

GOOD TIMES RESTAURANTS INC  
Form 10-Q  
August 14, 2009

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 June 30, 2009

OR

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

Commission File Number: 0-18590

GOOD TIMES RESTAURANTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

NEVADA  
(State or Other Jurisdiction of

84-1133368  
(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 .

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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 August 14, 2009, there were 3,898,559 shares of the Registrant's common stock, par value \$0.001 per share, issued and outstanding.

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**Form 10-Q****Quarter Ended June 30, 2009**

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

|  | <b>Unaudited</b><br>June 30,<br><u>2009</u> | - | September 30,<br><u>2008</u> |
|--|---|---|------------------------------|
| <b>CURRENT ASSETS:</b>                         |   |   |                              |
| Cash and cash equivalents                      | \$671,000                                   |   | \$1,414,000                  |
| Receivables, net of allowance for doubtful     |   |   |                              |
| accounts of \$0                                | 140,000                                     |   | 160,000                      |
| Prepaid expenses and other                     | 94,000                                      |   | 79,000                       |
| Inventories                                    | 221,000                                     |   | 240,000                      |
| Notes receivable                               | <u>40,000</u>                               | - | <u>35,000</u>                |
| Total current assets                           | 1,166,000                                   |   | 1,928,000                    |
| <b>PROPERTY AND EQUIPMENT, at cost:</b>        |   |   |                              |
| Land and building                              | 6,594,000                                   |   | 6,566,000                    |
| Leasehold improvements                         | 4,107,000                                   |   | 4,017,000                    |
| Fixtures and equipment                         | <u>8,441,000</u>                            | - | <u>8,303,000</u>             |
|  | 19,142,000                                  |   | 18,886,000                   |
|  |   | - |                              |
| Less accumulated depreciation and amortization | <u>(11,544,000)</u>                         | - | <u>(10,602,000)</u>          |
|  | 7,598,000                                   |   | 8,284,000                    |
|  |   |   |                              |
| <b>Assets held for sale</b>                    | <b>1,595,000</b>                            |   | 1,574,000                    |
| <b>OTHER ASSETS:</b>                           |   |   |                              |
| Notes receivable, net of current portion       | 83,000                                      |   | 83,000                       |
| Deposits and other assets                      | <u>61,000</u>                               | - | <u>51,000</u>                |
|  | <u>144,000</u>                              | - | <u>134,000</u>               |
| <b>TOTAL ASSETS</b>                            | <b><u>\$10,503,000</u></b>                  | - | <b><u>\$11,920,000</u></b>   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    |   |   |                              |

|  |                |                  |
|--|----------------|------------------|
| <b>CURRENT LIABILITIES:</b>  |                |                  |
| Current maturities of long-term debt   | \$879,000      | \$2,304,000      |
| Accounts payable   | 365,000        | 628,000          |
| Deferred income  | 158,000        | 139,000          |
| Other accrued liabilities  | <u>851,000</u> | <u>939,000</u>   |
| Total current liabilities  | 2,253,000      | 4,010,000        |
| <b>LONG-TERM LIABILITIES:</b>  |                |                  |
| Debt, net of current portion and net of discount of \$35,000 and \$0, respectively | 2,650,000      | 846,000          |
| Deferred liabilities   | <u>980,000</u> | <u>1,071,000</u> |
| Total long-term liabilities  | 3,630,000      | 1,917,000        |

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

|   | <b>Unaudited</b>           |                             |
|---|----------------------------|-----------------------------|
|   | June 30,                   | September 30,               |
|   | <b><u>2009</u></b>         | <b><u>2008</u></b>          |
| <b>MINORITY INTERESTS IN PARTNERSHIPS</b>   | 470,000                    | 584,000                     |
| Preferred stock, \$.01 par value;<br>5,000,000 shares authorized, none issued<br>and outstanding as of September 30, 2008 and<br><br>June 30, 2009            | -                          | -                           |
| Common stock, \$.001 par value; 50,000,000 shares<br>Authorized, 3,898,559 shares issued and<br>outstanding as of September 30, 2008 and<br><br>June 30, 2009 | 4,000                      | 4,000                       |
| Accumulated other comprehensive loss  | -                          | (68,000)                    |
| Capital contributed in excess of par value  | 17,732,000                 | 17,633,000                  |
| Accumulated deficit   | <u>(13,586,000)</u>        | <u>(12,160,000)</u>         |
| Total stockholders' equity  | <u>4,150,000</u>           | <u>5,409,000</u>            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS'<br/>EQUITY</b>   | <b><u>\$10,503,000</u></b> | <b><u>\$ 11,920,000</u></b> |

See accompanying notes to condensed consolidated financial statements

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

(Unaudited)

|  | <b>Three Months Ended<br/>June 30,</b> |                     | <b>Nine Months Ended June<br/>30,</b> |                    |
|--|--|---------------------|---------------------------------------|--------------------|
|  | <u><b>2009</b></u>                     | <u><b>2008</b></u>  | <u><b>2009</b></u>                    | <u><b>2008</b></u> |
| <b>NET REVENUES:</b>                                     |  |                     |                                       |                    |
| Restaurant sales, net                                    | \$6,193,000                            | \$6,827,000         | \$17,120,000                          | \$18,745,000       |
| Franchise revenues                                       | <u>138,000</u>                         | <u>169,000</u>      | <u>412,000</u>                        | <u>491,000</u>     |
| Total revenues   | 6,331,000                              | 6,996,000           | 17,532,000                            | 19,236,000         |
| <b>RESTAURANT OPERATING COSTS:</b>                       |  |                     |                                       |                    |
| Food and packaging costs                                 | 2,115,000                              | 2,156,000           | 5,774,000                             | 5,832,000          |
| Payroll and other employee benefit costs                 | 2,072,000                              | 2,266,000           | 6,099,000                             | 6,543,000          |
| Occupancy and other operating costs                      | 1,234,000                              | 1,261,000           | 3,625,000                             | 3,558,000          |
| Accretion of deferred rent                               | -                                      | 9,000               | -                                     | 24,000             |
| Opening costs  | -                                      | 7,000               | 15,000                                | 7,000              |
| Depreciation and amortization                            | <u>317,000</u>                         | <u>332,000</u>      | <u>944,000</u>                        | <u>955,000</u>     |
| Total restaurant operating costs                         | 5,738,000                              | 6,031,000           | 16,457,000                            | 16,919,000         |
| General and administrative costs                         | 346,000                                | 540,000             | 1,238,000                             | 1,580,000          |
| Advertising costs  | 347,000                                | 403,000             | 969,000                               | 1,134,000          |
| Franchise costs  | 35,000                                 | 88,000              | 108,000                               | 275,000            |
| (Gain) loss on sale of restaurant building and equipment | <u>(7,000)</u>                         | <u>(9,000)</u>      | <u>(22,000)</u>                       | <u>(28,000)</u>    |
| <b>LOSS FROM OPERATIONS</b>                              | (128,000)                              | (57,000)            | (1,218,000)                           | (644,000)          |
| <b>OTHER INCOME AND (EXPENSES):</b>                      |  |                     |                                       |                    |
| Minority income (expense), net                           | (3,000)                                | (56,000)            | 60,000                                | (97,000)           |
| Unrealized gain (loss) on interest rate swap             | 29,000                                 | -                   | (87,000)                              | -                  |
| Interest income (expense), net                           | <u>(78,000)</u>                        | <u>(8,000)</u>      | <u>(182,000)</u>                      | <u>(5,000)</u>     |
| Total other expenses                                     | <u>(52,000)</u>                        | <u>(64,000)</u>     | <u>(209,000)</u>                      | <u>(102,000)</u>   |
| <b>NET LOSS</b>  | <u>(\$180,000)</u>                     | <u>(\$ 121,000)</u> | <u>(\$1,427,000)</u>                  | <u>(746,000)</u>   |
| <b>BASIC AND DILUTED NET LOSS PER COMMON SHARE</b>       | <u>(\$ .05)</u>                        | <u>(\$ .03)</u>     | <u>(\$ .37)</u>                       | <u>(\$ .19)</u>    |
| <b>WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS</b>    |  |                     |                                       |                    |
| <b>USED IN PER SHARE CALCULATION: BASIC AND DILUTED</b>  | 3,898,559                              | 3,895,745           | 3,898,559                             | 3,882,758          |



