

GOOD TIMES RESTAURANTS INC  
Form 10-Q  
May 15, 2012

**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, 2012

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 15, 2012, 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, 2012**

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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>2012</u></b>	<b>September 30, <u>2011</u></b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$586,000	\$847,000
Receivables, net of allowance for doubtful accounts of \$0	86,000	106,000
Prepaid expenses and other	42,000	47,000
Inventories	183,000	191,000
Notes receivable	<u>13,000</u>	<u>5,000</u>
Total current assets	910,000	1,196,000
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Land and building	6,735,000	6,969,000
Leasehold improvements	3,582,000	3,617,000
Fixtures and equipment	<u>7,539,000</u>	<u>7,669,000</u>
	17,856,000	18,255,000
Less accumulated depreciation and amortization	<u>( 12,707,000 )</u>	<u>( 12,533,000 )</u>
	5,149,000	5,722,000
<b>OTHER ASSETS:</b>		
Notes receivable, net of current portion	17,000	10,000
Deposits and other assets	<u>66,000</u>	<u>71,000</u>
	83,000	81,000
<b>TOTAL ASSETS</b>	<b><u>\$6,142,000</u></b>	<b><u>\$6,999,000</u></b>

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

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

\$20,000 and \$26,000 respectively	\$203,000	\$195,000
Accounts payable	489,000	496,000
Deferred income	35,000	101,000
Other accrued liabilities	<u>1,085,000</u>	<u>892,000</u>
Total current liabilities	1,812,000	1,684,000

**LONG-TERM LIABILITIES:**

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

Deferred liabilities	<u>709,000</u>	<u>728,000</u>
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Total long-term liabilities	2,550,000	2,795,000
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**GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)**

(Unaudited)

	<b>March 31, <u>2012</u></b>	<b>September 30, <u>2011</u></b>
<b>STOCKHOLDERS' EQUITY:</b>		
Good Times Restaurants Inc stockholder's equity:		
Preferred stock, \$.01 par value;		
5,000,000 shares authorized, none issued and outstanding		
as of March 31, 2012 and September 30, 2011	-	-
Common stock, \$.001 par value; 50,000,000 shares authorized		
2,726,214 shares issued and outstanding		
as of March 31, 2012 and September 30, 2011	8,000	8,000
Capital contributed in excess of par value	20,008,000	19,977,000
Accumulated deficit	<u>(18,443,000)</u>	<u>(17,680,000)</u>
Total Good Times Restaurants Inc stockholders' equity	1,573,000	2,305,000
Non-controlling interest in partnerships	<u>207,000</u>	<u>215,000</u>
Total stockholders' equity	1,780,000	2,520,000
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$6,142,000</u></b>	<b><u>\$6,999,000</u></b>

*See accompanying notes to condensed consolidated financial statements*

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

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
NET REVENUES:				
Restaurant sales, net	\$4,469,000	\$4,607,000	\$9,216,000	\$9,589,000
Franchise revenues	<u>101,000</u>	<u>96,000</u>	<u>200,000</u>	<u>199,000</u>
Total revenues	4,570,000	4,703,000	9,416,000	9,788,000
RESTAURANT OPERATING COSTS:				
Food and packaging costs	1,551,000	1,660,000	3,213,000	3,418,000
Payroll and other employee benefit costs	1,624,000	1,725,000	3,307,000	3,484,000
Occupancy and other operating costs	964,000	1,020,000	1,999,000	2,104,000
Depreciation and amortization	<u>199,000</u>	<u>203,000</u>	<u>406,000</u>	<u>408,000</u>
Total restaurant operating costs	4,338,000	4,608,000	8,925,000	9,414,000
General and administrative costs	352,000	332,000	694,000	677,000
Advertising costs	222,000	198,000	433,000	414,000
Franchise costs	14,000	19,000	28,000	37,000
Gain on sale of restaurant buildings and equipment	<u>( 6,000 )</u>	<u>( 86,000 )</u>	<u>( 21,000 )</u>	<u>( 98,000 )</u>
LOSS FROM OPERATIONS	( 350,000 )	( 368,000 )	( 643,000 )	( 656,000 )
OTHER INCOME AND (EXPENSES):				
Unrealized income on interest rate swap	5,000	10,000	12,000	23,000
Other income (expense)	(1,000)	27,000	(12,000)	24,000
Interest expense, net	<u>( 50,000 )</u>	<u>( 57,000 )</u>	<u>( 104,000 )</u>	<u>( 168,000 )</u>
Total other income and (expenses)	<u>( 46,000 )</u>	<u>( 20,000 )</u>	<u>( 104,000 )</u>	<u>( 121,000 )</u>
NET LOSS	<u>( \$396,000 )</u>	<u>( \$388,000 )</u>	<u>( \$747,000 )</u>	<u>( \$777,000 )</u>
Income (expense) from non-controlling interest	<u>1,000</u>	<u>( 11,000 )</u>	<u>( 16,000 )</u>	<u>( 27,000 )</u>
NET LOSS ATTRIBUTABLE TO GOOD TIMES RESTAURANTS INC	<u>( \$395,000 )</u>	<u>( \$399,000 )</u>	<u>( \$763,000 )</u>	<u>( \$804,000 )</u>
Net loss per share - basic and diluted				
Net loss	( \$.15 )	( \$.14 )	( \$.27 )	( \$.36 )
Net loss attributable to Good Times Restaurants Inc	( \$.14 )	( \$.15 )	( \$.28 )	( \$.37 )
WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS USED IN PER SHARE CALCULATION: BASIC	2,726,214	2,726,214	2,726,214	2,153,938

