

Good Times Restaurants Inc.  
Form 10-K  
December 22, 2017

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

FORM 10-K

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

For the fiscal year ended September 26, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-18590

(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)

141 Union Blvd., #400, Lakewood, Colorado

(Address of principal executive offices)

80228

(Zip Code)

Registrant's telephone number: (303) 384-1400

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

Title of each class

Common Stock \$.001 par value

Name of each exchange on which registered

NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Yes          No

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

Yes          No

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

Yes          No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate  
Website, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of  
Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required  
to submit and post such files)

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

	Non-accelerated filer
Large accelerated filer	(Do not check if a smaller reporting company)
Accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of March 28, 2017 (the last business day of our most recently completed second fiscal quarter), the aggregate market value of the 11,469,084 shares of common stock held by non-affiliates of the registrant was \$35,554,160.

As of December 18, 2017, the registrant had 12,467,240 shares of common stock outstanding.

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PART I

ITEM 1. BUSINESS

Our Company

Good Times Restaurants Inc., a Nevada corporation formed on October 6, 1996, operates and franchises Good Times Burgers & Frozen Custard (“GTBFC” or “Good Times”) restaurants and Bad Daddy’s Burger Bar restaurants (“BDBB” or “Bad Daddy’s”). Good Times Burgers & Frozen Custard and Bad Daddy’s Burger Bar are two distinctly different, yet complementary, restaurant concepts. Each is positioned as a high-quality brand within its respective segment of the industry. Good Times is positioned at the upper end of the quick service restaurant segment and Bad Daddy’s is positioned at the upper end of the full service casual theme segment.

Through our subsidiaries, as of December 18, 2017, we own, operate, franchise, or license a total of 26 BDBB restaurants in four different states. We own and operate twelve BDBB restaurants in Colorado, one BDBB restaurant in Oklahoma, and five BDBB restaurants in Charlotte, NC. We own and operate six other BDBB restaurants elsewhere in North Carolina; of these restaurants we own 51% of one and 52% of two, BDBB restaurants in Raleigh, NC, own 50% of one BDBB restaurant in Fayetteville, NC, 51% of one BDBB restaurant in Greenville, NC and own 23% in one BDBB restaurant in Winston Salem, NC. We license the Bad Daddy’s brand to the BDBB restaurant located in the Charlotte Douglas International Airport which is owned and operated by a third- party licensee. One Bad Daddy’s in Greenville, SC is operated by a third-party franchisee in Greenville, SC. We currently own and operate or franchise 38 total Good Times restaurants.

The terms “we,” “us,” “our,” the “Company,” “Good Times” and similar terms refer to Good Times Restaurants Inc., a Nevada corporation, and its wholly-owned consolidated subsidiaries, including Bad Daddy’s Franchise Development, LLC, Bad Daddy’s International, LLC, Good Times Drive-Thru Inc. (“Drive Thru”) and BD of Colorado, LLC. Unless otherwise indicated or the context otherwise requires, financial and operating data in this 10-K report reflect the consolidated business and operations of Good Times Restaurants Inc. and its subsidiaries.

Fiscal 2017 Financial & Brand Highlights

·The Good Times brand has had seven consecutive years of same store sales growth.

The Good Times brand had a 2.1% increase in same store sales for the fiscal year ended September 26, 2017 (“fiscal 2017”) in addition to the increase in same store sales for the fiscal year ended September 27, 2016 (“fiscal 2016”) of 0.3%.

·The Bad Daddy’s brand had a 1.6% increase in same store sales for fiscal 2017.

·We ended fiscal 2017 with \$4.3 million in cash and a \$5.4 million balance in notes payable.

We expanded our credit facility with Cadence Bank from \$9,000,000 to \$12,000,000 of which \$5,300,000 had been drawn down at the end of fiscal 2017.

Our net revenues for fiscal 2017 increased by \$14,641,000 (+22.7%.) to \$79,080,000 from \$64,439,000 in fiscal year 2016, primarily due to six new Bad Daddy’s locations opened during fiscal 2017 and a full year of operations for units opened during the prior fiscal year.

We continued our Good Times television campaign in fiscal 2017 to introduce our West Coast Double and Combo at introductory price points of \$3 and \$5 along with completing the remodel of our central cook line that provides a hotter, cheesier burger.

We opened one new Good Times restaurant in fiscal 2017.

We opened six Bad Daddy's restaurants in fiscal 2017. We opened two Bad Daddy's in the first two weeks of fiscal 2018 and plan to open seven additional Bad Daddy's during the fiscal year.

#### Recent Developments

In September 2016, we entered into a \$9,000,000 senior debt revolving line of credit with Cadence Bank to provide the necessary capital to fund future Bad Daddy's and Good Times locations as well as fund the continued remodel of existing Good Times locations and recurring capital expenditures. In September 2017, we entered into an amendment to the senior debt revolving line of credit with Cadence Bank to increase the borrowing capacity to a total of \$12,000,000.

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In October 2017, subsequent to the end of the 2017 fiscal year, we closed on a sale-leaseback transaction related to our Good Times Restaurant in Brighton, CO resulting in approximately \$1,390,000 of net cash proceeds.

### Concepts

#### Good Times Burgers & Frozen Custard

Good Times is an upscale, quick service restaurant concept offering fresh, 100% all-natural, hand crafted products. We operate 28 Good Times restaurants, and franchise a additional 10, located primarily in the Denver market and along the front range of Colorado. We believe Good Times is the only quick service chain in our region, and one of a very few in the country, that offers a menu of fresh all-natural Angus beef and all-natural chicken from animals that are humanely raised and vegetarian fed without the use of added hormones, steroids, or antibiotics. In addition to our all-natural platform, we offer fresh, unique taste profiles such as Hatch Valley New Mexico green chile breakfast burritos, frozen custard made fresh every few hours in each restaurant, Wild Fries with Wild Dippin Sauce and hand-breaded chicken tenders.

We compete primarily on the quality of our products and we believe that our menu items are consistent with the quality found at fast casual restaurants, but served at close to the speed of quick service restaurants. Our brand positioning is based on “Taking a Better Food Stand” supported by the marketing headline “Happiness Made to Order” with three primary brand pillars of Innovation, Quality, and Connectedness. Within Innovation, we strive to create products and flavor profiles available only at Good Times and that challenge traditional quick service restaurant norms. We communicate Quality throughout our menu, from our made-to-order items to our fresh, all-natural, handcrafted attributes. We strive for Connectedness with our customers based on strong emotional ties to our brand through social media, appealing to an outdoor and active lifestyle, promoting high quality ingredients, by building an irreverent yet approachable brand personality and through community support and involvement.

Our average per person check is approximately \$7.00, which we believe is lower than the average check at fast casual hamburger concepts such as Habit Burger, Five Guys, and Smashburger, but higher than the typical quick service restaurant average check. We do not offer a low-priced value menu like most national and multi-regional quick service chains, choosing to define our value proposition based on a range of price choices within each of our menu categories and the quality of our food.

The success of our strategy is evident in our strong same-store sales growth (sales growth over the prior year period at restaurants open more than 15 months, also referred to as comparable sales). Based on information from industry analysts and third-party publications, our growth in comparable restaurant sales has outperformed the quick service restaurant industry average over the last seven years. Fiscal 2017’s comparable sales growth of 2.1% followed comparable sales growth of 0.3% in fiscal 2016, 0.9% in fiscal 2015, 14.6% in 2014 and 11.9% growth in 2013.

#### Bad Daddy’s Burger Bar

Bad Daddy’s Burger Bar operates in the emerging “small box” better burger casual dining segment and is an upscale, chef driven, full service, full bar concept.

The menu consists of items made according to chef-driven recipes and with high quality ingredients that we believe have broad consumer appeal, yet are very distinctive within the upscale, casual dining segment. The menu is comprised of signature burgers, salads, sandwiches, and appetizers executed in unique flavor profiles. Regular “chef specials” are offered in each menu category that highlight unique flavor profiles whenever possible. Housemade sauces and dressings, a brioche bun, non-beef alternatives including buffalo, tuna, turkey and chicken and Create Your Own Burgers and Salads all help to differentiate Bad Daddy’s from other restaurants. The food menu is complemented

by a full bar that focuses on local, craft microbrew beers and specialty cocktails. Alcoholic beverages account for approximately 15-20% of sales in our Bad Daddy's restaurants. The quality positioning generates an average per person check of over \$17, slightly above traditional bar and grill competitors such as Chili's and Red Robin. The lunch daypart represents approximately 40% and the dinner daypart represents approximately 60% of restaurant sales, with restaurants opening daily at 11 am and closing generally between 10 pm and 11 pm, with restaurants open slightly later on weekends, depending on the surrounding trade area.

The restaurants have a high-energy yet family friendly environment with iconic, pop culture design elements and a personal, ultra-friendly and informal service platform. BDBB's menu, service and environment are designed around a slightly irreverent brand personality, such as our Bad Ass Burger and Bad Ass Margarita menu items and the iconic Farrah Fawcett and Paul Newman Cool Hand Luke posters in the men's and women's rooms.

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A typical BDBB restaurant is approximately 3,500-4,000 square feet with an enclosed patio, smaller than most other casual dining restaurants. Based on average annual restaurant sales of approximately \$2.5 million (for restaurants open more than 18 months), BDBB restaurants generate average sales per square foot of approximately \$700, which we believe is a key metric indicating the strength and expansion potential of the concept. While sharing common design elements, each restaurant has unique features intended to create the impression that each Bad Daddy's is local to its trade area and serves as a further point of differentiation from the larger casual dining chains. We believe BDBBs' innovative menu and personalized service combined with a unique, fun restaurant design enhance our customers' experience and differentiate BDBB from its competitors.

