

GOOD TIMES RESTAURANTS INC  
Form 10QSB  
May 13, 2005

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: March 31, 2005

Commission file number: 0-18590

GOOD TIMES RESTAURANTS INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

84-1133368

(I.R.S. Employer Identification 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

Total number of shares of common stock outstanding at May 13, 2005.

2,398,140 SHARES OF COMMON STOCK, .001 PAR VALUE

1,240,000 SHARES OF PREFERRED STOCK, .01 VALUE

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

Form 10-QSB

Quarter Ended March 31, 2005

INDEX

PAGE

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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|  |         |
|--|---------|
| Consolidated Balance Sheets -                                  | 3 - 4   |
| March 31, 2005 and September 30, 2004                          |         |
| Consolidated Statements of Operations -                        | 5       |
| For the three and six months ended March 31, 2005 and 2004     |         |
| Consolidated Statements of Cash Flows-                         | 6 - 7   |
| For the three and six months ended March 31, 2005 and 2004     |         |
| Notes to Financial Statements                                  | 8 - 9   |
| <br>   |         |
| Item 2. Management's Discussion and Analysis                   | 9 - 15  |
| <br>   |         |
| Item 3. Quantitive and Qualitive Disclosures About Market Risk | 15      |
| <br>   |         |
| Item 4. Controls and Procedures                                | 15 - 16 |
| <br>   |         |
| PART II - OTHER INFORMATION                                    |         |
| <br>   |         |
| Item 1. Legal Proceedings                                      | 16      |
| <br>   |         |
| Item 2. Changes in Securities and Use of Proceeds              | 16      |
| <br>   |         |
| Item 3. Defaults Upon Senior Securities                        | 16      |
| <br>   |         |
| Item 4. Submission of Matters to a Vote of Security Holders    | 16 - 17 |
| <br>   |         |
| Item 5. Other Information.                                     | 17      |

|         |                                  |        |
|---------|----------------------------------|--------|
| Item 6. | Exhibits and Reports on Form 8-K | 17     |
|         | SIGNATURES                       | 18     |
|         | CERTIFICATIONS                   | 19- 21 |

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS

|                                  | March 31,<br><u>2005</u> | September 30,<br><u>2004</u> |
|----------------------------------|--------------------------|------------------------------|
| CURRENT ASSETS:                  |                          |                              |
| Cash and cash equivalents        | \$4,062,000              | \$1,796,000                  |
| Receivables and other            | 188,000                  | 104,000                      |
| Inventories                      | 124,000                  | 118,000                      |
| Notes receivable                 | <u>85,000</u>            | <u>53,000</u>                |
| Total current assets             | 4,459,000                | 2,071,000                    |
| PROPERTY AND EQUIPMENT, at cost: |                          |                              |
| Land and building                | 3,447,000                | 3,332,000                    |
| Leasehold improvements           | 2,796,000                | 2,715,000                    |
| Fixtures and equipment           | <u>5,140,000</u>         | <u>5,073,000</u>             |
|                                  | 11,383,000               | 11,120,000                   |

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|  |                    |                    |
|--|--------------------|--------------------|
| Less accumulated depreciation and amortization | <u>(7,006,000)</u> | <u>(6,663,000)</u> |
|  | 4,377,000          | 4,457,000          |
| OTHER ASSETS:                                  |                    |                    |
| Notes receivable, net of current portion       | 539,000            | 595,000            |
| Deposits & other                               | <u>33,000</u>      | <u>69,000</u>      |
|  | <u>572,000</u>     | <u>664,000</u>     |
| <br>   |                    |                    |
| TOTAL ASSETS                                   | <u>\$9,408,000</u> | <u>\$7,192,000</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Current maturities of long-term debt | \$216,000      | \$515,000      |
| Accounts payable                     | 326,000        | 300,000        |
| Deferred income                      | 39,000         | 47,000         |
| Accrued liabilities - other          | <u>909,000</u> | <u>583,000</u> |
| Total current liabilities            | 1,490,000      | 1,445,000      |

LONG-TERM LIABILITIES:

|                              |                |                |
|------------------------------|----------------|----------------|
| Debt, net of current portion | 638,000        | 747,000        |
| Deferred liabilities         | <u>991,000</u> | <u>984,000</u> |
| Total long-term liabilities  | 1,629,000      | 1,731,000      |

|                                    |         |         |
|------------------------------------|---------|---------|
| MINORITY INTERESTS IN PARTNERSHIPS | 619,000 | 670,000 |
|------------------------------------|---------|---------|

## GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (Continued)

|  | March 31,<br><u>2005</u>  | September 30,<br><u>2004</u> |
|--|---------------------------|------------------------------|
| STOCKHOLDERS' EQUITY:  |                           |                              |
| Preferred stock, \$.01 par value; 5,000,000 shares<br>authorized, 1,240,000 issued and outstanding as<br>of March 31, 2005 and no shares issued and<br>outstanding as of September 30, 2004              | 12,000                    | -                            |
| Common stock, \$.001 par value; 50,000,000 shares<br>authorized, 2,374,284 shares issued and outstanding as<br>of March 31, 2005 and 2,343,732 shares issued and<br>outstanding as of September 30, 2004 | 2,000                     | 2,000                        |
| Capital contributed in excess of par value   | 16,770,000                | 13,461,000                   |
| Accumulated deficit  | <u>(11,114,000)</u>       | <u>(10,117,000)</u>          |
| Total stockholders' equity   | <u>5,670,000</u>          | <u>3,346,000</u>             |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b><u>\$9,408,000</u></b> | <b><u>\$7,192,000</u></b>    |

4

## GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Three Months Ended

Six Months Ended

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|   | March 31,                 |                           | March 31,                 |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | <u>2005</u>               | <u>2004</u>               | <u>2005</u>               | <u>2004</u>               |
| <b>NET REVENUES:</b>  |                           |                           |                           |                           |
| Restaurant sales, net   | \$3,673,000               | \$3,541,000               | 7,388,000                 | \$6,988,000               |
| Franchise revenues  | <u>102,000</u>            | <u>112,000</u>            | <u>205,000</u>            | <u>179,000</u>            |
| Total revenues  | 3,775,000                 | 3,653,000                 | 7,593,000                 | 7,167,000                 |
| <b>RESTAURANT OPERATING COSTS:</b>  |                           |                           |                           |                           |
| Food & packaging costs  | 1,190,000                 | 1,188,000                 | 2,483,000                 | 2,362,000                 |
| Payroll & other employee benefit costs  | 1,281,000                 | 1,232,000                 | 2,551,000                 | 2,463,000                 |
| Occupancy & other operating costs   | 634,000                   | 601,000                   | 1,263,000                 | 1,202,000                 |
| Accretion of deferred rent  | 9,000                     | 7,000                     | 18,000                    | 12,000                    |
| Opening costs   | 7,000                     | 0                         | 7,000                     | 0                         |
| Depreciation & amortization   | <u>192,000</u>            | <u>199,000</u>            | <u>384,000</u>            | <u>401,000</u>            |
| Total restaurant operating costs  | 3,313,000                 | 3,227,000                 | 6,706,000                 | 6,440,000                 |
| General & administrative costs  | 379,000                   | 325,000                   | 726,000                   | 689,000                   |
| Advertising costs   | 277,000                   | 230,000                   | 558,000                   | 459,000                   |
| (Gain) loss on sale of restaurant building and equipment                            | (2,000)                   | 0                         | (8,000)                   | 0                         |
| <b>INCOME (LOSS) FROM OPERATIONS</b>  | <b>(192,000)</b>          | <b>(129,000)</b>          | <b>(389,000)</b>          | <b>(421,000)</b>          |
| <b>OTHER INCOME &amp; (EXPENSES):</b>   |                           |                           |                           |                           |
| Minority income (expense), net  | (23,000)                  | (19,000)                  | (35,000)                  | (33,000)                  |
| Interest, net   | 10,000                    | (6,000)                   | 9,000                     | (13,000)                  |
| Other, net  | <u>(24,000)</u>           | <u>(57,000)</u>           | <u>(48,000)</u>           | <u>(80,000)</u>           |
| Total other income & (expenses)   | (37,000)                  | (82,000)                  | (74,000)                  | (126,000)                 |
| <b>NET INCOME (LOSS)</b>  | <b><u>(\$229,000)</u></b> | <b><u>(\$211,000)</u></b> | <b><u>(\$463,000)</u></b> | <b><u>(\$547,000)</u></b> |
| Less imputed preferred stock dividend   | <u>533,000</u>            | <u>0</u>                  | <u>533,000</u>            | <u>0</u>                  |
| <b>NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS</b>                           | <b><u>(\$762,000)</u></b> | <b><u>(\$211,000)</u></b> | <b><u>(\$996,000)</u></b> | <b><u>(\$547,000)</u></b> |
| <b>BASIC &amp; DILUTED NET INCOME (LOSS) PER COMMON SHARE</b>                       | <b><u>(\$.32)</u></b>     | <b><u>(\$.09)</u></b>     | <b><u>(\$.42)</u></b>     | <b><u>(\$.24)</u></b>     |
| <b>WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS USED IN PER SHARE CALCULATION</b> |                           |                           |                           |                           |