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*See accompanying notes to condensed consolidated financial statements*

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

(Unaudited)

	Six Months Ended March 31,	
	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	( \$747,000 )	( \$777,000 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	406,000	408,000
Amortization of debt issuance costs	13,000	35,000
Stock based compensation expense	31,000	30,000
Unrealized gain on interest rate swap	( 12,000 )	( 23,000 )
Accretion of deferred rent	-	(31,000)
Recognition of deferred gain on sale of restaurant building	( 12,000 )	( 79,000 )
Gain on disposal of property and equipment	( 9,000 )	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables and other	19,000	26,000
Inventories	8,000	8,000
Deposits and other	( 3,000 )	( 107,000 )
(Decrease) increase in:		
Accounts payable	( 7,000 )	( 94,000 )
Accrued liabilities and deferred income	<u>137,000</u>	<u>10,000</u>
Net cash used in operating activities	( 176,000 )	( 594,000 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of fixed assets	305,000	946,000
Payments for the purchase of property and equipment	( 120,000 )	( 10,000 )
Payments received (loans made) to franchisees and to others	<u>(15,000)</u>	<u>-</u>
Net cash provided by investing activities	170,000	936,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from common stock sale	-	1,727,000
Principal payments on notes payable and long-term debt	( 231,000 )	( 1,490,000 )
Distributions paid to non-controlling interests	<u>( 24,000 )</u>	<u>( 21,000 )</u>
Net cash provided by (used in) financing activities	<u>( 255,000 )</u>	<u>216,000</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	( 261,000 )	558,000
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>\$847,000</u>	<u>\$429,000</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>\$586,000</u>	<u>\$987,000</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 92,000</u>	<u>\$141,000</u>

*See accompanying notes to condensed consolidated financial statements*



**GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Basis of Presentation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of March 31, 2012 and the results of its operations and its cash flows for the three and six month periods ended March 31, 2012. Operating results for the three and six month periods ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. The condensed consolidated balance sheet as of September 30, 2011 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these financial statements should be read in conjunction with the Company's Form 10-K for the fiscal year ended September 30, 2011.

Commencing in 2011, the Company began analyzing its operations on a regional basis, when evaluating closed restaurant operations for consideration as to the classification between continuing operations and discontinued operations. During 2011 the Company closed two restaurants and in 2012, the Company has closed one restaurant. The operations related to these restaurants are reflected as part of continuing operations as they were within one continuing operating region. The Company had minimal gains in connection with the sales of each of these restaurants and their combined operating losses were approximately \$80,000 in 2011 and very insignificant in 2012. Prior to 2010 the Company evaluated operations at the restaurant level. In its reevaluation the Company determined that as most of the Company's restaurants are within the Denver metropolitan region and share common advertising, distribution, supervision, and to a certain extent even customers, it would be more appropriate to perform its analysis on a regional basis.

During the six month periods ended March 31, 2012 and 2011 the Company incurred expenses of \$12,000 and income of \$24,000, respectively, and has a remaining lease liability of \$80,000 as of March 31, 2012, related to a restaurant that was closed prior to 2011 and was previously classified as discontinued operations. Due to the insignificance of the amounts, the Company has reclassified such amounts as other expense in operations and as other liabilities on the condensed consolidated balance sheet.

Reclassification - Certain prior year balances have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the net income or loss.

**Note 2. Recent Developments**

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

We have entered into a letter of intent and are negotiating the final contract terms for a sale leaseback transaction with an unrelated third party related to one company-owned restaurant in Firestone, Colorado. If consummated the

transaction would provide approximately \$1,400,000 of net proceeds. We also entered into a contract with an unrelated third party on May 10, 2012 for the sale of one company-owned restaurant for \$630,000, subject to certain buyer contingencies. Neither transaction will result in material gains or losses. We anticipate using the proceeds from the transactions to reduce notes payable of \$1,634,000 and to increase our working capital.

As previously disclosed in the Company's current report on Form 8-K filed December 9, 2011, we received notice from Wells Fargo Bank, N.A. (the "Bank") that the Company was not in compliance with certain covenants under the Amended and Restated Credit Agreement dated December 10, 2010 (the "Credit Agreement"), including covenants requiring that the Company's tangible net worth not be less than \$2,500,000 at any time and that the Company deliver certain landlord's disclaimer and consent documents to the Bank. As previously disclosed in the Company's current report on Form 8-K filed December 27, 2011 we entered into a First Amendment to the Amended Credit Agreement and Waiver of Defaults and a Second Amended and Restated Term Note with Wells Fargo Bank (together, the "Amendments") that waived the current covenant defaults and modified the loan covenants and note terms. The Amendments were conditioned upon the closing of the sale of the Littleton restaurant described above and provided for a prepayment of \$100,000 in principal from the proceeds from the sale

of the Littleton, Colorado restaurant, the release of collateral associated with that restaurant, the waiver of certain other collateral requirements, and a revision to the amortization and maturity date of the remaining loan balance as of January 2, 2012 of \$349,000 to December 31, 2013. There was no change to the interest rate of the loan.

