

GOOD TIMES RESTAURANTS INC
Form 10-Q
May 16, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
Commission File Number: 0-18590

(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
Number)

141 UNION BLVD, SUITE 400, LAKEWOOD, CO 80228
(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 No

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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of May 16, 2016, there were 12,266,414 shares of the Registrant's common stock, par value \$0.001 per share, issued and outstanding.

Form 10-Q
Quarter Ended March 31, 2016

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except share and per share data)

	March 31, 2016	September 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$9,040	\$ 13,809
Receivables, net of allowance for doubtful accounts of \$0	798	189
Prepaid expenses and other	323	161
Inventories	614	510
Notes receivable	58	59
Total current assets	10,833	14,728
PROPERTY AND EQUIPMENT:		
Land and building	5,064	5,054
Leasehold improvements	13,460	10,294
Fixtures and equipment	14,455	12,096
Total property and equipment	32,979	27,444
Less accumulated depreciation and amortization	(14,249)	(13,222)
Total net property and equipment	18,730	14,222
Assets held for sale	72	0
OTHER ASSETS:		
Notes receivable	65	71
Trademarks	3,900	3,900
Other intangibles, net	103	117
Goodwill	15,076	15,066
Deposits and other assets	123	124
Total other assets	19,267	19,278
TOTAL ASSETS	\$48,902	\$ 48,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$2,609	\$ 2,617
Accounts payable	2,093	2,733
Deferred income	25	25
Other accrued liabilities	2,707	1,883
Total current liabilities	7,434	7,258
LONG-TERM LIABILITIES:		
Long-term debt due after one year	1,006	1,093
Capital lease obligations due after one year	5	11
Deferred and other liabilities	3,692	1,609
Total long-term liabilities	4,703	2,713
STOCKHOLDERS' EQUITY:		
Good Times Restaurants Inc. stockholders' equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized, no shares issued and outstanding as of March 31, 2016 and September 30, 2015	0	0

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Common stock, \$.001 par value; 50,000,000 shares authorized, 12,266,414 and 12,259,550 shares issued and outstanding as of March 31, 2016 and September 30, 2015, respectively	12	12
Capital contributed in excess of par value	57,804	57,434
Accumulated deficit	(22,601)	(20,804)
Total Good Times Restaurants Inc. stockholders' equity	35,215	36,642
Non-controlling interests	1,550	1,615
Total stockholders' equity	36,765	38,257
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$48,902	\$ 48,228

See accompanying notes to condensed consolidated financial statements

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GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands except share and per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
NET REVENUES:				
Restaurant sales	\$15,141	\$8,626	\$28,797	\$16,392
Franchise royalties and fees	177	88	359	177
Total net revenues	15,318	8,714	29,156	16,569
RESTAURANT OPERATING COSTS:				
Food and packaging costs	4,785	2,874	9,290	5,623
Payroll and other employee benefit costs	5,394	2,913	10,166	5,446
Restaurant occupancy and other operating costs	2,563	1,456	4,877	2,794
Preopening costs	576	185	1,301	422
Depreciation and amortization	549	256	1,008	462
Total restaurant operating costs	13,867	7,684	26,642	14,747
General and administrative costs	1,510	919	3,116	1,794
Advertising costs	352	261	718	521
Acquisition costs	0	197	0	197
Franchise costs	27	27	54	53
Gain on restaurant asset sale	(7)	(6)	(12)	(12)
LOSS FROM OPERATIONS	(431)	(368)	(1,362)	(731)
Other Income (Expenses):				
Interest income (expense), net	(36)	(4)	(66)	(1)
Affiliate investment expense	0	12	0	13
Other income (loss)	0	(1)	0	(3)
Total other expenses, net	(36)	7	(66)	9
NET LOSS	\$(467)	\$(361)	\$(1,428)	\$(722)
Income attributable to non-controlling interests	(206)	(74)	(369)	(123)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$(673)	\$(435)	\$(1,797)	\$(845)
BASIC AND DILUTED LOSS PER SHARE:				
Net loss attributable to Common Shareholders	\$(.05)	\$(.05)	\$(.15)	\$(.09)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and Diluted	12,263,472	9,452,305	12,261,500	9,134,155