|         |           |           |           |           |
|---------|-----------|-----------|-----------|-----------|
| BASIC   | 2,360,861 | 2,308,735 | 2,356,992 | 2,305,397 |
| DILUTED | N/A       | N/A       | N/A       | N/A       |

5

## GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | Three Months Ended |               | Six Months Ended |               |
|--|--------------------|---------------|------------------|---------------|
|  | March 31,          |               | March 31,        |               |
|  | <u>2005</u>        | <u>2004</u>   | <u>2005</u>      | <u>2004</u>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                    |               |                  |               |
| Net income (Loss)  | (\$229,000)        | (\$211,000)   | (463,000)        | (547,000)     |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                    |               |                  |               |
| Depreciation and amortization  | 193,000            | 204,000       | 388,000          | 411,000       |
| Accretion of deferred rent   | 9,000              | 7,000         | 18,000           | 12,000        |
| Minority interest  | 23,000             | 19,000        | 36,000           | 33,000        |
| Recognition of deferred (gain) on sale of restaurant building                                      | (6,000)            | 0             | (11,000)         | 0             |
| Loss (gain) on sale of restaurant equipment  | 3,000              | 0             | 3,000            | 0             |
| Changes in operating assets and liabilities:   |                    |               |                  |               |
| (Increase) decrease in:  |                    |               |                  |               |
| Receivables and other  | (9,000)            | (21,000)      | (84,000)         | 20,000        |
| Inventories  | 5,000              | (3,000)       | (6,000)          | 10,000        |
| Deposits and other   | 69,000             | (101,000)     | 35,000           | (186,000)     |
| (Decrease) increase in:  |                    |               |                  |               |
| Accounts payable   | 174,000            | (50,000)      | 26,000           | 14,000        |
| Accrued and other liabilities  | <u>309,000</u>     | <u>66,000</u> | <u>317,000</u>   | <u>44,000</u> |
| Net cash provided by (used in) operating activities  | 541,000            | (90,000)      | 259,000          | (189,000)     |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>   |                    |               |                  |               |



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|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Payments for the purchase of property and equipment | (190,000)     | (27,000)      | (309,000)     | (41,000)      |
| Loans made to franchisees                           | 0             | (20,000)      | 0             | (78,000)      |
| Payments received on loans to franchisees           | <u>13,000</u> | <u>11,000</u> | <u>24,000</u> | <u>17,000</u> |
| Net cash used in investing activities               | (177,000)     | (36,000)      | (285,000)     | (102,000)     |

CASH FLOWS FROM FINANCING ACTIVITIES:

|   |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| Principal payments on notes payable, capital leases, and long-term debt | (52,000)        | (48,000)        | (103,000)       | (95,000)        |
| Net repayments on line-of-credit  | 0               | (34,000)        | (305,000)       | (69,000)        |
| Net proceeds from preferred stock offering                              | 2,722,000       | 0               | 2,722,000       | 0               |
| Proceeds from exercise of options                                       | 39,000          | 11,000          | 65,000          | 16,000          |
| Distributions paid to minority interests in partnerships                | <u>(48,000)</u> | <u>(45,000)</u> | <u>(87,000)</u> | <u>(87,000)</u> |
| Net cash provided by (used in) financing activities                     | 2,661,000       | (116,000)       | 2,292,000       | (235,000)       |

6

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | Three Months Ended |                    | Six Months Ended   |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | March 31,          |                    | March 31,          |                    |
|  | <u>2005</u>        | <u>2004</u>        | <u>2005</u>        | <u>2004</u>        |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,025,000          | (242,000)          | 2,266,000          | (526,000)          |
| CASH AND CASH EQUIVALENTS, beginning of period   | <u>\$1,037,000</u> | <u>\$1,196,000</u> | <u>\$1,796,000</u> | <u>\$1,480,000</u> |
| CASH AND CASH EQUIVALENTS, end of period         | <u>\$4,062,000</u> | <u>\$954,000</u>   | <u>\$4,062,000</u> | <u>\$954,000</u>   |