### Our Business Strengths

#### Our Brands Are Complementary.

While operating in different segments of the restaurant industry, our two brands share the following qualities:

Each is positioned at the upper end of its respective segment with the value proposition primarily driven by quality and uniqueness. We believe Good Times is the only quick service chain in our region with an all-natural platform. We do not offer a dollar menu that many national chains do, choosing to compete on a market position emphasizing quality and uniqueness with a variety of price points across the menu and serving made-to-order products with quick service restaurant speed of service.

Bad Daddy's Burger Bar is an early entrant in the "small box" better burger casual dining segment. The menu contains chef-driven items with many made from scratch in our kitchens. Bad Daddy's resonates with consumers by consistently executing high-quality menu items with unique flavor profiles that are delivered in a personalized, high-energy environment with a slightly irreverent brand personality.

#### Our Brands Have a Common Culture and Operating Philosophy.

While each of our brands is led by separate operating teams, each shares a commitment to four elements of success:

**Values.** Each brand focuses on developing behaviors and expectations around our core values of Integrity, Respect, Continued Improvement, and Fun.

**People.** Each brand seeks to hire high quality people throughout and provide them with comprehensive training programs designed to ensure that they deliver consistently superior products and service. Each has an incentive program at the restaurant level based on balanced metrics that drive customer service, personnel development, and financial performance.

**Distinctive quality.** Each brand strives to offer unique, high quality menu items with distinctive taste profiles made with fresh, high quality ingredients.

**Excellent systems.** Each brand takes a "best practices" approach, cross-pollinating the best ideas that are applicable to either brand. We seek to provide the best operating systems and processes to ease the administrative burden of management, enabling them to focus on leading their team members and operating their restaurants. Our philosophy is that systems and processes drive financial success and leadership serves as an example and motivating force to our crew members who interact with our guests, driving sales and customer loyalty.

#### Our Brands Share a Similar Customer Demographic.



Due to the common strategic focus on a quality positioning, both Good Times and Bad Daddy's appeal to a slightly higher income, more upscale consumer demographic profile. However, there is little, if any, overlap between the brands in how consumers use them. Good Times is convenience-driven and operates in the quick-service restaurant segment with a \$7.00 per person average check, while Bad Daddy's provides a more destination-oriented, full-service dining occasion with a \$17+ per person average check.

#### Our Brands Have Growth Potential.

We believe both of our brands are well positioned to take advantage of consumers' growing demand for restaurants with fresh, high-quality, all-natural products that offer fully customizable menu choices. Consumers want to know where their food comes from, want to be able to customize menu items to fit their individual preference and dining occasions, and place a higher value on perceived healthiness and on brands they can trust to execute on those attributes. We believe Good Times and Bad Daddy's are both well positioned to capitalize on those macro-trends.

Both of our brands currently operate with relatively small market penetration and overall development footprints, providing significant expansion potential. As we further develop our markets, we expect to realize efficiencies in supervision and development and training of our employees, as well as economies of scale in our supply chain cost structure. It is our goal to grow concentrically from our existing operating bases in order to maximize brand awareness and operating and distribution efficiencies.

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Good Times and Bad Daddy's operate with a common point-of-purchase system and we have implemented a common back office system for both brands. We are also continuing to invest in sophisticated digital training tools, making each brand's restaurant level processes, systems, recipes and management tools available in one commonly accessible database.

### We Have Assembled a Dedicated Management Team with Significant Experience.

Our core Good Times management team has worked together for over 20 years developing its concept and systems. Immediately after signing our license agreement to operate Bad Daddy's restaurants in Colorado, we hired a team experienced in the management and development of full service concepts to guide the growth of that brand and have since added experienced multi-unit leaders from other full-service brands.

Each of our brands are operated under separately dedicated management teams utilizing shared support services in Administration, Finance, Accounting, Human Resources, Development, Marketing and Information Technology. We believe we have the processes and systems in place to support accelerated growth.

### We Have Significant Operating Momentum.

Same-store sales at Good Times have increased seven consecutive years. Our compound same-store sales growth rate was approximately 39% from fiscal 2013 to fiscal 2017. We believe this performance is largely the result of the evolution in our brand positioning, the re-imaging of several of our older restaurants, effective broadcast and social media marketing, and consistent execution of the customer experience. We plan to continue to re-image and remodel our remaining restaurants, innovate with new menu items in keeping with our brand strategy, and communicate our brand story to maintain our same-store sales growth.

The Bad Daddy's concept was started in 2007 in Charlotte, NC. Sales of the Bad Daddy's restaurants which were open for at least 18 months averaged \$2.5 million for the fifty-two weeks ended September 26, 2017.

We believe that the strength of the Bad Daddy's unit economic model provides us with significant expansion potential, both in our existing markets of North Carolina and Colorado and in new markets. We anticipate that most of our growth in the next two fiscal years will be in the Southeast and Midwest regions.

### Business Strategies

We are focused on continuing to improve the profitability of Drive Thru and developing additional Good Times restaurants in our home state of Colorado while developing the Bad Daddy's Burger Bar concept with company-owned restaurants in Colorado, Oklahoma and North Carolina in addition to other markets in the U.S. We believe that there are significant opportunities to develop new units, grow customer traffic and increase awareness of our brands. The following sets forth the key elements of our growth strategy:

1. Pursue disciplined growth of Company-operated Bad Daddy's Burger Bar restaurants. We own the Bad Daddy's Burger Bar brand, including all associated intellectual property. We have opened two new Bad Daddy's restaurants subsequent to September 26, 2017, one in Concord, North Carolina and one in Greenville, North Carolina, have additional restaurants under construction to open in fiscal 2018 and we are in various stages of lease negotiation for additional sites for development in 2018 and 2019. We have nine leases signed for new restaurants with openings in fiscal 2018 and 2019 in our core markets of Charlotte and Raleigh, North Carolina; the greater Atlanta, Georgia metropolitan area; Chattanooga and Nashville, Tennessee; and Greenville, South Carolina. We expect 9 openings in fiscal 2018, including the two that were opened during the first two weeks of fiscal 2018 and we plan to pursue additional sites for development in additional markets. We intend to follow a disciplined strategy of initially

developing restaurants in other metropolitan areas in the Southeast and Midwest regions and that meet our demographic, real estate and investment criteria in order to maximize management efficiencies, including multi-unit supervision, overall brand management, and product distribution.

We believe that the broad appeal of Bad Daddy's concept and the high-sales generated per square foot make it attractive to developers and provide us with the opportunity for continued expansion in other new markets across the country. We seek sites in upper middle income suburban areas in proximity to upscale retail developments, theaters and high levels of daytime employment.

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Improve operational efficiencies and expense management. We continue to focus on managing our expenses in the operation of our restaurants and in our general and administrative functions, with a particular focus on cost of sales, labor and operating expense controls and efficiencies while not damaging our overall quality and service proposition. Macroeconomic, state legislative increases to wages and other external factors have resulted in upward trends in these operating costs. We have implemented multiple programs to mitigate the impact of these external factors including optimization of our supply and distribution channels, labor productivity tools and a new accounting software platform in fiscal 2017 for improved access to data by our restaurant operations teams. We anticipate that general and administrative expenses will continue to decline as a percentage of revenues as we continue to grow and as we gain further efficiencies in supervision and support services costs.

Remodel/Refresh our Good Times restaurants. There are two levels to our remodel program that began in fiscal 2012: a refreshing of the restaurant exterior that includes painting, landscaping, new exterior finishes, new graphics and signage and upgraded patio accoutrements; and a larger scale remodeling of the restaurant that includes new dining room finishes and décor and the rebuilding of select locations. We have remodeled or refreshed seventeen company-owned restaurants and four franchised restaurants to date, and plan on refreshing or remodeling additional company-owned and franchised locations during fiscal 2018 and 2019. We anticipate that Good Times will generate sufficient cash flow from operations in fiscal 2018 to fund its refresh and remodel capital expenditures. The specific sales increases attributable to the remodel/refresh program are difficult to quantify due to the overall sales growth in all our restaurants. However, we believe that the refresh and remodel investment brings the restaurants up to our current brand standards, improves the appearance and street appeal of the restaurants, improves the overall customer experience and supports the brand's quality positioning.

Increase same-store sales in both brands. We intend to continue to focus on increasing our same-store sales. We plan to further strengthen our fresh, handcrafted, all-natural brand position at Good Times with menu innovation and quality improvements in each of our menu categories, such as our better burger process, West Coast Double Burger value proposition, expanded breakfast and kid's meal offerings, Smothered Fries, Summer Shakes, and all-natural Flavored Tenders. We will also continue our broadcast marketing program while expanding our social media activities to elevate our online consumer facing conversation around the attributes of our all-natural platform for each of our core products. We believe that the completion of the remodeling and reimagining of our Good Times restaurants will positively impact our same-store sales trends over time. We intend to increase Bad Daddy's same store sales through continual innovation in both ongoing menu engineering and chef-special temporary menu items that we believe drive increased customer visits as well as the per person average check. We also plan to promote our local, microbrew craft beer selections at each restaurant and increase our employees' knowledge of each beer's attributes and taste profile. Bad Daddy's marketing is targeted to individual trade areas, community involvement and "four-wall" marketing activities that focus on optimizing the guests' food, bar and service experience.

