "Restaurant Operating Costs", "General and Administrative Costs", "Franchise Costs" and "Loss on Sales of Assets" sections of Item 2 above.

Loss from Continuing Operations

The net loss from continuing operations was \$339,000 for the three months ended December 31, 2011 compared to a net loss from continuing operations of \$384,000 for the same prior year period. The change from the three month period ended December 31, 2011 to December 31, 2010 was attributable to the increase in loss from operations for the three months ended December 31, 2011, offset by a decrease in net interest expense of \$58,000 compared to the same prior year period. Net interest expense for the three months ended December 31, 2011 includes non-cash amortization of debt issuance costs of \$6,000 compared to \$28,000 in the same prior year period. A decrease in our long term notes payable accounts for the remaining \$36,000 decrease in net interest expense, compared to the same prior year period.

Income (loss) from Discontinued Operations

The loss from discontinued operations was \$11,000 for the three months ended December 31, 2011 compared to \$4,000 for the prior year three month period ended December 31, 2010.

Liquidity and Capital Resources

Cash and Working Capital

As of December 31, 2011, we had \$758,000 in cash and cash equivalents on hand. We currently plan to use the cash balance and any cash generated from operations for our working capital needs in fiscal 2012. We believe that we will have sufficient capital to meet our working capital, long term debt obligations and recurring capital expenditure needs in fiscal 2012. Additionally, we may sell or sublease select underperforming company operated restaurants if we believe the realizable asset value is greater than the long term cash flow value or if the asset does not fit our longer term goal for distribution and location of restaurants.

As of December 31, 2011, we had a working capital deficit of \$601,000 due to normal recurring accounts payable and other accrued liabilities exceeding our cash and other current assets.

We sold one company-owned restaurant in Littleton, Colorado to an unrelated third party. The sale closed on December 29, 2011 with net proceeds of \$308,000 which resulted in a \$9,000 gain on the sale. As described below \$100,000 of the proceeds were used to prepay principal on our Wells Fargo Bank note.

Liquidity

As discussed herein, in December 2011 the Company amended its note payable to Wells Fargo Bank. At the time the Company was not in compliance with certain loan covenants. Under terms of the amended note agreement, the Company is required to have tangible net worth of not less than \$2.5 million as of December 31, 2012, which is greater than the Company's current tangible net worth. In addition, for the quarter ended June 30, 2012, the Company

is required to have an EBITDA coverage ratio of .3 to 1 (and increasing thereafter). While there is no assurance that the Company will be able to achieve these covenants, the Company believes that through additional financing, improved EBITDA performance and other alternatives the Company is currently pursuing, it will be able to remain in compliance with the amended covenants. If not, and if the bank elected to accelerate the note, it could adversely impact future operations. However, the Company has paid down the outstanding balance on this loan as of January 3, 2012 to \$349,000, of which \$182,000 is recorded as a current liability. In addition, the Company is under contract for a sale leaseback transaction and a signed letter of intent for the sale of one company-owned restaurant (subject to certain buyer contingencies) which together will pay off the PFGI II loan of \$1,640,000 in full and add approximately \$400,000 of additional working capital to the Company's balance sheet provided such transactions are closed as contemplated.

Financing Activities

Wells Fargo Note Payable: In May 2007 we borrowed \$1,100,000 from Wells Fargo Bank (the "Bank") under a note payable with an eight year term with a floating interest rate at .50% below prime. We simultaneously entered into an interest rate swap transaction with Wells Fargo Bank for the full \$1,100,000 with a fixed interest rate of 7.77% for the full eight year term coinciding with the note payable. As previously disclosed in the Company's current report on Form 8-K filed December 17, 2010, we entered into a new Credit and Loan Agreement that modified the loan covenants and provided additional collateral to Wells Fargo for the remaining loan balance of \$528,552. In addition to the normal recurring principal payments we have made principal payments of \$90,000 from the proceeds of the sale of two company-owned restaurants in Colorado Springs, Colorado to further reduce the note payable thereby reducing certain collateral under the modified Credit and Loan Agreement.