SUPPLEMENTAL DISCLOSURES  
OF CASH FLOW INFORMATION:

|                        |                 |                 |                 |                 |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Cash paid for interest | <u>\$16,000</u> | <u>\$40,000</u> | <u>\$34,000</u> | <u>\$43,000</u> |
|------------------------|-----------------|-----------------|-----------------|-----------------|

7

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

- 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 March 31, 2005, the results of its operations and its cash flows for the three and six month periods ended March 31, 2005. Operating results for the three and six month periods ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended September 30, 2005.

The consolidated balance sheet as of September 30, 2004 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, 2004.

## Reclassification:

Certain prior quarter balances have been reclassified to conform to the current quarter's presentation. Such reclassifications had no effect on the net loss.

## Stock-based compensation disclosures:

We apply 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 our 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, our net loss and net loss per share would have been changed to the pro forma amounts indicated below.

|                                 | Three Months Ended |             | Six Months Ended |             |
|---------------------------------|--------------------|-------------|------------------|-------------|
|                                 | March 31,          |             | March 31,        |             |
|                                 | <u>2005</u>        | <u>2004</u> | <u>2005</u>      | <u>2004</u> |
| Net income (loss) applicable to |                    |             |                  |             |
| common stockholders:            |                    |             |                  |             |
| As reported                     | (\$762,000)        | (\$211,000) | (\$996,000)      | (\$547,000) |

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|                                     |                 |                 |                 |                 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Pro forma expense                   | <u>(20,000)</u> | <u>(30,000)</u> | <u>(41,000)</u> | <u>(60,000)</u> |
| Pro forma net loss                  | (782,000)       | (241,000)       | (1,037,000)     | (607,000)       |
| Net income (loss) per common share: |                 |                 |                 |                 |
| As reported                         | \$ (.32)        | \$ (.09)        | \$ (.42)        | \$ (.24)        |
| Pro forma                           | (.33)           | (.10)           | (.44)           | (.26)           |

The fair value of each employee option granted in 2005 and 2004 was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

|                           | Three and Six Months Ended March 31, |             |
|---------------------------|--------------------------------------|-------------|
|                           | <u>2005</u>                          | <u>2004</u> |
| Expected volatility       | 68%                                  | 82%         |
| Risk-free interest rate   | 4.14%                                | 3.93%       |
| Expected dividends        | -                                    | -           |
| Expected terms (in years) | 5 - 10                               | 5 - 10      |

8

• CONTINGENT LIABILITY

We remain contingently liable on various restaurant leases that were previously sold. We are also a guarantor on a Small Business Administration loan to a franchisee.

• STOCK TRANSACTIONS

Under the securities purchase agreements, we issued to the investors, a total of 1,240,000 shares of Series B Preferred Stock at a purchase price of \$2.50 per share. A total of 1,180,000 shares of Series B Preferred Stock were issued for cash in the total amount of \$2,950,000, and 60,000 shares were issued in consideration for advice and assistance services with respect to the sale of 1,000,000 shares of Series B Preferred Stock, which services were valued at \$150,000. The 1,240,000 shares of Series B Preferred Stock will be convertible into a total of 1,240,000 shares of common stock, subject to certain anti-dilution adjustments.

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 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 that 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:

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.

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

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

#### Preferred Stock Offering

On February 10, 2005 we closed on the private placement of a total of 1,240,000 shares of Series B Preferred Stock for \$2.50 per share, including 60,000 shares issued to one of the investors in consideration for advice and assistance with respect to the sale of 1,000,000 shares of the Series B Preferred Stock. A current significant stockholder purchased 180,000 of the shares of Series B Preferred Stock. The aggregate purchase price for the 1,180,000 shares issued for cash was \$2,950,000. Net proceeds of approximately \$2,722,000 include \$133,336 paid or payable to Eric W. Reinhard for a fee related to raising capital. Each share of Series B Preferred Stock will be convertible at the option of the holder into one share of common stock, subject to certain anti-dilution provisions. The preferred shares will accrue dividends at the rate of 6% per annum beginning on the first anniversary of the issuance of the shares, and will be subject to certain mandatory redemption and transfer restrictions. The Series B Preferred Stock has a beneficial conversion feature because the quoted market price of Good Times Restaurants' common stock on the commitment date was higher than the conversion price of \$2.50. The imputed preferred stock dividend at the commitment date was \$533,000 (1,240,000 shares multiplied by the difference in the market value at the commitment date of \$2.93 and the conversion price of \$2.50). This amount is reflected in this 10QSB filing as a reduction of net income available to common stockholders. We intend to use the net proceeds from the preferred stock offering for the development of new restaurants and for the refurbishment of existing restaurants.

We had forty restaurants open at March 31, 2005 of which twenty-one were franchised or licensed units, eight joint-venture units and eleven company-owned units compared to thirty-seven units open at March 31, 2004, of which eighteen were franchised or licensed units, eight joint-venture units and eleven company-owned units. In fiscal 2004 we: 1) opened one new franchise restaurant in Colorado Springs, Colorado in March 2004 and two new franchise restaurants in the Denver metropolitan area, in July and August 2004; and, 2) opened one new franchised co-brand restaurant in Cheyenne, Wyoming. Two additional co-brand restaurants are currently under development, one of which is an existing Good Times restaurant that we purchased from a franchisee on April 1, 2005 (see "Subsequent Events") that we are converting to the co-brand format. We anticipate converting one additional existing Good Times restaurant to the co-brand format, developing one new company-owned prototype co-brand restaurant and franchising

an additional three to five co-brand restaurants in 2005, both in Colorado and in new markets. We have three additional Good Times sites under contract and anticipate signing an additional two to four sites for development in 2005 and early 2006 for company-owned and franchised development.

The following presents certain historical financial information of our operations. This financial information includes results for the three and six month periods ended March 31, 2005 and results for the three and six month periods ended March 31, 2004.

## Results of Operations

### Net Revenues

Net revenues for the three months ended March 31, 2005 increased \$122,000 (3.3%) to \$3,775,000 from \$3,653,000 for the three months ended March 31, 2004. Same store restaurant sales increased \$103,000 (3.1%) during the three months ended March 31, 2005 for the restaurants that were open for the full periods ended March 31, 2005 and March 31, 2004, on top of last years 5.8% increase in same store sales. Restaurant sales also increased \$29,000 due to one non-traditional company-owned restaurant not included in same store sales. Our same store restaurant sales have continued to show positive trends over the last fourteen months. We have had same store sales increases in each of the last fourteen months, with the exception of August 2004 and March 2005 when same store sales decreased 1% and 2.6% respectively. The same store sales decrease in March 2005 of 2.6% was primarily attributable to unseasonably cold weather in the Denver metropolitan area. Subsequent to the quarter ended March 31, 2005, same store sales increased 6.1% in April 2005 over the same prior year period.

10

Franchise revenues for the three months ended March 31, 2005 decreased \$10,000 to \$102,000 from \$112,000 for the three months ended March 31, 2004 due to an increase in franchise royalties of \$15,000 offset by a \$25,000 decrease in franchisee fees compared to the same prior year period. Same store franchise restaurant sales increased .5% during the three months ended March 31, 2005 for the franchise restaurants that were open for the full periods ended March 31, 2005 and March 31, 2004.

Net revenues for the six months ended March 31, 2005 increased \$426,000 (5.9%) to \$7,593,000 from \$7,167,000 for the six months ended March 31, 2004. Same store restaurant sales increased \$340,000 (5.1%) during the six months ended March 31, 2005 for the restaurants that were open for the full periods ended March 31, 2005 and March 31, 2004. Restaurant sales also increased \$60,000 due to one non-traditional company-owned restaurant not included in same store sales.

Franchise revenues for the six month ended March 31, 2005 increased \$26,000 to \$205,000 from \$179,000 for the six months ended March 31, 2004 due primarily to an increase in franchise royalties. Same store franchise restaurant sales increased 1.1% during the six months ended March 31, 2005 for the franchise restaurants that were open for the full periods ended March 31, 2005 and March 31, 2004.

### Restaurant Operating Costs

Restaurant operating costs as a percent of restaurant sales were 90.2% during the three months ended March 31, 2005 compared to 91.1% in the same prior year period and were 90.8% during the six months ended March 31, 2005 compared to 92.2% in the same prior year period.

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

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|   | Three Months Ended<br>March 31, 2005 | Six Months Ended<br>March 31, 2004 |
|---|--------------------------------------|------------------------------------|
|   | 91.1%                                | 92.2%                              |
| Restaurant-level costs for the period ended March 31, 2004      |                                      |                                    |
| Decrease in food and packaging costs                            | (1.1%)                               | (.2%)                              |
| Increase (decrease) in payroll and other employee benefit costs | .1%                                  | (.7%)                              |
| Increase (decrease) in occupancy and other operating costs      | .3%                                  | (.1%)                              |
| Decrease in depreciation and amortization                       | (.4%)                                | (.5%)                              |
| Increase in deferred rent and opening costs                     | <u>.2%</u>                           | <u>.1%</u>                         |
| Restaurant-level costs for the period ended March 31, 2005      | 90.2%                                | 90.8%                              |

#### Food and Packaging Costs

For the three months ended March 31, 2005 our food and packaging costs increased \$2,000 to \$1,190,000 (32.4% of restaurant sales) from \$1,188,000 (33.5% of restaurant sales) compared to the same prior year period. Food and packaging costs decreased as a percentage of restaurant sales primarily due to 1) limited menu price increases; 2) menu product engineering in portions and ingredients; 3) new product development; and, 4) new purchasing agreements. Those measures were somewhat offset by approximately an 8 - 10% increase in the cost of beef and dairy compared to the same prior year period.

For the six months ended March 31, 2005 our food and packaging costs increased \$121,000 to \$2,483,000 (33.6% of restaurant sales) from \$2,362,000 (33.8% of restaurant sales) compared to the same prior year period.

11

#### Payroll and Other Employee Benefit Costs

For the three months ended March 31, 2005 our payroll and other employee benefit costs increased \$49,000 to \$1,281,000 (34.9% of restaurant sales) from \$1,232,000 (34.8% of restaurant sales) compared to the same prior year period. The increase in payroll and other employee benefit expenses is the result of increased sales for the period. Payroll and benefit costs are semi-variable and therefore increase or decrease as sales fluctuate.

For the six months ended March 31, 2005 our payroll and other employee benefit costs increased \$88,000 to \$2,551,000 (34.5% of restaurant sales) from \$2,463,000 (35.2% of restaurant sales) compared to the same prior year period.

#### Occupancy and Other Operating Costs

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For the three months ended March 31, 2005 our occupancy and other operating costs increased \$33,000 to \$634,000 (17.3% of restaurant sales) from \$601,000 (17% of restaurant sales) compared to the same prior year period. For the three months ended March 31, 2005; 1) rent expense increased \$22,000 from the same prior year period due to scheduled rent escalations as well as two sale-leaseback transactions; 2) utility costs increased \$7,000 from the prior year period; and, 3) bank fees increased \$4,000 from the prior year period due to increased use of credit cards by our customers.

For the six months ended March 31, 2005 our occupancy and other operating costs increased \$61,000 to \$1,263,000 (17.1% of restaurants sales) from \$1,202,000 (17.2% of restaurant sales) compared to the same prior year period. For the six months ended March 31, 2005; 1) rent expense increased \$47,000; 2) utility costs increased \$8,000; and 3) bank fees increased \$11,000 from the same prior year period.

### Depreciation and Amortization

For the three months ended March 31, 2005 depreciation and amortization decreased \$7,000 to \$192,000 (5.2% of restaurant sales) from \$199,000 (5.6% of restaurant sales) compared to the same prior year period. The \$7,000 reduction in depreciation and amortization for the three months ended March 31, 2005 is due to the normal aging of our capital assets.

For the six months ended March 31, 2005 depreciation and amortization decreased \$17,000 to \$384,000 (5.2% of restaurant sales) from \$401,000 (5.7% of restaurant sales) compared to the same prior year period.

### General and Administrative Costs

For the three months ended March 31, 2005, general and administrative costs increased \$54,000 to \$379,000 (10% of total revenues) from \$325,000 (8.9% of total revenues) for the same prior year period. The increase in general and administrative costs compared to the same prior year period is primarily attributable to increases in; 1) training and recruiting costs; 2) salary expenses; and, 3) \$18,000 in costs related to preliminary site work and due diligence on prospective new sites.

For the six months ended March 31, 2005 general and administrative costs increased \$37,000 to \$726,000 (9.6% of total revenues) from \$689,000 (9.6% of total revenues) for the same prior year period.

12

### Advertising Costs

For the three months ended March 31, 2005 advertising costs increased \$47,000 to \$277,000 (7.5% of restaurant sales) from \$230,000 (6.5% of restaurant sales) for the same prior year period.