In fiscal 2012 we sold one Company-operated restaurant and two franchise restaurants closed. In fiscal 2011, we sold two Company-operated restaurants and a franchisee closed one restaurant. We continue to evaluate the near term realizable asset value of each restaurant compared to its longer term cash flow value and we may choose to sell, sublease or close a limited number of additional lower performing restaurants in fiscal 2012 as we position the company for growth in new store development and reposition our stores away from trade areas that may have shifted demographically or from our current concept direction. We will require additional capital sources to develop additional company-owned restaurants. We anticipate that the sale of lower volume restaurants will improve our operating margins as a percentage of revenue and provide cash resources for the further reduction of our long term debt and increase our working capital.

As reported on its Form 8K on April 6, 2012, the Company entered into a financial advisory services agreement (the "Agreement") with Heathcote Capital LLC ("Heathcote"), pursuant to which Heathcote will provide the Company with exclusive financial advisory services in connection with a possible strategic transaction (the "Transaction"). The services to be provided by Heathcote may involve identifying and contacting potential acquisition targets and/or sources of financing for the Company, advising and assisting the Company in evaluating various structures and forms of any Transaction, assisting in the preparation of proposals and evaluation of offers, and assisting the Company in negotiating the financial aspects of the Transaction. Gary J. Heller, a member of the Company's Board of Directors, is the principal of Heathcote. Accordingly, the Agreement constitutes a related party transaction and was reviewed and approved by the Audit Committee of the Company's Board of Directors.

### **Note 3. Stock-Based Compensation**

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite 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, 2012 and March 31, 2011 includes \$31,000 and \$30,000, respectively, of compensation costs related to our stock-based compensation arrangements.

During the six months ended March 31, 2012, we granted 30,000 non-statutory stock options with an exercise price of \$1.31 and a per-share weighted average fair value was \$1.07.

During the six months ended March 31, 2011, we granted 4,000 non-statutory stock options and 53,233 incentive stock options both 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>Fiscal 2012</b>	<b>Fiscal 2011</b>	<b>Fiscal 2011</b>
	<b>Non-Statutory</b>	<b>Incentive</b>	<b>Non-Statutory</b>
	<b><u>Stock Options</u></b>	<b><u>Stock Options</u></b>	<b><u>Stock Options</u></b>
Expected term (years)	<b>7.5</b>	<b>6.5</b>	<b>6.7</b>
Expected volatility	<b>95.71%</b>	<b>98.54%</b>	<b>97.35%</b>
Risk-free interest rate	<b>1.47%</b>	<b>2.46%</b>	<b>2.52%</b>
Expected dividends	<b>0</b>	<b>0</b>	<b>0</b>

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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, 2012 is presented in the following table:

	<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	166,022	\$ 6.89		
Granted	30,000	\$ 1.31		
Exercised	-			
Forfeited	-			
Expired	<u>( 19,066)</u>	<u>\$ 5.25</u>		
Outstanding Mar 31, 2012	<u>176,956</u>	<u>\$ 6.12</u>	<u>6.8</u>	<u>\$ 0</u>
Exercisable Mar 31, 2012	<u>114,085</u>	<u>\$ 8.48</u>	<u>5.9</u>	<u>\$ 0</u>

As of March 31, 2012, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was \$55,000 and is expected to be recognized over a period of 1.7 years.

There were no stock options exercised during the six months ended March 31, 2012.

#### **Note 4. Comprehensive Income (Loss)**

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

In May 2007, the Company entered into an interest rate swap agreement, designated as a cash flow hedge, which hedges the Company's exposure to interest rate fluctuations on the Company's floating rate original \$1,100,000 term loan, the current balance of which is \$320,000. The contract requires monthly settlements of the difference between the amounts to be received and paid under the agreement, the amount of which is recognized in current earnings as interest expense. In addition we have recognized an unrealized gain of \$15,000 for the six months ended March 31, 2012 in the accompanying Condensed Consolidated Statement of Operations to adjust the liability related to the interest rate swap to fair market value.

#### **Note 5. Contingent Liabilities and Liquidity**

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

In December 2011 the Company amended its note payable to Wells Fargo Bank. At the time the Company was not in compliance with certain loan covenants. Under terms of the amended note agreement, the Company is required to have tangible net worth of not less than \$2.5 million as of December 31, 2012, which is greater than the Company's current tangible net worth. In addition, for the quarter ended June 30, 2012, the Company is required to have an EBITDA coverage ratio of .3 to 1 (and increasing thereafter). The Company is also required to repay this note to the extent any new equity is sold in the Company. While no assurances can be given that the Company will be able to achieve these covenants, the Company believes that it is probable through additional financing, improved EBITDA performance and other alternatives the Company is currently pursuing, it will be able to remain in compliance with the amended covenants. If not, and if the bank elected to accelerate the note, it could adversely impact future operations. However, the Company has paid down the outstanding balance on this loan as of March 31, 2012 to

\$320,000, of which \$175,000 is recorded as a current liability. In addition, the Company is under contract for a sale leaseback transaction and has entered into a contract for the sale of one company-owned restaurant (both are subject to certain buyer contingencies) which together will pay off the PFGI II loan of \$1,634,000 in full and add approximately \$400,000 of additional working capital to the Company's balance sheet if such transactions are closed as contemplated.