On December 27, 2011, Good Times Restaurants Inc. and its subsidiary Good Times Drive Thru Inc. (together, the "Company") entered into a First Amendment To Amended and Restated Credit Agreement and Waiver of Defaults and a Second Amended and Restated Term Note in the principal amount of \$470,874 (together the Amendments") with the Bank. The Amendments were conditional upon the closing of the sale of the Littleton restaurant described under Recent Events and provide for a reduction in the principal amount of the loan by an additional \$100,000 from the proceeds of that sale, the release of collateral associated with that restaurant and a modification to the repayment terms and maturity date of the loan to December 31, 2013. The Amendments waived the current covenant defaults asserted by the Bank and modify certain financial covenants in the Credit Agreement requiring the Company to have a Net Worth not less than \$2,500,000 as of December 31, 2012 and thereafter and an EBITDA Coverage Ratio not less than (i) 0.30 to 1.00 as of the end of the third quarter ending June 30, 2012, (ii) 0.70 to 1.00 as of the end of the fiscal year ending September 30, 2012, and (iii) .90 to 1.00 as of the end of each fiscal quarter thereafter, determined on a rolling 4-quarter basis. The Company is required to prepay the Term Loan up to the full outstanding principal balance of the note (in addition to any and all other obligations due to Bank including the Interest Rate Swap) upon the sale of any stock or other equity interest in the Company. There was not any change to the interest rate or fees payable to the Bank under the Amendment and the re-amortized loan balance was \$349,000 as of January 2, 2012. Repayment of the loan is secured by equipment in various restaurants owned by the Company.

PFGI II LLC Promissory Note: In July 2008, we entered into a \$2,500,000 promissory note with an unrelated third party (PFGI II, LLC) and amended that note on April 20, 2009 extending the maturity to July 10, 2010. Effective January 2, 2010, the Company entered into an agreement to amend its loan with PFGI II LLC. The maturity date was extended to December 31, 2012, the interest rate was increased to 8.65% and monthly payments of principal and interest are payable beginning January 31, 2010, based upon a 25 year amortization prior to maturity. In connection with the agreement, the Company issued a three-year warrant dated January 2, 2010 to PFGI II, LLC which provides that PFGI II, LLC may at any time from January 2, 2010 until December 31, 2012 purchase up to 37,537 shares of the Company's common stock at an exercise price of \$3.33 per share. The number of shares purchasable upon exercise of the warrant and the exercise price are subject to customary anti-dilution adjustments upon the occurrence of any stock

dividends, stock splits, reverse stock splits, recapitalizations, reclassifications, stock combinations or similar events. The fair value of the warrant issued to PFGI II, LLC was determined to be \$79,000 with the following assumptions; 1) risk free interest rate of 1.7%, 2) an expected life of 3 years, and 3) an expected dividend yield of zero. The fair value of \$79,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount is being amortized over the term of thirty six months and charged to interest expense.

The promissory note originally constituted a revolving line-of-credit for the development of new restaurants which was advanced and repaid on a monthly basis from time to time. The promissory note now constitutes a term loan with monthly payments of principal and interest. The loan is secured by separate leasehold deeds of trust and security agreements related to six company-owned restaurants and a first deed of trust on one real property funded by the line of credit. On December 5, 2010 the company sold a parcel of land in Aurora, Colorado and used approximately \$812,000 of the net proceeds to reduce the loan balance. The total outstanding balance on the promissory note was \$1,640,000 at December 31, 2011. Of the \$1,640,000 outstanding balance, \$1,595,000 is related to the construction of one company-owned restaurant in Firestone, Colorado that opened in October 2008.

Golden Bridge Loan Agreement: On April 20, 2009 as reported on Form 8-K, the Company entered into a loan agreement with Golden Bridge, LLC ("Golden Bridge"), pursuant to which Golden Bridge made a loan of \$185,000 (the "Golden Bridge Loan") to GTDT to be used for restaurant marketing and other working capital costs. Eric Reinhard, Ron Goodson, David Grissen, Richard Stark, and Alan Teran, who were all members of the Company's Board of Directors at the time of the transaction and stockholders of the Company, are the sole members of Golden Bridge. The loan was repaid in full on December 13, 2010 from the proceeds of the SII Investment Transaction (see "SII Investment Transaction" below).

