

GOOD TIMES RESTAURANTS INC

Form 10QSB

February 14, 2008

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: December 31, 2007

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 stock outstanding at February 14, 2008.

3,878,859 SHARES OF COMMON STOCK, .001 PAR VALUE

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

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**Form 10-QSB**

**Quarter Ended December 31, 2007**

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

|   | <b>Unaudited</b><br>December 31,<br><u>2007</u> | <b>Audited</b><br>September 30,<br><u>2007</u> |
|---|---|--|
| <b>CURRENT ASSETS:</b>  |   |  |
| Cash and cash equivalents                                     | \$1,526,000                                     | \$2,465,000                                    |
| Receivables, net of allowance for doubtful<br>accounts of \$0 | 207,000   | 187,000  |
| Prepaid expenses and other                                    | 41,000  | 39,000   |
| Inventories   | 196,000   | 191,000  |
| Notes receivable  | <u>85,000</u>                                   | <u>88,000</u>                                  |
| Total current assets  | 2,055,000                                       | 2,970,000                                      |
| <b>PROPERTY AND EQUIPMENT, at cost:</b>                       |   |  |
| Land and building   | 5,289,000                                       | 5,252,000                                      |
| Leasehold improvements  | 3,754,000                                       | 3,737,000                                      |
| Fixtures and equipment  | <u>7,812,000</u>                                | <u>7,798,000</u>                               |
|   | 16,855,000                                      | 16,787,000                                     |
|   | -   | -  |
| Less accumulated depreciation and amortization                | <u>(9,657,000)</u>                              | <u>(9,371,000)</u>                             |
|   | 7,198,000                                       | 7,416,000                                      |
| <b>Assets held for sale</b>                                   | <b>787,000</b>                                  | <b>779,000</b>                                 |
| <b>OTHER ASSETS:</b>  |   |  |
| Notes receivable, net of current portion                      | 279,000   | 300,000  |
| Deposits and other assets                                     | <u>80,000</u>                                   | <u>79,000</u>                                  |
|   | <u>359,000</u>                                  | <u>379,000</u>                                 |
| <b>TOTAL ASSETS</b>   | <b><u>\$10,399,000</u></b>                      | <b><u>\$11,544,000</u></b>                     |

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

|                                      |            |            |
|--------------------------------------|------------|------------|
| Current maturities of long-term debt | \$ 121,000 | \$ 870,000 |
| Accounts payable                     | 323,000    | 387,000    |
| Deferred income                      | 72,000     | 119,000    |

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| Other accrued liabilities          | <u>1,044,000</u> | <u>1,062,000</u> |
| Total current liabilities          | 1,560,000        | 2,438,000        |
| <b>LONG-TERM LIABILITIES:</b>      |                  |                  |
| Debt, net of current portion       | 940,000          | 970,000          |
| Deferred liabilities               | <u>1,079,000</u> | <u>1,052,000</u> |
| Total long-term liabilities        | 2,019,000        | 2,022,000        |
| MINORITY INTERESTS IN PARTNERSHIPS | 709,000          | 751,000          |

See accompanying notes to condensed consolidated financial statements

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

|  | <b>Unaudited<br/>December<br/>31,<br/><u>2007</u></b> | <b>Audited<br/>September 30,<br/><u>2007</u></b> |
|--|---|--|
| <b>STOCKHOLDERS' EQUITY:</b>   |   |  |
| Preferred stock, \$.01 par value;<br>5,000,000 shares authorized, none issued<br>and outstanding as of September 30, 2007 and<br>December 31, 2007   | -   | -  |
| Common stock, \$.001 par value; 50,000,000 shares<br>Authorized, 3,878,559 shares issued and<br>Outstanding as of December 31, 2007 and<br>3,866,896 shares issued and outstanding as<br>of September 30, 2007 | 4,000   | 4,000  |
| Accumulated other comprehensive loss   | (54,000)  | (26,000)   |
| Capital contributed in excess of par value   | 17,500,000  | 17,439,000                                       |
| Accumulated deficit  | <u>(11,339,000)</u>                                   | <u>(11,084,000)</u>                              |
| Total stockholders' equity   | <u>6,111,000</u>                                      | <u>6,333,000</u>                                 |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS'<br/>EQUITY</b>  | <b><u>\$ 10,399,000</u></b>                           | <b><u>\$11,544,000</u></b>                       |