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

(Unaudited)

For the Nine Months Ended

|   | June 30,            |                    |
|---|---------------------|--------------------|
|   | <u>2009</u>         | <u>2008</u>        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                     |                    |
| Net loss  | (\$1,427,000)       | (\$746,000)        |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                     |                    |
| Depreciation and amortization   | 944,000             | 955,000            |
| Amortization of discount on notes payable   | 7,000               | -                  |
| Stock based compensation expense  | 58,000              | 69,000             |
| Unrealized loss on interest rate swap   | 87,000              | -                  |
| Accretion of deferred rent  | -                   | 24,000             |
| Minority interest   | (60,000)            | 97,000             |
| Expenses associated with exit activity  | -                   | 95,000             |
| Recognition of deferred (gain) on sale of restaurant building                             | (22,000)            | (23,000)           |
| Loss (gain) on sale of assets   | -                   | (5,000)            |
| Changes in operating assets and liabilities:  |                     |                    |
| (Increase) decrease in:   |                     |                    |
| Receivables and other assets  | -                   | (130,000)          |
| Inventories   | 19,000              | (20,000)           |
| (Decrease) increase in:   |                     |                    |
| Accounts payable  | (263,000)           | 55,000             |
| Accrued liabilities and deferred income   | <u>(164,000)</u>    | <u>(58,000)</u>    |
| Net cash provided by (used in) operating activities                                       | (821,000)           | 313,000            |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |                     |                    |
| Payments for the purchase of property and equipment                                       | (277,000)           | (729,000)          |
| Proceeds from sale of fixed assets  | -                   | 747,000            |
| Purchase of franchisee assets   | -                   | (273,000)          |
| Loans made to franchisees and to others   | (31,000)            | -                  |
| Payments received on loans to franchisees and to others                                   | <u>26,000</u>       | <u>59,000</u>      |
| Net cash used in investing activities   | (282,000)           | (196,000)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                     |                    |
| Principal payments on notes payable, and long-term debt                                   | (91,000)            | (89,000)           |
| Net Proceeds (repayments) on revolving lines of credit                                    | 320,000             | (750,000)          |
| Proceeds from notes payable   | 185,000             | -                  |
| Proceeds from exercise of options   | -                   | 103,000            |
| Distributions paid to minority interests in partnerships                                  | <u>(54,000)</u>     | <u>(219,000)</u>   |
| Net cash provided by (used in) financing activities                                       | <u>360,000</u>      | <u>(955,000)</u>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | (743,000)           | (838,000)          |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                                     | <u>\$ 1,414,000</u> | <u>\$2,465,000</u> |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>   | <u>\$ 671,000</u>   | <u>\$1,627,000</u> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                                 |                     |                    |

Nine Months Ended June30,



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|   |                  |                  |
|---|------------------|------------------|
| Cash paid for interest  | <u>\$207,000</u> | <u>\$ 64,000</u> |
| Non-cash deferred hedging losses                                  | <u>\$ -</u>      | <u>\$ 55,000</u> |
| Non-cash acquisition price of franchise stores (notes receivable) | <u>\$ -</u>      | <u>\$250,000</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 June 30, 2009, the results of its operations and its cash flows for the three and nine month periods ended June, 2009. Operating results for the three and nine month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. The condensed consolidated balance sheet as of September 30, 2008 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-KSB for the fiscal year ended September 30, 2008.

**Note 2. Recent Developments**

After several years of same store sales growth, including several months of double digit growth in fiscal 2007 and early fiscal 2008, we experienced a dramatic change in our sales trends, beginning in early calendar 2008 and continuing through June 2009, as the economy slowed and competitive pricing pressures intensified. Due to the dramatic decline in consumer spending, the unprecedented rise in commodity costs and the upheaval in the credit markets, we suspended most of our restaurant development.

On April 20, 2009 as reported on form 8-K, Good Times Restaurants Inc. (the "Company") and Good Times Drive Thru Inc. ("GTDT"), a wholly owned subsidiary of 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 "Loan") to GTDT to be used for restaurant marketing and other working capital costs. The Loan is evidenced by a promissory note dated April 20, 2009 (the "Note") made by the Company and GTDT, as co-makers, and shall bear interest at a rate of 10% per annum on the unpaid principal balance. The Note provides for monthly interest payments and will mature and be due and payable in full on July 10, 2010.

The Loan Agreement and the Note are subject to the terms of an intercreditor agreement dated April 20, 2009 (the "Intercreditor Agreement"), among the Company, GTDT, Golden Bridge and PFGI II, LLC ("PFGI"). As previously reported by the Company, GTDT currently has a \$2,500,000 revolving line of credit with PFGI (the "PFGI Loan"), which was scheduled to mature on July 10, 2009, under which \$2,500,000 was outstanding as of April 20, 2009. In connection with PFGI's entry into the Intercreditor Agreement, GTDT and the Company entered into a first amendment to the amended and restated promissory note dated April 20, 2009 (the "PFGI Note Amendment"), which extended the maturity date of the PFGI Loan until July 10, 2010 and eliminated a loan balance threshold for release of the collateral securing the PFGI Loan.

In connection with the Loan, the Company issued a three-year warrant dated April 20, 2009 (the "Warrant") to Golden Bridge which provides that Golden Bridge may at any time from April 20, 2009 until April 20, 2012 purchase up to 92,500 shares of the Company's common stock (the "Warrant Shares") at an exercise price of \$1.15 per share. The fair value of the warrants issued was determined to be \$42,000 with the following assumptions; 1) risk free interest rate of 1.27%, 2) an expected life of 3 years, and 3) an expected dividend yield of zero. The fair value of \$42,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount will be amortized over fourteen months and charged to interest expense.

See *Financing Activities* under the *Liquidity and Capital Resources* section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations below for further details of the above transaction.

**Note 3. Debt Covenant Compliance**

As reported on the form 8-K filed on January 23, 2009, we are in default of certain technical loan covenants on our note payable to Wells Fargo Bank, N.A. ("the Bank"). Therefore all amounts owing under this facility are reflected as current in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2009. We have never been in payment default on the note and expect to be able to remain current on payments in fiscal 2009, depending on our sales trends and cash flow from operations. On February 9, 2009 we received a Reservation of Rights letter from the Bank formally notifying us of the default of the Earnings Before Interest Taxes and Depreciation ("EBITDA") Coverage Ratio of not less than 1.5 to 1.0 and the Tangible Net Worth of not less than \$5,000,000 as set forth in the Credit Agreement for the period ending December 31, 2008. The letter serves as notice that notwithstanding the foregoing events of default, the Bank is reserving all of its rights and remedies under the Credit Agreement and related agreements.

The Bank is not accelerating the Loan at this time and is continuing to accept regularly scheduled payments of principal and interest under the Loan, however the acceptance of payments under the Loan does not constitute a modification of the Credit Agreement or a waiver of any of the covenants or of the Bank's rights or remedies under the Credit Agreement, including the right to accelerate the loan in the future after the giving of notice. We will continue to work with the Bank on a Required Corrective Action for compliance with existing or modified loan covenants. There can be no assurance that the Bank will agree to modify or waive any of the loan covenants or waive any of its rights or remedies under the Credit Agreement and we would require additional financing to repay the loan balance. The loan is secured by security agreements in the equipment of four restaurants.

**Note 4. Stock-Based Compensation**

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 nine months ended June 30, 2009 and June 30, 2008 includes \$58,000 and \$69,000, respectively, of compensation costs related to our stock-based compensation arrangements.

During the nine months ended June 30, 2009, we granted 12,000 non-statutory stock options and 68,400 incentive stock options both with exercise prices of \$1.47. The per share weighted average fair value was \$.97 for both 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 Stock Options</b> | <b>Non-Statutory Stock Options</b> |
|-----------------------|--------------------------------|------------------------------------|
| Expected term (years) | <b>6.5</b>                     | 6.7                                |
| Expected volatility   | <b>69.7%</b>                   | 69.2%                              |

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|                         |              |       |
|-------------------------|--------------|-------|
| Risk-free interest rate | <b>2.79%</b> | 2.84% |
| 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.

SFAS 123(R) requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. These excess tax benefits were \$0 for the three and nine months ended June 30, 2009.

A summary of stock option activity under our share-based compensation plan for the nine months ended June 30, 2009 is presented in the following table:

|                          | <u>Options</u>  | <u>Weighted Average<br/>Exercise Price</u> | <u>Weighted Average<br/>Remaining<br/>Contractual<br/>Life (Yrs.)</u> | <u>Aggregate<br/>Intrinsic Value</u> |
|--------------------------|-----------------|--|---|--------------------------------------|
| Outstanding-beg of year  | 353,942         | \$4.04                                     |   |                                      |
| Granted                  | 80,400          | \$1.47                                     |   |                                      |
| Exercised                | -               |  |   |                                      |
| Forfeited                | (14,760)        | \$4.91                                     |   |                                      |
| Expired                  | <u>(39,951)</u> | <u>\$3.21</u>                              |   |                                      |
| Outstanding Jun 30, 2009 | <u>379,631</u>  | <u>\$3.55</u>                              | <u>5.8</u>  | <u>\$0</u>                           |
| Exercisable Jun 30, 2009 | <u>271,356</u>  | <u>\$3.68</u>                              | <u>4.6</u>  | <u>\$0</u>                           |

As of June 30, 2009, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was \$125,000 and is expected to be recognized over a period of 2.33 years.

There were no stock options exercised during the nine months ended June 30, 2009.

#### **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.

As of December 31, 2008 and continuing through June 30, 2009 we are in default of certain technical covenants on the underlying term loan (see note 3 above) and we have therefore recognized an unrealized loss of \$87,000 for the nine months ended June 30, 2009 in the accompanying Condensed Consolidated Statement of Operations. As long as the underlying loan is in covenant default we will adjust the unrealized gain or loss through the statement of operations as non-cash income or expense.

#### **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**

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

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Alan Teran, who are all members of the Company's Board of Directors and stockholders of the Company, are the sole members of Golden Bridge. Eric Reinhard is the sole manager 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. See Note 2 above for the terms of the loan. Amounts due to related parties that are included in notes payable are \$185,000 and \$0 at June 30, 2009 and 2008, respectively.

### **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. A sale and leaseback agreement that was under contract in the first quarter of fiscal 2009 was terminated and the restaurant is being marketed for sale and leaseback. 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**

The Company reviews its long-lived assets in accordance with SFAS No. 144, including land, property and equipment 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 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).

The analysis is performed on a restaurant by restaurant basis. Assumptions used in preparing expected cash flows were as follows: 1) beginning in fiscal 2010 restaurant sales are projected to increase at the rate of 3% annually and 2) restaurant level costs are projected to increase at the rate of 1% annually.

To date we have not written down any assets due to impairment, however 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 at the restaurant level.

### **Note 10. Fair Value Measurements**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Effective October 1, 2008, the Company adopted the provisions of SFAS 157 related to financial assets and liabilities, as well as other assets and liabilities carried at fair value on a recurring basis. These provisions, which have been applied prospectively, did not have a material impact on the Company's consolidated financial statements. Certain other provisions of SFAS 157 related to other non-financial assets and liabilities will be effective for the Company on July 1, 2009, and will be applied prospectively. The adoption of the provisions of SFAS 157 related to other non-financial assets and liabilities is not expected to have a material impact on the consolidated financial statements of the Company.

SFAS 157 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 SFAS 157 are as follows:

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



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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 June 30, 2009:

Level 2

Interest Rate Swap liability      \$87,000

**Note 11. Accounting Policies**

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109, "Accounting for Income Taxes." FIN 48 provides interpretive guidance for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 requires the affirmative evaluation that it is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the "more-likely-than-not" recognition threshold, the benefit of that position is not recognized in the financial statements. FIN 48 was effective for the fiscal year beginning October 1, 2007 and there is no cumulative effect of applying FIN 48.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159. "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 was effective for the fiscal year beginning October 1, 2008. The adoption of SFAS 159 did not have any effect on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative instruments and Hedging Activities" ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements in SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, which became effective for our interim period beginning January 1, 2009. The adoption of SFAS 161 did not have any effect on the Company's financial position, results of operations or cash flows.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 was effective for interim or annual financial periods ending after June 15, 2009, the quarter ending June 30, 2009 for the Company. The adoption of SFAS 165 did not have any effect on the Company's financial position, results of operations or cash flows.

**Note 12. Income Taxes**

On October 1, 2007, the Company adopted the provisions of FIN 48. There were no material tax positions not meeting the "more-likely-than-not" recognition threshold and therefore there is no cumulative effect of applying FIN 48.

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, 2004 through 2008 remaining open to examination.

**Note 13. New Accounting Pronouncements**

Nine Months Ended June30,

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), "Business Combinations" ("FAS 141 (R)"), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business. This accounting pronouncement is effective for fiscal years beginning after December 15, 2008, which will effective for our fiscal year beginning October 1, 2009. The requirements of FAS 141 will only impact future business combination transactions into which we may enter.

In December 2007, the FASB issued FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements and amendment to ARB No. 51" ("FAS 160"). This standard prescribes the accounting by a parent company for minority interests held by other parties in a subsidiary of the parent company. FAS 160 is effective for fiscal years beginning after December 15, 2008, which will be effective for our fiscal year beginning October 1, 2009. We are currently evaluating the requirements of FAS 160 and have not yet determined the impact on our financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 provides for the FASB Accounting Standards Codification (the "Codification") to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS 168 is effective for interim and annual periods ending after September 15, 2009, which will be effective for our fiscal year ending September 30, 2009.

#### **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-KSB for the fiscal year ended September 30, 2008. 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 continue to 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 fifty-two Good Times restaurants, of which forty-eight are in Colorado, with forty-three in the Denver greater metropolitan area, three in Colorado Springs, one in Grand Junction and one in Silverthorne. Eight 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 five in Colorado.

|                                    |              | <b>Denver, CO</b>    | <b>Colorado</b> |              |                | <b>North Dakota</b> |
|------------------------------------|--------------|----------------------|-----------------|--------------|----------------|---------------------|
|                                    | <b>Total</b> | <b>Greater Metro</b> | <b>Other</b>    | <b>Idaho</b> | <b>Wyoming</b> |                     |
| Good Times co-owned & co-developed | 27           | 24                   | 3               |              |                |                     |
| Good Times franchised              | 17           | 14                   | 2               | 1            |                |                     |
| Dual brand co-owned                | 3            | 3                    |                 |              |                |                     |
| Dual brand franchised              | 5            | 2                    |                 |              | 2              | 1                   |
| <b>Total</b>                       | <b>52</b>    | <b>43</b>            | <b>5</b>        | <b>1</b>     | <b>2</b>       | <b>1</b>            |

As of July

|                                | 2008      | 2009      |
|--------------------------------|-----------|-----------|
| Company-owned restaurants      | 20        | 21        |
| Co-developed restaurants       | 9         | 9         |
| Franchise operated restaurants | 22        | 22        |
| <b>Total restaurants</b>       | <b>51</b> | <b>52</b> |

*Fiscal 2008:* In January 2008 a North Dakota franchise terminated their Good Times franchise agreement in the dual brand concept and stopped selling Good Times products in their two locations. In March 2008 we purchased two Good Times restaurants from an existing franchisee. In June 2008 the Good Times franchisee operating at the University of Wyoming Food Court ceased operations when the contract to operate in the food court expired. There are no plans for this franchisee to operate in another location.

*Fiscal 2009:* In October 2008 we opened one new company-owned restaurant in Firestone, Colorado. In December 2008 a Wyoming franchisee terminated their Good Times franchise agreement in the dual brand concept and has stopped selling Good Times products in one location. Also in December 2008 a franchisee opened a new dual brand restaurant in Sheridan, Wyoming.

The following presents certain historical financial information of our operations. This financial information includes results for the three and nine months ended June 30, 2008 and results for the three and nine months ended June 30, 2009.

## **Results of Operations**

### *Net Revenues*

Net revenues for the three months ended June 30, 2009 decreased \$665,000 (9.5%) to \$6,331,000 from \$6,996,000 for the three months ended June 30, 2008. Same store restaurant sales decreased \$699,000 (12.5%) during the three months ended June 30, 2009 for the restaurants that were open for the full periods ending June 30, 2009 and June 30, 2008. 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 had a net increase of \$119,000 due to six company-owned restaurants not included in same store sales. Three are dual branded restaurants, two were purchased from a franchisee in March 2008 and one opened in October 2008. Restaurant sales decreased \$54,000 due to one non-traditional company-owned restaurant not included in same store sales.

Net revenues for the nine months ended June 30, 2009 decreased \$1,704,000 (8.9%) to \$17,532,000 from \$19,236,000 for the nine months ended June 30, 2008. Same store restaurant sales decreased \$2,141,000 (13.8%) during the nine months ended June 30, 2009 for the restaurants that were open for the full periods ending June 30, 2009 and June 30, 2008. 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 had a net increase of \$761,000 due to six company-owned restaurants not included in same store sales. Three are dual branded restaurants, two were purchased from a franchisee in March 2008 and one opened in October 2008. Restaurant sales decreased \$235,000 due to one non-traditional company-owned restaurant not included in same store sales.

Our same store restaurant sales declines of 14.8%, 13.5% and 12.5% for the first, second and third fiscal quarters, respectively, reflect the adverse impact the macroeconomic environment is having on consumers' discretionary spending and the proliferation of heavy promotion of \$1 value menus and discounting by competitors. We are comparing the 2009 sales declines to same store sales increases of 11.6% and 7.6% in the first and second quarters of fiscal 2008, respectively, and a sales decline of 5.7% in the third quarter of fiscal 2008. We experienced severe snow storms in March and April 2009, and we estimate that we lost approximately \$250,000 in sales due to the storms. Our outlook for fiscal 2009 remains cautious as the economic pressures may continue to impact consumer spending and we anticipate that we will continue to face increased competitive pricing pressure.