For the six months ended March 31, 2005 advertising costs increased \$99,000 to \$558,000 (7.6% of restaurant sales) from \$459,000 (6.6% of restaurant sales) for the same prior year period.

The changes in advertising costs, for the three month and six month periods, is primarily due to the increase in restaurant sales (contributions based on sales are made to an advertising cooperative), and the launch of a television advertising campaign in March 2004. With the launch of the television advertising campaign contributions to the advertising cooperative were increased by 1% of restaurant sales through March 31, 2005.

### Income (Loss) From Operations

We had a loss from operations of (\$192,000) in the three months ended March 31, 2005 compared to a loss from operations of (\$129,000) for the same prior year period.

We had a loss from operations of (\$389,000) in the six months ended March 31, 2005 compared to a loss from operations of (\$421,000) for the same prior year period.

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

#### Net Income (Loss)

The net loss was (\$229,000) for the three months ended March 31, 2005 compared to a net loss of (\$211,000) for the same prior year period. The change from the three month period ended March 31, 2004 to March 31, 2005 was primarily attributable to the increase in loss from operations for the three months ended March 31, 2005, as well as a decrease in other expenses of \$33,000 for the three months ended March 31, 2005. Other expense for the three months ended March 31, 2004 included a one time expense of \$29,000 related to the final settlement of a lease liability.

The net loss was (\$463,000) for the six months ended March 31, 2005 compared to a net loss of (\$547,000) for the same prior year period. The change from the six month period ended March 31, 2004 to March 31, 2005 was primarily attributable to the decrease in loss from operations for the six months ended March 31, 2005 as well as a decrease in other expense of \$32,000 for the six months ended March 31, 2005.

#### Liquidity and Capital Resources

##### Cash and Working Capital

As of March 31, 2005, we had \$4,062,000 cash and cash equivalents on hand. We currently plan to use the cash balance and cash generated from operations for increasing our working capital reserves and, along with additional debt and equity 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 2005 will be sufficient to cover our working capital requirements for fiscal 2005.

13

As of March 31, 2005, we had working capital of \$2,969,000. 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. We anticipate that incremental working capital deficits will be incurred in the future as new restaurants are opened.

##### Capital Expenditures

We are currently negotiating purchase and lease agreements for additional company-owned and franchise restaurants and are negotiating debt and sale-leaseback financing for the development of those restaurants. We, and our franchisees, anticipate opening three to four restaurants in 2005. We anticipate purchasing one to three existing restaurants from franchisees and remodeling those restaurants to the co-brand operation during the remainder of fiscal 2005. We also anticipate increasing the level of reinvestment in existing company-owned joint venture restaurants to upgrade the exterior building image and improve the patios.



## Cash Flows

Net cash provided by operating activities was \$541,000 for the three months ended March 31, 2005 compared to net cash used in operating activities of \$90,000 for the same prior year period. The net cash provided by operating activities for the three months ended March 31, 2005 was the result of a net loss of (\$229,000) and non-cash reconciling items totaling (\$770,000) (comprised of depreciation and amortization of \$193,000, minority interest of \$23,000, an increase in accounts payable of \$174,000, an increase in accrued and other liabilities of \$309,000, and increases in operating assets and liabilities totaling \$71,000). The \$309,000 increase in accrued and other liabilities includes: 1) an accrued property tax liability increase of \$46,000; 2) an increase in the medical funding liability of \$102,000 related to our self-funded health insurance plan; and, 3) an increase in other accrued liabilities of \$100,000 for fees related to the preferred stock offering.

Net cash used in operating activities was \$90,000 for the three months ended March 31, 2004. The net cash used in operating activities for the three months ended March 31, 2004 was the result of a net loss of (\$211,000) and non-cash reconciling items totaling \$121,000 (comprised of depreciation and amortization of \$204,000, minority interest of \$19,000, a decrease in accounts payable of \$50,000, an increase in prepaid expenses of \$101,000 and a net increase in other operating assets and liabilities of \$49,000).

Net cash used in investing activities for the three months ended March 31, 2005 was \$177,000, which reflects payments of \$84,000 for new restaurant development costs, \$106,000 in restaurant related capital expenditures and \$13,000 in principal payments received on loans to franchisees.

