

GOOD TIMES RESTAURANTS INC  
Form 10QSB  
August 13, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For quarterly period ended: June 30, 2004

Commission file number: 0-18590

GOOD TIMES RESTAURANTS INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

84-1133368

(I.R.S. Employer Identification No.)

601 CORPORATE CIRCLE, GOLDEN, CO 80401

(Address of principal executive offices)

(303) 384-1400

(Issuer's telephone number)

(Former name, former address and former fiscal year, since last report.)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

APPLICABLE ONLY TO CORPORATE ISSUERS

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Total number of shares of common stock outstanding at August 13, 2004.

2,343,732 SHARES OF COMMON STOCK, .001 PAR VALUE

Transitional Small Business Disclosure Format (check one): ( )Yes (x)No

Form 10-QSB

Quarter Ended June 30, 2004

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GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS

|                                  | June 30,         | September 30,    |
|----------------------------------|------------------|------------------|
|                                  | <u>2004</u>      | <u>2003</u>      |
| CURRENT ASSETS:                  |                  |                  |
| Cash and cash equivalent         | \$1,023,000      | \$1,480,000      |
| Receivables, and other           | 300,000          | 206,000          |
| Inventories                      | 114,000          | 112,000          |
| Notes receivable                 | <u>90,000</u>    | <u>66,000</u>    |
| Total current assets             | 1,527,000        | 1,864,000        |
| PROPERTY AND EQUIPMENT, at cost: |                  |                  |
| Land and building                | 3,517,000        | 3,505,000        |
| Leasehold improvements           | 2,728,000        | 2,711,000        |
| Fixtures and equipment           | <u>5,017,000</u> | <u>4,989,000</u> |

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11,262,000 11,205,000

Less accumulated depreciation and amortization (6,708,000) (6,112,000)

4,554,000 5,093,000

OTHER ASSETS:

Notes receivable, net of current portion 575,000 546,000

Deposits & other 84,000 84,000

659,000 630,000

TOTAL ASSETS \$6,740,000 \$7,587,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Current maturities of long-term debt and capital leases \$ 361,000 \$ 338,000

Accounts payable 223,000 209,000

Deferred income 51,000 85,000

Accrued liabilities - other 549,000 542,000

Total current liabilities 1,184,000 1,174,000

LONG-TERM LIABILITIES:

Debt and capitalized leases, net of current portion 960,000 1,230,000

Deferred liabilities 494,000 487,000

Total long-term liabilities 1,454,000 1,717,000

MINORITY INTERESTS IN PARTNERSHIPS 695,000 774,000

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Continued)

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(Unaudited)

|  | June 30,<br><u>2004</u> | September 30,<br><u>2003</u> |
|--|-------------------------|------------------------------|
| STOCKHOLDERS' EQUITY:  | 2,000                   | 2,000                        |
| Preferred stock, \$.01 par value; 5,000,000 shares authorized, none issued and outstanding.  |                         |                              |
| Common stock, \$.001 par value; 50,000,000 shares authorized, 2,343,732 shares issued and outstanding as of June 30, 2004 and 2,302,971 shares issued and outstanding as of September 30, 2003 |                         |                              |
|  |                         |                              |
| Capital contributed in excess of par value   | 13,462,000              | 13,372,000                   |
| Accumulated deficit  | <u>(10,057,000)</u>     | <u>(9,452,000)</u>           |
| Total stockholders' equity   | <u>3,407,000</u>        | <u>3,922,000</u>             |
|  |                         |                              |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | <u>\$6,740,000</u>      | <u>\$7,587,000</u>           |

## GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|                                | Three Months Ended |               | Nine Months Ended |                |
|--------------------------------|--------------------|---------------|-------------------|----------------|
|                                | June 30,           |               | June 30,          |                |
|                                | <u>2004</u>        | <u>2003</u>   | <u>2004</u>       | <u>2003</u>    |
| NET REVENUES:                  |                    |               |                   |                |
| Restaurant sales, net          | \$4,099,000        | \$3,882,000   | \$11,087,000      | \$11,000,000   |
| Franchise net revenues         | <u>118,000</u>     | <u>67,000</u> | <u>246,000</u>    | <u>220,000</u> |
| Total revenues                 | 4,217,000          | 3,949,000     | 11,333,000        | 11,220,000     |
|                                |                    |               |                   |                |
| RESTAURANT OPERATING EXPENSES: |                    |               |                   |                |