**Note 6. 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, 2012 and September 30, 2011.

**Note 7. Assets Held for Sale**

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

**Note 8. Impairment of Long-Lived Assets**

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

An analysis was performed on a restaurant by restaurant basis at March 31, 2012. Assumptions used in preparing expected cash flows were as follows:

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

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

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

Food and packaging costs are projected to decrease approximately 1% as a percentage of sales in relation to our fiscal 2011 food and packaging costs as a result of menu price increases and other menu initiatives.

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

Given the results of our impairment analysis at March 31, 2012 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.

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 9. Fair Value Measurements**

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

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

- Level 1: Quoted market prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than defined in Level 1, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are not corroborated by observable market data.

The following table summarizes financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2012:

Level 2:

Interest Rate Swap liability:

Balance at September 30, 2011	\$57,000
Balance at March 31, 2012	<u>\$15,000</u>
Net change	\$42,000

The unrealized gains for the six month periods ending March 31, 2012 and March 31, 2011 of \$12,000 and \$10,000, respectively, are reported in the Condensed Consolidated Statement of Operations. In conjunction with the amendment to the Wells Fargo Bank note in December 2011 we paid down the interest rate swap liability by \$30,000, thereby aligning the balance due on the note with the interest rate swap agreement. There were no transfers in or out of Level 3 for the three month period ending December 31, 2011.

**Note 10. Income Taxes**

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

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities for the years 2008 through 2011. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a

material adverse effect on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. No accrual for interest and penalties was considered necessary as of March 31, 2012.

**Note 11. 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 12. Subsequent Events**

We have entered into a letter of intent and are negotiating the final contract terms for a sale leaseback transaction with an unrelated third party related to one company-owned restaurant in Firestone, Colorado. If consummated the transaction would provide approximately \$1,400,000 of net proceeds. We also entered into a contract with an unrelated third party on May 10, 2012 for the sale of one company-owned restaurant for \$630,000, subject to certain buyer contingencies. Neither transaction will result in material gains or losses. We anticipate using the proceeds from the transactions to reduce notes payable of \$1,634,000 and to increase our working capital.

**Note 13. Recent Accounting Pronouncements**

There are no current pronouncements that affect the Company.

**Note 14. Stock Transactions**

None.

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

**General**

This Form 10-Q contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and the disclosure of risk factors in the Company's form 10-K for the fiscal year ended September 30, 2011. Also, documents subsequently filed by us with the SEC and incorporated herein by reference may contain forward-looking statements. We caution investors that any forward-looking statements made by us are not guarantees of future performance and actual results could differ materially from those in the forward-looking statements as a result of various factors, including but not limited to the following:

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

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

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

*Restaurant Locations*

We currently operate or franchise a total of forty-two Good Times restaurants, of which thirty-nine are in Colorado, with thirty eight in the Denver greater metropolitan area 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 Greater Metro</b>	<b>Colorado Other</b>	<b>Wyoming</b>	<b>North Dakota</b>
Good Times co-owned & co-developed	23	22	1		
Good Times franchised	13	13			
Dual brand co-owned	1	1			
Dual brand franchised	5	2		2	1
<b>Total</b>	<b>42</b>	<b>38</b>	<b>1</b>	<b>2</b>	<b>1</b>
		<b>As of March 31,</b>			

	<u>2012</u>	<u>2011</u>
Company-owned restaurants	17	19
Co-developed restaurants	7	7
Franchise operated restaurants	<u>19</u>	<u>21</u>
<b>Total restaurants</b>	<b>43</b>	<b>47</b>

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

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

The following presents certain historical financial information of our operations. This financial information includes results for the three and six month periods ending March 31, 2012 and results for the three and six month periods ending March 31, 2011.

## **Results of Operations**

### *Net Revenues*

Net revenues for the three months ended March 31, 2012 decreased \$133,000 (2.8%) to \$4,570,000 from \$4,703,000 for the three months ended March 31, 2011. Same store restaurant sales increased \$281,000 (7.3%) during the three months ended March 31, 2012 for the restaurants that were open for the full three month periods ending March 31, 2012 and March 31, 2011. 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 \$389,000 due to two company-owned restaurants sold in fiscal 2011 and one company-owned restaurant sold in December, 2011. Restaurant sales decreased \$3,000 due to one company-owned dual branded restaurants not included in same store sales. Restaurant sales also decreased \$27,000 due to one non-traditional company-owned restaurant not included in same store sales.

Net revenues for the six months ended March 31, 2012 decreased \$372,000 (3.8%) to \$9,416,000 from \$9,788,000 for the six months ended March 31, 2011. Same store restaurant sales increased \$421,000 (5.3%) during the six months ended March 31, 2012 for the restaurants that were open for the full six month periods ending March 31, 2012 and March 31, 2011. 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 \$731,000 due to two company-owned restaurant sold in fiscal 2011 and one company-owned restaurant sold in December, 2011. Restaurant sales decreased \$11,000 due to one company-owned dual branded restaurants

not included in same store sales. Restaurant sales also decreased \$52,000 due to one non-traditional company-owned restaurant not included in same store sales.