Net cash used in investing activities for the three months ended March 31, 2004 was \$36,000 which reflects payments for the purchase of property and equipment of \$42,000, \$15,000 received for the sale of fixed assets, loans made to franchisees of \$20,000 and \$11,000 in principal payments received on loans to franchisees.

Net cash provided by financing activities for the three months ended March 31, 2005 was \$2,661,000, which includes principal payments on notes payable and long term debt of \$52,000, distributions to minority interests in partnerships of \$48,000, paid in capital activity of \$39,000 related to the exercise of stock options and paid in capital activity of \$2,722,000 related to the preferred stock offering.

14

Net cash used in financing activities for the three months ended March 31, 2004 was \$116,000, which includes principal payments on notes payable and long term debt of \$48,000, repayments on lines-of-credit of \$34,000, distributions to minority interests in partnerships of \$45,000 and paid in capital activity of \$11,000 related to the exercise of stock options.

## Contingencies

We are contingently liable on several ground leases that have been subleased or assigned to franchisees. We have never experienced any losses nor do we anticipate any future losses from these contingent lease liabilities. The Company is also a guarantor on a Small Business Administration loan to a franchisee of approximately \$262,000, which is collateralized by a first security interest on the building, equipment and operating assets of the restaurant and the personal guarantee of the franchisee.

## Subsequent Events

On April 1, 2005 we purchased the operations of a Good Times franchise restaurant in Commerce City, Colorado and entered into a fourteen year lease with the franchisee for the building. The franchise agreement for that restaurant was terminated. We subsequently closed the restaurant to remodel it into a Good Times/Taco John's co-brand. The newly remodeled co-branded restaurant will reopen in late May 2005.

#### Impact of Inflation

The Company has experienced a significant impact from inflation in the commodity costs for beef, chicken, dairy and produce over the last eighteen months. We anticipate a moderation in the increase in costs of most of our core commodities and modest decreases in dairy and produce costs for the balance of fiscal 2005. 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 our exposure to market risk for the quarter ended March 31, 2005.

### ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that are designed for the purposes of ensuring that information required to be disclosed in our 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 our management, including the Chief Executive Officer and the Controller, who currently performs the functions of principal financial officer for the Company, as appropriate to allow timely decisions regarding required disclosures.

15

We have carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Controller, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Controller concluded that our 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 our internal controls or in other factors that could significantly affect these controls during the quarter ended March 31, 2005.

## GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

### 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

On January 22, 2004, Good Times Restaurants held its annual meeting of Shareholders. At that meeting there were three proposals:

Proposal #1 Election of the following directors to serve during the ensuing year:

|                   | <u>FOR</u> | <u>WITHHOLD</u> |
|-------------------|------------|-----------------|
| GEOFFREY R BAILEY | 2,127,503  | 12,479          |
| RON GOODSON       | 2,130,576  | 9,406           |
| DAVE GRISSSEN     | 2,130,376  | 9,606           |
| BOYD E HOBACK     | 2,130,623  | 9,359           |
| ERIC REINHARD     | 2,129,255  | 10,727          |
| RICHARD J. STARK  | 2,126,684  | 13,298          |
| ALAN A TERAN      | 2,130,676  | 9,306           |

Proposal 2: Approve the issuance of a total of 1,240,000 shares of Series B convertible preferred stock for \$2.50 per share pursuant to securities purchase agreements dated December 30, 2004.

FOR: 1,315,737

AGAINST: 23,018

ABSTAIN: 1,503

NOT VOTED: 799,724

Proposal 3: Amendment to the 2001 Stock Option Plan to increase the total authorized shares from 150,000 shares to 300,000 shares.

FOR: 1,315,420

AGAINST: 23,675

ABSTAIN: 1,163

NOT VOTED: 799,724

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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

\*32.1 Certification of Controller pursuant to 18 U.S.C. Section 1350

\*filed herewith

17

SIGNATURES

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

GOOD TIMES RESTAURANTS INC.

DATE: May 13, 2005

BY: /s/ Boyd E. Hoback

Boyd E. Hoback

President and Chief Executive Officer

BY: /s/ Susan M. Knutson

Sue Knutson

Controller

18

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;
3. 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

May 13, 2005

19

Exhibit 31.1

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;
  - 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/ Susan M. Knutson

Susan M. Knutson

Controller

May 13, 2005

20

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 March 31, 2005 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

Chief Executive Officer

May 13, 2005

/s/ Susan M. Knutson

Susan M. Knutson

Controller (principal financial officer)

May 13, 2005