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|  |                   |                  |                    |                    |
|--|-------------------|------------------|--------------------|--------------------|
| Food & packaging costs   | 1,449,000         | 1,185,000        | 3,810,000          | 3,449,000          |
| Payroll & other employee benefit costs                                       | 1,248,000         | 1,217,000        | 3,594,000          | 3,498,000          |
| Occupancy & other operating costs  | 624,000           | 627,000          | 1,816,000          | 1,814,000          |
| Accretion of deferred rent   | 6,000             | 6,000            | 18,000             | 18,000             |
| Depreciation & amortization  | <u>188,000</u>    | <u>212,000</u>   | <u>570,000</u>     | <u>672,000</u>     |
| Total restaurant operating costs   | 3,515,000         | 3,247,000        | 9,808,000          | 9,451,000          |
|  |                   |                  |                    |                    |
| Selling, general & administrative expenses                                   | <u>702,000</u>    | <u>602,000</u>   | <u>1,997,000</u>   | <u>1,877,000</u>   |
|  |                   |                  |                    |                    |
| INCOME (LOSS) FROM OPERATIONS  | 0                 | 100,000          | (472,000)          | (108,000)          |
|  |                   |                  |                    |                    |
| OTHER INCOME & (EXPENSES):   |                   |                  |                    |                    |
| Minority income (expense), net   | (48,000)          | (67,000)         | (82,000)           | (151,000)          |
| Interest, net  | ( 5,000)          | (19,000)         | (18,000)           | (69,000)           |
| Other, net   | <u>( 4,000)</u>   | <u>37,000</u>    | <u>(32,000)</u>    | <u>41,000</u>      |
| Total other income & (expenses)  | (57,000)          | (49,000)         | (132,000)          | (179,000)          |
|  |                   |                  |                    |                    |
| NET INCOME (LOSS)  | <u>(\$57,000)</u> | <u>\$ 51,000</u> | <u>(\$604,000)</u> | <u>(\$287,000)</u> |
|  |                   |                  |                    |                    |
| NET INCOME (LOSS) PER COMMON SHARE   |                   |                  |                    |                    |
| BASIC  | <u>(\$ .02)</u>   | <u>\$ .02</u>    | <u>(\$ .26)</u>    | <u>(\$ .13)</u>    |
| DILUTED  | <u>(\$ .02)</u>   | <u>\$ .02</u>    | <u>(\$ .26)</u>    | <u>(\$ .13)</u>    |
| WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS USED IN PER SHARE CALCULATION |                   |                  |                    |                    |
| BASIC  | 2,324,698         | 2,262,626        | 2,308,834          | 2,262,615          |

|         |           |           |           |           |
|---------|-----------|-----------|-----------|-----------|
| DILUTED | 2,324,698 | 2,297,752 | 2,308,834 | 2,262,615 |
|---------|-----------|-----------|-----------|-----------|

## GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | Three Months Ended |               | Nine Months Ended |                 |
|--|--------------------|---------------|-------------------|-----------------|
|  | June 30,           |               | June 30,          |                 |
|  | <u>2004</u>        | <u>2003</u>   | <u>2004</u>       | <u>2003</u>     |
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                    |               |                   |                 |
| Net income (Loss)  | (\$57,000)         | \$ 51,000     | (604,000)         | (287,000)       |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                    |               |                   |                 |
| Depreciation and amortization  | 205,000            | 230,000       | 616,000           | 724,000         |
| Accretion of deferred rent   | 6,000              | 6,000         | 18,000            | 18,000          |
| Minority interest  | 48,000             | 67,000        | 82,000            | 150,000         |
| Gain on sale of assets   | 0                  | (66,000)      | 0                 | (66,000)        |
| Changes in operating assets and liabilities:   |                    |               |                   |                 |
| (Increase) decrease in:  |                    |               |                   |                 |
| Receivables  | (6,000)            | 207,000       | 14,000            | (4,000)         |
| Inventories  | (12,000)           | (4,000)       | (2,000)           | (10,000)        |
| Prepaid expenses and other   | 72,000             | (8,000)       | (114,000)         | (50,000)        |
| (Decrease) increase in:  |                    |               |                   |                 |
| Accounts payable   | 0                  | 23,000        | 14,000            | (10,000)        |
| Accrued and other liabilities  | <u>(82,000)</u>    | <u>55,000</u> | <u>(38,000)</u>   | <u>(46,000)</u> |
|  | 174,000            | 561,000       | (14,000)          | 419,000         |

