GOOD TIMES RESTAURANTS INC
Form 10-Q
February 16, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2009

OR

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

Commission File Number: 0-18590

GOOD TIMES RESTAURANTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

NEVADA	84-1133368
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

601 CORPORATE CIRCLE, GOLDEN, CO 80401

(Address of Principal Executive Offices, Including Zip Code)

(303) 384-1400

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act .

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of February 16, 2010, there were 3,898,559 shares of the Registrant's common stock, par value $0.001 per share, issued and outstanding.

Form 10-Q

Quarter Ended December 31, 2009

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	Unaudited December 31, 2009	September 30, 2009
CURRENT ASSETS:		
Cash and cash equivalents	$450,000	$815,000
Receivables, net of allowance for doubtful accounts of $0	136,000	122,000
Prepaid expenses and other	57,000	32,000
Inventories	202,000	220,000
Notes receivable	13,000	36,000
Total current assets	858,000	1,225,000
PROPERTY AND EQUIPMENT, at cost:		
Land and building	6,598,000	6,596,000
Leasehold improvements	4,107,000	4,107,000
Fixtures and equipment	8,446,000	8,438,000
	19,151,000	19,142,000
Less accumulated depreciation and amortization	(12,093,000)	(11,853,000)
	7,058,000	7,288,000
Assets held for sale	**1,595,000**	1,595,000
OTHER ASSETS:		
Notes receivable, net of current portion	100,000	82,000
Deposits and other assets	89,000	64,000
	189,000	146,000
TOTAL ASSETS	$9,700,000	$10,254,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current maturities of long-term debt, net of discounts of $18,000 and $0 respectively	$1,012,000	$1,027,000
Accounts payable	458,000	355,000

Deferred income	68,000	113,000
Other accrued liabilities	979,000	930,000
Total current liabilities	2,517,000	2,425,000
LONG-TERM LIABILITIES:		
Debt, net of current portion	2,471,000	2,478,000
Deferred liabilities	965,000	973,000
Total long-term liabilities	3,436,000	3,451,000

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See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

	Unaudited December 31, 2009	September 30, 2009
STOCKHOLDERS' EQUITY:		
Non-controlling interest	409,000	428,000
Preferred stock, $.01 par value; 5,000,000 shares authorized, none issued and outstanding as of September 30, 2009 and December 31, 2009	-	-
Common stock, $.001 par value; 50,000,000 shares Authorized, 3,898,559 shares issued and outstanding as of September 30, 2009 and December 31, 2009	4,000	4,000
Capital contributed in excess of par value	17,773,000	17,751,000
Accumulated deficit	(14,439,000)	(13,805,000)
Total stockholders' equity	3,747,000	4,378,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,700,000	$10,254,000

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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, 2009	2008
NET REVENUES:		
Restaurant sales, net	$4,870,000	$5,507,000
Franchise revenues	113,000	139,000
Total net revenues	4,983,000	5,646,000
RESTAURANT OPERATING COSTS:		
Food and packaging costs	1,615,000	1,855,000
Payroll and other employee benefit costs	1,853,000	2,065,000
Occupancy and other operating costs	1,203,000	1,204,000
New store opening costs	-	15,000
Depreciation and amortization	252,000	311,000
Total restaurant operating costs	4,923,000	5,450,000
General and administrative costs	370,000	489,000
Advertising costs	279,000	315,000
Franchise costs	30,000	40,000
Gain on sale of restaurant building	(7,000)	(8,000)
LOSS FROM OPERATIONS	(612,000)	(640,000)
OTHER INCOME AND (EXPENSES)		
Unrealized income (loss) on interest rate swap	10,000	(119,000)
Interest expense, net	(80,000)	(41,000)
Total other income and (expenses)	(70,000)	(160,000)
NET LOSS	($682,000)	($800,000)
Income from non-controlling interest	48,000	34,000
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	($634,000)	($766,000)
BASIC AND DILUTED LOSS PER COMMON SHARE	**$ (.16)**	**$ (.20)**
WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS USED IN PER SHARE CALCULATION:		
BASIC AND DILUTED	3,898,559	3,898,559