In connection with the Golden Bridge Loan, the Company issued a three-year warrant dated April 20, 2009 to Golden Bridge which provides that Golden Bridge may at any time from April 20, 2009 until April 20, 2012 purchase up to 30,833 shares of the Company's common stock at an exercise price of \$3.45 per share. The number of shares purchasable upon exercise of the warrant and the exercise price are subject to customary anti-dilution adjustments upon the occurrence of any stock dividends, stock splits, reverse stock splits, recapitalizations, reclassifications, stock combinations or similar events. The fair value of the warrant issued to Golden Bridge was determined to be \$42,000. The note discount was amortized over fourteen months and charged to interest expense.

W. Capital and John T. MacDonald Loan Agreement: On February 1, 2010, the Company entered into a loan agreement with W Capital, Inc. ("W Capital"), John T. McDonald ("McDonald") and Golden Bridge, pursuant to which the lenders made loans totaling \$200,000, with up to an additional \$200,000 available through April 30, 2010, to be used for restaurant marketing and other working capital uses of GTDT. As set forth below, the loan agreement was subsequently amended as of April 1, 2010 to remove Golden Bridge as a lender and to replace it with additional loans from W Capital and McDonald. On December 13, 2010, the outstanding principal amount of the Bridge Loans was paid in full from the proceeds of the SII Investment Transaction, and accrued interest on the Bridge Loans was converted into 26,477 shares of Common Stock.

In connection with the Bridge Loans, the Company issued warrants dated February 1, 2010 to W Capital and McDonald which provide that the lenders may at any time from February 1, 2010 until two years from the date of repayment or conversion of the Bridge Loans purchase up to an aggregate of 16,667 shares of the Company's Common Stock at an exercise price of 25% less than the average price of the Company's common stock during the 20 days prior to the exercise date, provided, however, that the exercise price shall not be below \$2.25 per share nor above \$3.24 per share. Pursuant to the terms of the loan agreement, because the Bridge Loans were not repaid prior to August 1, 2010, the Company issued warrants to W Capital and McDonald for the purchase of 16,667 additional shares of the Company's Common Stock upon the same terms as the initial warrants. The number of shares purchasable upon exercise of the warrants issued to W Capital and McDonald and the exercise price are subject to customary anti-dilution adjustments upon the occurrence of any stock dividends, stock splits, reverse stock splits, recapitalizations, reclassifications, stock combinations or similar events. The warrants will expire on December 12, 2012.

The fair value of the warrants issued February 1, 2010 was determined to be \$38,000 with the following assumptions: 1) risk free interest rate of 1.41%, 2) an expected life of 2.5 years, and 3) an expected dividend yield of zero. The fair

value of \$38,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount was amortized over the term of seven months and charged to interest expense.

The intrinsic value of the embedded beneficial conversion feature of the Bridge Loans was determined to be \$161,000. The intrinsic value of \$161,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount was amortized over the term of seven months and charged to interest expense.

The fair value of the warrants issued August 1, 2010 was determined to be \$36,000 with the following assumptions: 1) risk free interest rate of .70%, 2) an expected life of 2.4 years, and 3) an expected dividend yield of zero. The fair value of \$36,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount was amortized over the term of five months and charged to interest expense.

SII Investment Transaction: On October 29, 2010, the Company and SII entered into the Purchase Agreement, pursuant to which the Company agreed to sell, and SII agreed to purchase, 1,400,000 Shares of Common Stock at a purchase price of \$1.50 per share, or an aggregate purchase price of \$2,100,000. The Purchase Agreement was amended on December 13, 2010. On December 13, 2010, the Company and SII completed the SII Investment Transaction through the issuance and sale of the Shares to SII. On December 13, 2010, the Company and SII also entered into a Registration Rights Agreement, pursuant to which the Company granted SII certain registration rights with respect to resale of the Shares. As a result of the completion of the SII Investment Transaction, SII became the beneficial owner of approximately 51.4 percent of the Company's outstanding Common Stock.