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|   |                 |                 |                  |                  |
|---|-----------------|-----------------|------------------|------------------|
| Net cash provided by (used in) operating activities                     |                 |                 |                  |                  |
|   |                 |                 |                  |                  |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>                          |                 |                 |                  |                  |
| Payments for the purchase of property and equipment                     | (52,000)        | (98,000)        | (108,000)        | (148,000)        |
| Net proceeds from sale of property                                      | 22,000          | 260,000         | 37,000           | 260,000          |
| Loans made to franchisees   | (9,000)         | 0               | (87,000)         | 0                |
| Payments received on loans to franchisees                               | <u>17,000</u>   | <u>12,000</u>   | <u>34,000</u>    | <u>38,000</u>    |
| Net cash provided by (used in) investing activities                     | (22,000)        | 174,000         | (124,000)        | 150,000          |
|   |                 |                 |                  |                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                            |                 |                 |                  |                  |
| Principal payments on notes payable, capital leases, and long-term debt | (49,000)        | (65,000)        | (144,000)        | (213,000)        |
| Net repayments on line-of-credit  | (34,000)        | (36,000)        | (103,000)        | (102,000)        |
| Proceeds from exercise of options                                       | 73,000          | 0               | 89,000           | 0                |
| Distributions paid to minority interests in partnerships                | <u>(73,000)</u> | <u>(94,000)</u> | <u>(161,000)</u> | <u>(240,000)</u> |
|   |                 |                 |                  | )                |
| Net cash provided by (used in) investing activities                     | (83,000)        | (195,000)       | (319,000)        | (555,000)        |

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | Three Months Ended | Nine Months Ended |
|--|--------------------|-------------------|
|--|--------------------|-------------------|



|  | June 30,           |                    | June 30,           |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | <u>2004</u>        | <u>2003</u>        | <u>2004</u>        | <u>2003</u>        |
|  |                    |                    |                    |                    |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS   | 69,000             | 540,000            | (457,000)          | 14,000             |
|  |                    |                    |                    |                    |
| CASH AND CASH EQUIVALENTS, beginning of period     | <u>954,000</u>     | <u>645,000</u>     | <u>\$1,480,000</u> | <u>\$1,171,000</u> |
|  |                    |                    |                    |                    |
| CASH AND CASH EQUIVALENTS, end of period           | <u>\$1,023,000</u> | <u>\$1,185,000</u> | <u>\$1,023,000</u> | <u>\$1,185,000</u> |
|  |                    |                    |                    |                    |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: |                    |                    |                    |                    |
| Cash paid for interest                             | <u>\$20,000</u>    | <u>\$32,000</u>    | <u>\$64,000</u>    | <u>\$113,000</u>   |
| Payment of debt from sale of property              | <u>0</u>           | <u>593,000</u>     | <u>0</u>           | <u>593,000</u>     |
| Purchase of equipment with debt                    | <u>0</u>           | <u>0</u>           | <u>0</u>           | <u>26,000</u>      |

## GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 1. UNAUDITED FINANCIAL STATEMENTS:

In the opinion of management, the accompanying unaudited consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of June 30, 2004, the results of its operations and its cash flow for the three month period ended June 30, 2004 and for the nine month period ended June 30, 2004. Operating results for the three month period ended June 30, 2004 and for the nine month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending September 30, 2004.

The consolidated balance sheet as of September 30, 2003 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, 2003.

Stock-based compensation disclosures:

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The Company applies APB Opinion 25 and related interpretations in accounting for stock options and warrants which are granted to employees. Accordingly, no compensation cost has been recognized for grants of options and warrants to employees since the exercise prices were not less than the fair value of the Company's common stock on the grant dates. Had compensation cost been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have been changed to the pro forma amounts indicated below.

|  | Nine Months Ended June 30, |                  |
|--|----------------------------|------------------|
|  | 2004                       | 2003             |
| Net income (loss) applicable to common stockholders: |                            |                  |
| As reported  | (604,000)                  | (287,000)        |
| Pro forma expense                                    | <u>( 93,000)</u>           | <u>(132,000)</u> |
| Pro forma net income                                 | (697,000)                  | (419,000)        |
| Net income (loss) per common share:                  |                            |                  |
| As reported  | (.26)                      | (.13)            |
| Pro forma  | (.30)                      | (.19)            |

The fair value of each employee option granted in 2004 and 2003 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                           | Nine Months Ended June 30, |        |
|---------------------------|----------------------------|--------|
|                           | 2004                       | 2003   |
| Expected volatility       | 82%                        | 80%    |
| Risk-free interest rate   | 3.93%                      | 3.7%   |
| Expected dividends        | -                          | -      |
| Expected terms (in years) | 5 - 10                     | 5 - 10 |

## 2. CONTINGENT LIABILITY

The Company remains contingently liable on several leases of restaurants that were previously sold. The Company is also a guarantor on a Small Business Administration loan to a franchisee.

During fiscal year 2003 the Company became a co-maker on a \$2,000,000 line of credit renewable annually at the Company's discretion, to a third party entity (Smart Development, LLC), established for the purchase of land and

development of new restaurants for subsequent sale in sale-leaseback transactions, some of which may be operated as company-owned restaurants and some of which may be subleased or directly leased to franchisees. The proceeds of the sale leaseback transactions will be used for the reduction of the line of credit. In addition to the land and buildings under development, the sole member (an unrelated third party) of Smart Development, LLC has provided a \$400,000 certificate of deposit as collateral for the line of credit. At June 30, 2004 there was no balance outstanding under the line of credit. Smart Development LLC has completed three restaurant sale leaseback transactions. The line of credit expired June 30, 2004 and management anticipates that the Company will not elect to renew the line of credit.

### 3. STOCK TRANSACTIONS

None.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE COMPANY

### General

This Form 10-QSB contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. Also, documents subsequently filed by the Company with the SEC and incorporated herein by reference may contain forward-looking statements. The Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance and those 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) The Company competes with numerous well established competitors who have substantially greater financial resources and longer operating histories than the Company. 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) The Company may be negatively impacted if the Company experiences consistent same store sales declines. Same store sales comparisons will be dependent, among other things, on the success of Company advertising and promotion of new and existing menu items. No assurances can be given that such advertising and promotions will in fact be successful.

The Company 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. The Company cautions the reader that such risk factors are not exhaustive, particularly with respect to future filings.

The Company had thirty-eight restaurants open at June 30, 2004 of which nineteen were franchised units, eight joint-venture units and eleven company-owned units compared to thirty-five units open at June 30, 2003, of which fifteen were franchised or licensed units, nine joint-venture units and eleven company-owned units. In March 2004, a franchise unit opened in Colorado Springs, Colorado. In April 2004, the first store under a co-brand franchise agreement with Taco John's International opened in Cheyenne, Wyoming. The franchise agreement with Taco John's provides for the development of up to three co-branded stores by Taco John's. Subsequent to June 30, 2004 a franchise unit opened in Castle Rock, Colorado. The Company entered into two development agreements in late fiscal 2002 for the development of fourteen new restaurants through fiscal 2005 for the Denver and Colorado Springs markets. The Company has signed franchise agreements for four of these restaurants. Management anticipates that the Company

and its franchisees will develop a total of one additional Good Times unit in the Denver metropolitan area in 2004.