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended December 31,	
CASH FLOWS FROM OPERATING ACTIVITIES:	**2009**	**2008**
Net loss applicable to common shareholders	($634,000)	($766,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	252,000	311,000
Amortization of discount on notes payable	8,000	-
Stock based compensation expense	22,000	19,000
Unrealized loss (gain) on interest rate swap	(10,000)	119,000
Accretion of deferred rent	-	-
Non-controlling interest	(48,000)	(34,000)
Recognition of deferred (gain) on sale of restaurant building	(7,000)	(8,000)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables and other	(39,000)	6,000
Inventories	18,000	25,000
Deposits and other	(28,000)	9,000
(Decrease) increase in:		
Accounts payable	103,000	(264,000)
Accrued liabilities and deferred income	14,000	(90,000)
Net cash used in operating activities	(349,000)	(673,000)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Payments for the purchase of property and equipment	(19,000)	(215,000)
Loans made to franchisees and to others	-	(31,000)
Payments received on loans to franchisees and to others	5,000	14,000
Net cash used in investing activities	(14,000)	(232,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable, and long-term debt	(31,000)	(30,000)
Net Proceeds (repayments) on revolving lines of credit	-	320,000
Distributions, net of contributions paid to non-controlling interests	29,000	(13,000)
Net cash provided by (used in) financing activities	(2,000)	277,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(365,000)	(628,000)
CASH AND CASH EQUIVALENTS, beginning of period	$815,000	$1,414,000
CASH AND CASH EQUIVALENTS, end of period	$450,000	$786,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$72,000	$68,000

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, 2009, the results of its operations and its cash flows for the three month period ended December 31, 2009. Operating results for the three month period ended December 31, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. The condensed consolidated balance sheet as of September 30, 2009 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these financial statements should be read in conjunction with the Company's Form 10-K for the fiscal year ended September 30, 2009.

Effective October 1, 2009, we adopted new accounting standards relating to non-controlling interests in consolidated financial statements. The new accounting guidance established accounting and reporting standards that require non-controlling interests to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest to be accounted for as equity transactions, and any retained non-controlling equity investment upon the deconsolidation of a subsidiary to be initially measured at fair value. The adoption of this new accounting guidance primarily resulted in moving the presentation of non-controlling interest to the "Stockholders' Equity" section of our condensed consolidated balance sheet.

Note 2. Recent Developments

Effective January 2, 2010 and as reported on Form 8k, the Company entered into an agreement to amend its loan with PFGI II LLC. The maturity date was extended to December 31, 2012, the interest rate was increased to 8.65% and monthly payments of principal and interest will be payable beginning January 31, 2010, based upon a 25 year amortization prior to maturity. In connection with the agreement the Company also issued in January 2010 112,612 warrants exercisable at $1.11. The fair value of the warrants of $79,000 will be accredited to interest over the term of the loan.

On August 14, 2009 and as reported on our Form 10k for the period ending September 31, 2009, we announced that our Board of Directors has formed a Special Committee comprised of directors Richard Stark, Alan Teran and Geoff Bailey to explore and evaluate strategic alternatives aimed at enhancing shareholder value and explore alternatives to reduce the cost burdens of being a publicly held entity. The Company has hired Mastodon Ventures, Inc. to provide strategic advisory services and explore other strategic alternatives that will further the long-term business prospects of the Company and provide incremental value to its shareholders.

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

As reported on Form 8k dated February 3, 2010, the Company entered into a loan agreement with W Capital, John T. MacDonald and Golden Bridge, LLC (collectively "the Lender"), pursuant to which the Lender made a loan of $200,000, with up to an additional $200,000 loan available through April 30, 2010 (the "Loan"), to be used for restaurant marketing and other working capital uses of GTDT. Eric Reinhard, Ron Goodson, David Grissen, Richard Stark, and Alan Teran, who are all members of the Company's Board of Directors and stockholders of the Company, are the sole members of Golden Bridge, LLC. However, not all members of Golden Bridge, LLC are participating in the Loan. The Company's obtaining of the Loan from the Lender and related transactions were duly approved in advance by the Company's Board of Directors by the affirmative vote of members thereof who did not have an interest in the transaction.

