

Good Times Restaurants Inc.
Form 10-K
December 22, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 26, 2017

OR

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

For the transition period from _____ to _____

Commission file number 000-18590

(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)

141 Union Blvd., #400, Lakewood, Colorado

80228

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number: (303) 384-1400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock \$.001 par value

NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)

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Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

	Non-accelerated filer
Large accelerated filer	(Do not check if a smaller reporting company)
Accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registration is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of March 28, 2017 (the last business day of our most recently completed second fiscal quarter), the aggregate market value of the 11,469,084 shares of common stock held by non-affiliates of the registrant was \$35,554,160.

As of December 18, 2017, the registrant had 12,467,240 shares of common stock outstanding.

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PART I

ITEM 1. BUSINESS

Our Company

Good Times Restaurants Inc., a Nevada corporation formed on October 6, 1996, operates and franchises Good Times Burgers & Frozen Custard (“GTBFC” or “Good Times”) restaurants and Bad Daddy’s Burger Bar restaurants (“BDBB” or “Bad Daddy’s”). Good Times Burgers & Frozen Custard and Bad Daddy’s Burger Bar are two distinctly different, yet complementary, restaurant concepts. Each is positioned as a high-quality brand within its respective segment of the industry. Good Times is positioned at the upper end of the quick service restaurant segment and Bad Daddy’s is positioned at the upper end of the full service casual theme segment.

Through our subsidiaries, as of December 18, 2017, we own, operate, franchise, or license a total of 26 BDBB restaurants in four different states. We own and operate twelve BDBB restaurants in Colorado, one BDBB restaurant in Oklahoma, and five BDBB restaurants in Charlotte, NC. We own and operate six other BDBB restaurants elsewhere in North Carolina; of these restaurants we own 51% of one and 52% of two, BDBB restaurants in Raleigh, NC, own 50% of one BDBB restaurant in Fayetteville, NC, 51% of one BDBB restaurant in Greenville, NC and own 23% in one BDBB restaurant in Winston Salem, NC. We license the Bad Daddy’s brand to the BDBB restaurant located in the Charlotte Douglas International Airport which is owned and operated by a third-party licensee. One Bad Daddy’s in Greenville, SC is operated by a third-party franchisee in Greenville, SC. We currently own and operate or franchise 38 total Good Times restaurants.

The terms “we,” “us,” “our,” the “Company,” “Good Times” and similar terms refer to Good Times Restaurants Inc., a Nevada corporation, and its wholly-owned consolidated subsidiaries, including Bad Daddy’s Franchise Development, LLC, Bad Daddy’s International, LLC, Good Times Drive-Thru Inc. (“Drive Thru”) and BD of Colorado, LLC. Unless otherwise indicated or the context otherwise requires, financial and operating data in this 10-K report reflect the consolidated business and operations of Good Times Restaurants Inc. and its subsidiaries.

Fiscal 2017 Financial & Brand Highlights

·The Good Times brand has had seven consecutive years of same store sales growth.

The Good Times brand had a 2.1% increase in same store sales for the fiscal year ended September 26, 2017 (“fiscal 2017”) in addition to the increase in same store sales for the fiscal year ended September 27, 2016 (“fiscal 2016”) of 0.3%.

·The Bad Daddy’s brand had a 1.6% increase in same store sales for fiscal 2017.

·We ended fiscal 2017 with \$4.3 million in cash and a \$5.4 million balance in notes payable.

We expanded our credit facility with Cadence Bank from \$9,000,000 to \$12,000,000 of which \$5,300,000 had been drawn down at the end of fiscal 2017.

Our net revenues for fiscal 2017 increased by \$14,641,000 (+22.7%.) to \$79,080,000 from \$64,439,000 in fiscal year 2016, primarily due to six new Bad Daddy’s locations opened during fiscal 2017 and a full year of operations for units opened during the prior fiscal year.

We continued our Good Times television campaign in fiscal 2017 to introduce our West Coast Double and Combo at introductory price points of \$3 and \$5 along with completing the remodel of our central cook line that provides a hotter, cheesier burger.

We opened one new Good Times restaurant in fiscal 2017.

We opened six Bad Daddy's restaurants in fiscal 2017. We opened two Bad Daddy's in the first two weeks of fiscal 2018 and plan to open seven additional Bad Daddy's during the fiscal year.