The Purchase Agreement provides that for so long as SII holds more than 50 percent of our outstanding common stock, (i) our Board of Directors shall consist of seven members, and (ii) SII will have the right to designate four members of our Board. During fiscal 2011 SII agreed to a Board of Directors consisting of six members, retaining the right to designate a seventh member. In addition, the Purchase Agreement provides that for a period of three years following the Closing, as long as SII continues to own at least 80 percent of its Common Stock acquired, SII will have a right of first refusal to purchase additional securities which are offered and sold by the Company for the purpose of maintaining its percentage interest in the Company.

The proceeds from the SII Investment Transaction were used to pay approximately \$288,000 of expenses related to the transaction, repay \$585,000 in short term loans, reduce accrued liabilities by \$200,000, reduce accounts payable by approximately \$150,000 and the balance going to increase the Company's working capital.

Capital Expenditures

We do not have any plans for any significant capital expenditures for the balance of fiscal 2012, other than normal recurring capital expenditures for existing restaurants and the possible exterior re-imaging of several company-owned restaurants. Additional commitments for the development of new restaurants in fiscal 2012 and beyond will depend on the Company's sales trends, cash generated from operations and our access to additional capital.

Cash Flows

Net cash used in operating activities was \$128,000 for the three months ended December 31, 2011. The net cash used in operating activities for the three months ended December 31, 2011 was the result of a net loss of (\$350,000) as well as cash and non-cash reconciling items totaling \$222,000 (comprised of depreciation and amortization of \$208,000, stock-based compensation expense of \$15,000, a deferred gain of \$6,000, an accounts payable decrease of \$64,000 and a net increase in other operating assets and liabilities of \$69,000).

Net cash used in operating activities was \$294,000 for the three months ended December 31, 2010. The net cash used in operating activities for the three months ended December 31, 2010 was the result of a net loss of (\$388,000) as well as cash and non-cash reconciling items totaling \$94,000 (comprised of depreciation and amortization of \$232,000, stock based compensation expense of \$15,000, discontinued operations costs of \$5,000 an accounts payable decrease of \$264,000 and a net decrease in other operating assets and liabilities of \$72,000).

Net cash provided by investing activities for the three months ended December 31, 2011 was \$229,000 which reflects proceeds from the sale of property of \$305,000, payments of \$17,000 for miscellaneous restaurant related capital

expenditures, payments of \$53,000 for the completion of the installation of new menu boards and a \$6,000 loan to a franchisee.

Net cash provided by investing activities for the three months ended December 31, 2010 was \$848,000 which reflects proceeds from the sale of property of \$854,000 and payments of \$6,000 for miscellaneous restaurant related capital expenditures.

Net cash used in financing activities for the three months ended December 31, 2011 was \$190,000, which includes principal payments on notes payable and long term debt of \$169,000 and distributions to non-controlling interests of \$21,000.

Net cash provided by financing activities for the three months ended December 31, 2010 was \$268,000, which includes net proceeds of \$1,727,000 from the sale of common stock, principal payments on notes payable and long term debt of \$1,437,000 and distributions to non-controlling interests of \$22,000.

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.

Subsequent Events

We entered into a contract for a sale leaseback transaction with an unrelated third party effective January 25, 2012 related to one company-owned restaurant in Firestone, Colorado, subject to certain buyer contingencies. We also signed a letter of intent with an unrelated third party on February 1, 2012 for the sale of one company-owned restaurant, subject to certain buyer contingencies. Neither transaction will result in significant gains or losses.

Impact of Inflation

In fiscal 2011 our weighted food and packaging costs increased approximately 5%. We implemented a 1.2% menu price increase in February 2011, a 1.1% menu price increase in late May 2011 and a 2.4% menu price increase in September 2011. We anticipate continued cost pressure on several core commodities, including beef, bacon and dairy for fiscal 2012. However, we anticipate our food and packaging costs as a percentage of sales will decrease in fiscal 2012 from a combination of price increases, product sales mix changes and recipe modifications. We are planning moderate price increases in fiscal 2012, 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 December 31, 2011 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. 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 |

*filed herewith

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.

GOOD TIMES RESTAURANTS INC.

DATE: February 14, 2012

/s/ Boyd E. Hoback
Boyd E. Hoback

President and Chief Executive Officer

/s/ Susan M. Knutson

Susan M. Knutson

Controller

20