While we are implementing several broad product and brand initiatives during fiscal 2009 to improve our core value proposition, we are not planning to implement a broader \$1 menu and our sales may continue to be adversely affected during the economic recession.

Franchise revenues decreased \$31,000 to \$138,000 from \$169,000 for the three months ended June 30, 2009 due to a decrease in franchise royalties. Same store Good Times franchise restaurant sales decreased 14.6% during the three months ended June 30, 2009 for the franchise restaurants that were open for the full periods ending June 30, 2009 and June 30, 2008. Total dual branded franchise restaurant sales decreased 2.4% during the three months ended June 30, 2009, compared to the same prior year period.

Franchise revenues decreased \$79,000 to \$412,000 from \$491,000 for the nine months ended June 30, 2009 due to a decrease in franchise royalties of \$92,000 offset by an increase in franchise fee income of \$12,000. Same store Good Times franchise restaurant sales decreased 15.7% during the nine months ended June 30, 2009 for the franchise restaurants that were open for the full periods ending June 30, 2009 and June 30, 2008. Total dual branded franchise restaurant sales decreased 3.5% during the nine months ended June 30, 2009, compared to the same prior year period, primarily due to the closure of two restaurants in January 2008, offset by the opening of one new dual branded restaurant in December 2008.

#### *Restaurant Operating Costs*

Restaurant operating costs as a percent of restaurant sales were 92.7% during the three months ended June 30, 2009 compared to 88.3% in the same prior year period and were 96.1% during nine month period ended June 30, 2009 compared to 90.3% in the same prior year period.

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

| Three Months Ended   | Nine Months Ended    |
|----------------------|----------------------|
| <u>June 30, 2009</u> | <u>June 30, 2009</u> |
| 88.3%                | 90.3%                |





|   |       |       |
|---|-------|-------|
| Restaurant-level costs for the period ended June 30, 2008 |       |       |
| Increase in food and packaging costs                      | 2.5%  | 2.6%  |
| Increase in payroll and other employee benefit costs      | .3%   | .7%   |
| Increase in occupancy and other operating costs           | 1.5%  | 2.2%  |
| Increase in depreciation and amortization                 | .3%   | .4%   |
| Decrease in opening costs and deferred rent               | (.2%) | (.1%) |
| Restaurant-level costs for the period ended June 30, 2009 | 92.7% | 96.1% |
| <i>Food and Packaging Costs</i>                           |       |       |

For the three months ended June 30, 2009 our food and paper costs, decreased \$41,000 to \$2,115,000 (34.1% of restaurant sales) from \$2,156,000 (31.6% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2009 our food and paper costs, decreased \$58,000 to \$5,774,000 (33.7% of restaurant sales) from \$5,832,000 (31.1% of restaurant sales) compared to the same prior year period.

We have implemented significant product portion and ingredient changes in the first nine months of the current fiscal year to improve our overall value to the customer which has resulted in an approximate 1.25% increase in our food and paper costs as a percentage of restaurant sales.

We experienced unprecedented increases in commodity costs during fiscal 2008 including beef, bakery, soft drinks, dairy and packaging costs with the majority of those increases occurring in May through July 2008. Our weighted food and packaging costs increased approximately 12% in the fiscal 2008 year. During the first nine months of fiscal 2009 we experienced a moderation in food and packaging cost increases. We took cumulative weighted menu price increases during fiscal 2008 of approximately 4.8% and have taken cumulative weighted increases in fiscal 2009 of approximately 2.6%. We do not anticipate any additional price increases for the balance of fiscal 2009 with more stable commodity costs.

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

For the three months ended June 30, 2009 our payroll and other employee benefit costs decreased \$194,000 to \$2,072,000 (33.5% of restaurant sales) from \$2,266,000 (33.2% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2009 our payroll and other employee benefit costs decreased \$444,000 to \$6,099,000 (35.6% of restaurant sales) from \$6,543,000 (34.9% of restaurant sales) compared to the same prior year period.

The increase in payroll and other employee benefit expenses as a percent of restaurant sales for the three and nine months ended June 30, 2009 is primarily the result of lower restaurant sales. Because payroll costs are semi-variable in nature they increase as a percentage of restaurant sales when there is a decrease in restaurant sales. Additionally, our new restaurant that opened in October 2008 operated at a higher labor cost as a percent of sales due to higher initial labor costs until it reached mature staffing levels in January 2009.

Beginning in December 2008 we reduced our labor hours allocation through increased efficiencies and improved our sales per employee hour efficiencies on service hours, thereby eliminating approximately \$190,000 of annual payroll costs. In addition, beginning in March 2009 we implemented further reductions in our employee and other benefit costs totaling approximately \$300,000 in annual costs through the restructuring of regional supervision personnel along with other reductions in fixed employee benefit costs.

The current nine month period ending June 30, 2009 includes two additional company-owned restaurants purchased from a franchisee in March 2008 and one new company-owned restaurant opened in October 2008 that represents \$322,000 of the total payroll and other employee benefit costs in the current period.

#### *Occupancy and Other Operating Costs*

For the three months ended June 30, 2009 our occupancy and other operating costs decreased \$27,000 to \$1,234,000 (19.9% of restaurant sales) from \$1,261,000 (18.4% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2009 our occupancy and other operating costs increased \$67,000 to \$3,625,000 (21.2% of restaurant sales) from \$3,558,000 (19% of restaurant sales) compared to the same prior year period.

The current nine month period ending June 30, 2009 includes two additional company-owned restaurants purchased from a franchisee in March 2008 and one new company-owned restaurant opened in October 2008 that represents \$168,000 of the increase compared to the same prior year period. Additionally we experienced reductions in common area maintenance fees, repairs and maintenance, utilities and personal property taxes compared to the same prior year period. Occupancy and other operating costs may increase as a percent of sales as new company-owned restaurants are developed due to higher rent associated with sale-leaseback operating leases, as well as higher property taxes at those locations.

*Opening Costs*

For the three months ended June 30, 2009 our new store opening costs were \$0 compared to \$7,000 for the same prior year period.

For the nine months ended June, 2009 our new store opening costs were \$15,000 compared to \$7,000 for the same prior year period. The current and prior year costs are related to one new company-owned restaurant that opened in October 2008.

#### *Depreciation and Amortization*

For the three months ended June 30, 2009, our depreciation and amortization decreased \$15,000 to \$317,000 (5.1% of restaurant sales) from \$332,000 (4.8% of restaurant sales) compared to the same prior year period. The \$15,000 decrease in depreciation and amortization for the three months ended June 30, 2009 is due to \$11,000 of depreciation expense in the new company-owned restaurant that opened in October 2008, offset by declining depreciation expense in our aging company-owned restaurants.

For the nine months ended June 30, 2009, our depreciation and amortization decreased \$11,000 to \$944,000 (5.5% of restaurant sales) from \$955,000 (5.1% of restaurant sales) compared to the same prior year period. The \$11,000 decrease in depreciation and amortization for the nine months ended June 30, 2009 is due to \$62,000 of depreciation expense in the three acquired and new company-owned restaurants, offset by declining depreciation expense in our aging company-owned restaurants.

#### *General and Administrative Costs*

For the three months ended June 30, 2009, general and administrative costs decreased \$194,000 to \$346,000 (5.5% of total revenues) from \$540,000 (7.7% of total revenues) for the same prior year period.

For the nine months ended June 30, 2009, general and administrative costs decreased \$342,000 to \$1,238,000 (7.1% of total revenues) from \$1,580,000 (8.2% of total revenues) for the same prior year period.

The decrease in general and administrative costs for the three months ended June 30, 2009 compared to the same prior year period is primarily attributable to decreases in: 1) payroll and employee benefit costs of \$58,000, 2) training and recruiting expenses of \$30,000, 3) costs associated with the exit from the Omaha planned expansion of \$81,000, 4) professional services of \$11,000 and 5) net reductions in various other fixed expenses of \$14,000.

The decrease in general and administrative costs for the nine months ended June 30, 2009 compared to the same prior year period is primarily attributable to decreases in: 1) payroll and employee benefit costs of \$147,000, 2) training and recruiting expenses of \$52,000, 3) costs associated with the exit from the Omaha planned expansion of \$81,000, 4) professional services of \$30,000 and 5) net reductions in various other fixed expenses of \$32,000.

We have reduced annualized selling, general and administrative and franchise costs by approximately \$475,000 for fiscal 2009, compared to fiscal 2008, through the elimination of executive management positions, salary reductions and professional service cost reductions.

#### *Advertising Costs*

For the three months ended June 30, 2009 advertising costs decreased \$56,000 to \$347,000 (5.6% of restaurant sales) from \$403,000 (5.9% of restaurant sales) for the same prior year period.

For the nine months ended June 30, 2009 advertising costs decreased \$165,000 to \$969,000 (5.7% of restaurant sales) from \$1,134,000 (6% of restaurant sales) for the same prior year period.

The decrease in advertising costs for both the three and nine month periods is primarily due to the decrease in restaurant sales, as contributions are made to the advertising materials fund and regional advertising cooperative based on a percentage of sales. In addition, \$75,000 of payroll and employee benefit costs have been eliminated in the current nine month period due to the retirement of our Vice President of Marketing in November 2008. We currently have no plans to fill the position in the immediate future.

### *Franchise Costs*

For the three months ended June 30, 2009, franchise costs decreased \$53,000 to \$35,000 (.6% of total revenues) from \$88,000 (1.3% of total revenues) for the same prior year period.

For the nine months ended June 30, 2009, franchise costs decreased \$167,000 to \$108,000 (.6% of total revenues) from \$275,000 (1.4% of total revenues) for the same prior year period.

The decrease in franchise costs for both the three and nine month periods is primarily attributable to the reduction in payroll and employee benefit costs related to the Vice President of Franchise Development position that was eliminated in July 2008 in conjunction with Good Times' exit from the planned Midwest expansion. We also incurred \$12,000 in legal costs in the prior nine month period ended June 30, 2008 related to franchise registration filings.

### *Loss from Operations*

We had a loss from operations of (\$128,000) in the three months ended June 30, 2009 compared to a loss from operations of (\$57,000) for the same prior year period.

We had a loss from operations of (\$1,218,000) in the nine months ended June 30, 2009 compared to a loss from operations of (\$644,000) for the same prior year period.

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

### *Net Loss*

The net loss was (\$180,000) for the three months ended June 30, 2009 compared to a net loss of (\$121,000) for the same prior year period. The change from the three month period ended June 30, 2008 to June 30, 2009 was primarily attributable to the increase in loss from operations for the three months ended June 30, 2009, as well as: 1) a decrease in minority interest expense of \$53,000 compared to the same prior year period, 2) an increase in net interest expense of \$70,000 compared to the same prior year period, which is primarily related to the \$2,500,000 PFGI II line of credit and 3) a \$29,000 unrealized gain in the current period related to our interest rate swap liability.

The net loss was (\$1,427,000) for the nine months ended June 30, 2009 compared to a net loss of (\$746,000) for the same prior year period. The change from the nine month period ended June 30, 2008 to June 30, 2009 was primarily attributable to the increase in loss from operations for the nine months ended June 30, 2009, as well as: 1) a decrease in minority interest expense of \$157,000 compared to the same prior year period; 2) an increase in net interest expense of \$177,000 compared to the same prior year period; and 3) an \$87,000 unrealized loss in the current period related to our interest rate swap liability.

## **Liquidity and Capital Resources**

### *Cash and Working Capital*

As of June 30, 2009, we had \$671,000 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 2009. If we continue to experience significant declines in our sales trends we will require additional working capital. As reported on form 8-K filed on April 20, 2009 we raised \$185,000 of financing for additional working capital and extended the maturity of our

\$2,500,000 line of credit with PFGI II, LLC to July, 2010 (see "Financing Activities" below). As a result, we currently do not anticipate the need for additional working capital during fiscal 2009, however there is no assurance that our sales and cash flow from operating activities will meet our projections. However, our cash flow from operating activities is largely dependent on our sales trends and if our same store sales trends do not improve we may require additional working capital in fiscal 2010.



As of June 30, 2009, we had a working capital deficit of \$1,087,000 primarily because the entire note payable to Wells Fargo Bank, N.A. of \$876,000 is shown as a current liability due to certain technical loan covenant defaults that exist as of June 30, 2009, which are described in Note 3 of the Condensed Consolidated Financial Statements. As noted in Note 3 to the Condensed Consolidated Financial Statements, we have received a Forbearance and Reservation of Rights letter from Wells Fargo Bank stating that they are accepting current principal and interest payments and are not currently accelerating the note, subject to agreeing to an acceptable Required Corrective Action for the covenant defaults. It is unlikely that we will have an acceptable Required Corrective Action until our Earnings Before Interest Taxes and Depreciation ("EBITDA") improves. If Wells Fargo were to accelerate the note payable, we would need additional financing and we do not currently have a source for such financing. Additionally, we have recorded an \$87,000 current liability related to the unrealized loss on our interest rate swap, as noted in Note 5 to the Condensed Consolidated Financial Statements.