The positive same store sales results for the first two fiscal quarters of 2012 reflect the continuation of the positive momentum we have experienced beginning in the last fiscal quarter of 2010 and continuing through all of fiscal 2011 as a result of new product introductions, brand communication and operational execution.

Our outlook for fiscal 2012 is optimistic based on the last twenty months' of positive sales trends, however our sales trends are influenced by many factors and the macroeconomic environment remains challenging for smaller restaurant chains. Our average transaction increased in fiscal 2011 compared to fiscal 2010 and has continued to increase in fiscal 2012. 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, 2012 increased \$5,000 to \$101,000 from \$96,000 for the three months ended March 31, 2011. Same store Good Times franchise restaurant sales increased 5.7% during the three months ended March 31, 2012 for the franchise restaurants that were open for the full periods ending March 31, 2012 and March 31, 2011. Dual branded franchise restaurant sales increased 5.1% during the three months ended March 31, 2012, compared to the same prior year period.

Franchise revenues for the six months ended March 31, 2012 increased \$1,000 to \$200,000 from \$199,000 for the six months ended March 31, 2011. Same store Good Times franchise restaurant sales increased 3.9% during the six months ended March 31, 2012 for the franchise restaurants that were open for the full periods ending March 31, 2012 and March 31, 2011. Dual branded franchise restaurant sales increased 2.4% during the six months ended March 31, 2012, compared to the same prior year period. In September 2011 the company terminated a franchise agreement with a franchisee operating a Good Times restaurant in Longmont, Colorado.

#### *Restaurant Operating Costs*

Restaurant operating costs as a percent of restaurant sales were 97.1% during the three months ended March 31, 2012 compared to 100% in the same prior year period and were 96.8% during the six months ended March 31, 2011 compared to 98.2% in the same prior year period.

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

	Three Months Ended <u>March 31, 2012</u>	Six Months Ended <u>March 31, 2012</u>
Restaurant-level costs for the period ended March 31, 2011	100%	98.2%
Decrease in food and packaging costs	(1.3%)	(.8%)
Decrease in payroll and other employee benefit costs	(1.1%)	(.5%)
Decrease in occupancy and other operating costs	(.6%)	(.2%)
Increase in depreciation and amortization	<u>.1%</u>	<u>.1%</u>
Restaurant-level costs for the period ended March 31, 2012	97.1%	96.8%

#### *Food and Packaging Costs*

For the three months ended March 31, 2012 our food and paper costs decreased \$109,000 to \$1,551,000 (34.7% of restaurant sales) from \$1,660,000 (36% of restaurant sales) compared to the same prior year period.

For the six months ended March 31, 2012 our food and paper costs decreased \$205,000 to \$3,213,000 (34.9% of restaurant sales) from \$3,418,000 (35.6% of restaurant sales) compared to the same prior year period.

The overall decrease in food and packaging costs for both the three and six month periods is primarily due to lower sales compared to the same prior year period. In addition our food and packaging costs as a percentage of restaurant sales has decreased in fiscal 2012 from a combination of price increases, product sales mix changes and recipe modifications.

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



*Payroll and Other Employee Benefit Costs*

For the three months ended March 31, 2012 our payroll and other employee benefit costs decreased \$101,000 to \$1,624,000 (36.3% of restaurant sales) from \$1,725,000 (37.4% of restaurant sales) compared to the same prior year period. Payroll and other employee benefits decreased \$151,000 in the three months ending March 31, 2012 due to the sale of two company-owned restaurants in fiscal 2011 and one company-owned restaurant sold in December, 2011. The \$151,000 decrease was offset by a \$50,000 increase in payroll and employee benefit costs in the remaining restaurants due to increased sales compared to the same prior year period.

For the six months ended March 31, 2012 our payroll and other employee benefit costs decreased \$177,000 to \$3,307,000 (35.9% of restaurant sales) from \$3,484,000 (36.3% of restaurant sales) compared to the same prior year period. Payroll and other employee benefits decreased \$267,000 in the three months ending March 31, 2012 due to the sale of two company-owned restaurants in fiscal 2011 and one company-owned restaurant sold in December, 2011. The \$177,000 decrease was offset by a \$90,000 increase in payroll and employee benefit costs in the remaining restaurants due to increased sales and an increase in the Colorado state minimum wage on January 1, 2012, compared to the same prior year period.

*Occupancy and Other Operating Costs*

For the three months ended March 31, 2012 our occupancy and other operating costs decreased \$56,000 to \$964,000 (21.6% of restaurant sales) from \$1,020,000 (22.1% of restaurant sales) compared to the same prior year period.

For the six months ended March 31, 2012 our occupancy and other operating costs decreased \$105,000 to \$1,999,000 (21.7% of restaurant sales) from \$2,104,000 (21.9% of restaurant sales) compared to the same prior year period.

The decrease in occupancy and other operating costs in both the three and six month periods compared to the same prior year period is primarily due to the sale of two company-owned restaurants in fiscal 2011 and one company-owned restaurant sold in December. The decrease was offset by increases in rent, utilities, repairs and maintenance and bank supplies and fees in the remaining restaurants, compared to the same prior year period.

*Depreciation and Amortization*

For the three months ended March 31, 2012, our depreciation and amortization decreased \$4,000 to \$199,000 (4.5% of restaurant sales) from \$203,000 (4.4% of restaurant sales) compared to the same prior year period.