Recent Developments

In September 2016, we entered into a \$9,000,000 senior debt revolving line of credit with Cadence Bank to provide the necessary capital to fund future Bad Daddy's and Good Times locations as well as fund the continued remodel of existing Good Times locations and recurring capital expenditures. In September 2017, we entered into an amendment to the senior debt revolving line of credit with Cadence Bank to increase the borrowing capacity to a total of \$12,000,000.

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In October 2017, subsequent to the end of the 2017 fiscal year, we closed on a sale-leaseback transaction related to our Good Times Restaurant in Brighton, CO resulting in approximately \$1,390,000 of net cash proceeds.

Concepts

Good Times Burgers & Frozen Custard

Good Times is an upscale, quick service restaurant concept offering fresh, 100% all-natural, hand crafted products. We operate 28 Good Times restaurants, and franchise a additional 10, located primarily in the Denver market and along the front range of Colorado. We believe Good Times is the only quick service chain in our region, and one of a very few in the country, that offers a menu of fresh all-natural Angus beef and all-natural chicken from animals that are humanely raised and vegetarian fed without the use of added hormones, steroids, or antibiotics. In addition to our all-natural platform, we offer fresh, unique taste profiles such as Hatch Valley New Mexico green chile breakfast burritos, frozen custard made fresh every few hours in each restaurant, Wild Fries with Wild Dippin Sauce and hand-breaded chicken tenders.

We compete primarily on the quality of our products and we believe that our menu items are consistent with the quality found at fast casual restaurants, but served at close to the speed of quick service restaurants. Our brand positioning is based on “Taking a Better Food Stand” supported by the marketing headline “Happiness Made to Order” with three primary brand pillars of Innovation, Quality, and Connectedness. Within Innovation, we strive to create products and flavor profiles available only at Good Times and that challenge traditional quick service restaurant norms. We communicate Quality throughout our menu, from our made-to-order items to our fresh, all-natural, handcrafted attributes. We strive for Connectedness with our customers based on strong emotional ties to our brand through social media, appealing to an outdoor and active lifestyle, promoting high quality ingredients, by building an irreverent yet approachable brand personality and through community support and involvement.

Our average per person check is approximately \$7.00, which we believe is lower than the average check at fast casual hamburger concepts such as Habit Burger, Five Guys, and Smashburger, but higher than the typical quick service restaurant average check. We do not offer a low-priced value menu like most national and multi-regional quick service chains, choosing to define our value proposition based on a range of price choices within each of our menu categories and the quality of our food.

The success of our strategy is evident in our strong same-store sales growth (sales growth over the prior year period at restaurants open more than 15 months, also referred to as comparable sales). Based on information from industry analysts and third-party publications, our growth in comparable restaurant sales has outperformed the quick service restaurant industry average over the last seven years. Fiscal 2017’s comparable sales growth of 2.1% followed comparable sales growth of 0.3% in fiscal 2016, 0.9% in fiscal 2015, 14.6% in 2014 and 11.9% growth in 2013.

Bad Daddy’s Burger Bar

Bad Daddy’s Burger Bar operates in the emerging “small box” better burger casual dining segment and is an upscale, chef driven, full service, full bar concept.

The menu consists of items made according to chef-driven recipes and with high quality ingredients that we believe have broad consumer appeal, yet are very distinctive within the upscale, casual dining segment. The menu is comprised of signature burgers, salads, sandwiches, and appetizers executed in unique flavor profiles. Regular “chef specials” are offered in each menu category that highlight unique flavor profiles whenever possible. Housemade sauces and dressings, a brioche bun, non-beef alternatives including buffalo, tuna, turkey and chicken and Create Your Own Burgers and Salads all help to differentiate Bad Daddy’s from other restaurants. The food menu is complemented

by a full bar that focuses on local, craft microbrew beers and specialty cocktails. Alcoholic beverages account for approximately 15-20% of sales in our Bad Daddy's restaurants. The quality positioning generates an average per person check of over \$17, slightly above traditional bar and grill competitors such as Chili's and Red Robin. The lunch daypart represents approximately 40% and the dinner daypart represents approximately 60% of restaurant sales, with restaurants opening daily at 11 am and closing generally between 10 pm and 11 pm, with restaurants open slightly later on weekends, depending on the surrounding trade area.

The restaurants have a high-energy yet family friendly environment with iconic, pop culture design elements and a personal, ultra-friendly and informal service platform. BDBB's menu, service and environment are designed around a slightly irreverent brand personality, such as our Bad Ass Burger and Bad Ass Margarita menu items and the iconic Farrah Fawcett and Paul Newman Cool Hand Luke posters in the men's and women's rooms.