The following presents certain historical financial information of the operations of the Company. This financial information includes the results of the Company for the three months and nine months ended June 30, 2003 and the results of the Company for the three months and nine months ended June 30, 2004.

## Results of Operations

### Net Revenues

Net revenues for the three months ended June 30, 2004 increased \$268,000 (6.8%) to \$4,217,000 from \$3,949,000 for the three months ended June 30, 2003. Same store restaurant sales increased \$208,000 (5.6%) during the three months ended June 30, 2004 for restaurants that were open for the full periods ending June 30, 2004 and June 30, 2003. Same store sales were impacted positively by the following: 1) comparison to the prior year period when same store sales had decreased 18% compared to 2002; 2) an overall strengthening in the local economy; and, 3) increases in the Company's internal scorecard measures relating to customer satisfaction and speed of service. Restaurant sales increased \$32,000 due to one non-traditional company-owned restaurant not included in same store sales, and decreased \$23,000 due to one company-owned restaurant that was closed and sold in May 2003.

Franchise revenues increased \$51,000 to \$118,000 from \$67,000 for the three months ended June 30, 2003 due to an increase in both franchise fees and franchise royalties. Franchise revenues for the prior period include \$6,000 in licensing fees for a Good Times restaurant operating at the Winter Park Resort in Colorado. The licensing agreement with the Winter Park Resort was terminated in July 2003. Franchise revenues for the current year period include \$30,000 in franchise fees for two restaurants, one opened in April 2004 in Cheyenne, Wyoming and one opened July 6, 2004 in Castle Rock, Colorado.

Net revenues for the nine months ended June 30, 2004 increased \$113,000 (1.0%) to \$11,333,000 from \$11,220,000 for the nine months ended June 30, 2003. Same store restaurant sales increased \$292,000 (2.8%) during the nine months ended June 30, 2004 for restaurants that were open for the full nine month periods ending June 30, 2004 and June 30, 2003. Same store sales were positively impacted as outlined in the previous paragraph. Restaurant sales increased \$30,000 due to one non-traditional company-owned restaurant not included in same store sales and decreased \$235,000 due to one company-owned restaurant that was closed and sold in May 2003.

Franchise revenues increased \$26,000 to \$246,000 from \$220,000 for the nine months ended June 30, 2003 due to an increase in both franchise fees and franchisee royalties. Franchise revenues for the prior nine month period includes \$44,000 in licensing fees for the Good Times restaurant operating at the Winter Park Resort in Colorado.

### Restaurant Operating Expenses

Restaurant operating expenses as a percent of restaurant sales were 85.7% during the three months ended June 30, 2004 compared to 83.7% in the same prior year period and were 88.4% during the nine months ended June 30, 2004 compared to 85.9% in the same prior year period.

The changes in restaurant level expenses are explained as follows:

|  | Three Months | Nine Months |
|--|--------------|-------------|
|--|--------------|-------------|

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|  | Ended June 30,<br>2004 | Ended June 30,<br>2004 |
|--|------------------------|------------------------|
| Restaurant-level expenses for the period ended June 30, 2003       | 83.7%                  | 85.9%                  |
| Increase in food and packaging costs                               | 4.8%                   | 3.0%                   |
| Increase (decrease) in payroll and other employee benefit expenses | (.9%)                  | .6%                    |
| Increase (decrease) in occupancy and other operating expenses      | (1.0%)                 | (.1%)                  |
| Decrease in depreciation and amortization expenses                 | <u>(.9%)</u>           | <u>(1.0%)</u>          |
| Restaurant-level expenses for the period ended June 30, 2004       | 85.7%                  | 88.4%                  |

#### Food and Packaging Costs

For the three months ended June 30, 2004 the Company's food and packaging costs increased \$264,000 to \$1,449,000 (35.4% of restaurant sales) from \$1,185,000 (30.5% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2004 the Company's food and packaging costs increased \$361,000 to \$3,810,000 (34.4% of restaurant sales) from \$3,449,000 (31.4% of restaurant sales) compared to the same prior year period.

For the three month and nine month periods ended June 30, 2004 food and packaging costs increased as a percentage of restaurant sales primarily due to an increase in the cost of beef, chicken and dairy products compared to the same prior year periods. Beef costs have risen to historic highs since the Canadian beef embargo began in July 2003. In addition, the prior year period included approximately \$65,000 in extraordinary vendor rebates. Management anticipates market price increases of 1.5% - 2% and some decrease in commodity costs over the remainder of fiscal 2004. However, beef prices are forecast to remain at or near historic highs.

#### Payroll and Other Employee Benefit Expenses

For the three months ended June 30, 2004 the Company's payroll and other employee benefit expenses increased \$31,000 to \$1,248,000 (30.4% of restaurant sales) from \$1,217,000 (31.3% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2004 the Company's payroll and other employee benefit expenses increased \$96,000 to \$3,594,000 (32.4% of restaurant sales) from \$3,498,000 (31.8% of restaurant sales) compared to the same prior year period.

The increase in payroll and other employee benefit expenses for the three month and nine month periods ended June 30, 2004 is primarily due to an increase in restaurant sales as well as slight increases in the average wages paid to employees and an increase in employee health insurance costs.

#### Occupancy and Other Operating Expenses

For the three months ended June 30, 2004 the Company's occupancy and other operating expenses decreased \$3,000 to \$624,000 (15.2% of restaurant sales) from \$627,000 (16.2% of restaurant sales) compared to the same prior year period.

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For the nine months ended June 30, 2004 the Company's occupancy and other operating expenses increased \$2,000 to \$1,816,000 (16.4% of restaurant sales) from \$1,814,000 (16.5% of restaurant sales).

The change in occupancy and other operating expenses as a percent of restaurant sales for the three and nine month periods ending June 30, 2004 is due to the largely fixed nature of these expenses. As sales increase or decrease, the percentage of occupancy and other operating expenses to restaurant sales fluctuates.

### Depreciation and Amortization Expenses

For the three months ended June 30, 2004 the Company's depreciation and amortization expenses decreased \$24,000 to \$188,000 (4.6% of restaurant sales) from \$212,000 (5.5% of restaurant sales) compared to the same prior year period.

For the nine months ended June 30, 2004 the Company's depreciation and amortization expenses decreased \$102,000 to \$570,000 (5.1% of restaurant sales) from \$672,000 (6.1% of restaurant sales) compared to the same prior year period.

The reduction in depreciation and amortization expenses for the three month and nine month periods ending ended June 30, 2004 is due to aging of the Company's capital assets, as well as the sale of one company-owned restaurant in fiscal 2003.

### Selling, General and Administrative Expenses

For the three months ended June 30, 2004, selling, general and administrative expenses increased \$100,000 to \$702,000 (16.6% of total revenues) from \$602,000 (15.2% of total revenues) for the same prior year period. The increase in selling, general and administrative expenses is attributable to increased advertising expenses in the three months ended June 30, 2004, which increased \$53,000 to \$279,000 (6.8% of restaurant sales) from \$226,000 (5.8% of restaurant sales) for the same prior year period, as well as an increase in general and administrative expenses as explained below. The increase in advertising expenses is attributable to increased costs due to the launch of a television advertising campaign in March 2004.

For the nine months ended June 30, 2004, selling, general and administrative expenses increased \$120,000 to \$1,997,000 (17.6% of total revenues) from \$1,877,000 (16.7% of total revenues) for the same prior year period. The increase in selling, general and administrative expenses is primarily attributable to a \$76,000 increase in general and administrative expenses as well as increased advertising expenses in the nine months ended June 30, 2004. Advertising expenses increased \$44,000 to \$685,000 (6.2% of restaurant sales) from \$641,000 (5.8% of restaurant sales) for the same prior year period.

General and administrative expenses for the three and nine month periods ending June 30, 2004 include an \$88,000 expense related to a brand strategy and consumer research project. The total cost of the project, which was completed in March 2004, was \$152,000 and is being amortized over seven months. The amortization period matches the anticipated implementation period of the brand strategy in advertising, product development and store level elements. Television advertising supporting the new brand strategy began on March 22, 2004 and will run through the end of the fiscal year. Management anticipates that advertising expenses will continue to run 1% higher (as a percent of restaurant sales) than the prior year period through the end of the fiscal year due to the television advertising campaign.

### Income (Loss) From Operations

The Company had no income from operations in the three months ended June 30, 2004 compared to income from operations of \$100,000 for the same prior year period.

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The Company had a loss from operations of (\$472,000) in the nine months ended June 30, 2004 compared to loss from operations of (\$108,000) for the same prior year period.

The decrease in income from operations for the three and nine month periods ending June 30, 2004 is primarily due to the increase in food and packaging costs discussed above. *Net Income (Loss)* The net loss for the Company was (\$57,000) for the three months ended June 30, 2004 compared to net income of \$51,000 for the same prior year period. The change from the three months ended June 30, 2003 to June 30, 2004 was primarily attributable to the decrease in income from operations for the three months ended June 30, 2004. In addition, minority interest expense decreased \$19,000 for the three months ended June 30, 2004 due to decreased income from operations of the joint-venture restaurants compared to the same prior year period, and net interest expense decreased \$14,000 for the three months ended June 30, 2004 compared to the same prior year period. Other expense increased \$41,000 to (\$4,000) from \$37,000 for the same prior year period. Other expense for the prior year period ended June 30, 2003 includes a gain on the sale of one company-owned restaurant. The net loss for the Company was (\$604,000) for the nine months ended June 30, 2004 compared to a net loss of (\$287,000) for the same prior year period. The change from the nine months ended June 30, 2003 to June 30, 2004 was primarily attributable to the decrease in income from operations for the nine months ended June 30, 2004 attributable to the increase in food and packaging costs. The decrease in income from operations was partially offset by a decrease in net interest expense of \$51,000, and a decrease in minority interest expense of \$69,000 for the nine months ended June 30, 2004 compared to the same prior year period. Other expense for the nine month period ending June 30, 2004 includes a one time expense of \$29,000 related to the final settlement of a lease liability in Las Vegas, Nevada.

### Liquidity and Capital Resources

#### Cash and Working Capital

As of June 30, 2004, the Company had \$1,023,000 cash and cash equivalents on hand. The Company currently plans to use the cash balance and cash generated from operations for increasing the Company's working capital reserves and, along with additional debt financing, for the development of new company-owned restaurants. Management believes that the current cash on hand and additional cash expected from operations in fiscal 2004 will be sufficient to cover the Company's working capital requirements for fiscal 2004. As of June 30, 2004, the Company had working capital of \$343,000. 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. The Company anticipates that working capital deficits will be incurred in the future as new restaurants are opened.

#### Capital Expenditures

The Company is currently negotiating purchase and lease agreements for additional company-owned and franchise restaurants and is negotiating debt and sale-leaseback financing for the development of those restaurants. The Company and its franchisees anticipate opening one new restaurant in fiscal 2004.

#### Financing Transactions

During fiscal year 2003 the Company became a co-maker on a \$2,000,000 line of credit renewable annually at the Company's discretion, to a third party entity (Smart Development, LLC), established for the purchase of land and development of new restaurants for subsequent sale in sale-leaseback transactions, some of which may be operated as company-owned restaurants and some of which may be subleased or directly leased to franchisees. The proceeds of the sale leaseback transactions will be used for the reduction of the line of credit. In addition to the land and buildings under development, the sole member (an unrelated third party) of Smart Development, LLC has provided a \$400,000 certificate of deposit as collateral for the line of credit. At June 30, 2004 there was no balance outstanding under the line of credit. Smart Development LLC has completed three restaurant sale leaseback transactions. The line of credit expired June 30, 2004 and management anticipates that the Company will not elect to renew the line of credit.

## Cash Flows

Net cash provided by operating activities was \$174,000 for the three months ended June 30, 2004 compared to net cash provided by operating activities of \$561,000 for the same prior year period. The net cash provided by operating activities for the three months ended June 30, 2004 was the result of a net loss of (\$57,000) and non-cash reconciling items totaling \$231,000 (comprised of depreciation and amortization of \$205,000, minority interest of \$48,000 and a net decrease in other operating assets and liabilities of \$22,000).

Net cash used in investing activities for the three months ended June 30, 2004 was \$22,000, which reflects payments for the purchase of property and equipment of \$52,000, \$22,000 received for the sale of fixed assets, loans made to franchisees of \$9,000 and \$17,000 in principal payments received on loans to franchisees. Net cash provided by investing activities for the three months ended June 30, 2003 was \$174,000 which reflects payments of \$98,000 in miscellaneous restaurant and corporate related capital expenditures, \$260,000 in net proceeds from the sale of property and \$12,000 in principal payments received on loans to franchisees. Net cash used in financing activities for the three months ended June 30, 2004 was \$83,000, which includes principal payments on notes payable and long term debt of \$49,000, repayments on lines-of-credit of \$34,000, distributions to minority interests in partnerships of \$73,000 and paid in capital activity of \$73,000 related to the exercise of stock options. Net cash used in financing activities for the three months ended June 30, 2003 was \$195,000, which includes principal payments on notes payable and long term debt of \$65,000, repayments on lines-of-credit of \$36,000 and distributions to minority interests in partnerships of \$94,000.

## Contingencies

The Company has negotiated a final settlement of a Las Vegas restaurant lease, which resulted in a final payment and expense of \$29,000, reflected in the Statement of Operations for the nine months ended June 30, 2004. The Company is also contingently liable on several ground leases that have been subleased or assigned to franchisees. The Company has never experienced any losses, nor does it anticipate any future losses, from these contingent liabilities. The Company is also a guarantor on a Small Business Administration loan to a franchisee of approximately \$278,000, which is secured by a first security on the building, equipment and operating assets of the restaurant.

## Impact of Inflation

The Company has not experienced a significant impact from inflation. It is anticipated that any operating expense increases will be recovered by increasing menu prices to the extent that is prudent considering competition.

## Seasonality

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

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

There were no material changes in the Company's exposure to market risk for the quarter ended June 30, 2004.

## ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures that are designed for the purposes of ensuring that information required to be disclosed in the Company's SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Controller, who currently performs the functions of principal financial officer of the Company, as appropriate, to allow timely



decisions regarding required disclosure. The Company has carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Controller concluded that the Company's disclosure controls and procedures are effective for the purposes discussed above as of the end of the period covered by this report. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter ended June 30, 2004.

## 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 2. Changes in Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Item 5. Other Information

None.

### Item 6. Exhibits and Reports on Form 8-K

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

Exhibit No.

Description

\*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 18 U.S.C. Section 906

a. During the quarter for which this report is filed, Good Times Restaurants filed the following report on Form 8-K:

None.

\*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.

DATE: August 13, 2004

GOOD TIMES RESTAURANTS INC.

BY: /s/Boyd E. Hoback

Boyd E. Hoback,

President and Chief Executive Officer

BY: /s/ Susan M. Knutson

Susan M. Knutson, Controller

Exhibit 31.1

#### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Boyd E. Hoback, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Good Times Restaurants Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and have:

- a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
1. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    - a. All significant deficiencies in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Boyd E. Hoback

Boyd E. Hoback

President and Chief Executive Officer

August 13, 2004

Exhibit 31.2

#### CERTIFICATION OF THE CONTROLLER

I, Susan M. Knutson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Good Times Restaurants Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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- b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
1. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Susan M. Knutson

Susan M. Knutson

Controller

August 13, 2004

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-QSB of Good Times Restaurants Inc. (the "Company") for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Boyd E. Hoback, Chief Executive Officer and Susan M. Knutson, Controller of the Company, hereby certifies, pursuant to and solely for the purpose of 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

- 1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- 2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Boyd E. Hoback

Boyd E. Hoback,

President and Chief Executive Officer

August 13, 2004

/s/ Susan M. Knutson

Susan M. Knutson

Controller (principal financial officer)

August 13, 2004