Expand the number of Good Times Burger & Frozen Custard locations. In evaluating the cost of real estate, the competitive environment and the cost of labor in new markets outside of Colorado for potential development of Good Times, we believe it is in our best interest to continue to develop Good Times in Colorado as sites become available and focus our new unit growth on Bad Daddy's in existing and new markets.

### Expansion strategy and site selection

#### Good Times Burgers & Frozen Custard

We believe that our highest return on investment opportunity in our Drive-Thru subsidiary is to focus our growth in Colorado for operating and marketing efficiencies off of our existing base of restaurants while building new restaurants within the Denver marketing area.

Any development of new Good Times restaurants will involve our new prototype restaurant design on sites that are on or adjacent to big box or grocery store anchored shopping centers or in high activity and employment areas. Our site selection for new restaurants is oriented toward slightly higher income demographic areas than many of our urban locations and most of our targeted trade areas are in relatively high growth areas of the Denver and northern Colorado markets.

We lease all of our sites. When we do purchase and develop a site, we intend to ultimately sell the developed site into the sale-leaseback market under a long-term lease. Our primary site objective is to secure a suitable site, with the decision to buy or lease as a secondary objective. Our site criteria includes a mix of substantial daily traffic, density of at least 30,000 people within a three-mile radius, strong daytime population and employment base, retail and entertainment traffic generators, good visibility and easy access.

#### Bad Daddy's Burger Bar

Our development of the Bad Daddy's Burger Bar concept in company-owned restaurants will focus on urban and suburban upper income demographic areas with median household incomes over \$60,000, with a high concentration of daytime employment, upscale retail and movie theaters. We believe the Bad Daddy's Burger Bar concept has expansion potential in vibrant, growing, upper scale demographic markets, as additional restaurants are developed.

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Bad Daddy's Burger Bar locations are primarily end-cap locations in new and existing shopping center developments using approximately 3,500 to 4,000 square feet. While our Good Times restaurants are free standing and require extensive site development and entitlement processes, Bad Daddy's Burger Bar restaurants can be developed much more quickly due to the requirement for only a building permit, signage approvals and liquor license without the need for extensive on- and off-site development or land and zoning submittals and modifications. We estimate that it will take approximately 90 to 120 days to develop a Bad Daddy's Burger Bar from the time a building permit is issued.

Restaurant locations: As of December 18, 2017, we operate or franchise a total of thirty-eight Good Times restaurants, of which thirty-six are in Colorado. Two of the restaurants are in Wyoming and are "dual brand" concept restaurants operated by a franchisee of both Good Times and Taco John's. Additionally, we operate, franchise or license a total of twenty-six Bad Daddy's Burger Bar locations, of which twelve are in Colorado, twelve are in North Carolina, one is in South Carolina and one is in Oklahoma. The location in the Charlotte Douglas International Airport is operated pursuant to a License Agreement.

## Company-Owned/Co-Developed/Joint Venture

	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Colorado	28	27	12	10	40
Oklahoma	0	0	1	0	1	0
North Carolina	0	0	11	7	11	7
Total:	28	27	24	17	52	44

## Franchise/License

	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Colorado	8	8	0	0	8
North Carolina	0	0	1	1	1	1
South Carolina	0	0	1	1	1	1
Tennessee	0	0	0	1	0	1
Wyoming	2	2	0	0	2	2
Total:	10	10	2	3	12	13

In March 2017, we opened a Good Times restaurant in Greeley, Colorado. We opened company-owned Bad Daddy's restaurants in Fayetteville, North Carolina (January 2017), Johnstown, Colorado (April 2017), Raleigh, North Carolina (May 2017), Arvada, Colorado (June 2017), Norman, Oklahoma (August 2017), Concord, North Carolina (October 2017) and Greenville, North Carolina (October 2017). In February 2017, one Bad Daddy's franchisee in Knoxville, Tennessee closed its operations.

## Menu

## Good Times Burgers &amp; Frozen Custard

The menu of a Good Times restaurant is limited to hamburgers, cheeseburgers, chicken sandwiches, french fries, onion rings, fresh lemonades, soft drinks and frozen custard products plus a breakfast menu consisting of breakfast burritos, breakfast sandwiches, orange juice and coffee and a kid's meal menu consisting of hamburgers, cheeseburgers, chicken tenders, mac n' cheese, mini corn dogs, french fries, and apple sauce. Each menu item is made to order at the time the customer places the order and is not pre-prepared.

Our hamburger patties are made with Meyer all-natural, all-Angus beef, served on a 4" bun. Hamburgers and cheeseburgers are garnished with fresh iceberg lettuce, fresh sliced sweet red onions, mayonnaise, guacamole and all-natural and proprietary sauces. The chicken products include 100% All-Natural tenderloins that are hand-breaded in each restaurant daily. Signature chicken products include the "Hand-Breaded Tenders," "Buffalo Chicken Tender," "Guacamole Bacon Chicken Tender," and a "Tuscan Chicken." Equipment has been automated and equipped with compensating computers to deliver a consistent product and minimize variability in operating systems.

All-natural Angus beef and chicken are raised without the use of any hormones, antibiotics or animal byproducts that are normally used in the open market. We believe that all-natural beef and chicken deliver a better tasting product and, because of the rigorous protocols and testing that are a part of the Meyer all-natural, all-Angus Beef and Springer Mountain Farms Chicken processes, may also minimize the risk of any food-borne bacteria-related illnesses.

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Fresh frozen custard is a premium ice cream (requiring in excess of 10% butterfat content and 1.4% egg yolks) with a proprietary vanilla blend that is prepared from highly specialized equipment that minimizes the amount of air that is added to the mix and that creates smaller ice crystals than other frozen dairy desserts. The custard is scooped similarly to hard-packed ice cream but is served at a slightly warmer temperature. The resulting product is smoother, creamier and thicker than typical soft serve or hard-packed ice cream products. We serve the frozen custard as vanilla and a flavor of the day in cups and cones, specialty sundaes and “Spoonbenders,” a mix of custard and toppings, and we anticipate it will continue to be a significant percentage of sales as we continue to develop and promote custard products.

The breakfast menu is centered around Hatch Valley Green Chile Burritos made with our own proprietary green chile recipe using Hatch Valley, New Mexico roasted green chiles, eggs, potatoes, and cheese offered with the choice of bacon, sausage or chorizo. We have expanded our breakfast menu to include a double egg breakfast sandwich, offered with bacon and cheddar or tomato and pesto, and served on an artisan bun. We also offer a premium coffee made by Daz Bog, a Colorado based coffee roaster, and pure 100% orange juice.

In early fiscal 2018, we introduced an expanded Kids Meal comprised of all-natural hamburgers and chicken tenders, mac ‘n cheese, mini corn dogs, french fries and apple sauce at an introductory price of \$3, which we anticipate will increase to \$3.99 in mid-2018.

### Bad Daddy’s Burger Bar

We take great pride in offering a menu at Bad Daddy’s Burger Bar consisting of high quality, handcrafted all-Angus beef burgers with unique toppings such as buttermilk country-fried bacon, housemade American cheese, scratch made pesto and our specialty Bad Daddy’s sauce. The customizable menu options also include artisanal cheeses, tuna, turkey, buffalo and chicken sandwiches. We also offer recipe or customizable chopped salads, a full gluten free menu and regional menu items that incorporate local flavors. We also offer appetizers, hand-cut fries, housemade potato chips, hand-spun ice cream milk shakes and desserts. We offer a variety of craft beers from local breweries and a full bar.

Signature recipes include the “Bad Ass Burger,” “Mama Ricotta’s Burger” and “Emilio’s Chicken Sandwich.” Chopped Salads include the “Texican Chicken Salad,” the “Stella’s Greek Salad” and create your own salad options. The craft beer and cocktail menus include local craft microbrews in each market. We’ve partnered with Full Sail Brewing Company for our own “Bad Daddy’s Amber Ale”. We offer a cocktail menu that uses fresh-squeezed housemade sours and fresh garnishes including the “Bad Ass Margarita”, “Bad Betty” and “Daddy’s Dragonberry.”

Bad Daddy’s Burger Bar strives to provide proprietary flavors and recipes available nowhere else with fresh, handcrafted quality throughout the menu, including rotating chef specials with flavor profiles unique to Bad Daddy’s.

### Marketing & Advertising

#### Good Times Burgers & Frozen Custard

Our marketing strategy for Good Times focuses on: 1) driving same store restaurant sales through attracting new customers and increasing the frequency of visits by current customers; 2) communicating specific product news and attributes to build strong points of difference from competitors; and 3) communicating a unique, strong and consistent brand personality.

Media is an important component of building our brand awareness and distinctiveness. We spent most of our broadcast advertising dollars on cable television media during fiscal 2016 and fiscal 2017. The Colorado market is an



expensive media market, so most of our advertising placement is not in prime time but in early and late fringe, prime access and late news time slots. We augment our cable television advertising with a social media presence that affords us a higher level of engagement with current customers and an increased level of product giveaways to support high sales opportunity products.

We plan to continue to be active in digital and social media in order to create more customer engagement with our brand and to target specific consumer segments. We anticipate leveraging our customer email database and website to create cost effective channels to target existing customers and increase their frequency.

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### Bad Daddy's Burger Bar

Our marketing strategy for Bad Daddy's Burger Bar focuses on iconic, in-store merchandising materials and local store marketing to the surrounding trade area around each restaurant, including public relations and community based events. The focus is not on market wide promotions or marketing but on the in-store customer experience, building word of mouth reputation and recommendations and local public relations based on the prior awards and recognitions received by Bad Daddy's. We utilize trade area specific direct mail materials, particularly in support of new restaurant openings, to drive trial and initial awareness as well as targeted social media marketing. We have developed an expanded menu of rotating chef specials featuring unique taste profiles and local ingredients for burgers, salads, sandwiches and appetizers, supported by trade area specific beer offerings and bar promotions.