For the six months ended March 31, 2012, our depreciation and amortization decreased \$2,000 to \$406,000 (4.4% of restaurant sales) from \$408,000 (4.3% of restaurant sales) compared to the same prior year period.

Depreciation and amortization decreased \$27,000 and \$44,000 for the three and six month periods ended March 31, 2012, respectively, due to the restaurants closed in fiscal 2011 and 2012. The decreases in both periods were offset by an increase related to the restaurant reclassified in fiscal 2011 from held for sale to held and used.

*General and Administrative Costs*

For the three months ended March 31, 2012, general and administrative costs increased \$20,000 to \$352,000 (7.7% of total revenues) from \$332,000 (7.1% of total revenues) for the same prior year period.

For the six months ended March 31, 2012, general and administrative costs increased \$17,000 to \$694,000 (7.4% of total revenues) from \$677,000 (6.9% of total revenues) for the same prior year period.

*Advertising Costs*

For the three months ended March 31, 2012 advertising costs increased \$24,000 to \$222,000 (5.0% of restaurant sales) from \$198,000 (4.3% of restaurant sales) for the same prior year period. The increase is due to an increase in January 2012 to the contribution percentage paid to the advertising funds, compared to the prior year period

For the six months ended March 31, 2012 advertising costs increased \$19,000 to \$433,000 (4.7% of restaurant sales) from \$414,000 (4.3% of restaurant sales) for the same prior year period. The increase is due to an increase in January 2012 to the contribution percentage paid to the advertising funds, compared to the prior year period

Contributions are made to the advertising materials fund and regional advertising cooperative based on a percentage of sales. The percentage contribution for fiscal 2012 increased slightly in January 2012 compared to the prior year period.

### *Franchise Costs*

For the three months ended March 31, 2012, franchise costs decreased \$5,000 to \$14,000 (.3% of total revenues) from \$19,000 (.4% of total revenues) for the same prior year period.

For the six months ended March 31, 2012, franchise costs decreased \$9,000 to \$28,000 (.3% of total revenues) from \$37,000 (.4% of total revenues) for the same prior year period.

### *Gain on Sale of Assets*

For the three months ended March 31, 2012, our gain on the sale of assets decreased \$80,000 to \$6,000 from \$86,000 for the same prior year period. The prior year period includes the recognition of a \$71,000 gain on the sale of one company-owned restaurant sold in February 2011.

For the six months ended March 31, 2012, our gain on the sale of assets decreased \$77,000 to \$21,000 from \$98,000 for the same prior year period. The current six month period ending March 31, 2012 includes a gain of \$9,000 related to the sale of one company-owned restaurant in December 2011 while the prior year period includes a gain of \$71,000 related to the sale of one company-owned restaurant in February 2011.

### *Loss from Operations*

We had a loss from operations of \$350,000 in the three months ended March 31, 2012 compared to a loss from operations of \$368,000 for the same prior year period. We had a loss from operations of \$643,000 in the six months ended March 31, 2012 compared to a loss from operations of \$656,000 for the same prior year period.

The decrease in loss from operations for the three and six month periods is due primarily to an overall decrease in costs as discussed in the "Restaurant Operating Costs", "General and Administrative Costs", "Franchise Costs" and "Loss on Sales of Assets" sections of Item 2 above.

### *Net Loss*

The net loss was \$396,000 for the three months ended March 31, 2012 compared to a net loss of \$388,000 for the same prior year period. The change from the three month period ended March 31, 2012 to March 31, 2011 was primarily attributable to the decrease in loss from operations for the three months ended March 31, 2012, a decrease in net interest expense of \$7,000 and an increase in other expenses compared to the same prior year period.

The net loss was \$747,000 for the six months ended March 31, 2012 compared to a net loss of \$777,000 for the same prior year period. The change from the six month period ended March 31, 2012 to March 31, 2011 was primarily attributable to the decrease in loss from operations for the six months ended March 31, 2012, as well as a decrease in net interest expense of \$64,000 compared to the same prior year period. Net interest expense for the six months ended March 31, 2012 includes non-cash amortization of debt issuance costs of \$12,000 compared to \$35,000 in the same prior year period. A decrease in our long term notes payable accounts for the remaining \$41,000 decrease in net interest expense, compared to the same prior year period.

## **Liquidity and Capital Resources**

### *Cash and Working Capital*

As of March 31, 2012, we had \$586,000 in cash and cash equivalents on hand. We currently plan to use the cash balance and any cash generated from operations for our working capital needs in fiscal 2012. We believe that we will have sufficient capital to meet our working capital, long term debt obligations and recurring capital expenditure needs in fiscal 2012. Additionally, we may sell or sublease select underperforming company operated restaurants if

we believe the realizable asset value is greater than the long term cash flow value or if the asset does not fit our longer term goal for distribution and location of restaurants.

As of March 31, 2012, we had a working capital deficit of \$909,000 due to normal recurring accounts payable and other accrued liabilities exceeding our cash and other current assets as well as 2011 property taxes of approximately \$350,000 due in April 2011. Because restaurant sales are collected in cash and accounts payable for food and paper products are paid two to four weeks later, restaurant companies often operate with working capital deficits. We anticipate that working capital deficits will be incurred in the future and possibly increase as new Good Times restaurants are opened.

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

### *Liquidity*

As discussed herein, in December 2011 the Company amended its note payable to Wells Fargo Bank. At the time the Company was not in compliance with certain loan covenants. Under terms of the amended note agreement, the Company is required to have tangible net worth of not less than \$2.5 million as of December 31, 2012, which is greater than the Company's current tangible net worth. In addition, for the quarter ended June 30, 2012, the Company is required to have an EBITDA coverage ratio of .3 to 1 (and increasing thereafter). While there is no assurance that the Company will be able to achieve these covenants, the Company believes that it is probable through additional financing, improved EBITDA performance and other alternatives the Company is currently pursuing, it will be able to remain in compliance with the amended covenants. If not, and if the bank elected to accelerate the note, it could adversely impact future operations. However, the Company has paid down the outstanding balance on this loan as of March 31, 2012 to \$320,000, of which \$175,000 is recorded as a current liability. In addition, the Company has entered into a letter of intent and is negotiating the contract terms for a sale leaseback transaction and has entered into a contract for the sale of one company-owned restaurant (subject to certain buyer contingencies) which together will pay off the PFGI II loan of \$1,634,000 in full and add approximately \$400,000 of additional working capital to the Company's balance sheet if such transactions are closed as contemplated.

### *Financing Activities*

Wells Fargo Note Payable: In May 2007 we borrowed \$1,100,000 from Wells Fargo Bank (the "Bank") under a note payable with an eight year term with a floating interest rate at .50% below prime. We simultaneously entered into an interest rate swap transaction with Wells Fargo Bank for the full \$1,100,000 with a fixed interest rate of 7.77% for the full eight year term coinciding with the note payable. As previously disclosed in the Company's current report on Form 8-K filed December 17, 2010, we entered into a new Credit and Loan Agreement that modified the loan covenants and provided additional collateral to Wells Fargo for the then remaining loan balance of \$528,552. In addition to the normal recurring principal payments we have made principal payments of \$90,000 in fiscal 2011 from the proceeds of the sale of two company-owned restaurants in Colorado Springs, Colorado to further reduce the note payable thereby reducing certain collateral under the modified Credit and Loan Agreement.

On December 27, 2011, Good Times Restaurants Inc. and its subsidiary Good Times Drive Thru Inc. (together, the "Company") entered into a First Amendment To Amended and Restated Credit Agreement and Waiver of Defaults and a Second Amended and Restated Term Note in the principal amount of \$470,874 (together the Amendments") with the Bank. The Amendments were conditional upon the closing of the sale of the Littleton restaurant described under Recent Events and provide for a reduction in the principal amount of the loan by an additional \$100,000 from the proceeds of that sale, the release of collateral associated with that restaurant and a modification to the repayment terms and maturity date of the loan to December 31, 2013. The Amendments waived the current covenant defaults asserted by the Bank and modify certain financial covenants in the Credit Agreement requiring the Company to have a Net Worth not less than \$2,500,000 as of December 31, 2012 and thereafter and an EBITDA Coverage Ratio not less than (i) 0.30 to 1.00 as of the end of the third quarter ending June 30, 2012, (ii) 0.70 to 1.00 as of the end of the fiscal year ending September 30, 2012, and (iii) .90 to 1.00 as of the end of each fiscal quarter thereafter, determined on a rolling 4-quarter basis. The Company is required to prepay the Term Loan up to the full outstanding principal balance of the note (in addition to any and all other obligations due to Bank including the Interest Rate Swap) upon the sale of any stock or other equity interest in the Company. There was not any change to the interest rate or fees payable to the Bank under the Amendment and the re-amortized loan balance was \$320,000 as of March 31, 2012. Repayment of the loan is secured by equipment in various restaurants owned by the Company.

PFGI II LLC Promissory Note: In July 2008, we entered into a \$2,500,000 promissory note with an unrelated third party (PFGI II, LLC) and amended that note on April 20, 2009 extending the maturity to July 10, 2010. Effective January 2, 2010, the Company entered into an agreement to amend its loan with PFGI II LLC. The maturity date was extended to December 31, 2012, the interest rate was increased to 8.65% and monthly payments of principal and interest are payable beginning January 31, 2010, based upon a 25 year amortization prior to maturity. In April 2012 PFGI II, LLC agreed to extend the loan to December 31, 2013 on the existing note terms if a sale leaseback has not been completed on the Firestone property and subject to the prepayment of \$300,000 from the proceeds of the sale of a restaurant that is expected to close by June 30, 2012.

In connection with the agreement, the Company issued a three-year warrant dated January 2, 2010 to PFGI II, LLC which provides that PFGI II, LLC may at any time from January 2, 2010 until December 31, 2012 purchase up to 37,537 shares of the Company's common stock at an exercise price of \$3.33 per share. The number of shares purchasable upon exercise of the warrant and the exercise price are subject to customary anti-dilution adjustments upon the occurrence of any stock dividends, stock splits, reverse stock splits, recapitalizations, reclassifications, stock combinations or similar events. The fair value of the warrant issued to PFGI II, LLC was determined to be \$79,000 with the following assumptions; 1) risk free interest rate of 1.7%, 2) an expected life of 3 years, and 3) an expected dividend yield of zero. The fair value of \$79,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount is being amortized over the term of thirty six months and charged to interest expense.

The promissory note originally constituted a revolving line-of-credit for the development of new restaurants which was advanced and repaid on a monthly basis from time to time. The promissory note now constitutes a term loan with monthly payments of principal and interest. The loan is secured by separate leasehold deeds of trust and security agreements related to six company-owned restaurants and a first deed of trust on one real property funded by the line of credit. On December 5, 2010 the company sold a parcel of land in Aurora, Colorado and used approximately \$812,000 of the net proceeds to reduce the loan balance. The total outstanding balance on the promissory note was \$1,634,000 at March 31, 2012. Of the \$1,634,000 outstanding balance, \$1,595,000 is related to the construction of one company-owned restaurant in Firestone, Colorado that opened in October 2008.

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

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

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

In connection with the Bridge Loans, the Company issued warrants dated February 1, 2010 to W Capital and McDonald which provide that the lenders may at any time from February 1, 2010 until two years from the date of repayment or conversion of the Bridge Loans purchase up to an aggregate of 16,667 shares of the Company's Common Stock at an exercise price of 25% less than the average price of the Company's common stock during the

20 days prior to the exercise date, provided, however, that the exercise price shall not be below \$2.25 per share nor above \$3.24 per share. Pursuant to the terms of the loan agreement, because the Bridge Loans were not repaid prior to August 1, 2010, the Company issued warrants to W Capital and McDonald for the purchase of 16,667 additional shares of the Company's Common Stock upon the same terms as the initial warrants. The number of shares purchasable upon exercise of the warrants issued to W Capital and McDonald and the exercise price are subject to customary anti-dilution adjustments upon the occurrence of any stock dividends, stock splits, reverse stock splits, recapitalizations, reclassifications, stock combinations or similar events. The warrants will expire on December 12, 2012.



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

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

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

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

The Purchase Agreement provides that for so long as SII holds more than 50 percent of our outstanding common stock, (i) our Board of Directors shall consist of seven members, and (ii) SII will have the right to designate four members of our Board. During fiscal 2011 SII agreed to a Board of Directors temporarily consisting of six members, retaining the right to designate a seventh member and on April 6, 2012 SII designated Alan Teran as that seventh member and its fourth designee. In addition, the Purchase Agreement provides that for a period of three years following the Closing, as long as SII continues to own at least 80 percent of its Common Stock acquired, SII will have a right of first refusal to purchase additional securities which are offered and sold by the Company for the purpose of maintaining its percentage interest in the Company.

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

### *Capital Expenditures*

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

### *Cash Flows*

Net cash used in operating activities was \$176,000 for the six months ended March 31, 2012. The net cash used in operating activities for the six months ended March 31, 2012 was the result of a net loss of (\$747,000) as well as cash

and non-cash reconciling items totaling \$571,000 (comprised of depreciation and amortization of \$406,000, stock-based compensation expense of \$31,000, amortization of debt issuance costs of \$13,000, an increase in other accrued liabilities of \$137,000 and a net decrease in other operating assets and liabilities of \$16,000).

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 provided by investing activities for the six months ended March 31, 2012 was \$170,000 which reflects proceeds from the sale of property of \$305,000, payments of \$24,000 for miscellaneous restaurant related capital expenditures, payments of \$54,000 for the completion of the installation of new menu boards, \$42,000 for the exterior reimagining of one restaurant and \$15,000 in loans, net of repayments, to franchisees.

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 financing activities for the six months ended March 31, 2012 was \$255,000, which includes principal payments on notes payable and long term debt of \$231,000 and distributions to non-controlling interests of \$24,000.

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.

### *Contingencies*

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

### *Subsequent Events*

We have entered into a letter of intent and are negotiating the final contract terms for a sale leaseback transaction with an unrelated third party related to one company-owned restaurant in Firestone, Colorado. If consummated the transaction would provide approximately \$1,400,000 of net proceeds. We also entered into a contract with an unrelated third party on May 10, 2012 for the sale of one company-owned restaurant for \$630,000, subject to certain buyer contingencies. Neither transaction will result in material gains or losses. We anticipate using the proceeds from the transactions to reduce notes payable of \$1,634,000 and to increase our working capital.

### **Impact of Inflation**

In fiscal 2011 our weighted food and packaging costs increased approximately 5%. We implemented a 1.2% menu price increase in February 2011, a 1.1% menu price increase in late May 2011 and a 2.4% menu price increase in September 2011. We anticipate continued cost pressure on several core commodities, including beef, bacon and dairy for fiscal 2012. However, we anticipate our food and packaging costs as a percentage of sales will decrease in fiscal 2012 from a combination of price increases, product sales mix changes and recipe modifications. We are planning moderate price increases in fiscal 2012, which may or may not be sufficient to recover increased commodity costs or increases in other operating expenses.

### **Seasonality**

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

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

Not required.

**ITEM 4T. CONTROLS AND PROCEDURES**

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

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

**Changes in Internal Control over Financial Reporting**

There have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31, 2012 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 1B. UNRESOLVED STAFF COMMENTS**

The Company has outstanding unresolved comments from the SEC from a letter it received on April 13, 2012 relating to its Form 10-K for the year ended September 30, 2011.

**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:

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

\*filed herewith

**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 15, 2012

/s/ Boyd E. Hoback

Boyd E. Hoback

President and Chief Executive Officer

/s/ Susan M. Knutson

Susan M. Knutson

Controller