*Financing Activities*

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 (see note 5 in item I. above). As discussed above we are in default of certain technical loan covenants as of June 30, 2009 on this Wells Fargo note, however we are not currently, and have never been, in payment default under the note.

On March 1, 2008, we acquired the assets of two restaurants from an existing franchisee for a total purchase price of \$1,330,000, including the land, site improvements, building and equipment for one restaurant and site improvements, building and equipment on one restaurant. The purchase price was funded primarily from cash on hand of \$272,000 and \$849,000 in net proceeds from a simultaneous sale-leaseback transaction to a third party investor involving the land, building and improvements of one of the restaurants acquired.

As additional consideration and accounting in the acquisition, notes receivable from the franchisee of \$250,000 were forgiven, and a deferred gain of \$26,000 was written off. The deferred gain was related to a prior sale to the franchisee of one of the restaurants acquired. We did not record a gain or loss related to this acquisition. The financial results of the two restaurants have been included in our financial results from the acquisition date forward.

The acquisition of the two restaurants was accounted for using the purchase method as defined in SFAS No. 141, Business Combinations, (SFAS 141). The purchase price was allocated as follows:

|   |                     |
|---|---------------------|
| Current assets net of current liabilities | \$ 14,000           |
| Property and equipment                    | <u>1,316,000</u>    |
| Total purchase price                      | <u>\$ 1,330,000</u> |

The sale-leaseback transaction was entered into simultaneously with the acquisition and involved selling the land, building and improvements of one of the acquired restaurants for net proceeds of \$849,000. The sale-leaseback was the funding vehicle for the purchase of the two restaurants and was not used to raise cash for the Company or increase our liquidity. The assets sold in the sale-leaseback transaction were never recorded in our financial statements as the long term lease entered into does not meet any of the criteria for a capital lease and therefore qualifies as an operating lease, as defined in SFAS No. 13, Accounting for Leases. After the sale-leaseback transaction was accounted for, it resulted in \$476,000 in fixed assets and \$14,000 in current assets recorded on our financial statements. We believe the \$476,000 represents the fair value of the net assets acquired (after completion of the simultaneous sale-leaseback transaction) consisting of furniture, fixtures and equipment in two restaurants and the site improvements and building in one restaurant.



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. The promissory note constitutes a revolving line-of-credit for the development of new restaurants which may be advanced and repaid on a monthly basis from time to time. Prior to maturity, no principal payments are required and monthly payments of interest only at the prime rate plus 2% (with a minimum rate of 8%) are due, with all unpaid principal due in July 2010. The loan is secured by separate leasehold deeds of trust and security agreements related to six company-owned restaurants and first deeds of trust on two real properties funded by the line of credit. The total outstanding balance on the line of credit was \$2,500,000 at June 30, 2009. Of the \$2,500,000 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. The remaining balance is related to the purchase, entitlement and other development fees on a parcel of land in Aurora, Colorado that will be either developed into a company-owned restaurant or sold.

On April 20, 2009 as reported on form 8-K, Good Times Restaurants Inc. (the "Company") and Good Times Drive Thru Inc. ("GTDT"), a wholly owned subsidiary of 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 "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 are all members of the Company's Board of Directors and stockholders of the Company, are the sole members of Golden Bridge. Eric Reinhard is the sole manager 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 is evidenced by a promissory note dated April 20, 2009 (the "Note") made by the Company and GTDT, as co-makers, and shall bear interest at a rate of 10% per annum on the unpaid principal balance. The Note provides for monthly interest payments and will mature and be due and payable in full on July 10, 2010. The commitment fee for the Loan is \$3,700. The Loan Agreement contains customary event of default provisions and a cross-default provision with respect to the loan agreement for the PFGI II, LLC loan (as described above).

The Loan Agreement and the Note are subject to the terms of an intercreditor agreement dated April 20, 2009 (the "Intercreditor Agreement"), among the Company, GTDT, Golden Bridge and PFGI II, LLC ("PFGI"). As previously reported by the Company, GTDT currently has a \$2,500,000 revolving line of credit with PFGI (the "PFGI Loan"), which was scheduled to mature on July 10, 2009, under which \$2,500,000 was outstanding as of April 20, 2009. Under the Intercreditor Agreement, PFGI and Golden Bridge agreed that, upon any payments of principal or interest on the Loan or the PFGI Loan by GTDT, PFGI and Golden Bridge shall each be entitled to its pro rata share of such payments in the amount of 93.1% for PFGI and 6.9% for Golden Bridge. The Intercreditor Agreement also provides that GTDT and the Company may prepay the Loan in whole or in part with the prior consent of PFGI, and that any other indebtedness of the Company or GTDT to PFGI or Golden Bridge shall be subordinate in payment and lien priority to the Loan and the PFGI Loan to the extent of the proceeds of the collateral. Under the Intercreditor Agreement, all money received from any foreclosure on the collateral securing the PFGI Loan shall be applied to PFGI and Golden Bridge for their expenses related to such event and then on a pari passu basis to PFGI and Golden Bridge in accordance with their respective pro rata shares.

Prior to the closing of the Loan, borrowings under the PFGI Loan were secured by GTDT's leasehold estates and business assets with respect to certain of GTDT's restaurants located in Boulder, Adams, Jefferson and Larimer counties in Colorado and first deeds of trust on real property in Arapahoe and Weld counties in Colorado developed under the PFGI Loan. In connection with PFGI's entry into the Intercreditor Agreement, GTDT and the Company entered into a first amendment to the amended and restated promissory note dated April 20, 2009 (the "PFGI Note Amendment"), which extended the maturity date of the PFGI Loan until July 10, 2010 and eliminated a loan balance threshold for release of the collateral securing the PFGI Loan.



In connection with the Loan, the Company issued a three-year warrant dated April 20, 2009 (the "Warrant") to Golden Bridge which provides that Golden Bridge may at any time from April 20, 2009 until April 20, 2012 purchase up to 92,500 shares of the Company's common stock (the "Warrant Shares") at an exercise price of \$1.15 per share. The number of Warrant Shares and the exercise price are subject to customary antidilution 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 warrants issued was determined to be \$42,000 with the following assumptions; 1) risk free interest rate of 1.27%, 2) an expected life of 3 years, and 3) an expected dividend yield of zero. The fair value of \$42,000 was charged to the note discount and credited to Additional Paid in Capital. The note discount will be amortized over fourteen months and charged to interest expense.

#### *Capital Expenditures*

We do not have any plans for any significant capital expenditures for the balance of fiscal 2009, other than normal recurring capital expenditures for existing restaurants. Additional commitments for the development of new restaurants in fiscal 2009 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 \$821,000 for the nine months ended June 30, 2009. The net cash used in operating activities for the nine months ended June 30, 2009 was the result of a net loss of (\$1,427,000) as well as cash and non-cash reconciling items totaling \$606,000 (comprised of depreciation and amortization of \$944,000, an unrealized loss of \$87,000 related to our interest rate swap liability, minority interest of \$60,000, an accounts payable decrease of \$263,000 and a net increase in other operating assets and liabilities of \$102,000).

Net cash provided by operating activities was \$313,000 for the nine months ended June 30, 2008. The net cash provided by operating activities for the nine months ended June 30, 2008 was the result of a net loss of (\$746,000) and non-cash reconciling items totaling \$1,059,000 (comprised of depreciation and amortization of \$955,000, minority interest of \$97,000, stock based compensation expense of \$69,000, \$95,000 in costs associated with the Omaha exit activity and a net decrease in other operating assets and liabilities of \$157,000).

Net cash used in investing activities for the nine months ended June 30, 2009 was \$282,000 which reflects payments of \$277,000 for the purchase of property and equipment (including \$217,000 for new store development and \$60,000 for miscellaneous restaurant and corporate office related capital expenditures), \$31,000 in loans made to franchisees and \$26,000 in principal payments received on loans to franchisees.

Net cash used in investing activities for the nine months ended June 30, 2008 was \$196,000 which reflects payments of \$729,000 for the purchase of property and equipment (including \$302,000 for new store development, \$289,000 for restaurant remodeling costs and \$138,000 for miscellaneous restaurant related capital expenditures), \$273,000 for the purchase of two existing franchise restaurants, \$747,000 from the sale of fixed assets and \$59,000 in principal payments received on loans to franchisees.

Net cash provided by financing activities for the nine months ended June 30, 2009 was \$360,000, which includes principal payments on notes payable and long term debt of \$91,000; borrowings on notes payable of \$185,000; an advance on our revolving line of credit of \$320,000; and distributions to minority interests in partnerships of \$54,000.

Net cash used in financing activities for the nine months ended June 30, 2008 was \$955,000, which includes principal payments on notes payable and long term debt of \$89,000, a repayment on our revolving line of credit of \$750,000, distributions to minority interests in partnerships of \$219,000 and paid in capital activity of \$103,000 related to the

exercise of stock options.

*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*

On August 14, 2009 we announced that our Board of Directors has formed a Special Committee comprised of directors Richard Stark, Alan Teran and Geoff Bailey to explore and evaluate strategic alternatives aimed at enhancing shareholder value and explore alternatives to reduce the cost burdens of being a publicly held entity. The Company has hired Mastodon Ventures, Inc. to provide strategic advisory services and explore other strategic alternatives that will further the long-term business prospects of the Company and provide incremental value to its shareholders.

There can be no assurance regarding the timing of or whether the Board will elect to pursue any of the strategic alternatives it may consider, or that any such alternatives will result in changes to the Company's plans or will be consummated and there is no certainty that any strategic alternative will involve a transaction for shareholders at a share price equal to or above the current trading price of the Company's shares, bearing in mind that the trading market for the Company's shares is relatively inactive and that the Company has realized losses from operations during recent periods. The Company does not intend to provide updates or make any further comment until the outcome of the process is determined or until there are significant developments.

The strategic advisory services agreement (the "Agreement") with Mastodon Ventures, Inc. ("Mastodon"), provides that Mastodon will provide the Company with exclusive advisory services related to the possible restructuring of certain lease and debt agreements of the Company and the identification of possible additional sources of capital for the Company. The services include but are not limited to assistance with the preparation of information, structuring of a plan, negotiations with potential investors, preparation of any documents required to be filed with federal and state agencies relating to a Restructuring Plan and analyzing other strategic alternatives.

The term of the Agreement is for six months and terminable by the Company or Mastodon upon thirty days written notice. Mastodon will receive an initial retainer fee of \$25,000 together with three monthly payments of \$7,500 each in October, November and December 2009 and a Success Fee of up to \$250,000 upon the completion of a Restructuring Event. The Maximum Aggregate Fees to Mastodon shall not exceed \$297,500 and the Agreement includes provisions for the payment of lesser fees based upon the amount and type of capital raised, type of Restructuring Plan implemented or if the Company enters into an agreement with persons or entities identified by the Company within forty five days of the Agreement.

While the Agreement provides that Mastodon is being engaged by the Company as an advisor to the Company to explore strategic options, Mastodon understands that the Board of Directors of the Company has appointed a Special Committee to consider certain of such options on behalf of the shareholders of the Company. Mastodon agrees that its services shall include communicating with such Special Committee as it may reasonably request and, if directed by such committee, Mastodon shall hold such communications in confidence

### **Impact of Inflation**

We experienced moderation in commodity costs during fiscal 2005 and 2006 and significant increases in fiscal 2007 and fiscal 2008. State increases in the minimum wage resulted in an increase in our average hourly wage of \$.60 per employee hour during fiscal 2007, approximately \$.23 per employee hour in fiscal 2008 and \$.07 per employee hour in January 2009. We have taken moderate price increases during fiscal 2009, which may or may not be sufficient to recover increased commodity costs or increases in other operating expenses.

### **Seasonality**

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



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

Not required.

### **ITEM 4T. CONTROLS AND PROCEDURES**

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

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

#### **Changes in Internal Control over Financial Reporting**

There have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2009 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**

Good Times Restaurants is 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**

We are in default of certain technical loan covenants as of June 30, 2009 on our \$876,000 note payable to Wells Fargo Bank, N.A. ("the Bank"). We have never been in payment default on the note. On February 9, 2009 we received a Reservation of Rights letter from the Bank formally notifying us of the default of the Earnings Before Interest Taxes and Depreciation ("EBITDA") Coverage Ratio of not less than 1.5 to 1.0 and the Tangible Net Worth of not less than \$5,000,000 as set forth in the Credit Agreement for the period ending December 31, 2008. The letter serves as notice that notwithstanding the foregoing events of default, the Bank is reserving all of its rights and remedies under the Credit Agreement and related agreements. The Bank is not now accelerating the Loan and is willing to continue to accept regularly scheduled payments of principal and interest under the Loan.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**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: August 14, 2009

/s/ Boyd E. Hoback

Boyd E. Hoback

President and Chief Executive Officer

/s/ Susan M. Knutson

Susan M. Knutson

Controller