See accompanying notes to condensed consolidated financial statements

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

(Unaudited)

For the Three Months Ended

December 31,  
2007

2006

**NET REVENUES:**

|                       |                |                |
|-----------------------|----------------|----------------|
| Restaurant sales, net | \$6,035,000    | \$5,167,000    |
| Franchise revenues    | <u>161,000</u> | <u>126,000</u> |
| Total net revenues    | 6,196,000      | 5,293,000      |

**RESTAURANT OPERATING COSTS:**

|  |                |                |
|--|----------------|----------------|
| Food and packaging costs                 | 1,846,000      | 1,579,000      |
| Payroll and other employee benefit costs | 2,129,000      | 1,799,000      |
| Occupancy and other operating costs      | 1,119,000      | 1,052,000      |
| Accretion of deferred rent               | 7,000          | 10,000         |
| Depreciation and amortization            | <u>308,000</u> | <u>299,000</u> |
| Total restaurant operating costs         | 5,409,000      | 4,739,000      |
| General and administrative costs         | 555,000        | 460,000        |
| Advertising costs                        | 370,000        | 328,000        |
| Franchise costs                          | 96,000         | 35,000         |
| Gain on sale of restaurant building      | <u>(8,000)</u> | <u>(8,000)</u> |

|                      |           |           |
|----------------------|-----------|-----------|
| LOSS FROM OPERATIONS | (226,000) | (261,000) |
|----------------------|-----------|-----------|

**OTHER INCOME AND (EXPENSES)**

|                                   |                 |               |
|-----------------------------------|-----------------|---------------|
| Minority income (expense), net    | (32,000)        | (12,000)      |
| Interest, net                     | <u>3,000</u>    | <u>15,000</u> |
| Total other income and (expenses) | <u>(29,000)</u> | <u>3,000</u>  |

|          |                    |                    |
|----------|--------------------|--------------------|
| NET LOSS | <u>(\$255,000)</u> | <u>(\$258,000)</u> |
|----------|--------------------|--------------------|

**BASIC AND DILUTED LOSS PER COMMON SHARE**

**\$ (.06)      \$ (.07)**

**WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS**

USED IN PER SHARE CALCULATION:

|                   |                  |                  |
|-------------------|------------------|------------------|
| BASIC AND DILUTED | <u>3,999,518</u> | <u>3,818,738</u> |
|-------------------|------------------|------------------|

See accompanying notes to condensed consolidated financial statements

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

(Unaudited)

For the Three Months Ended

|   | December 31,<br><u>2007</u> | <u>2006</u>        |
|---|-----------------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                             |                    |
| Net loss  | (\$255,000)                 | (\$258,000)        |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                             |                    |
| Depreciation and amortization   | 308,000                     | 299,000            |
| Stock based compensation expense  | 24,000                      | 19,000             |
| Accretion of deferred rent  | 7,000                       | 10,000             |
| Minority interest   | 32,000                      | 12,000             |
| Recognition of deferred (gain) on sale of restaurant building                             | (8,000)                     | (8,000)            |
| Changes in operating assets and liabilities:  |                             |                    |
| (Increase) decrease in:   |                             |                    |
| Receivables and other   | (22,000)                    | (42,000)           |
| Inventories   | (5,000)                     | 4,000              |
| Deposits and other  | (3,000)                     | -                  |
| (Decrease) increase in:   |                             |                    |
| Accounts payable  | (64,000)                    | (38,000)           |
| Accrued liabilities and deferred income   | <u>(66,000)</u>             | <u>17,000</u>      |
| Net cash provided by (used in) operating activities                                       | (52,000)                    | 15,000             |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |                             |                    |
| Payments for the purchase of property and equipment                                       | (95,000)                    | (131,000)          |
| Sale of investments   | -                           | -                  |
| Loans made to franchisees and to others   | -                           | -                  |
| Payments received on loans to franchisees and to others                                   | <u>24,000</u>               | <u>25,000</u>      |
| Net cash used in investing activities   | (71,000)                    | (106,000)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                             |                    |
| Principal payments on notes payable, capital leases, and long-term debt                   | (29,000)                    | (57,000)           |
| Repayments on revolving lines of credit   | (750,000)                   | (1,000,000)        |
| Proceeds from exercise of options   | 37,000                      | 89,000             |
| Distributions, net of contributions paid to minority interests in partnerships            | <u>(74,000)</u>             | <u>(62,000)</u>    |
| Net cash used in financing activities   | <u>(816,000)</u>            | <u>(1,030,000)</u> |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | (939,000)                   | (1,121,000)        |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                                     | <u>\$2,465,000</u>          | <u>\$2,613,000</u> |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>   | <u>\$1,526,000</u>          | <u>\$1,492,000</u> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                                 |                             |                    |
| Cash paid for interest  | <u>\$ 24,000</u>            | <u>\$ 13,000</u>   |
| Purchase of equipment with debt   | <u>\$ 0</u>                 | <u>\$ 27,000</u>   |

See accompanying notes to condensed consolidated financial statements





**GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Basis of Presentation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of December 31, 2007, the results of its operations and its cash flows for the three month period ended December 31, 2007. Operating results for the three month period ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008.

The condensed consolidated balance sheet as of September 30, 2007 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, 2007.

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

**Note 2. Recent Developments**

On December 3, 2007, we entered into a development agreement with Zen Partners LLC that is comprised of a Development Agreement, a Management Agreement and a Site Selection, Construction Management and Pre-Opening Services Agreement. The agreements provide for the development of up to twenty five restaurants with a five year development schedule for up to ten of the restaurants with an option to develop an additional fifteen restaurants, exercisable any time during the initial five year period. We will manage and operate the restaurants utilizing our employees on the same basis as we would company-owned restaurants; however the Zen Partners LLC will provide all development and operating capital. We will receive a fixed fee for the development of each restaurant and a recurring management fee based on a percentage of sales for the operation of the restaurants. We may provide a limited lease guarantee on the initial three restaurants developed, for which we will receive an additional recurring guarantee fee. We will also participate in the ongoing profitability of the restaurants after Zen Partners LLC has received a priority return on its invested capital. A member of our Board of Directors and significant shareholder, David Grissen, is an owner of Zen Partners LLC.

**Note 3. Stock-Based Compensation**

Effective October 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard ("SFAS") No. 123(R), *Share-Based Payment*, using the modified prospective application transition method. Under the provisions of SFAS 123(R), stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant).

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

to predict actual future events or the value ultimately realized by the employees who receive equity awards.

Our net loss for the three months ended December 31, 2007 and December 31, 2006 includes \$24,000 and \$19,000, respectively, of compensation costs related to our stock-based compensation arrangements.

During the three months ended December 31, 2007, we granted 12,000 non-statutory stock options and 16,700 incentive stock options both with exercise prices of \$5.75. The per share weighted average fair values were \$3.26 for non-statutory stock option grants and \$3.10 for incentive stock option grants.

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

|                         | <b>Incentive Stock Options</b> | <b>Non-Statutory Stock Options</b> |
|-------------------------|--------------------------------|------------------------------------|
| Expected term (years)   | <b>6.0</b>                     | <b>6.7</b>                         |
| Expected volatility     | <b>51%</b>                     | <b>51%</b>                         |
| Risk-free interest rate | <b>4.4%</b>                    | <b>4.4%</b>                        |
| Expected dividends      | <b>0</b>                       | <b>0</b>                           |

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

SFAS 123(R) requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. These excess tax benefits were \$0 for the quarter ended December 31, 2007.

A summary of stock option activity under our share-based compensation plan for the quarter ended December 31, 2007 is presented in the following table:

|                          | <b>Weighted Average Exercise Price</b> | <b>Weighted Average Remaining Contractual Life (Yrs.)</b> | <b>Aggregate Intrinsic Value</b> |
|--------------------------|--|---|----------------------------------|
|                          | <b><u>Options</u></b>                  |   |                                  |
| Outstanding-beg of year  | 366,905                                | \$3.89  |                                  |
| Granted                  | 28,700                                 | \$5.75  |                                  |
| Exercised                | (11,663)                               | \$3.41  |                                  |
| Forfeited or expired     | <u>      -</u>                         | <u>      -</u>  |                                  |
| Outstanding Dec 31, 2007 | <u>383,942</u>                         | <u>\$4.04</u>   | <u>\$679,000</u>                 |
| Exercisable Dec 31, 2007 | <u>319,744</u>                         | <u>\$3.61</u>   | <u>\$679,000</u>                 |

As of December 31, 2007, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was \$209,000 and is expected to be recognized over a period of 3.75 years.

The total intrinsic value of stock options exercised during the three months ended December 31, 2007, was \$31,000. Cash received from stock option exercises for the three months ended December 31, 2007 was \$37,000.

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

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

In May 2007, the Company entered into an interest rate swap agreement, designated as a cash flow hedge, which hedges the Company's exposure to interest rate fluctuations on the Company's floating rate \$1,100,000 term loan. The Company records the fair value of these contracts in the balance sheet, with the offset to other comprehensive loss. The contract requires monthly settlements of the difference between the amounts to be received and paid under the agreement, the amount of which is recognized in current earnings as interest expense.

#### **Note 5. Contingent Liabilities**

We remain contingently liable on various restaurant leases that were previously sold. We have never experienced any losses nor do we anticipate any future losses from these contingent liabilities.

#### **Note 6. Assets Held for Sale**

We have classified \$787,000 as assets held for sale in the accompanying condensed consolidated balance sheet. These costs are related to two sites, one of which are under development and will be marketed in the sale lease-back market, the second of which was vacant land and was sold in January 2008 with net proceeds of \$747,000.

#### **Note 7. Accounting Policies**

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

#### **Note 8. Income Taxes**

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

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

The Company is currently not undergoing any examinations by any taxing jurisdictions, with the tax years for the Fiscal Years Ending September 30, 2003 through 2007 remaining open to examination.

#### **Note 9. New Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007 which will be effective for our fiscal year beginning

October 1, 2008. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued FASB Statement No. 141(revised 2007), "Business Combinations" ("FAS 141(R)"), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business. This accounting pronouncement is effective for fiscal years beginning after December 15, 2008, which will be effective for our fiscal year beginning October 1, 2009. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

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

#### **Note 10. 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 and the disclosure of risk factors in the Company's form 10-KSB for the fiscal year ended September 30, 2007. Also, documents subsequently filed by us with the SEC and incorporated herein by reference may contain forward-looking statements. We caution investors that any forward-looking statements made by us are not guarantees of future performance and actual results could differ materially from those in the forward-looking statements as a result of various factors, including but not limited to the following:

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

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

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

#### *Restaurant Locations*

We currently operate and franchise a total of fifty-two Good Times restaurants, of which forty-seven are in Colorado,

with forty-two in the Denver greater metropolitan area, three in Colorado Springs, one in Grand Junction and one in Silverthorne. Eight of these restaurants are "dual brand", operated pursuant to a Dual Brand Test Agreement with Taco John's International, of which there is one in North Dakota, two in Wyoming, and five in Colorado.



|                                    |           | Denver, CO    |          |          |          |              |
|------------------------------------|-----------|---------------|----------|----------|----------|--------------|
|                                    | Total     | Greater Metro | Colorado | Idaho    | Wyoming  | North Dakota |
|                                    |           |               | Other    |          |          |              |
| Good Times co-owned & co-developed | 24        | 21            | 3        |          |          |              |
| Good Times franchised              | 20        | 16            | 2        | 1        | 1        |              |
| Dual brand co-owned                | 3         | 3             |          |          |          |              |
| Dual brand franchised              | 5         | 2             |          |          | 2        | 1            |
| <b>Total</b>                       | <b>52</b> | <b>42</b>     | <b>5</b> | <b>1</b> | <b>3</b> | <b>1</b>     |

**January**

|                                | 2007      | 2008      |
|--------------------------------|-----------|-----------|
| Company-owned restaurants      | 17        | 18        |
| Joint venture restaurants      | 9         | 9         |
| Franchise operated restaurants | 23        | 25        |
| <b>Total restaurants</b>       | <b>49</b> | <b>52</b> |

In fiscal 2007 we opened one new company-owned restaurant in Littleton, Colorado in May 2007 and one new company-owned restaurant in Colorado Springs, Colorado in August 2007. In May 2007 we sold one existing company-owned restaurant to a new franchisee. One new franchised Good Times restaurant opened in Longmont, Colorado in March 2007, and two new franchised dual brand restaurants opened in February 2007, one in Gillette, Wyoming and one in Dickinson, North Dakota. Five additional Good Times restaurants are under various stages of development and entitlement, two in Colorado and three in Omaha, Nebraska.

In January 2008 a North Dakota franchisee terminated their Good Times franchise agreement in the dual brand concept and has stopped selling Good Times products in their two locations,

The following presents certain historical financial information of our operations. This financial information includes results for the three months ended December 31, 2006 and results for the three months ended December 31, 2007.

### **Results of Operations**

#### *Net Revenues*

Net revenues for the three months ended December 31, 2007 increased \$903,000 (17.0%) to \$6,196,000 from \$5,293,000 for the three months ended December 31, 2006. Same store restaurant sales increased \$459,000 (11.6%) during the three months ended December 31, 2007 for the restaurants that were open for the full periods ending December 31, 2007 and December 31, 2006. Restaurants are included in same store sales after they have been open a full fifteen months and only Good Times restaurants are included with dual branded restaurants excluded. Restaurant sales increased \$453,000 due to six company-owned restaurants not included in same store sales. Three were opened beginning in late fiscal 2006 through fiscal 2007 and three are dual branded restaurants. Restaurant sales increased \$112,000 due to one non-traditional company-owned restaurant not included in same store sales. Restaurant sales decreased \$156,000 due to one company-owned restaurant sold to a franchisee in May 2007.

Our same store restaurant sales were severely impacted by adverse weather conditions in the Denver, Colorado metropolitan area in December 2006. The severe weather caused store closures and limited operating hours on two separate occasions during December 2006. In December 2007 we were again impacted by below average weather conditions in the Denver metropolitan area.



Franchise revenues increased \$35,000 to \$161,000 from \$126,000 for the three months ended December 31, 2006 due to an increase in franchise royalties. Same store Good Times franchise restaurant sales increased 10.0% during the three months ended December 31, 2007 for the franchise restaurants that were open for the full periods ending December 31, 2007 and December 31, 2006. Franchise restaurant sales increased \$222,000 during the three months ended December 31, 2007 for one Good Times restaurant that opened in March 2007 and dual branded franchise restaurant sales increased \$150,000 during the three months ended December 31, 2007 due to the opening of two new restaurants in fiscal 2007.

#### *Restaurant Operating Costs*

Restaurant operating costs as a percent of restaurant sales were 89.6% during the three months ended December 31, 2007 compared to 91.7% in the same prior year period.

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

|   |        |
|---|--------|
| Restaurant-level costs for the three month period ended December 31, 2006 | 91.7%  |
| Food and packaging costs  | 0%     |
| Increase in payroll and other employee benefit costs                      | .5%    |
| Decrease in occupancy and other operating costs                           | (1.8%) |
| Decrease in depreciation and amortization                                 | (.7%)  |
| Decrease in deferred rent   | (.1%)  |
| Restaurant-level costs for the three month period ended December 31, 2007 | 89.6%  |

#### *Food and Packaging Costs*

For the three months ended December 31, 2007 our food and paper costs, increased \$267,000 to \$1,846,000 (30.6% of restaurant sales) from \$1,579,000 (30.6% of restaurant sales) compared to the same prior year period. Our weighted food and packaging costs increased approximately 7% during fiscal 2007. We have taken weighted menu price increases of 1.8% in January 2007, 2.3% in July 2007, and 3.3% in October 2007 to offset the food and packaging cost increases. We anticipate stable to moderate increases to food and packaging costs as a percentage of sales for the balance of fiscal 2008.

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

For the three months ended December 31, 2007 our payroll and other employee benefit costs increased \$330,000 to \$2,129,000 (35.3% of restaurant sales) from \$1,799,000 (34.8% of restaurant sales) compared to the same prior year period. The increase in payroll and other employee benefit expenses as a percent of restaurant sales is the result of a mandated increase in the minimum wage paid to hourly employees in the state of Colorado beginning January 1, 2007 from \$5.15 to \$6.85 as well as additional labor required to execute sales of the new "Bambino" burger added in May 2007. Additionally, our new restaurants operate at a higher labor cost as a percent of sales due to higher initial labor costs at new stores until they reach mature staffing levels. The dual brand restaurants also have a higher labor cost as a percent of sales. The current three month period ending December 31, 2007 includes two additional company-owned restaurants opened in fiscal 2007 that represent \$157,000 of the increase compared to the same prior year period.

#### *Occupancy and Other Operating Costs*

For the three months ended December 31, 2007 our occupancy and other operating costs increased \$67,000 to \$1,119,000 (18.6% of restaurant sales) from \$1,052,000 (20.4% of restaurant sales) compared to the same prior year period. The current three month period ending December 31, 2007 includes two additional company-owned restaurants opened in fiscal 2007 that represent an increase of \$87,000 compared to the same prior year period; the increase was offset by a decrease of \$44,000 due to one company-owned restaurant sold to a franchisee in May 2007. Occupancy and other operating costs may increase as a percent of sales as new company-owned restaurants are developed due to higher rent associated with sale-leaseback operating leases, as well as higher property taxes at those locations.

### *Depreciation and Amortization*

For the three months ended December 31, 2007 our depreciation and amortization increased \$9,000 to \$308,000 (5.1% of restaurant sales) from \$299,000 (5.8% of restaurant sales) compared to the same prior year period. The \$9,000 increase in depreciation and amortization for the three months ended December 31, 2007 is primarily due to the addition of two company-owned restaurants opened in fiscal 2007.

### *General and Administrative Costs*

For the three months ended December 31, 2007, general and administrative costs increased \$95,000 to \$555,000 (9.0% of total revenues) from \$460,000 (8.7% 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 payroll and employee benefit costs, professional services and training and recruiting costs. Professional services increased \$58,000 primarily attributable to legal fees relating to the joint venture agreement for the Omaha expansion and legal fees relating to the Company's Omnibus Equity Compensation Plan.

### *Advertising Costs*

For the three months ended December 31, 2007 advertising costs increased \$42,000 to \$370,000 (6.1% of restaurant sales) from \$328,000 (6.2% of restaurant sales) for the same prior year period. The increase in advertising costs is primarily due to the increase in restaurant sales. Contributions based on sales are made to the advertising funds.

### *Franchise Costs*

For the three months ended December 31, 2007, franchise costs increased \$61,000 to \$96,000 (1.6% of total revenues) from \$35,000 (.6% of total revenues) for the same prior year period. The increase in franchise costs is primarily attributable to the addition of a Vice President of Franchise Development hired on October 1, 2007, who will be recruiting both experienced multi-unit operators as well as individual owner-operator franchisees for planned expansion into new states. We also incurred \$13,000 in legal costs in the three months ended December 31, 2007 related to franchise registration filings in connection with our planned expansion.

### *Loss from Operations*

We had a loss from operations of (\$226,000) in the three months ended December 31, 2007 compared to a loss from operations of (\$261,000) for the same prior year period. The decrease in loss from operations of \$35,000 is due primarily to the increase in net revenues offset by other matters discussed in the "Restaurant Operating Costs", "General and Administrative Costs" and "Franchise Costs" sections of Item 2.

### *Net Loss*

The net loss was (\$255,000) for the three months ended December 31, 2007 compared to a net loss of (\$258,000) for the same prior year period. The change from the three month period ended December 31, 2006 to December 31, 2007 was primarily attributable to the decrease in loss from operations for the three months ended December 31, 2007, as well as: 1) a decrease in net interest income of \$12,000 compared to the same prior year period; and, 2) an increase in minority interest expense of \$20,000 compared to the same prior year period.