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A typical BDBB restaurant is approximately 3,500-4,000 square feet with an enclosed patio, smaller than most other casual dining restaurants. Based on average annual restaurant sales of approximately \$2.5 million (for restaurants open more than 18 months), BDBB restaurants generate average sales per square foot of approximately \$700, which we believe is a key metric indicating the strength and expansion potential of the concept. While sharing common design elements, each restaurant has unique features intended to create the impression that each Bad Daddy's is local to its trade area and serves as a further point of differentiation from the larger casual dining chains. We believe BDBBs' innovative menu and personalized service combined with a unique, fun restaurant design enhance our customers' experience and differentiate BDBB from its competitors.

Our Business Strengths

Our Brands Are Complementary.

While operating in different segments of the restaurant industry, our two brands share the following qualities:

Each is positioned at the upper end of its respective segment with the value proposition primarily driven by quality and uniqueness. We believe Good Times is the only quick service chain in our region with an all-natural platform. We do not offer a dollar menu that many national chains do, choosing to compete on a market position emphasizing quality and uniqueness with a variety of price points across the menu and serving made-to-order products with quick service restaurant speed of service.

Bad Daddy's Burger Bar is an early entrant in the "small box" better burger casual dining segment. The menu contains chef-driven items with many made from scratch in our kitchens. Bad Daddy's resonates with consumers by consistently executing high-quality menu items with unique flavor profiles that are delivered in a personalized, high-energy environment with a slightly irreverent brand personality.

Our Brands Have a Common Culture and Operating Philosophy.

While each of our brands is led by separate operating teams, each shares a commitment to four elements of success:

Values. Each brand focuses on developing behaviors and expectations around our core values of Integrity, Respect, Continued Improvement, and Fun.

People. Each brand seeks to hire high quality people throughout and provide them with comprehensive training programs designed to ensure that they deliver consistently superior products and service. Each has an incentive program at the restaurant level based on balanced metrics that drive customer service, personnel development, and financial performance.

Distinctive quality. Each brand strives to offer unique, high quality menu items with distinctive taste profiles made with fresh, high quality ingredients.

Excellent systems. Each brand takes a "best practices" approach, cross-pollinating the best ideas that are applicable to either brand. We seek to provide the best operating systems and processes to ease the administrative burden of management, enabling them to focus on leading their team members and operating their restaurants. Our philosophy is that systems and processes drive financial success and leadership serves as an example and motivating force to our crew members who interact with our guests, driving sales and customer loyalty.

Our Brands Share a Similar Customer Demographic.

Due to the common strategic focus on a quality positioning, both Good Times and Bad Daddy's appeal to a slightly higher income, more upscale consumer demographic profile. However, there is little, if any, overlap between the brands in how consumers use them. Good Times is convenience-driven and operates in the quick-service restaurant segment with a \$7.00 per person average check, while Bad Daddy's provides a more destination-oriented, full-service dining occasion with a \$17+ per person average check.

Our Brands Have Growth Potential.

We believe both of our brands are well positioned to take advantage of consumers' growing demand for restaurants with fresh, high-quality, all-natural products that offer fully customizable menu choices. Consumers want to know where their food comes from, want to be able to customize menu items to fit their individual preference and dining occasions, and place a higher value on perceived healthiness and on brands they can trust to execute on those attributes. We believe Good Times and Bad Daddy's are both well positioned to capitalize on those macro-trends.

Both of our brands currently operate with relatively small market penetration and overall development footprints, providing significant expansion potential. As we further develop our markets, we expect to realize efficiencies in supervision and development and training of our employees, as well as economies of scale in our supply chain cost structure. It is our goal to grow concentrically from our existing operating bases in order to maximize brand awareness and operating and distribution efficiencies.

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Good Times and Bad Daddy's operate with a common point-of-purchase system and we have implemented a common back office system for both brands. We are also continuing to invest in sophisticated digital training tools, making each brand's restaurant level processes, systems, recipes and management tools available in one commonly accessible database.

We Have Assembled a Dedicated Management Team with Significant Experience.

Our core Good Times management team has worked together for over 20 years developing its concept and systems. Immediately after signing our license agreement to operate Bad Daddy's restaurants in Colorado, we hired a team experienced in the management and development of full service concepts to guide the growth of that brand and have since added experienced multi-unit leaders from other full-service brands.

Each of our brands are operated under separately dedicated management teams utilizing shared support services in Administration, Finance, Accounting, Human Resources, Development, Marketing and Information Technology. We believe we have the processes and systems in place to support accelerated growth.

We Have Significant Operating Momentum.

Same-store sales at Good Times have increased seven consecutive years. Our compound same-store sales growth rate was approximately 39% from fiscal 2013 to fiscal 2017. We believe this performance is largely the result of the evolution in our brand positioning, the re-imaging of several of our older restaurants, effective broadcast and social media marketing, and consistent execution of the customer experience. We plan to continue to re-image and remodel our remaining restaurants, innovate with new menu items in keeping with our brand strategy, and communicate our brand story to maintain our same-store sales growth.

The Bad Daddy's concept was started in 2007 in Charlotte, NC. Sales of the Bad Daddy's restaurants which were open for at least 18 months averaged \$2.5 million for the fifty-two weeks ended September 26, 2017.

We believe that the strength of the Bad Daddy's unit economic model provides us with significant expansion potential, both in our existing markets of North Carolina and Colorado and in new markets. We anticipate that most of our growth in the next two fiscal years will be in the Southeast and Midwest regions.

Business Strategies

We are focused on continuing to improve the profitability of Drive Thru and developing additional Good Times restaurants in our home state of Colorado while developing the Bad Daddy's Burger Bar concept with company-owned restaurants in Colorado, Oklahoma and North Carolina in addition to other markets in the U.S. We believe that there are significant opportunities to develop new units, grow customer traffic and increase awareness of our brands. The following sets forth the key elements of our growth strategy:

1. Pursue disciplined growth of Company-operated Bad Daddy's Burger Bar restaurants. We own the Bad Daddy's Burger Bar brand, including all associated intellectual property. We have opened two new Bad Daddy's restaurants subsequent to September 26, 2017, one in Concord, North Carolina and one in Greenville, North Carolina, have additional restaurants under construction to open in fiscal 2018 and we are in various stages of lease negotiation for additional sites for development in 2018 and 2019. We have nine leases signed for new restaurants with openings in fiscal 2018 and 2019 in our core markets of Charlotte and Raleigh, North Carolina; the greater Atlanta, Georgia metropolitan area; Chattanooga and Nashville, Tennessee; and Greenville, South Carolina. We expect 9 openings in fiscal 2018, including the two that were opened during the first two weeks of fiscal 2018 and we plan to pursue additional sites for development in additional markets. We intend to follow a disciplined strategy of initially

developing restaurants in other metropolitan areas in the Southeast and Midwest regions and that meet our demographic, real estate and investment criteria in order to maximize management efficiencies, including multi-unit supervision, overall brand management, and product distribution.

We believe that the broad appeal of Bad Daddy's concept and the high-sales generated per square foot make it attractive to developers and provide us with the opportunity for continued expansion in other new markets across the country. We seek sites in upper middle income suburban areas in proximity to upscale retail developments, theaters and high levels of daytime employment.

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Improve operational efficiencies and expense management. We continue to focus on managing our expenses in the operation of our restaurants and in our general and administrative functions, with a particular focus on cost of sales, labor and operating expense controls and efficiencies while not damaging our overall quality and service proposition. Macroeconomic, state legislative increases to wages and other external factors have resulted in upward trends in these operating costs. We have implemented multiple programs to mitigate the impact of these external factors including optimization of our supply and distribution channels, labor productivity tools and a new accounting software platform in fiscal 2017 for improved access to data by our restaurant operations teams. We anticipate that general and administrative expenses will continue to decline as a percentage of revenues as we continue to grow and as we gain further efficiencies in supervision and support services costs.

Remodel/Refresh our Good Times restaurants. There are two levels to our remodel program that began in fiscal 2012: a refreshing of the restaurant exterior that includes painting, landscaping, new exterior finishes, new graphics and signage and upgraded patio accoutrements; and a larger scale remodeling of the restaurant that includes new dining room finishes and décor and the rebuilding of select locations. We have remodeled or refreshed seventeen company-owned restaurants and four franchised restaurants to date, and plan on refreshing or remodeling additional company-owned and franchised locations during fiscal 2018 and 2019. We anticipate that Good Times will generate sufficient cash flow from operations in fiscal 2018 to fund its refresh and remodel capital expenditures. The specific sales increases attributable to the remodel/refresh program are difficult to quantify due to the overall sales growth in all our restaurants. However, we believe that the refresh and remodel investment brings the restaurants up to our current brand standards, improves the appearance and street appeal of the restaurants, improves the overall customer experience and supports the brand's quality positioning.

Increase same-store sales in both brands. We intend to continue to focus on increasing our same-store sales. We plan to further strengthen our fresh, handcrafted, all-natural brand position at Good Times with menu innovation and quality improvements in each of our menu categories, such as our better burger process, West Coast Double Burger value proposition, expanded breakfast and kid's meal offerings, Smothered Fries, Summer Shakes, and all-natural Flavored Tenders. We will also continue our broadcast marketing program while expanding our social media activities to elevate our online consumer facing conversation around the attributes of our all-natural platform for each of our core products. We believe that the completion of the remodeling and reimagining of our Good Times restaurants will positively impact our same-store sales trends over time. We intend to increase Bad Daddy's same store sales through continual innovation in both ongoing menu engineering and chef-special temporary menu items that we believe drive increased customer visits as well as the per person average check. We also plan to promote our local, microbrew craft beer selections at each restaurant and increase our employees' knowledge of each beer's attributes and taste profile. Bad Daddy's marketing is targeted to individual trade areas, community involvement and "four-wall" marketing activities that focus on optimizing the guests' food, bar and service experience.

Expand the number of Good Times Burger & Frozen Custard locations. In evaluating the cost of real estate, the competitive environment and the cost of labor in new markets outside of Colorado for potential development of Good Times, we believe it is in our best interest to continue to develop Good Times in Colorado as sites become available and focus our new unit growth on Bad Daddy's in existing and new markets.

Expansion strategy and site selection

Good Times Burgers & Frozen Custard

We believe that our highest return on investment opportunity in our Drive-Thru subsidiary is to focus our growth in Colorado for operating and marketing efficiencies off of our existing base of restaurants while building new restaurants within the Denver marketing area.

Any development of new Good Times restaurants will involve our new prototype restaurant design on sites that are on or adjacent to big box or grocery store anchored shopping centers or in high activity and employment areas. Our site selection for new restaurants is oriented toward slightly higher income demographic areas than many of our urban locations and most of our targeted trade areas are in relatively high growth areas of the Denver and northern Colorado markets.

We lease all of our sites. When we do purchase and develop a site, we intend to ultimately sell the developed site into the sale-leaseback market under a long-term lease. Our primary site objective is to secure a suitable site, with the decision to buy or lease as a secondary objective. Our site criteria includes a mix of substantial daily traffic, density of at least 30,000 people within a three-mile radius, strong daytime population and employment base, retail and entertainment traffic generators, good visibility and easy access.

Bad Daddy's Burger Bar

Our development of the Bad Daddy's Burger Bar concept in company-owned restaurants will focus on urban and suburban upper income demographic areas with median household incomes over \$60,000, with a high concentration of daytime employment, upscale retail and movie theaters. We believe the Bad Daddy's Burger Bar concept has expansion potential in vibrant, growing, upper scale demographic markets, as additional restaurants are developed.

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Bad Daddy's Burger Bar locations are primarily end-cap locations in new and existing shopping center developments using approximately 3,500 to 4,000 square feet. While our Good Times restaurants are free standing and require extensive site development and entitlement processes, Bad Daddy's Burger Bar restaurants can be developed much more quickly due to the requirement for only a building permit, signage approvals and liquor license without the need for extensive on- and off-site development or land and zoning submittals and modifications. We estimate that it will take approximately 90 to 120 days to develop a Bad Daddy's Burger Bar from the time a building permit is issued.

Restaurant locations: As of December 18, 2017, we operate or franchise a total of thirty-eight Good Times restaurants, of which thirty-six are in Colorado. Two of the restaurants are in Wyoming and are "dual brand" concept restaurants operated by a franchisee of both Good Times and Taco John's. Additionally, we operate, franchise or license a total of twenty-six Bad Daddy's Burger Bar locations, of which twelve are in Colorado, twelve are in North Carolina, one is in South Carolina and one is in Oklahoma. The location in the Charlotte Douglas International Airport is operated pursuant to a License Agreement.

Company-Owned/Co-Developed/Joint Venture

	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Colorado	28	27	12	10	40
Oklahoma	0	0	1	0	1	0
North Carolina	0	0	11	7	11	7
Total:	28	27	24	17	52	44

Franchise/License

	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Colorado	8	8	0	0	8
North Carolina	0	0	1	1	1	1
South Carolina	0	0	1	1	1	1
Tennessee	0	0	0	1	0	1
Wyoming	2	2	0	0	2	