### Operations

We maintain separate operating teams for each of our concepts and have extensive operating, training and quality control systems in place.

### Restaurant Management

Each Good Times restaurant employs a general manager, two to four assistant managers and approximately 15 to 25 employees, most of whom work part-time during three shifts. An eight to ten-week training program is utilized to train restaurant managers on all phases of the operation. Ongoing training is provided as necessary. We believe that incentive compensation of our restaurant managers is essential to the success of our business. Accordingly, in addition to a salary, managerial employees may be paid a bonus based upon proficiency in meeting financial, customer service and quality performance objectives tied to a monthly scorecard of measures. Most of our managers participate in a bonus plan based on their performance against their monthly financial, operating, customer and people development scorecard metrics.

Bad Daddy's Burger Bar was developed as a chef-driven concept and utilizes a team of four to six managers in our operations at each restaurant. Managers are trained in back of the house skills (prep, kitchen positions and line management), front of the house service positions (host, server and bar) and all management functions. As a full-service concept, the experience, qualifications and compensation differs from Good Times and we recruit and train a separate operating team for Bad Daddy's Burger Bar operations. Our managers participate in a bonus pool for each restaurant based on a percentage of controllable income. Bonuses are awarded based on achieving financial, customer satisfaction and people development goals and metrics.

### Operational and Management Systems and Processes

We have implemented highly effective operating systems and processes relative to those in the industry for both of our concepts. Detailed processes have been developed for hourly, daily, weekly and monthly responsibilities that drive consistency across our system of restaurants and performance against our standards within different day parts. We utilize a combination of industry-leading labor programs and proprietary algorithms to determine optimal staffing needs of each restaurant based on its actual customer flow and demand. We also employ several additional operational tools to continuously monitor and improve speed of service, food waste, food quality, sanitation, financial performance and employee development. The order system at each Good Times restaurant is equipped with an internal timing device that displays and records the time each order takes to prepare and deliver.

We use several sources of customer feedback to evaluate each restaurant's service and quality performance, including an extensive secret shopper program, telephone surveys, website comments and a customer feedback tool that aggregates all social media comments as well as store by store surveys each week for each restaurant. We believe that

information will assist us in evaluating opportunities for improved execution of the customer experience.

### Training

We strive to maintain quality and consistency in each of our restaurants for both Good Times and Bad Daddy's through the careful training and supervision of all our employees at all levels and the establishment of, and adherence to, high standards relating to personnel performance, food and beverage preparation and maintenance of our restaurants. Each manager must complete an eight to ten-week training program, be certified on several core processes and is then closely supervised to show both comprehension and capability before they are allowed to manage autonomously. All of our training and development is based upon a "train, test, certify, re-train" cycle around standards and operating processes at all levels. We have a defined weekly and monthly goal setting process around service, employee development, financial management and store maintenance goals for every restaurant. Additionally, we have a library of video training tools to drive training efficiencies and consistency at both brands.

Prior to opening a new restaurant, a training and opening team travels to the new restaurant location to prepare for an intensive training program for all team members hired for the new restaurant opening. Part of the training team remains on-site for a period after the opening of the restaurant while an additional team provides several weeks of support following opening.

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### Recruiting and Retention

We seek to hire experienced restaurant managers and operating partners. We support employees by offering competitive wages and benefits, including a 401(k) plan, medical insurance, and incentive plans at every level that are tied to performance against key goals and objectives. We motivate and prepare our employees by providing them with opportunities for increased responsibilities and advancement. We also provide various other incentives, including vacations, car allowances, monthly performance bonuses and monetary rewards for managers who develop future managers for our restaurants. We have implemented an online screening and hiring tool that has proven to reduce hourly employee turnover.

### Franchising

For Good Times, we have prepared form of area rights and franchise agreements and advertising material to be utilized in soliciting prospective franchisees. We have historically sought to attract franchisees that are experienced restaurant operators, are well capitalized and have demonstrated the ability to develop one to five restaurants. We review sites selected for franchises and monitor performance of franchise units. Currently, we are not actively soliciting new franchisees and anticipate any near-term growth occurring through the opportunistic development of additional company-owned Good Times restaurants.

We estimate that it will cost a Good Times franchisee on average approximately \$1,000,000 to \$1,300,000 to open a restaurant with dining room seating, including pre-opening costs and working capital, assuming the land is leased. A franchisee typically will pay a royalty of 4% of net sales, an advertising materials fee of at least 1.5% of net sales, plus participation in regional advertising up to an additional 4% of net sales, or a higher amount approved by the advertising cooperative, and initial development and franchise fees totaling \$25,000 per restaurant. Among the services and materials that we provide to franchisees are site selection assistance, plans and specifications for construction of the Good Times restaurants, an operating manual, which includes product specifications and quality control procedures, training, on-site opening supervision and advice from time to time relating to operation of the franchised restaurants.

After a Good Times franchise agreement is signed, we actively work with and monitor our franchisees to ensure successful franchise operations as well as compliance with our systems and procedures. During the development phase, we assist in the selection of sites and the development of prototype and building plans, including all required changes by local municipalities and developers. We provide an opening team of trainers to assist in the opening of the restaurant. We advise the franchisee on menu, management training and marketing. On an ongoing basis we conduct standards reviews of all franchise restaurants in key areas including product quality, service standards, restaurant cleanliness and sanitation and food safety.

We have entered into eight Good Times franchise agreements in the greater Denver metropolitan area and two dual-branded franchised restaurants operate in Gillette and Sheridan, Wyoming. In addition, seven joint-venture restaurants are operating in the Denver metropolitan area media market.

For Bad Daddy's Burger Bar, we have form of area rights and franchise agreements, and one existing franchise agreement signed. We anticipate that a franchisee will typically pay a royalty of 4% to 5% of net sales and will participate in an advertising fund and local advertising by contributing up to 2% of net sales. Initial development and franchise fees are projected to be \$35,000 per restaurant. We estimate that it will cost a Bad Daddy's Burger Bar franchisee \$590,000 to \$1,382,000 to open a 3,000 to 3,800 square foot restaurant in an in-line or end-cap retail center, based on our knowledge of the development costs of the existing Bad Daddy's Burger Bar restaurants. We currently have one franchise agreement for one restaurant in South Carolina and a license agreement for a location in the Charlotte Douglas International Airport. Currently, we are not actively soliciting new Bad Daddy's franchisees.

## Management Information Systems

The systems in our restaurants are designed in a manner to minimize the amount of time our managers spend on administrative tasks. We utilize up-to-date versions of a leading point-of-sale system in each of our company-owned restaurants that captures transaction-level data required to support information about sales, product mix, and average check. All product-level information, including pricing, is programmed into each restaurant system by staff at our home office.

We use a cloud-based back-office solution across both brands that collects sales, labor and cash data from the restaurant point-of-sale system in near real-time and is the primary source of capture for inventory and supply chain management information. This back-office solution directly interfaces with our primary financial accounting systems and provides all levels of management with relevant daily, weekly and monthly reports across substantially all store-level income and expense categories.

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### Food Preparation, Quality Control & Purchasing

We believe that we have excellent food quality standards relative to the industry. Our systems are designed to protect our food supply throughout the preparation process. We inspect specific qualified manufacturers and work together with those manufacturers to provide specifications and quality controls. Our operations management teams are trained in a comprehensive safety and sanitation course provided by the National Restaurant Association. Minimum cook temperature requirements and line checks throughout the day ensure the safety and quality of both burgers and other items we use in our restaurants.

We currently purchase 100% of the food and paper supplies for our Good Times restaurants and the majority of the food and paper supplies for our Colorado Bad Daddy's restaurants from Food Services of America. Outside of Colorado, our Bad Daddy's restaurants purchase the majority of our food and paper supplies from US Foods. In addition, we maintain multiple approved suppliers for all key components of our menu to mitigate risk and ensure supply. Suppliers are chosen based upon their ability to provide (i) a continuous supply of product that meets all safety and quality specifications, (ii) logistics expertise and freight management, (iii) product innovation and differentiation, (iv) customer service, (v) transparency of business relationships and (vi) competitive pricing. Specified products are distributed to all restaurants through Food Services of America or US Foods under negotiated contracts directly to our restaurants two to four times per week depending on restaurant requirements. We do not believe that the current reliance on these distributors will have any long-term material adverse effect since we believe that there are a sufficient number of other suppliers from which food and paper supplies could be purchased with little or no interruption in service. We do not anticipate any difficulty in continuing to obtain an adequate quantity of food and paper supplies of acceptable quality and at acceptable prices. We monitor the primary commodities we purchase and extend contract positions when applicable in order to minimize the impact of fluctuations in price and availability. However, certain commodities, primarily ground beef, remain subject to market price fluctuations.

### Employees

At September 26, 2017, we had approximately 1,970 employees of which 1,690 are hourly employees and 280 are salaried employees working full time. We consider our employee relations to be good. None of our employees are covered by a collective bargaining agreement.

### Competition

The restaurant industry, including the quick service segment, is highly competitive. Good Times competes with a large number of other hamburger-oriented quick service restaurants in the areas in which it operates. Many of these restaurants are owned and operated by regional and national restaurant chains, many of which have greater financial resources and experience than we do. Restaurant companies that currently compete with Good Times in the Denver market include McDonald's, Burger King, Wendy's, Carl's Jr., Sonic, Jack in the Box and Freddy's. Double drive-through restaurant chains such as Rally's Hamburgers and Checker's Drive-In Restaurants, which currently operate a total of over 850 double drive-through restaurants in various markets in the United States, are not currently operating in Colorado. Culver's and Freddy's are the only significant competitors offering frozen custard as a primary menu item operating in the Denver and Colorado Springs markets and both have a significant presence in Midwestern markets that may be targeted for expansion. Additional "fast casual" hamburger restaurants are being developed in the Colorado market, such as Smashburger and Five Guys; however, they do not have drive-through service and generate an average per person check that is approximately 50% higher than the average check at a Good Times restaurant.

We believe that Good Times may have a competitive advantage in terms of quality of product compared to traditional quick service hamburger chains. Early development of our double drive-through concept in Colorado has given us an

advantage over other double drive-through chains that may seek to expand into Colorado because of our brand awareness and present restaurant locations. Nevertheless, we may be at a competitive disadvantage to other restaurant chains with greater name recognition and marketing capability. Furthermore, most of our competitors in the fast-food business operate more restaurants, have been established longer, and have greater financial resources and name recognition than we do. There is also active competition for management personnel, as well as for attractive commercial real estate sites suitable for restaurants.

Bad Daddy's Burger Bar competes with both local and national grill and bar concepts and gourmet, "better burger" concepts. As the concept is expanded, Bad Daddy's Burger Bar will compete against concepts such as Red Robin, Chili's, Burger Lounge, The Counter, and Bobby's Burger Palace. There are other burger-centric fast casual concepts such as Five Guys Burgers & Fries and Smashburger that operate at a lower average customer check than Bad Daddy's Burger Bar and others such as Zinburger, Bare Burger and Five Napkin Burger that operate with a higher average customer check. We believe that Bad Daddy's Burger Bar has an advantage in the handcrafted quality of our food, distinctiveness of its atmosphere and uniqueness of its menu offerings. Nevertheless, Bad Daddy's Burger Bar may be at a competitive disadvantage to other restaurant chains with greater name recognition.

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### Intellectual Property

We have registered our mark “Good Times” federally. We received approval of our federal registration of “Good Times” in 2003. In addition, we own trademarks or service marks that have been registered, or for which applications are pending, with the United States Patent and Trademark Office including but not limited to: “Big Daddy Bacon Cheeseburger,” “Chicken Dunkers,” “Happiness Made To Order,” “Mighty Deluxe.” Our trademarks expire between 2018 and 2025.

We have registered the mark “Bad Daddy’s Burger Bar” with the United States Patent and Trademark Office.

### Government Regulation

Each of our restaurants is subject to the regulations of various health, sanitation, safety and fire agencies in the jurisdiction in which the restaurant is located. Difficulties or failures in obtaining the required licenses or approvals could delay or prevent the opening of a new restaurant. Federal and state environmental regulations have not had a material effect on our operations. More stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations. We are subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime, and other working conditions. In addition, we are subject to the Americans with Disabilities Act, which requires restaurants and other facilities open to the public to provide for access and use of facilities by the handicapped. Management believes that we are in compliance with the Americans with Disabilities Act. Beginning in 2015, we became subject to the Affordable Care Act which requires us to have the required health insurance benefits for eligible employees.

We are also subject to federal and state laws regulating franchise operations, which vary from registration and disclosure requirements in the offer and sale of franchises to the application of statutory standards regulating franchise relationships. Many state franchise laws impose restrictions on the franchise agreements, including limitations on non-competition provisions and the termination or non-renewal of a franchise. Some states require that franchise materials be registered before franchises can be offered or sold in that state.

In addition, each Bad Daddy’s Burger Bar restaurant requires a liquor license and adherence to the attendant laws and requirements regulating the serving and consumption of alcohol. Alcoholic beverage control regulations govern various aspects of these restaurants’ daily operations, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing and inventory control, handling and storage. Typically, licenses to sell alcoholic beverages will require annual renewal and may be suspended or revoked at any time for cause, the definition of which varies by locality.

### Segment Reporting

We operate as two reportable business segments: Good Times Burgers and Frozen Custard restaurants and Bad Daddy’s Burger Bar restaurants. Refer to note 9, Segment Reporting, in the notes to our consolidated financial statements for more information.

### Available Information

Our Internet website address is [www.goodtimesburgers.com](http://www.goodtimesburgers.com). We make available free of charge through our website’s investor relations information section our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed with or furnished to the SEC under applicable securities laws as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.



Our website information is not part of or incorporated by reference into this Annual Report on Form 10-K.

#### Special Note About Forward-Looking Statements

This Form 10-K may include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and such statements are subject to the safe harbors created thereby. A forward-looking statement is neither a prediction nor a guarantee of future events. We try, whenever possible, to identify these forward-looking statements by using words such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "plan," "project," "may," "will," "would," and similar expressions. Certain forward-looking statements are included in this Form 10-K, principally in the sections captioned "Business," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements are related to, among other things:

- business objectives and strategic plans;
- operating strategies;

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- our ability to open and operate additional restaurants profitably and the timing of such openings;
- restaurant and franchise acquisitions;
- anticipated price increases;
- expected future revenues and earnings, comparable and non-comparable restaurant sales, results of operations, and future restaurant growth (both company-owned and franchised);
- estimated costs of opening and operating new restaurants, including general and administrative, marketing, franchise development and restaurant operating costs;
- anticipated selling, general and administrative expenses and restaurant operating costs, including commodity prices, labor and energy costs;
- future capital expenditures;
- our expectation that we will have adequate cash from operations and credit facility borrowings to meet all future debt service, capital expenditure and working capital requirements in fiscal year 2018;
- the sufficiency of the supply of commodities and labor pool to carry on our business;
- success of advertising and marketing activities;
- the absence of any material adverse impact arising out of any current litigation in which we are involved;
- impact of the adoption of new accounting standards and our financial and accounting systems and analysis programs;
- expectations regarding competition and our competitive advantages;
- impact of our trademarks, service marks, and other proprietary rights; and
- effectiveness of our internal control over financial reporting.

Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, such expectations may prove to be materially incorrect due to known and unknown risks and uncertainties.

In some cases, information regarding certain important factors that could cause actual results to differ materially from any forward-looking statements appears together with such statement. In addition, the factors described under Critical Accounting Policies and Estimates in Part II, Item 7, and Risk Factors in Part I, Item 1A, as well as other possible factors not listed, could cause actual results to differ materially from those expressed in forward-looking statements, including, without limitation, the following: concentration of restaurants in certain markets and lack of market awareness in new markets; changes in disposable income; consumer spending trends and habits; increased competition in the quick service restaurant market; costs and availability of food and beverage inventory; our ability to attract qualified managers, employees, and franchisees; changes in the availability of capital or credit facility borrowings; costs and other effects of legal claims by employees, franchisees, customers, vendors, stockholders and others, including settlement of those claims; effectiveness of management strategies and decisions; weather conditions and related events in regions where our restaurants are operated; and changes in accounting standards, policies and

practices or related interpretations by auditors or regulatory entities.

All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

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ITEM 1A. RISK FACTORS

You should consider carefully the following risk factors before making an investment decision with respect to our securities. You are cautioned that the risk factors discussed below are not exhaustive.

Risk Related to the Company

We have accumulated losses and expect losses in the future.

We have incurred losses in 26 of our 30 years since inception. As of September 26, 2017, we had an accumulated deficit of \$24,380,000. We expect to have a loss for the fiscal year ending September 25, 2018.

If we are unable to continue to increase same store sales at existing restaurants, our ability to attain profitability may be adversely affected.

We have increased same-store sales for the past seven consecutive years at Good Times. Additional same-store sales increases will depend in part on the success of our advertising and promotion of new and existing menu items and consumer acceptance. We cannot assure that our advertising and promotional efforts will in fact be successful. If our same-store sales decrease, and our other operating costs increase, our ability to attain profitability will be adversely affected.

New restaurants, when and if opened, may not be profitable, if at all, for several months.

We anticipate that our new restaurants, when and if opened, will generally take several months to reach normalized operating levels due to inefficiencies typically associated with new restaurants, including lack of market awareness, the need to hire and train a sufficient number of employees, operating costs which are often materially greater during the first several months of operation than thereafter, preopening costs and other factors. In addition, restaurants opened in new markets may open at lower average weekly sales volumes than restaurants opened in existing markets, and may have higher restaurant level operating expense ratios than in existing markets. Sales at restaurants opened in new markets may take longer to reach average annual company-owned restaurant sales, if at all, thereby affecting the profitability of these restaurants.

Our operations are susceptible to the cost of and changes in food availability which could adversely affect our operating results.

Our profitability depends in part on our ability to anticipate and react to changes in food costs. Various factors beyond our control, including adverse weather conditions, governmental regulation, production, availability, recalls of food products and seasonality may affect our food costs or cause a disruption in our supply chain. We enter into annual contracts with our chicken and other miscellaneous suppliers. Our contracts for chicken are fixed price contracts. Our contracts for beef are generally based on current market prices plus a processing fee. Changes in the price or availability of our all-natural chicken or beef supply or other commodities could materially adversely affect our profitability. We cannot predict whether we will be able to anticipate and react to changing food costs by adjusting our purchasing practices and menu prices, and a failure to do so could adversely affect our operating results. In addition, we may not be able to pass along higher costs through price increases to our customers.

Macroeconomic conditions could affect our operating results.

If the economy experiences an economic downturn or there are uncertainties regarding economic recovery, consumer spending and the unemployment rate may be affected, which may adversely affect our sales in the future. A

proliferation of heavy discounting by our major competitors may also negatively affect our sales and operating results.

Price increases may impact customer visits.

We may make price increases on selected menu items in order to offset increased operating expenses we believe will be recurring. Although we have not experienced significant consumer resistance to our past price increases, future price increases may deter customers from visiting our restaurants or affect their purchasing decisions.

The hamburger restaurant market is highly competitive.

The hamburger restaurant market is highly competitive. Our competitors in the quick service restaurant segment include many recognized national and regional fast-food hamburger restaurant chains, such as McDonald's, Burger King, Wendy's, Carl's Jr., Sonic, Jack in the Box, Freddy's and Culver's. In-N-Out recently announced plans to expand into the state of Colorado, the primary state in which we operate. We also compete with small regional and local hamburger and other fast-food restaurants, many of which feature drive-through service. Most of our competitors have greater financial resources, marketing programs and name recognition than we do. Discounting by our quick service restaurant competitors may adversely affect the revenues and profitability of our restaurants.

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While Bad Daddy's Burger Bar operates in the "better burger" restaurant segment, it offers a relatively broad menu and competes with other full-service restaurants such as Chili's, Red Robin and other local and regional full-service restaurants. Additionally, customers of both our Good Times restaurants and Bad Daddy's Burger Bar restaurants are also customers of fast casual hamburger restaurants such as Five Guys Burgers & Fries and Smashburger. Further, changes in customer taste preferences, dietary trends, and preference for delivery and/or carry-out options often affect the restaurant business. If we are unable to continue to compete effectively with other restaurant concepts, our traffic, sales, and restaurant-level profitability could be negatively affected.

Sites for new restaurants may be difficult to acquire.

Locating our restaurants in high-traffic and readily accessible areas is an important factor for our success. Our Good Times drive-through restaurants require sites with specific characteristics and there are a limited number of suitable sites available in our geographic markets. We intend to continue to locate Bad Daddy's Burger Bar restaurants in leased in-line and end-cap retail locations in contrast to freestanding locations for Good Times locations. Since suitable locations are in great demand, in the future we may not be able to obtain optimal sites for either of our restaurant concepts at a reasonable cost. In addition, we cannot assure you that the sites we do obtain will be successful.

If our franchisees cannot develop or finance new restaurants, build them on suitable sites or open them on schedule, our growth and success may be impeded.

Franchisees may not be able to negotiate acceptable lease or purchase terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. From time to time in the past, we have agreed to extend or modify development schedules and we may do so in the future. Any of these problems could slow our growth and reduce our franchise revenues. Additionally, our franchisees depend upon financing from banks and other financial institutions in order to construct and open new restaurants. Difficulty in obtaining adequate financing adversely affects the number and rate of new restaurant openings by our franchisees and adversely affects our future franchise revenues. We do not presently have any franchised restaurants under development.

Our franchisees could take actions that could harm our business.

Franchisees are independent contractors and are not our employees. We provide training and support to franchisees; however, franchisees operate their restaurants as independent businesses. Consequently, the quality of franchised restaurant operations may be diminished by any number of factors beyond our control. Moreover, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other restaurant personnel. Our image and reputation, and the image and reputation of other franchisees, may suffer materially, and system-wide sales could significantly decline, if our franchisees do not operate successfully.

We depend on key management employees.

We believe our current operations and future success depend largely on the continued services of our management employees, in particular Boyd Hoback, our President and Chief Executive Officer; Ryan Zink, our Chief Financial Officer; Susan M. Knutson, our Controller and Corporate Secretary; and Scott LeFever, our Vice President of Operations for Good Times Drive-Thru Inc. Although we have entered into employment agreements with Messrs. Hoback, Zink and LeFever and Ms. Knutson, they may voluntarily terminate their employment with us at any time. In addition, we do not currently maintain key-person insurance on Messrs. Hoback's, Zink, LeFever or Ms. Knutson's, life. The loss of Messrs. Hoback's, Zink's, LeFever's and Ms. Knutson's services, or other key management personnel, could have a material adverse effect on our financial condition and results of operations.

Labor shortages could slow our growth or harm our business.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified, high-energy employees. Qualified individuals needed to fill these positions are in short supply in some areas. The inability to recruit and retain these individuals may delay the planned openings of new restaurants or result in high employee turnover in existing restaurants, which could harm our business. Additionally, competition for qualified employees could require us to pay higher wages to attract sufficient employees, which could result in higher labor costs. Most of our employees are paid market wages on an hourly basis that are influenced by applicable minimum wage regulations. Accordingly, any increase in the minimum wage, whether state or federal, could have a material adverse impact on our business.

We are subject to extensive government regulation that may adversely hinder or impact our ability to govern various aspects of our business including our ability to expand and develop our restaurants.

The restaurant industry is subject to various federal, state and local government regulations, including those relating to the sale of food. Our failure to maintain necessary governmental licenses, permits and approvals, including food licenses, could adversely affect our operating results. Difficulties or failures in obtaining the required licenses and approvals could delay, or result in our decision to cancel, the opening of new restaurants. Local authorities may suspend or deny renewal of our food licenses if they determine that our conduct does not meet applicable standards or if there are changes in regulations.

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Various federal and state labor laws govern our relationship with our employees and affect operating costs. These laws govern minimum wage requirements, overtime pay, meal and rest breaks, unemployment tax rates, workers' compensation rates, citizenship or residency requirements, child labor regulations and sales taxes. Additional government-imposed increases in minimum wages, overtime pay, paid leaves of absence and mandated health benefits may increase our operating costs. Several states, including Colorado where most of our restaurants are located, have recently increased their respective minimum wage and additional states may raise their respective minimum wage in the future. This could impact the profitability of existing restaurants as well as impact development opportunities in those states.

The federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. Although our restaurants are designed to be accessible to the disabled, we could be required to make modifications to our restaurants to provide service to, or make reasonable accommodations for, disabled persons.

We are also subject to federal and state laws that regulate the offer and sale of franchises and aspects of the licensor-licensee relationship. Many state franchise laws impose restrictions on the franchise agreement, including limitations on non-competition provisions and the termination or non-renewal of a franchise. Some states require that franchise materials be registered before franchises can be offered or sold in the state.

Our Bad Daddy's Burger Bar restaurants are also subject to state and local laws that regulate the sale of alcoholic beverages. Alcoholic beverage control regulations govern various aspects of these restaurants' daily operations, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing and inventory control, handling and storage. Typically, licenses to sell alcoholic beverages require annual renewal and may be suspended or revoked at any time for cause, the definition of which varies by locality. The failure of any of our Bad Daddy's Burger Bar restaurants to timely obtain and maintain any required licenses, permits or approvals to serve alcoholic beverages could delay or prevent the opening of a new restaurant or prevent regular day-to-day operations, including the sale of alcoholic beverages, at a restaurant that is already operating, any of which would adversely affect our business.

Health concerns relating to the consumption of beef, chicken or other food products could affect consumer preferences and could negatively impact our results of operations.

Like other restaurant chains, consumer preferences could be affected by health concerns about the avian influenza, also known as bird flu, or the consumption of beef, the key ingredient in many of our menu items, or negative publicity concerning food quality, illness and injury generally, such as negative publicity concerning E. coli, "mad cow" or "foot-and-mouth" disease, publication of government or industry findings concerning food products served by us, or other health concerns or operating issues stemming from one restaurant or a limited number of restaurants. This negative publicity may adversely affect demand for our food and could result in a decrease in customer traffic to our restaurants. If we react to the negative publicity by changing our concept or our menu we may lose customers who do not prefer the new concept or menu, and we may not be able to attract a sufficient new customer base to produce the revenue needed to make our restaurants profitable. In addition, we may have different or additional competitors for our intended customers as a result of a concept change and may not be able to compete successfully against those competitors. A decrease in customer traffic to our restaurants as a result of these health concerns or negative publicity or as a result of a change in our menu or concept could materially harm our business.

Our ability to succeed with the Bad Daddy's Burger Bar restaurant concept will require significant capital expenditures and management attention.



We believe that new openings of Bad Daddy's Burger Bar restaurants are likely to serve as a contributor of our new unit growth and increased profitability over the longer term based on the unit economics of that concept. Our ability to succeed with this new concept will require significant capital expenditures and management attention and is subject to certain risks in addition to those of opening a new Good Times restaurant, including customer acceptance of and competition with the Bad Daddy's Burger Bar concept. If the "ramp-up" period for new Bad Daddy's Burger Bar restaurants does not meet our expectations, our operating results may be adversely affected. There can be no assurance that we will be able to successfully develop and grow the Bad Daddy's Burger Bar concept to a point where it will become profitable or generate positive cash flow. We may not be able to attract enough customers to meet targeted levels of performance at new Bad Daddy's Burger Bar restaurants because potential customers may be unfamiliar with the concept or the atmosphere or menu might not be appealing to them. If we cannot successfully execute our growth strategies for Bad Daddy's Burger Bar, our business and results of operations may be adversely affected.

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Our growth, including the development of Bad Daddy’s Burger Bar restaurants, may strain our management and infrastructure.

In addition to new openings of Bad Daddy’s Burger Bar restaurants, we also plan to remodel and reimage existing Good Times restaurants. In addition, we believe there may be opportunities to open or franchise new Good Times restaurants from time to time. This growth will increase our operating complexity and place increased demands on our management and infrastructure, including our current restaurant management systems, financial and management controls, and information systems. If our infrastructure is insufficient to support our growth, our ability to open new restaurants, including the development of the Bad Daddy’s Burger Bar concept, would be adversely affected.

Bad Daddy’s Burger Bar is subject to all of the risks of a relatively new business, including competition, and there is no guarantee of a return on our capital investment.

The Bad Daddy’s Burger Bar concept has been in existence for approximately ten years. Existing restaurants are currently located in Colorado, Oklahoma, North Carolina and South Carolina. Because of the small number of existing Bad Daddy’s Burger Bar restaurants and the relatively short period of time that they have been in operation, there is substantial uncertainty that additional restaurants in other locations will be successful. There is no guarantee that we will be successful in offering Bad Daddy’s Burger Bar franchises throughout the U.S. or that, if and when such franchises are granted, the restaurants developed by franchisees will be successful. There is also substantial uncertainty that the franchising business will be successful in view of the facts that we have sold only two Bad Daddy’s Burger Bar restaurant franchises to date and that the restaurant franchising business is very competitive.

We do not have a proven track record of operating in the “small box” better burger casual dining segment.

We have historically operated in the quick service restaurant segment, while BDBB operates in the “small box” better burger casual dining segment. We have operated a limited number of Bad Daddy’s Burger Bar restaurants since February 2014 and thus do not have a proven track record of operating in the “small box” better burger casual dining. Realizing the contemplated benefits from expanding into a new segment of casual dining may take significant time and resources and may depend upon our ability to successfully develop familiarity in the “small box” better burger casual dining segment.

## Risks Related to the Ownership of Our Common Stock

Our principal stockholders have significant voting power and may take actions that may not be in the best interests of our other stockholders.

Delta Partners, LP, REIT Redux, LP, and Manatuk Hill Partners, LLC together beneficially own approximately 30% of our outstanding common stock. This concentration of ownership and voting power may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock, and therefore may not be in the best interests of our other stockholders.

Our business could be negatively affected as a result of significant stockholders or potential stockholders attempting to effect changes or acquire control over our company, which could cause us to incur significant expense, hinder execution of our business strategy and impact the trading value of our securities.

Stockholders may from time to time attempt to effect changes, engage in proxy solicitations or advance stockholder proposals. For instance, on November 16, 2017, we received a notice from Delta Partners, LP and REIT Redux LP nominating seven persons for election to our board of directors at our 2018 annual meeting of shareholders, consisting of four persons currently on the board of directors (two of whom are affiliated with Delta Partners and/or REIT

Redux) and three additional persons who are not currently members of the board of directors. Responding to proxy contests and other actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of our board of directors and senior management from the pursuit of business strategies. Any of these impacts could materially and adversely affect our business and operating results. Further, the market price of our common stock could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties described above.

Future changes in financial accounting standards may cause adverse unexpected operating results and affect our reported results of operations.

Changes in accounting standards can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. See Note 1 to our Consolidated Financial Statements for further discussion. New pronouncements and varying interpretations of pronouncements have occurred and may occur in the future. Changes to existing rules or differing interpretations with respect to our current practices may adversely affect our reported financial results.

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Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Keeping abreast of, and in compliance with, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and The NASDAQ Market rules, has required an increased amount of management attention and expense. We remain committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest all reasonably necessary resources to comply with evolving standards, and this investment has resulted in and will continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

If our internal controls are not adequate, we may discover errors in our financial and other reporting that will require significant resources to remedy and could subject us to additional fines.

Public companies in the United States are required to review their internal controls as set forth in the Sarbanes-Oxley Act of 2002. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions, regardless of how remote. If the internal controls put in place by us are not adequate or in conformity with the requirements of the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated by the Securities and Exchange Commission (“SEC”), we may be forced to restate our financial statements and take other actions which will take significant financial and managerial resources, as well as be subject to fines and other government enforcement actions.

Because we currently qualify as a “smaller reporting company,” our non-financial and financial information are less than is required by non-smaller reporting companies.

Currently we qualify as a “smaller reporting company.” The “smaller reporting company” category includes companies that 1) have a common equity public float of less than \$75 million or 2) are unable to calculate their public float and have annual revenue of \$50 million or less, upon entering the system. A smaller reporting company prepares and files SEC reports and registration statements using the same forms as other SEC reporting companies, though the information required to be disclosed may differ and be less comprehensive. Regulation S-X contains the SEC requirements for financial statements, while Regulation S-K contains the non-financial disclosure requirements.

To locate the scaled disclosure requirements, smaller reporting companies will refer to the special paragraphs labeled “smaller reporting companies” in Regulation S-K. As an example only, smaller reporting companies are not required to make risk factor disclosure in Item 1A of Form 10-K. Other disclosure required by non-smaller reporting companies can be omitted in Form 10-K and Form 10-Q by smaller reporting companies.

The price of our common stock may fluctuate significantly.

The trading price of our shares of common stock has from time-to-time fluctuated widely and in the future may be subject to similar fluctuations. This volatility may affect the price at which you could sell your common stock. The market price of our common stock is likely to continue to be volatile and may fluctuate significantly in response to many factors, including:

- operating results that vary from the expectations of management, securities analysts and investors;

- developments in our business;
- the operating and securities price performance of companies that investors consider to be comparable to us;
- announcements of implementation of strategic transactions or developments and other material events by us or our competitors;
- negative economic conditions that adversely affect the economy, commodity prices, the job market and other factors that may affect the markets in which we operate;
- publication of research reports about us or the sectors in which we operate generally;
- changes in market valuations of similar companies;
- additions or departures of key management personnel;
- actions by institutional shareholders;

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- speculation in the press or investment community; and
- the realization of any of the other risk factors included in this Annual Report on Form 10-K.

Holders of our common stock will be subject to the risk of volatile and depressed market prices of our common stock. In addition, many of the factors listed above are beyond our control. These factors may cause the market price of our common stock to decline, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure investors in our common stock that the market price of our common stock will not fall in the future.

Sales of a substantial number of shares of our common stock in the public market by our existing shareholders could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise adequate capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

There may be future sales or other dilution of our equity, which may adversely affect the market price of the shares of our common stock and/or dilute the value of shares of our common stock.

We are not restricted from issuing, and stockholder approval is not required in order to issue, additional shares of common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, shares of common stock, except any stockholder approval required by The NASDAQ Capital Markets. We have in the past, and may in the future, sell such equity and equity-linked securities. Sales of a substantial number of shares of our common stock or other equity-related securities in the public market could depress the market price of our shares of common stock. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our shares of common stock. The market price of our common stock may be adversely affected if we issue additional shares of our common stock.

You may not receive dividends on the shares of our common stock.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We have no plans to pay cash dividends on our common stock in the foreseeable future.

Provisions in our articles of incorporation and bylaws and provisions of Nevada law may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

We are subject to anti-takeover laws for Nevada corporations. These anti-takeover laws prevent a Nevada corporation from engaging in a business combination with any stockholder, including all affiliates and associates of the stockholder, who is the beneficial owner of 10% or more of the corporation's outstanding voting stock, for two years following the date that the stockholder first became the beneficial owner of 10% or more of the corporation's voting stock, unless specified conditions are met. If those conditions are not met, then after the expiration of the two-year period the corporation may not engage in a business combination with such stockholder unless certain other conditions are met.

Our articles of incorporation and our bylaws contain a number of provisions that may deter or impede takeovers or changes of control or management. These provisions:

authorize our board of directors to establish one or more series of preferred stock the terms of which can be determined by the board of directors at the time of issuance;

do not allow for cumulative voting in the election of directors unless required by applicable law. Under cumulative voting a minority stockholder holding a sufficient percentage of a class of shares may be able to ensure the election of one or more directors;

state that special meetings of our stockholders may be called only by the chairman of the board of directors, the president or any two directors and must be called by the president upon the written request of the holders of 25% of the outstanding shares of capital stock entitled to vote at such special meeting; and

provide that the authorized number of directors is no more than seven, as determined by our board of directors.

These provisions, alone or in combination with each other, may discourage transactions involving actual or potential changes of control, including transactions that otherwise could involve payment of a premium over prevailing market prices to stockholders for their common stock.

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We may issue debt and equity securities or securities convertible into equity securities, any of which may be senior to our common stock as to distributions and liquidation.

In the future, we may issue debt or equity securities or securities convertible into or exchangeable for equity securities, or we may enter into debt-like financing that is unsecured or secured by any or all of our properties. Such securities may be senior to our common stock with respect to distributions. In addition, in the event of our liquidation, our lenders and holders of our debt and preferred securities would receive distributions of our available assets before distributions to the holders of our common stock.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

We currently lease approximately 8,568 square feet of space for our executive offices in Lakewood, Colorado for approximately \$190,000 per year under a lease agreement which expires in February 2020. Most of our existing Good Times restaurants are a combination of free-standing structures containing approximately 880 to 1,000 square feet for the double drive thru format and approximately 2,100 to 2,400 square feet for our prototype building with a 45 to 70 seat dining room. With the exception of our Good Times restaurant in Brighton, CO, we do not own any of the land underlying these restaurants and either lease the land or the land and building. Subsequent to the end of fiscal 2017 we closed on a sale lease-back transaction of the land and building associated with the Brighton, CO Good Times restaurant. These assets are listed as assets held for sale as of September 26, 2017 on the Consolidated Balance Sheets accompanying this report. In addition, we have several restaurants that are conversions from other concepts in various sizes ranging from 1,700 square feet to 3,500 square feet. The buildings are situated on lots of approximately 18,000 to 50,000 square feet. Certain restaurants serve as collateral for the underlying debt financing arrangements as discussed in the Notes to Consolidated Financial Statements included in this report. We intend to acquire new sites both through ground leases and purchase agreements supported by mortgage and leasehold financing arrangements and through sale-leaseback agreements.

Our Bad Daddy's restaurants are leased spaces of approximately 3,000 to 4,000 square feet in retail developments located in Colorado, Oklahoma, North Carolina and South Carolina. We intend to lease additional in-line and end-cap spaces in retail developments for new Bad Daddy's locations.

All of the restaurants are regularly maintained by our repair and maintenance staff as well as by outside contractors, when necessary. We believe that all of our properties are in good condition and that there will be a need for periodic capital expenditures to maintain the operational and aesthetic integrity of our properties for the foreseeable future, including recurring maintenance and periodic capital improvements. All of our properties are covered up to replacement cost under our property and casualty insurance policies and in the opinion of management are adequately covered by insurance.

### ITEM 3. LEGAL PROCEEDINGS

We are not involved in any material legal proceedings. We are subject, from time to time, to various lawsuits in the normal course of business. These lawsuits are not expected to have a material impact.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.





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## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES.

Shares of our Common Stock are listed for trading on the NASDAQ Capital Market under the symbol "GTIM". The following table presents the quarterly high and low bid prices for our Common Stock as reported by the NASDAQ Capital Market for each quarter within the last two fiscal years. The quotations reflect interdealer prices, without retail mark-ups, mark-downs or commissions and may not represent actual transactions.

	2016		2017		
QUARTER ENDED	HIGH	LOW	QUARTER ENDED	HIGH	LOW
December 31, 2015	\$7.11	\$3.90	December 27, 2016	\$3.49	\$3.00
March 31, 2016	\$5.28	\$2.92	March 28, 2017	\$3.60	\$2.80
June 30, 2016	\$4.23	\$2.75	June 27, 2017	\$3.78	\$3.00
September 27, 2016	\$4.48	\$3.33	September 26, 2017	\$3.65	\$2.50

As of December 18, 2017, there were approximately 123 holders of record of our common stock. However, management estimates that there are not fewer than 2,244 beneficial owners of our common stock.

**Dividend Policy:** We have never paid dividends on our common stock and do not anticipate paying dividends in the foreseeable future. In addition, we have obtained financing under loan agreements that restrict the payment of dividends. Our ability to pay future dividends will necessarily depend on our earnings and financial condition. However, since restaurant development is capital intensive, we currently intend to retain any earnings for that purpose.

## Securities Authorized for Issuance Under Equity Compensation Plans

The information included under Item 12 of Part III of this Annual Report is hereby incorporated by reference into this Item 5 of Part II of this Annual Report.

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

None.

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## ITEM 6. SELECTED FINANCIAL DATA

The selected financial data on the following pages are derived from our historical financial statements and is qualified in its entirety by such financial statements which are included in Item 8 hereof.

The following presents certain historical financial information. This financial information includes the combined operations of the Company and its subsidiaries for the fiscal years ended September 30, 2013 to September 26, 2017. Certain prior year balances have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the net loss. Due to the acquisition of BDI on May 7, 2015, fiscal years 2017, 2016 and 2015 may not be comparable to the other fiscal years presented.

	Fiscal Years				
	(in thousands)				
Operating Data:	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Restaurant sales	\$78,395	\$63,716	\$43,517	\$27,368	\$22,523
Franchise fees and royalties	685	723	540	375	369
Total net revenues	79,080	64,439	44,057	27,743	22,892
Restaurant operating costs					
Food and packaging costs	24,900	20,236	14,567	9,273	7,655
Payroll and other employee benefit costs	28,274	22,098	14,387	8,915	7,809
Occupancy and other operating costs	12,843	10,577	7,179	4,599	4,345
New store pre-opening costs	2,588	1,695	784	669	99
Depreciation and amortization	2,897	2,222	1,246	636	719
Total restaurant operating costs	71,502	56,828	38,163	24,092	20,627
Selling, general & administrative costs	8,696	7,828	5,365	3,790	2,608
Acquisition costs	-	-	648	-	-
Franchise costs	108	108	111	96	67
Asset impairment costs	219	-	-	-	-
Loss (gain) on restaurant assets	(23 )	(25 )	9	(16 )	(18 )
Loss from operations	\$(1,422 )	\$(300 )	\$(239 )	\$(219 )	\$(392 )
Other income and (expenses)					
Other income (expense)	(1 )	(1 )	(7 )	(10 )	(6 )
Affiliate investment loss	-	-	(5 )	(146 )	(102 )
Debt extinguishment costs	-	(57 )	-	-	-
Interest income (expense), net	(182 )	(107 )	(49 )	5	(44 )
Total other expense	(183 )	(165 )	(61 )	(151 )	(152 )
Net loss	\$(1,605 )	\$(465 )	\$(300 )	\$(370 )	\$(544 )
Income attributable to non-controlling interest	(650 )	(856 )	(491 )	(320 )	(143 )
Net loss attributable to Good Times Restaurants Inc.	\$(2,255 )	\$(1,321 )	\$(791 )	\$(690 )	\$(687 )
Preferred stock dividends	-	-	-	59	120
Net loss attributable to common shareholders	\$(2,255 )	\$(1,321 )	\$(791 )	\$(749 )	\$(807 )
Basic and diluted loss per share	\$(.18 )	\$(.11 )	\$(.08 )	\$(.12 )	\$(.27 )
Balance Sheet Data:					
Cash and cash equivalents	\$4,337	\$6,330	\$13,809	\$9,894	\$6,143
Working capital (deficit)	(850 )	2,671	7,470	7,841	4,834
Total assets	55,153	46,877	48,228	16,881	9,875
Long-term debt	5,339	19	1,104	219	94
Non-controlling interests	2,713	1,720	1,615	279	242
Total stockholders' equity	\$37,284	\$37,798	\$38,257	\$13,321	\$7,321

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Cashflow Data:

Net cash provided by operating activities	\$4,983	\$5,398	\$3,168	\$1,438	703
Net cash provided by (used in) investing activities	(12,628)	(8,482 )	(23,715)	(3,849	453
Net cash provided by (used in) financing activities	5,652	(4,395 )	24,462	6,162	4,371

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

## Overview

We operate as two reportable business segments: Good Times Burgers and Frozen Custard restaurants ("Good Times") and Bad Daddy's Burger Bar restaurants ("Bad Daddy's"). All of our Good Times restaurants compete in the quick service drive-through dining industry while our Bad Daddy's restaurants 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. Refer to note 9, Segment Reporting, in the notes to our consolidated financial statements for more information.

The Company's fiscal year ends on the last Tuesday of September each year. Most of our fiscal years have 52 weeks, however we experience a 53<sup>rd</sup> week every five or six years. Our discussion for fiscal years 2017 and 2016, which ended on September 26, 2017 and September 27, 2016 covers a period of 52 full calendar weeks in fiscal 2017. We transitioned to this 52-week calendar during Fiscal 2016 causing that year to have three fewer days than the current year.

The following tables present information about our reportable segments for the respective periods, all dollar values are represented in thousands:

	Fiscal Year 2017		Fiscal Year 2016	
Good Times:				
Restaurant sales	\$ 30,689	98.9%	\$ 28,861	98.8%
Franchise revenues	324	1.1 %	356	1.2 %
Restaurant operating costs:				
Food and packaging	9,994	32.6%	9,346	32.4%
Payroll and employee benefits	10,549	34.4%	9,450	32.7%
Occupancy and other	5,307	17.3%	5,092	17.6%
Depreciation & amortization	837	2.7 %	746	2.6 %
Preopening costs	151	0.5 %	4	0.0 %
Total restaurant operating costs	\$ 26,838	87.5%	\$ 24,638	85.4%
General & administrative costs <sup>(1)</sup>	2,578	9.3 %	2,710	9.3 %
Advertising costs	1,271	4.2 %	1,283	4.4 %
Franchise costs	108	0.4 %	106	0.4 %
Asset impairment costs	219	0.7 %	0	0.4 %
Loss (gain) on restaurant assets	(25 )	(0.1 %)	(25 )	(0.1 %)
Income from operations	\$ 24	0.1 %	\$ 505	1.7 %
Bad Daddy's:				
Restaurant sales	\$ 47,706	99.2%	\$ 34,855	99.0%
Franchise revenues	361	0.8 %	367	1.0 %
Restaurant operating costs:				
Food and packaging	14,906	31.2%	10,890	31.2%
Payroll and employee benefits	17,725	37.2%	12,648	36.3%

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Occupancy and other	7,536	15.8 %	5,485	15.7 %
Depreciation & amortization	2,060	4.3 %	1,476	4.2 %
Preopening costs	2,437	5.1 %	1,691	4.9 %
Total restaurant operating costs	\$ 44,664	93.6 %	\$ 32,190	92.4 %
General & administrative costs <sup>1</sup>	4,424	9.2 %	3,578	10.2 %
Advertising costs	423	0.9 %	257	0.7 %
Acquisition costs	0	0.0 %	0	0.0 %
Franchise costs	0	0.0 %	2	0.0 %
Loss (gain) on restaurant assets	2	0.0 %	0	0.0 %
Loss from operations	\$ (1,446 )	(3.0 %)	\$ (805 )	(2.3 %)

<sup>(1)</sup> Includes direct and allocated corporate general & administrative costs.

Restaurant operating costs are expressed as a percentage of restaurant sales

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Additional sales data related to Bad Daddy's company-owned and joint-venture restaurants:

Fiscal Year

2017      2016