## **Liquidity and Capital Resources**

### *Cash and Working Capital*

#### General



As of December 31, 2007, we had \$1,526,000 cash and cash equivalents on hand. Subsequent to the end of the quarter we sold assets held for sale with net proceeds of \$747,000. 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. We believe that the current cash on hand and additional cash expected from operations in fiscal 2008 will be sufficient to cover our working capital requirements for fiscal 2008.

As of December 31, 2007, we had working capital of \$495,000. 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 working capital deficits will be incurred in the future as new restaurants are opened.

#### *Financing Activities*

In May 2007 we borrowed \$1,100,000 from Wells Fargo Bank under a note payable with an eight year term with a floating interest rate at .50% below prime. We simultaneously entered into an interest rate swap transaction with Wells Fargo Bank for the full \$1,100,000 with a fixed interest rate of 7.77% for the full eight year term coinciding with the note payable, see note 4 in item one above. Partial proceeds from the loan were used to: 1) payoff our existing GE Capital notes payable of \$398,000; and, 2) fund new store construction. The balance of the proceeds will be used to partially fund the purchase of an existing restaurant from a franchisee.

#### *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 also anticipate investing approximately \$575,000 during the balance of fiscal 2008 in existing company-owned and joint venture restaurants to upgrade the exterior building finishes and dining rooms as well as to improve the patios.

#### *Cash Flows*

Net cash used in operating activities was \$52,000 for the three months ended December 31, 2007. The net cash used in operating activities for the three months ended December 31, 2007 was the result of a net loss of (\$255,000) and non-cash reconciling items totaling \$203,000 (comprised of depreciation and amortization of \$308,000, minority interest of \$32,000 and a net decrease in other operating assets and liabilities of \$137,000).

Net cash provided by operating activities was \$15,000 for the three months ended December 31, 2006. The net cash provided by operating activities for the three months ended December 31, 2006 was the result of a net loss of (\$258,000) and non-cash reconciling items totaling \$273,000 (comprised of depreciation and amortization of \$299,000, minority interest of \$12,000 and a net decrease in other operating assets and liabilities of \$38,000).

Net cash used in investing activities for the three months ended December 31, 2007 was \$71,000 which reflects payments of \$95,000 for the purchase of property and equipment (including \$31,000 for new store development, \$27,000 for restaurant remodeling costs and \$31,000 for miscellaneous restaurant related capital expenditures) and \$24,000 in principal payments received on loans to franchisees.

Net cash used in investing activities for the three months ended December 31, 2006 was \$106,000 which reflects payments of \$131,000 for the purchase of property and equipment (including \$77,000 for new store development and \$54,000 for miscellaneous restaurant related capital expenditures) and \$25,000 in principal payments received on loans to franchisees.

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Net cash used in financing activities for the three months ended December 31, 2007 was \$816,000, which includes principal payments on notes payable and long term debt of \$29,000; a repayment on our revolving line of credit of \$750,000; distributions to minority interests in partnerships of \$74,000; and paid in capital activity of \$37,000 related to the exercise of stock options.

Net cash used in financing activities for the three months ended December 31, 2006 was \$1,030,000, which includes principal payments on notes payable and long term debt of \$57,000; a repayment on our revolving line of credit of \$1,000,000; net distributions to minority interests in partnerships of \$62,000; and paid in capital activity of \$89,000 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.

### **Impact of Inflation**

We experienced moderation in commodity costs during fiscal 2005 and 2006 and significant increases in fiscal 2007. State increases in the minimum wage resulted in an increase in our average hourly wage of \$.60 per employee hour during fiscal 2007. It is anticipated that we will take moderate price increases during fiscal 2008, which may or may not be sufficient to recover increased commodity costs or increases in other operating expenses.

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### **Seasonality**

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

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

There were no material changes in our exposure to market risk for the quarter ended December 31, 2007

### **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.

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 December 31, 2007.

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## **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

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

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

\*32.1 Certification of Chief Executive Officer and Controller pursuant to Section 906

\*filed herewith

**SIGNATURES**

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

**GOOD TIMES RESTAURANTS INC.**

DATE: February 14, 2008

*/s/ Boyd E. Hoback*

Boyd E. Hoback

President and Chief Executive Officer

*/s/ Susan M. Knutson*

Susan M. Knutson

Controller