The Loan is evidenced by a Convertible Secured Promissory Note dated February 1, 2010 (the "Note") made by the Company and shall bear interest at a rate of 12% per annum on the unpaid principal balance through August 1, 2010. The maturity date for payment of all principal and interest on the Note is December 31, 2010. However, if and to the extent that any portion of the Note is still outstanding after August 1, 2010, the interest rate will increase to 14% per annum from and after August 1, 2010 until the maturity date. All interest accrues through the maturity date. The Loan Agreement contains customary event of default provisions and a cross-default provision with respect to the loan agreement for the Wells Fargo Bank and PFGI II, LLC loans in the event of payment default on either of those loans. Upon the occurrence and continuance of an event of default, the Lender may declare all or part of the unpaid principal and accrued and unpaid interest on the Loan due and payable. Any amounts not paid to the Lender when due will bear interest from the due date until paid at a rate of 16% per annum.

The Loan Agreement and the Note are subject to the terms of a Leasehold Deed of Trust Agreement and Security Agreement with respect to certain of GTDT's restaurants that were not previously pledged as collateral under the Wells Fargo Bank or PFGI II, LLC borrowings. The Note is convertible into shares of common stock of the Company (the "Conversion Shares") at any time prior to repayment at a conversion price of 25% less than the average price of the Company's common stock during the 20 days prior to the conversion date, provided however that the conversion price shall not be below $.75 per share nor above $1.08 per share (the "Conversion Price").

In connection with the Loan, the Company issued warrants dated February 1, 2010 (the "Warrants") to the Lender which provides that the Lender may at any time from February 1, 2010 until two years from the date of repayment or conversion of the Loan purchase up to an aggregate of 50,000 shares of the Company's common stock (the "Warrant Shares") at an exercise price that is equal to the Conversion Price calculation above. If the Loan is not repaid prior to August 1, 2010, the Company will issue warrants for the purchase of 50,000 additional shares of the Company's common stock upon the same terms as the initial Warrants. The number of Warrant Shares and the exercise price are subject to customary anti-dilution adjustments upon the occurrence of any stock dividends, stock splits, reverse stock splits, recapitalizations, reclassifications, stock combinations or similar events.

Note 3. Debt Covenant Compliance

As reported on the form 8-K filed on January 23, 2009, we are in default of certain technical loan covenants on our note payable to Wells Fargo Bank, N.A. ("the Bank"). Therefore all amounts owing under this facility are reflected as current in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2009. We have never been in payment default on the note and expect to be able to remain current on payments in fiscal 2010, depending on our sales trends and cash flow from operations. On February 9, 2009 we received a Reservation of Rights letter from the Bank formally notifying us of the default of the Earnings Before Interest Taxes and Depreciation ("EBITDA") Coverage Ratio of not less than 1.5 to 1.0 and the Tangible Net Worth of not less than $5,000,000 as set forth in the Credit Agreement for the period ending December 31, 2008. The letter serves as notice that notwithstanding the foregoing events of default, the Bank is reserving all of its rights and remedies under the Credit Agreement and related agreements.

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

Note 4. Stock-Based Compensation

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

Our net loss for the three months ended December 31, 2009 and December 31, 2008 includes $22,000 and $19,000, respectively, of compensation costs related to our stock-based compensation arrangements.

During the three months ended December 31, 2009, we granted 12,000 non-statutory stock options and 30,606 incentive stock options both with exercise prices of $1.15. The per share weighted average fair value was $.85 for the non-statutory stock option grants and $.84 for the 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:

	Incentive Stock Options	**Non-Statutory Stock Options**
Expected term (years)	**6.5**	6.7
Expected volatility	**82.4%**	81.9%
Risk-free interest rate	**2.84%**	2.90%
Expected dividends	**0**	0

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

SFAS 123(R) requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. These excess tax benefits were $0 for the three months ended December 31, 2009.

A summary of stock option activity under our share-based compensation plan for the three months ended December 31, 2009 is presented in the following table: