

GOOD TIMES RESTAURANTS INC  
Form 10-Q  
May 16, 2011

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

Commission File Number: 0-18590

**GOOD TIMES RESTAURANTS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

NEVADA

84-1133368

(State or Other Jurisdiction of

(I.R.S. Employer Identification Number)

Incorporation or Organization)

601 CORPORATE CIRCLE, GOLDEN, CO 80401

(Address of Principal Executive Offices, Including Zip Code)

(303) 384-1400

(Registrant's Telephone Number, Including Area Code)

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of May 16, 2011, there were 2,726,214 shares of the Registrant's common stock, par value \$0.001 per  
share, issued and outstanding.

**Form 10-Q**

**Quarter Ended March 31, 2011**

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

	<b>March 31, <u>2011</u></b>	<b>September 30, <u>2010</u></b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$987,000	\$429,000
Receivables, net of allowance for doubtful accounts of \$0	131,000	157,000
Prepaid expenses and other	106,000	38,000
Inventories	193,000	201,000
Notes receivable	<u>3,000</u>	<u>9,000</u>
Total current assets	1,420,000	834,000
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Land and building	5,475,000	5,653,000
Leasehold improvements	3,501,000	3,821,000
Fixtures and equipment	<u>7,637,000</u>	<u>8,229,000</u>
	16,613,000	17,703,000
Less accumulated depreciation and amortization	<u>(12,217,000)</u>	<u>(12,828,000)</u>
	4,396,000	4,875,000
Assets held for sale	1,595,000	2,445,000
<b>OTHER ASSETS:</b>		
Notes receivable, net of current portion	16,000	10,000
Deposits and other assets	<u>79,000</u>	<u>154,000</u>
	95,000	164,000
<b>TOTAL ASSETS</b>	<b><u>7,506,000</u></b>	<b><u>8,318,000</u></b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt, net of discounts of	210,000	702,000
\$26,000 and \$27,000 respectively		
Accounts payable	622,000	716,000
Deferred income	43,000	89,000
Liabilities related to discontinued operations	14,000	20,000
Other accrued liabilities	<u>1,104,000</u>	<u>1,176,000</u>
Total current liabilities	1,993,000	2,703,000
<b>LONG-TERM LIABILITIES:</b>	-	

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Debt, net of current portion and net of discounts of \$20,000 and \$33,000, respectively	2,042,000	3,005,000
Liabilities related to discontinued operations	89,000	123,000
Deferred liabilities	<u>689,000</u>	<u>793,000</u>
Total long-term liabilities	2,820,000	3,921,000

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See accompanying notes to condensed consolidated financial statements

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

(Unaudited)

	<b>March 31, <u>2011</u></b>	<b>September 30, <u>2010</u></b>
<b>STOCKHOLDERS' EQUITY:</b>		
Non-controlling interest	210,000	274,000
Preferred stock, \$.01 par value; 5,000,000 shares authorized, none issued and outstanding as of March 31, 2011 and September 30, 2010	-	-
Common stock, \$.001 par value; 50,000,000 shares authorized 2,726,214 and 1,299,520 shares issued and outstanding as of March 31, 2011 and September 30, 2010, respectively	8,000	4,000
Capital contributed in excess of par value	19,946,000	18,153,000
Accumulated deficit	<u>(17,471,000)</u>	<u>(16,737,000)</u>
Total stockholders' equity	2,693,000	1,694,000
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$7,506,000</u></b>	<b><u>\$8,318,000</u></b>

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See accompanying notes to condensed consolidated financial statements

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

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
NET REVENUES:				
Restaurant sales, net	\$4,607,000	\$4,675,000	\$9,589,000	\$9,313,000
Franchise revenues	<u>96,000</u>	<u>111,000</u>	<u>199,000</u>	<u>224,000</u>
Total revenues	4,703,000	4,786,000	9,788,000	9,537,000
RESTAURANT OPERATING COSTS:				
Food and packaging costs	1,660,000	1,647,000	3,418,000	3,182,000
Payroll and other employee benefit costs	1,725,000	1,793,000	3,484,000	3,532,000
Occupancy and other operating costs	1,020,000	1,139,000	2,104,000	2,263,000
Depreciation and amortization	<u>203,000</u>	<u>240,000</u>	<u>408,000</u>	<u>472,000</u>
Total restaurant operating costs	4,608,000	4,819,000	9,414,000	9,449,000
General and administrative costs	332,000	365,000	677,000	735,000
Advertising costs	198,000	280,000	414,000	550,000
Franchise costs	19,000	35,000	37,000	65,000
Gain on sale of restaurant buildings and equipment	<u>( 86,000)</u>	<u>( 8,000)</u>	<u>( 98,000)</u>	<u>( 15,000)</u>
LOSS FROM OPERATIONS	( 368,000)	( 705,000)	( 656,000)	( 1,247,000)
OTHER INCOME AND (EXPENSES):				
Unrealized income on interest rate swap	10,000	10,000	23,000	10,000
Interest expense, net	<u>(57,000)</u>	<u>(171,000)</u>	<u>( 168,000)</u>	<u>(240,000)</u>
Total other income and (expenses)	<u>(47,000)</u>	<u>(161,000)</u>	<u>( 145,000)</u>	<u>(230,000)</u>
LOSS FROM CONTINUING OPERATIONS	<u>(\$415,000)</u>	<u>(\$ 866,000)</u>	<u>(\$801,000)</u>	<u>(\$1,477,000)</u>
Income (loss) from discontinued operations	<u>27,000</u>	<u>( 400,000)</u>	<u>24,000</u>	<u>( 471,000)</u>
NET LOSS	<u>(\$388,000)</u>	<u>(\$1,266,000)</u>	<u>(\$777,000)</u>	<u>(\$1,948,000)</u>
Income (expense) from non-controlling interest	<u>( 11,000)</u>	<u>62,000</u>	<u>( 27,000)</u>	<u>110,000</u>
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	(\$399,000)	(\$1,204,000)	(\$804,000)	(\$1,838,000)
Net loss per share - basic and diluted				
Continuing operations	(\$.15)	(\$.67)	(\$.37)	(\$1.14)
Discontinued operations	\$.01	(\$.31)	\$.01	(\$.36)
Net loss applicable to common shareholders	(\$.15)	(\$.93)	(\$.37)	(\$1.41)
WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS USED IN PER SHARE CALCULATION:				
BASIC AND DILUTED	2,726,214	1,299,520	2,153,938	1,299,520



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

(Unaudited)

	Six Months Ended March 31,	
	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	(\$777,000)	(\$1,948,000)
Income (loss) from discontinued operations	<u>24,000</u>	<u>(471,000)</u>
Net loss from continuing operations	(801,000)	(1,477,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	408,000	472,000
Amortization of debt issuance costs	35,000	90,000
Stock based compensation expense	30,000	44,000
Unrealized gain on interest rate swap	(23,000)	(10,000)
Accretion of deferred rent	(31,000)	1,000
Recognition of deferred gain on sale of restaurant buildings	(79,000)	(15,000)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables and other	26,000	(74,000)
Inventories	8,000	19,000
Deposits and other	(107,000)	(49,000)
(Decrease) increase in:		
Accounts payable	(94,000)	341,000
Accrued liabilities and deferred income	<u>38,000</u>	<u>81,000</u>
Net cash used in operating activities from continuing operations	(590,000)	(577,000)
Net cash used in operating activities from discontinued operations	<u>( 4,000)</u>	<u>( 93,000)</u>
Net cash used in operating activities	(594,000)	(670,000)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Proceeds from the sale of fixed assets	946,000	-
Payments for the purchase of property and equipment	(10,000)	(24,000)
Payments received on loans to franchisees and to others	<u>-</u>	<u>8,000</u>
Net cash provided by (used in) investing activities	936,000	(16,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from common stock sale	1,727,000	-
Principal payments on notes payable and long-term debt	(1,490,000)	(67,000)
Borrowings on notes payable and long-term debt	-	400,000
Distributions, net of contributions paid to non-controlling interests	<u>(21,000)</u>	<u>71,000</u>
Net cash provided by financing activities	<u>216,000</u>	<u>404,000</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	558,000	(282,000)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>429,000</u>	<u>815,000</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>\$987,000</u>	<u>\$533,000</u>



SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest	<u>141,000</u>	<u>146,000</u>
Non-cash fair value of warrants & beneficial conversion feature	<u>-</u>	<u>277,000</u>

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**GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Basis of Presentation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of March 31, 2011 and the results of its operations and its cash flows for the three and six month periods ended March 31, 2011. Operating results for the three and six month periods ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011. The condensed consolidated balance sheet as of September 30, 2010 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these financial statements should be read in conjunction with the Company's Form 10-K for the fiscal year ended September 30, 2010.

**Note 2. Recent Developments**

We entered into a purchase and sale agreement for the sale of two company-owned restaurants in Colorado Springs, Colorado that was effective February 1, 2011. The sale of one restaurant occurred in February, 2011 and the sale of the second restaurant is anticipated to occur on or prior to May 31, 2011. The net proceeds from the sale of the first restaurant in February were \$99,000 and resulted in a gain on the sale of \$71,000. The net proceeds for the sale of the second restaurant are estimated to be \$169,000 with an estimated gain on the sale of \$62,000.

As previously disclosed in the Company's current report on Form 8-K filed December 17, 2010, we entered into a new Credit and Loan Agreement with Wells Fargo Bank that modified the loan covenants and provided additional collateral to Wells Fargo for the remaining loan balance of \$642,142. In addition we are using \$90,000 of the proceeds from the sale of the two company-owned restaurants in Colorado Springs, Colorado to further reduce the note payable over the next ten months and thereby releasing certain collateral.

On December 31, 2010, following approval by the Company's stockholders at a special meeting on December 31, 2010, the Company effected a one-for-three reverse stock split of its issued and outstanding Common Stock. All references to numbers of shares and share prices in the following paragraphs and throughout Items 1 and 2 are stated at post-reverse split amounts.

As previously disclosed in the Company's current report on Form 8-K filed on November 3, 2010, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement"), dated October 29, 2010, with Small Island Investments Limited, a Bermuda corporation ("SII"), under which the Company agreed to sell, and SII agreed to purchase, 1,400,000 shares (the "Shares") of the Company's common stock, par value \$0.001 per share (the "Common Stock"), at a purchase price of \$1.50 per share, or an aggregate of \$2,100,000 (the "SII Investment Transaction"). The Purchase Agreement was amended on December 13, 2010 to clarify the scope of SII's director designation rights following the Closing.

On December 13, 2010, following approval of the SII Investment Transaction and related matters by the Company's stockholders at a special meeting called for such purposes (the "Special Meeting"), the Company and SII completed the issuance and sale of the Shares to SII. On December 13, 2010, the Company and SII also entered into a Registration Rights Agreement, pursuant to which the Company granted SII certain registration rights with respect to resale of the Shares.

The completion of the SII Investment Transaction resulted in a change of control of the Company, with SII becoming the beneficial owner of approximately 51.4 percent of the Company's outstanding Common Stock. In addition, pursuant to the Purchase Agreement, SII designated four new members of the Company's Board of Directors to replace Richard J. Stark, Alan A. Teran, Ron Goodson and David Grissen, all of whom resigned as directors effective upon the closing of the SII Investment Transaction.

On February 1, 2010, the Company and GTDT entered into a loan agreement with W Capital, Inc. ("W Capital"), John T. McDonald ("McDonald") and Golden Bridge, LLC ("Golden Bridge"), pursuant to which the lenders made loans totaling \$400,000 to be used for restaurant marketing and other working capital uses of GTDT. The loan agreement was subsequently amended as of April 1, 2010 to remove Golden Bridge as a lender, replacing it with additional loans from W Capital and McDonald. The aggregate principal amount owing to W Capital and McDonald was paid out of the proceeds of the SII Investment Transaction. In addition, the accrued interest on such loans through December 13, 2010 of \$39,715 was converted into an aggregate of 26,477 shares of our Common Stock.

In connection with the loans, the Company issued warrants to W Capital and McDonald which entitle them at any time prior to December 13, 2013 to purchase up to an aggregate of 33,334 shares of our Common Stock at an exercise price of 25% less than the average price of our Common Stock during the 20 days prior to exercise, but at not less than \$2.25 per share nor more than \$3.24 per share. These warrants remain outstanding and exercisable in accordance with their terms.

Proceeds of the SII transaction were also used to repay the outstanding principal amount of \$185,000 due to Golden Bridge on a loan Golden Bridge made to the Company in 2009, to reduce our accounts payable and accrued liabilities, to pay the expenses related to the SII Investment Transaction, and to increase our working capital. The SII Investment Transaction also allowed us to renegotiate the terms and covenants of our loan with Wells Fargo Bank, N.A. ("Wells Fargo") and to regain compliance with certain financial loan covenants that had been in default. We had never been in any payment default under the loan and Wells Fargo agreed to accept additional equipment collateral in exchange for modifying the covenants of the loan without affecting our interest rate or repayment term. As a condition to the closing of the SII Investment Transaction, we entered into a new Credit Agreement and Promissory Note with Wells Fargo effective as of December 13, 2010. The prior loan covenant defaults had caused us to show the entire balance of the loan as a short term liability; however, as of March 31, 2011, it is primarily classified as a long term note payable under its terms.

SII's affiliates have ownership interests in other full service restaurant chains that generate approximately \$75 million in annual revenues. The SII Investment Transaction may position the Company to pursue a larger platform in the restaurant business through acquisitions, new investment and improved economies of scale. However, there can be no assurance that any acquisitions or additional investment will occur.

The shorter term objective for the Good Times brand will be to focus on maximizing its profitability and development in our core market of Colorado. In fiscal 2010, we closed two Company-operated restaurants and a franchisee closed one restaurant. We continue to evaluate the near term realizable asset value of each restaurant compared to its longer term cash flow value and we may choose to sell, sublease or close additional lower performing restaurants in fiscal 2011 as we position the company for growth in new store development. We will require additional capital sources to develop additional company owned restaurants.

### **Note 3. Discontinued Operations**

Discontinued operations are presented in accordance with FASB ASC 205-20, Presentation of Financial Statements. During fiscal 2010 we closed two locations: one dual-branded restaurant in Commerce City, Colorado in March 2010 and one co-developed restaurant in Denver, Colorado in June 2010. Fixed assets and associated accumulated depreciation of \$406,000 related to discontinued operations are included in the property and equipment of our condensed consolidated balance sheet which are related to the Commerce City location. Current and long-term liabilities related to discontinued operations relate to the future estimated lease obligations of the Commerce City location.

Following is a summary of the costs from discontinued operations for the current and prior year periods:

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	Three Months Ended March 31,		Six Months Ended March 31,	
	<u>2011</u>	- <u>2010</u>	- <u>2011</u>	- <u>2010</u>
Results of operations and lease obligations	(\$4,000)	(\$66,000)	(\$7,000)	(\$137,000)
Future lease obligations, fair value	31,000	(117,000)	31,000	(117,000)
Asset impairment charges and other costs	<u>-</u>	<u>(217,000)</u>	<u>-</u>	<u>(217,000)</u>
Income (loss) from discontinued operations	\$27,000	(\$400,000)	\$24,000	(\$471,000)

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With respect to the Commerce City closed location, we have continuing lease obligations of \$715,000 and we have subleased the location for \$582,000. We have recorded an estimated discounted liability of \$103,000 related to this location. We have terminated the lease on the Denver location effective February 1, 2011 and no longer remain liable for any future lease obligations. In the three month period ended March 31, 2011 we reversed the \$31,000 accrued lease liability associated with the Denver location.

#### **Note 4. Stock-Based Compensation**

Following the guidance of FASB ASC 718-10-30, Compensation - Stock Compensation, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant).

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

Our net loss for the six months ended March 31, 2011 and March 31, 2010 includes \$30,000 and \$44,000, respectively, of compensation costs related to our stock-based compensation arrangements.

During the six months ended March 31, 2011, we granted 4,000 non-statutory stock options and 53,233 incentive stock options with exercise prices of \$1.56. The per-share weighted average fair value was \$1.26 for both the non-statutory stock option grants and incentive stock option grants.

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

	<b>Incentive</b>	<b>Non-Statutory</b>
	<b><u>Stock Options</u></b>	<b><u>Stock Options</u></b>
Expected term (years)	<b>6.5</b>	6.7
Expected volatility	<b>98.54%</b>	97.35%
Risk-free interest rate	<b>2.46%</b>	2.52%
Expected dividends	<b>0</b>	0

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

A summary of stock option activity under our share-based compensation plan for the six months ended March 31, 2011 is presented in the following table: (The numbers of options and the exercise prices shown in this table have been adjusted to effect the one for three reverse stock split that occurred on December 31, 2010.)

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	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Yrs.)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding-beg of year	130,027	\$ 9.89		
Granted	57,233	\$ 1.56		
Exercised	-			
Forfeited	(19,371)	\$11.62		
Expired	<u>( 1,200)</u>	<u>\$ 4.14</u>		
Outstanding Mar 31, 2011	<u>166,689</u>	<u>\$ 6.87</u>	<u>6.5</u>	<u>\$39,000</u>
Exercisable Mar 31, 2011	<u>80,819</u>	<u>\$11.38</u>	<u>3.8</u>	<u>\$ 3,000</u>
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As of March 31, 2011, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was \$85,000 and is expected to be recognized over a period of 2.7 years.

There were no stock options exercised during the six months ended March 31, 2011.

**Note 5. Comprehensive Income (Loss)**

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

In May 2007, the Company entered into an interest rate swap agreement, designated as a cash flow hedge, which hedges the Company's exposure to interest rate fluctuations on the Company's floating rate \$1,100,000 term loan. The contract requires monthly settlements of the difference between the amounts to be received and paid under the agreement, the amount of which is recognized in current earnings as interest expense. In addition we have recognized an unrealized gain of \$23,000 for the six months ended March 31, 2011 in the accompanying Condensed Consolidated Statement of Operations to adjust the liability related to the interest rate swap to fair market value.

**Note 6. Contingent Liabilities**

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

**Note 7. Related Party Transactions**

In fiscal 2009 the Company entered into a loan agreement with Golden Bridge, LLC ("Golden Bridge"), pursuant to which Golden Bridge made a loan of \$185,000 to the Company. Eric Reinhard, Ron Goodson, David Grissen, Richard Stark, and Alan Teran, who were all members of the Company's Board of Directors and stockholders of the Company, are the sole members of Golden Bridge. The Company's and GTDT's obtaining of the Loan from Golden Bridge and related transactions were duly approved in advance by the Company's Board of Directors by the affirmative vote of members thereof who did not have an interest in the transaction. The Loan was paid in full in December 2010 following the closing of the SII Investment Transaction. Amounts due to related parties that are included in notes payable are \$0 at March 31, 2011 and \$185,000 at September 30, 2010.

**Note 8. Assets Held for Sale**



We have classified \$1,595,000 as assets held for sale in the accompanying condensed consolidated balance sheet. These costs are related to a site in Firestone, Colorado which has been fully developed. The proceeds of a sale leaseback transaction, if consummated, are required to be used for the reduction of the line of credit payable to PFGI II, LLC. The effect on our operating cash flow is not material as the interest expense on the line of credit is approximately equal to the proposed rental rate on a sale leaseback transaction.

**Note 9. Impairment of Long-Lived Assets**

We review our long-lived assets for impairment in accordance with the guidance of FASB ASC 360-10, Property, Plant, and Equipment, including land, property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the capitalized costs of the assets to the future undiscounted net cash flows expected to be generated by the assets and the expected cash flows are based on recent historical cash flows at the restaurant level (the lowest level that cash flows can be determined).

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

Sales projections are as follows: Fiscal 2011 sales are projected to increase 3% to 5% over fiscal 2010, for fiscal years 2012 to 2024 we have used annual increases of 2% to 3%. We believe the 2% to 3% increase in the years beyond 2011 is a reasonable expectation of growth and that it would be unreasonable to expect no growth in our sales. These increases include menu price increases in addition to any real growth. Historically our weighted menu prices have increased 1.5% to 6%.

Our variable and semi-variable restaurant operating costs are projected to increase proportionately with the sales increases as well as increasing an additional 1.5% per year consistent with inflation.

Our other fixed restaurant operating costs are projected to increase 1.5% to 2% per year.

Food and packaging costs are projected to remain flat in relation to our recent fiscal 2010 food and packaging costs as a percentage of sales.

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

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

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

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

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

In fiscal 2010 we closed two company operated restaurants resulting in total charges of \$396,000. Projecting the cash flows for the impairment analysis involves significant estimates with regard to the performance of each restaurant, and it is reasonably possible that the estimates of cash flows may change in the near term resulting in the need to write down operating assets to fair value. If the assets are determined to be impaired, the amount of impairment recognized is the amount by which the carrying amount of the assets exceeds their fair value. Fair value would be determined using forecasted cash flows discounted using an estimated average cost of capital and the impairment charge would be recognized in income from operations.

**Note 10. Fair Value Measurements**

The Company adopted the provisions of FASB ASC 820, Fair Value Measurements and Disclosures, effective October 1, 2008. FASB ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value, as required by Topic 820 of the FASB ASC, must maximize the use of observable inputs and minimize the use of unobservable inputs.

FASB ASC 820 defines three levels of inputs that may be used to measure fair value and requires that the assets or liabilities carried at fair value be disclosed by the input level under which they were valued. The input levels defined under FASB ASC 820 are as follows:

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

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

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

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

Level 2:

Interest Rate Swap liability:

Balance at December 31, 2010 \$71,000

Balance at March 31, 2011 \$61,000

Net change \$10,000

The unrealized gains for the three and six month periods ending March 31, 2011 of \$10,000 and \$23,000, respectively, are reported in the Condensed Consolidated Statement of Operations. There were no transfers in or out of Level 3 for the three or six month periods ending March 31, 2011.

#### **Note 11. Income Taxes**

We account for income taxes in accordance with FASB ASC 740, Income Taxes. FASB ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value. The deferred tax assets are reviewed periodically for recoverability, and valuation allowances are adjusted as necessary. We believe it is more likely than not that the recorded deferred tax assets will be realized.

Although the Company has not incurred interest and penalties associated with unrecognized tax benefits; future interest and penalties associated with unrecognized tax benefits, if any, will be recognized in income tax expense in the Consolidated Statements of Operations and the corresponding liability in income taxes payable or income taxes receivable, net on the Consolidated Balance Sheets.

The Company is currently not undergoing any examinations by any taxing jurisdictions, with the tax years for the Fiscal Years Ending September 30, 2005 through 2009 remaining open to examination.

#### **Note 12. Non-controlling Interests**

Non-controlling interests, previously called minority interests, are presented as a separate item in the equity section of the consolidated balance sheet. The amount of consolidated net income or loss attributable to non-controlling interests is presented on the face of the consolidated income statement. Changes in a parent's ownership interest in a subsidiary

that do not result in deconsolidation are equity transactions, deconsolidation of a subsidiary requires gain or loss recognition in net income based on the fair value on the deconsolidation date.

**Note 13. Subsequent Events**

None.

**Note 14. Recent Accounting Pronouncements**

In January 2010, the FASB issued an update regarding guidance over the disclosure requirements of fair value measurements. This update adds new requirements for disclosure about transfers into and out of Levels One and Two and also adds additional disclosure requirements about purchases, sales, issuances, and settlements relating to Level Three measurements. The guidance is effective for reporting periods beginning after December 15, 2009 for the disclosure requirements around Levels One and Two measurements, and is effective for reporting periods beginning after December 15, 2010 for the disclosure requirements around Level Three.

**Note 15. Stock Transactions**

On December 13, 2010 the company completed a stock sale of 1,400,000 shares of Common Stock, par value \$.001, at a price of \$1.50 per share to one investor (see Note 2. above for details of the stock sale).

On December 13, 2010 the company received Board of Directors approval to effect a one-for-three reverse stock split of its Common Stock no later than December 31, 2010. The reverse stock split was effected on December 31, 2010. Immediately prior to the reverse stock split the company had 8,177,989 of Common Stock outstanding and immediately following the reverse split the outstanding shares were approximately 2,725,996 (subsequently 218 shares have been issued for rounding of fractional shares resulting from the reverse split).

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

**General**

This Form 10-Q contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and the disclosure of risk factors in the Company's form 10-K for the fiscal year ended September 30, 2010. Also, documents subsequently filed by us with the SEC and incorporated herein by reference may contain forward-looking statements. We caution investors that any forward-looking statements made by us are not guarantees of future performance and actual results could differ materially from those in the forward-looking statements as a result of various factors, including but not limited to the following:

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

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

We may also be negatively impacted by other factors common to the restaurant industry such as: changes in consumer tastes away from red meat and fried foods; increases in the cost of food, paper, labor, health care, workers' compensation or energy; inadequate number of hourly paid employees; and/or decreases in the availability of affordable capital resources. We caution the reader that such risk factors are not exhaustive, particularly with respect to future filings.

*Restaurant Locations*

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

<b>Total</b>	<b>Denver, CO</b>	<b>Colorado</b>	<b>Idaho</b>	<b>Wyoming</b>	<b>North Dakota</b>
	<b>Greater Metro</b>	<b>Other</b>			



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Good Times co-owned & co-developed	25	23	2			
Good Times franchised	16	14	1	1		
Dual brand co-owned	1	1				
Dual brand franchised	5	2			2	1
<b>Total</b>	<b>47</b>	<b>40</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>1</b>

	<b>As of March 31,</b>

	<u>2011</u>	<u>2010</u>
Company-owned restaurants	19	20
Co-developed restaurants	7	9
Franchise operated restaurants	21	21
<b>Total restaurants</b>	<b>47</b>	<b>50</b>

*Fiscal 2010:* In October 2009 a franchisee operating a Good Times restaurant in Thornton, Colorado terminated their franchise agreement and closed the restaurant. In March 2010 we closed one company-owned dual branded restaurant in Commerce City, Colorado and in June 2010 we closed one co-developed Good Times restaurant in Denver, Colorado (see Note 3. above - Discontinued Operations). Additionally in June 2010 we sold one co-developed restaurant in Denver, Colorado to a new franchisee operator.

*Fiscal 2011:* In December 2010 a franchisee operating a Good Times restaurant in Grand Junction, Colorado terminated their franchise agreement and closed the restaurant. In February 2011 we sold one dual branded company-owned restaurant in Colorado Springs, Colorado. We anticipate that franchisees may close up to two low volume franchised restaurants in fiscal 2011. We have entered into a purchase and sale agreement for the sale of one additional company-owned restaurant in Colorado Springs, Colorado that was effective February 1, 2011 and is anticipated to occur on or prior to May 31, 2011. See the "Liquidity and Capital Resources" section below for further details.

The following presents certain historical financial information of our operations. This financial information includes results for the three and six months ended March 31, 2011 and results for the three and six months ended March 31, 2010.

### **Results of Operations**

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#### *Net Revenues*

Net revenues for the three months ended March 31, 2011 decreased \$83,000 (1.7%) to \$4,703,000 from \$4,786,000 for the three months ended March 31, 2010. Same store restaurant sales increased \$224,000 (5.7%) during the three months ended March 31, 2011 for the restaurants that were open for the full three month periods ending March 31, 2011 and March 31, 2010. Restaurants are included in same store sales after they have been open a full fifteen months and only Good Times restaurants are included with dual branded restaurants excluded. Restaurant sales decreased \$177,000 due to one co-developed store sold to a franchisee in June 2010. Restaurant sales decreased \$105,000 due to two company-owned dual branded restaurants not included in same store sales, one of which was sold in February 2011. Restaurant sales also decreased \$10,000 due to one non-traditional company-owned restaurant not included in same store sales.

Net revenues for the six months ended March 31, 2011 increased \$251,000 (2.6%) to \$9,788,000 from \$9,537,000 for the six months ended March 31, 2010. Same store restaurant sales increased \$747,000 (9.6%) during the six months ended March 31, 2011 for the restaurants that were open for the full six month periods ending March 31, 2011 and March 31, 2010. Restaurant sales decreased \$352,000 due to one co-developed store sold to a franchisee in June 2010. Restaurant sales decreased \$112,000 due to two company-owned dual branded restaurants not included in same store sales, one of which was sold in February 2011. Restaurant sales also decreased \$7,000 due to one non-traditional company-owned restaurant not included in same store sales.

Our second fiscal quarter same store restaurant sales were positively affected by better than average weather in March 2011. Same store sales increased 8.6% in March 2011. Our first fiscal quarter same store restaurant sales were positively affected by better than average weather in both October and December 2010. Same store sales increased 20.3% and 14.2% in October and December 2010, respectively.

The positive same store sales results for the first and second fiscal quarters of 2011 also reflect the continuation of the positive momentum we experienced in the last fiscal quarter of 2010 when same store sales increased 1.8%, after nine consecutive quarters of same store sales declines.

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

Franchise revenues for the three months ended March 31, 2011 decreased \$15,000 to \$96,000 from \$111,000 for the three months ended March 31, 2010 due to a decrease in franchise royalties. Same store Good Times franchise restaurant sales increased 3.5% during the three months ended March 31, 2011 for the franchise restaurants that were open for the full periods ending March 31, 2011 and March 31, 2010. Dual branded franchise restaurant sales decreased 7.5% during the three months ended March 31, 2011, compared to the same prior year period. In late fiscal 2010 we elected to terminate the operations of a Good Times licensee operating in the Pepsi Center in Denver, Colorado which contributed to the decrease in our franchise royalty income for the three months ended March 31, 2011 compared to the same prior year period.

Franchise revenues for the six months ended March 31, 2011 decreased \$25,000 to \$199,000 from \$224,000 for the six months ended March 31, 2010 due to a decrease in franchise fees and royalties. Same store Good Times franchise restaurant sales increased 7% during the six months ended March 31, 2011 for the franchise restaurants that were open for the full periods ending March 31, 2011 and March 31, 2010. Dual branded franchise restaurant sales decreased 3.8% during the six months ended March 31, 2011, compared to the same prior year period. Operations of the Good Times licensee operating in the Pepsi Center in Denver, Colorado that was closed in late fiscal 2010 contributed to the reduction in our franchise royalty income for the six months ended March 31, 2011 compared to the same prior year period.

#### *Restaurant Operating Costs*

Restaurant operating costs as a percent of restaurant sales were 100% during the three months ended March 31, 2011 compared to 103.1% in the same prior year period and were 98.2% during the six months ended March 31, 2011 compared to 101.5% in the same prior year period.

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

Three Months Ended <u>March 31, 2011</u>	Six Months Ended <u>March 31, 2011</u>
103.1%	101.5%



Restaurant-level costs for the period ended March 31, 2010		
Increase in food and packaging costs	.8%	1.5%
Decrease in payroll and other employee benefit costs	( .9%)	( 1.6%)
Decrease in occupancy and other operating costs	( 2.3%)	( 2.4%)
Decrease in depreciation and amortization	<u>(.7%)</u>	<u>(.8%)</u>
Restaurant-level costs for the period ended March 31, 2011	100.0%	98.2%

*Food and Packaging Costs*

For the three months ended March 31, 2011 our food and paper costs increased \$13,000 to \$1,660,000 (36% of restaurant sales) from \$1,647,000 (35.2% of restaurant sales) compared to the same prior year period.

For the six months ended March 31, 2011 our food and paper costs increased \$236,000 to \$3,418,000 (35.6% of restaurant sales) from \$3,182,000 (34.2% of restaurant sales) compared to the same prior year period.

In fiscal 2010 our weighted food and packaging costs increased approximately 11%. The total menu price increases taken during fiscal 2010 were 7.1%, all of which were taken in the last four months of the year. The introduction of the \$2.89 Craver combo meals in May 2010 negatively impacted our cost of sales by an estimated 1% of restaurant sales however we believe the new value offer is a significant driver of customer traffic.

In fiscal 2011 our weighted food and packaging costs have increased approximately 4.7%. We took a 1.7% menu price increase in February 2011 and we anticipate additional limited price increases for the balance of fiscal 2011. We anticipate continued cost pressure on several core commodities, including beef, bacon and dairy for the remainder of fiscal 2011. However we anticipate our food and packaging costs as a percentage of sales will remain at current levels in fiscal 2011 from a combination of price increases, product sales mix changes and recipe modifications.

#### *Payroll and Other Employee Benefit Costs*

For the three months ended March 31, 2011 our payroll and other employee benefit costs decreased \$68,000 to \$1,725,000 (37.4% of restaurant sales) from \$1,793,000 (38.4% of restaurant sales) compared to the same prior year period.

For the six months ended March 31, 2011 our payroll and other employee benefit costs decreased \$48,000 to \$3,484,000 (36.3% of restaurant sales) from \$3,532,000 (37.9% of restaurant sales) compared to the same prior year period.

The decrease in payroll and other employee benefit expenses as a percent of restaurant sales for the three and six month periods ended March 31, 2011 is primarily the result of higher restaurant sales. Because payroll costs are semi-variable in nature they decrease as a percentage of restaurant sales when there is an increase in restaurant sales.

#### *Occupancy and Other Operating Costs*

For the three months ended March 31, 2011 our occupancy and other operating costs decreased \$119,000 to \$1,020,000 (22.1% of restaurant sales) from \$1,139,000 (24.4% of restaurant sales) compared to the same prior year period.

For the six months ended March 31, 2011 our occupancy and other operating costs decreased \$159,000 to \$2,104,000 (21.9% of restaurant sales) from \$2,263,000 (24.3% of restaurant sales) compared to the same prior year period.

For the three and six month periods ended March 31, 2011 we experienced decreases in rent, property taxes, utility costs, common area maintenance costs and repairs and maintenance costs compared to the same prior year period primarily due to the sale of one co-developed restaurant in June 2010. We also had a decrease in our accretion for deferred rent of \$31,000 compared to the same prior year period due to a lease termination and the sale of restaurants. Additionally, during fiscal 2010 we successfully negotiated the reduction of base rents at four company-owned restaurants. The reductions will result in total savings of approximately \$96,000 per year. We are also continuing to negotiate rent reductions on additional restaurants.

#### *Depreciation and Amortization*

For the three months ended March 31, 2011, our depreciation and amortization decreased \$37,000 to \$203,000 (4.4% of restaurant sales) from \$240,000 (5.1% of restaurant sales) compared to the same prior year period.

For the six months ended March 31, 2011, our depreciation and amortization decreased \$64,000 to \$408,000 (4.3% of restaurant sales) from \$472,000 (5.1% of restaurant sales) compared to the same prior year period.

The decrease in depreciation and amortization for the three and six month periods ended March 31, 2011 is primarily due to the sale of one co-developed restaurant in June 2010 as well as declining depreciation expense in our aging company-owned and co-developed restaurants.

*General and Administrative Costs*

For the three months ended March 31, 2011, general and administrative costs decreased \$33,000 to \$332,000 (7.1% of total revenues) from \$365,000 (7.6% of total revenues) for the same prior year period.

For the six months ended March 31, 2011, general and administrative costs decreased \$58,000 to \$677,000 (6.9% of total revenues) from \$735,000 (7.7% of total revenues) for the same prior year period.

The decrease in general and administrative costs for the six month period ended March 31, 2011 compared to the same prior year period is primarily attributable to decreases in payroll and employee benefit costs of \$51,000 and a \$14,000 decrease in our incentive stock option compensation expense as well as decreases in other costs. In July 2010 we implemented salary reductions which resulted in annualized savings in payroll and employee benefit costs of approximately \$89,000. The decreases in payroll and employee benefit costs were partially offset by an increase in our training and recruiting costs of \$12,000 attributable to our crew incentive programs as well as an increase of \$11,000 in our stock exchange fees and expenses related to the one for three reverse stock split.



*Advertising Costs*

For the three months ended March 31, 2011 advertising costs decreased \$82,000 to \$198,000 (4.3% of restaurant sales) from \$280,000 (6% of restaurant sales) for the same prior year period.

For the six months ended March 31, 2011 advertising costs decreased \$136,000 to \$414,000 (4.3% of restaurant sales) from \$550,000 (5.9% of restaurant sales) for the same prior year period.

Contributions are made to the advertising materials fund and regional advertising cooperative based on a percentage of sales and there was a reduction in the percentage contribution for fiscal 2011 compared to the same prior year period.

*Franchise Costs*

For the three months ended March 31, 2011, franchise costs decreased \$16,000 to \$19,000 (.4% of total revenues) from \$35,000 (.7% of total revenues) for the same prior year period.

For the six months ended March 31, 2011, franchise costs decreased \$28,000 to \$37,000 (.4% of total revenues) from \$65,000 (.7% of total revenues) for the same prior year period.

The decrease in franchise costs for the three and six month periods ended March 31, 2011 is primarily attributable to sponsorship costs incurred in the prior year periods associated with the Good Times licensee operating in the Pepsi Center in Denver, Colorado which closed in late fiscal 2010.

*Gain on Sale of Assets*

For the three months ended March 31, 2011, our gain on the sale of assets increased \$78,000 to \$86,000 from \$8,000 for the same prior year period. The current three month period ending March 31, 2011 includes a gain of \$71,000 related to the sale of one company-owned restaurant in February 2011.

For the six months ended March 31, 2011, our gain on the sale of assets increased \$83,000 to \$98,000 from \$15,000 for the same prior year period. The current six month period ending March 31, 2011 includes a gain of \$71,000 related to the sale of one company-owned restaurant in February 2011 and a \$4,000 gain on the sale of land in December 2010.

*Loss from Operations*

We had a loss from operations of (\$368,000) in the three months ended March 31, 2011 compared to a loss from operations of (\$705,000) for the same prior year period.

We had a loss from operations of (\$656,000) in the six months ended March 31, 2011 compared to a loss from operations of (\$1,247,000) for the same prior year period.

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

*Loss from Continuing Operations*

The net loss from continuing operations was (\$415,000) for the three months ended March 31, 2011 compared to a net loss from continuing operations of (\$866,000) for the same prior year period. The change from the three month period ended March 31, 2010 to March 31, 2011 was attributable to the decrease in loss from operations for the three months ended March 31, 2011, as well as a decrease in net interest expense of \$114,000 compared to the same prior year period. Net interest expense for the three months ended March 31, 2011 includes non-cash amortization of debt issuance costs of \$7,000 related to the extension of the PFGI II loan in January, 2010. Net interest expense for the three months ended March 31, 2010 includes non-cash amortization of debt issuance costs of \$81,000 related to: 1) the extension of the PFGI II loan in January, 2010; and 2) the loan agreement with W Capital and John T. MacDonald entered into in February 2010.

The net loss from continuing operations was (\$801,000) for the six months ended March 31, 2011 compared to a net loss from continuing operations of (\$1,477,000) for the same prior year period. The change from the six month period ended March 31, 2010 to March 31, 2011 was attributable to the decrease in loss from operations for the six months ended March 31, 2011, as well as: 1) a decrease in net interest expense of \$72,000 compared to the same prior year period; and 2) an increase in the unrealized gain related to our interest rate swap liability of \$13,000 compared to the same prior year period. Net interest expense for the six months ended March 31, 2011 includes non-cash amortization of debt issuance costs of \$35,000 related to: 1) the extension of the PFGI II loan in January, 2010; and 2) the loan agreement with W Capital and John T. MacDonald entered into in February 2010. Net interest expense for the six months ended March 31, 2010 includes non-cash amortization of debt issuance costs of \$90,000 related to: 1) the extension of the PFGI II loan in January, 2010; and 2) the loan agreement with W Capital and John T. MacDonald entered into in February 2010.

#### *Income (loss) from Discontinued Operations*

The income from discontinued operations of \$27,000 for the three month period ended March 31, 2011 represents our lease liability costs in excess of our accrued liability for the Commerce City location offset by a reversal of the \$31,000 lease accrual associated with the Denver location. The lease on the Denver location was terminated in February 2011 and there are no remaining lease obligations. The loss from discontinued operations of (\$400,000) for the prior year three month period ended March 31, 2010 represents the results of operations attributable to our Commerce City, Colorado dual-branded restaurant that was closed in March 2010 and our Denver, Colorado co-developed restaurant that was closed in June 2010, as well as an asset write-down and lease liability accrual of \$334,000 related to the Commerce City location.

The income from discontinued operations of \$24,000 for the six month period ended March 31, 2011 represents our lease liability costs in excess of our accrued liability for the Commerce City location offset by a reversal of the \$31,000 lease accrual associated with the Denver location. The loss from discontinued operations of \$471,000 for the prior year six month period ended March 31, 2010 represents the results of operations attributable to our Commerce City, Colorado dual-branded restaurant that was closed in March 2010 and our Denver, Colorado co-developed restaurant that was closed in June 2010, as well as an asset write-down and lease liability accrual of \$334,000 related to the Commerce City location.

#### **Liquidity and Capital Resources**

##### *Cash and Working Capital*

As of March 31, 2011, we had \$987,000 in cash and cash equivalents on hand. We currently plan to use the cash balance and any cash generated from operations for our working capital needs and capital improvements to existing restaurants in fiscal 2011 and beyond. As of March 31, 2011, we had a working capital deficit of \$573,000 primarily due to 2010 property taxes of approximately \$400,000 due in April 2011. We will require additional capital sources for the development of new restaurants.

We entered into a purchase and sale agreement for the sale of two company-owned restaurants in Colorado Springs, Colorado that was effective February 1, 2011. The sale of one restaurant occurred in February, 2011 and the sale of the second restaurant is anticipated to occur on or prior to May 31, 2011. The net proceeds from the sale of the first restaurant in February were \$99,000 and resulted in a gain on the sale of approximately \$71,000. The net proceeds for the sale of the second restaurant are estimated to be \$169,000 with an estimated gain on the sale of \$62,000.

*Financing Activities*

Wells Fargo Note Payable: In May 2007 we borrowed \$1,100,000 from Wells Fargo Bank under a note payable with an eight year term with a floating interest rate at .50% below prime. We simultaneously entered into an interest rate swap transaction with Wells Fargo Bank for the full \$1,100,000 with a fixed interest rate of 7.77% for the full eight year term coinciding with the note payable. As previously reported, we were in default of certain financial loan covenants and had been operating under a forbearance and reservation of rights agreement with Wells Fargo. As previously disclosed in the Company's current report on Form 8-K filed December 17, 2010, we entered into a new Credit and Loan Agreement that modified the loan covenants and provided additional collateral to Wells Fargo for the remaining loan balance of \$642,142. In addition we are using \$90,000 of the proceeds from the sale of two company-owned restaurants in Colorado Springs, Colorado to further reduce the note payable over the next ten months and thereby releasing certain collateral. The loan covenants were modified to require minimum Tangible Net Worth of \$2,500,000, Total Liabilities Divided by Tangible Net Worth not greater than 3.0 to 1.0 and an EBITDA Coverage Ratio not less than 0.9 to 1.0 as of the end of the first fiscal quarter of 2012, not less than 1.2 to 1.0 as of the end of the second fiscal quarter of 2012 and not less than 1.5 to 1.0 thereafter. As of March 31, 2011 we are in compliance with all loan covenants.

PFGI II LLC Promissory Note: In July 2008, we entered into a \$2,500,000 promissory note with an unrelated third party (PFGI II, LLC) and amended that note on April 20, 2009 extending the maturity to July 10, 2010. Effective January 2, 2010, the Company entered into an agreement to amend its loan with PFGI II LLC. The maturity date was extended to December 31, 2012, the interest rate was increased to 8.65% and monthly payments of principal and interest are payable beginning January 31, 2010, based upon a 25 year amortization prior to maturity. In connection with the agreement, the Company issued a three-year warrant dated January 2, 2010 to PFGI II, LLC which provides that PFGI II, LLC may at any time from January 2, 2010 until December 31, 2012 purchase up to 37,537 shares of the Company's common stock at an exercise price of \$3.33 per share. The number of shares purchasable upon exercise of the warrant and the exercise price are subject to customary anti-dilution adjustments upon the occurrence of any stock dividends, stock splits, reverse stock splits, recapitalizations, reclassifications, stock combinations or similar events. The fair value of the warrant issued to PFGI II, LLC was determined to be \$79,000 with the following assumptions; 1) risk free interest rate of 1.7%, 2) an expected life of 3 years, and 3) an expected dividend yield of zero. The fair value of \$79,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount is being amortized over the term of thirty six months and charged to interest expense.

The promissory note originally constituted a revolving line-of-credit for the development of new restaurants which was advanced and repaid on a monthly basis from time to time. The promissory note now constitutes a term loan with monthly payments of principal and interest. The loan is secured by separate leasehold deeds of trust and security agreements related to six company-owned restaurants and a first deed of trust on one real property funded by the line of credit. The total outstanding balance on the promissory note was \$1,656,000 at March 31, 2011. Of the \$1,656,000 outstanding balance, \$1,595,000 is related to the construction of one company-owned restaurant in Firestone, Colorado that opened in October 2008. The fully developed restaurant is currently being marketed in the sale-leaseback market. On December 5, 2010 the company sold a parcel of land in Aurora, Colorado and used approximately \$812,000 of the net proceeds to reduce the loan balance.

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

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

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



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

The fair value of the warrants issued February 1, 2010 was determined to be \$38,000 with the following assumptions: 1) risk free interest rate of 1.41%, 2) an expected life of 2.5 years, and 3) an expected dividend yield of zero. The fair value of \$38,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount was amortized over the term of seven months and charged to interest expense.

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

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

### SII Investment Transaction

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

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

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

*Capital Expenditures*

We do not have any plans for any significant capital expenditures for the balance of fiscal 2011, other than normal recurring capital expenditures for existing restaurants and installation of new menu boards. Additional commitments for the development of new restaurants in fiscal 2011 and beyond will depend on the Company's sales trends, cash generated from operations and our access to additional capital.



### *Cash Flows*

Net cash used in operating activities was \$594,000 for the six months ended March 31, 2011. The net cash used in operating activities for the six months ended March 31, 2011 was the result of a net loss of (\$801,000) as well as cash and non-cash reconciling items totaling \$207,000 (comprised of depreciation and amortization of \$443,000, stock-based compensation expense of \$30,000, a deferred gain of \$79,000, an adjustment to the accretion for deferred rent of \$31,000, a \$107,000 increase in deposits and other assets, an accounts payable decrease of \$94,000 and a net decrease in other operating assets and liabilities of \$45,000).

Net cash used in operating activities was \$670,000 for the six months ended March 31, 2010. The net cash used in operating activities for the six months ended March 31, 2010 was the result of a net loss of (\$1,477,000) as well as cash and non-cash reconciling items totaling \$920,000 (comprised of depreciation and amortization of \$580,000, stock based compensation expense of \$44,000, an accounts payable increase of \$341,000 and a net decrease in other operating assets and liabilities of \$45,000).

Net cash provided by investing activities for the six months ended March 31, 2011 was \$936,000 which reflects proceeds from the sale of property of \$946,000 and payments of \$10,000 for miscellaneous restaurant related capital expenditures.

Net cash used in investing activities for the six months ended March 31, 2010 was \$16,000 which reflects payments of \$24,000 for miscellaneous restaurant related capital expenditures and \$8,000 in principal payments received on loans to franchisees.

Net cash provided by financing activities for the six months ended March 31, 2011 was \$216,000, which includes net proceeds of \$1,727,000 from the sale of common stock, principal payments on notes payable and long term debt of \$1,490,000 and distributions to non-controlling interests of \$21,000.

Net cash provided by financing activities for the six months ended March 31, 2010 was \$404,000, which includes principal payments on notes payable and long term debt of \$67,000, borrowings on notes payable of \$400,000 and receivables from non-controlling interests of \$71,000.

### *Contingencies*

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

### *Subsequent Events*

None.

### **Impact of Inflation**

In fiscal 2010 our weighted food and packaging costs increased approximately 11%. The cumulative weighted menu price increases taken during fiscal 2010 were 1.7%. Most of the 2010 menu price increases were taken in the last four months of fiscal 2010 aggregating a 7.1% cumulative increase. In fiscal 2011 our weighted food and packaging costs

have increased approximately 4.7%. We took a 1.7% menu price increase in February 2011. We anticipate continued cost pressure on several core commodities, including beef, bacon and dairy for the remainder of fiscal 2011. We are planning moderate price increases in fiscal 2011, which may or may not be sufficient to recover increased commodity costs or increases in other operating expenses.

**Seasonality**

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not required.

**ITEM 4T. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

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

**Changes in Internal Control over Financial Reporting**

There have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

Not required.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. (REMOVED AND RESERVED)**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

<u>Exhibit No.</u>	<u>Description</u>
*31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
*31.2	Certification of Controller pursuant to 18 U.S.C. Section 1350
*32.1	Certification of Chief Executive Officer and Controller pursuant to Section 906
*filed herewith	

**SIGNATURES**

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

**GOOD TIMES RESTAURANTS INC.**

DATE: May 16, 2011

/s/ Boyd E. Hoback

Boyd E. Hoback

President and Chief Executive Officer

/s/ Susan M. Knutson

Susan M. Knutson

Controller