See accompanying notes to condensed consolidated financial statements

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GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,428)	\$ (722)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,055	493
Accretion of deferred rent	233	43
Amortization of lease incentive obligation	(110)	0
Stock-based compensation expense	355	153
Affiliate investment income	0	(13)
Recognition of deferred gain on sale of restaurant building	(12)	(12)
Changes in operating assets and liabilities:		
Change in:		
Receivables and other	(609)	(153)
Inventories	(104)	(17)
Deposits and other	(166)	(40)
Change in:		
Accounts payable	(69)	216
Deferred liabilities	1,979	167
Accrued and other liabilities	807	220
Net cash provided by operating activities	1,931	335
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the purchase of property and equipment	(6,193)	(2,977)
Proceeds from sale of assets	6	0
Payments received from franchisees and others	7	4
Net cash used in investing activities	(6,180)	(2,973)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Expenses related to stock sale	0	(59)
Proceeds from warrant exercises, net	0	3,221
Proceeds from stock option exercises	15	45
Principal payments on notes payable and long-term debt	(101)	(44)
Borrowings on notes payable and long-term debt	0	1,118
Distributions to non-controlling interests	(434)	(117)
Net cash provided by (used in) financing activities	(520)	4,164
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,769)	1,526
CASH AND CASH EQUIVALENTS, beginning of period	13,809	9,894
CASH AND CASH EQUIVALENTS, end of period	\$ 9,040	\$ 11,420
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 22	\$ 16
Non-cash purchase of property and equipment	\$ 0	\$ 40
Accounts payable decrease related to property and equipment	\$ 571	\$ 0

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GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

(Tabular dollar amounts in thousands, except share and per share data)

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 March 31, 2016 and the results of its operations and its cash flows for the three month and six month periods ended March 31, 2016. Operating results for the three and six month periods ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016. The condensed consolidated balance sheet as of September 30, 2015 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these condensed consolidated financial statements should be read in conjunction with the Company's Form 10-K for the fiscal year ended September 30, 2015.

The accompanying unaudited condensed consolidated financial statements include the accounts of Good Times Restaurants Inc and its wholly-owned subsidiaries, Good Times Drive Thru, Inc. ("Drive Thru"), BD of Colorado, LLC ("BD of Colo"), Bad Daddy's Franchise Development, LLC ("BDFD") and Bad Daddy's International, LLC ("BDI"), as of March 31, 2016. All significant intercompany balances and transactions have been eliminated in consolidation.

Drive Thru is engaged in the business of developing, owning, operating and franchising hamburger-oriented drive-through restaurants under the name Good Times Burgers & Frozen Custard. Most of our Good Times restaurants are located in the front-range communities of Colorado but we also have franchised restaurants in Wyoming. BD of Colo, BDI and BDFD are engaged in the business of licensing, owning and operating full service hamburger-oriented restaurants under the name Bad Daddy's Burger Bar.

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

Note 2. Investment in Affiliate

On April 15, 2013, the Company executed a Subscription Agreement for the purchase of 4,800 Class A Units of BDFD, representing a 48% non-controlling voting membership interest in BDFD, for the aggregate subscription price of \$750,000. The Company acquired the remaining 52% interest in BDFD on May 7, 2015. Prior to the acquisition, the Company accounted for this investment using the equity method. For the three month and six month periods ending March 31, 2015 the Company recorded net income of \$12,000 and \$13,000, respectively, for its share of BDFD's operating results.

Note 3. Goodwill and Intangible Assets

The following table presents goodwill and intangible assets as of March 31, 2016 and September 30, 2015 (in thousands):

	March 31, 2016			September 30, 2015		
	Gross		Net	Gross		Net
	Carrying	Accumulated	Carrying	Carrying	Accumulated	Carrying
	Amount	Amortization	Amount	Amount	Amortization	Amount

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Intangible assets
subject to
amortization

Franchise rights	116	(23)	93	116	(11)	105
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N o n - c o m p e t e
agreements

	15	(5)	10	15	(3)	12
	\$ 131	\$ (28)	\$ 103	\$ 131	\$ (14)	\$ 117

Indefinite-lived
intangible
assets:

Trademarks	\$ 3,900	\$ 0	\$ 3,900	\$ 3,900	\$ 0	\$ 3,900
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Intangible assets, net	\$ 4,031	\$ (28)	\$ 4,003	\$ 4,031	\$ (14)	\$ 4,017
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Goodwill	\$ 15,076	\$ 0	\$ 15,076	\$ 15,066	\$ 0	\$ 15,066
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The Company had no goodwill impairment losses in the periods presented in the above table or any prior periods.

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There were no impairments to intangible assets during the six-month period ended March 31, 2016. The aggregate amortization expense related to these intangible assets subject to amortization was \$14,000 for the six-month period ended March 31, 2016.

The estimated aggregate future amortization expense as of March 31, 2016 is as follows (in thousands):

Remainder of 2016	\$ 14
2017	28
2018	19
2019	10
2020	10
Thereafter	22
	\$ 103

Note 4.

Common Stock.

On September 5, 2014, the Company filed with the Securities and Exchange Commission a registration statement on Form S-1, which was subsequently amended by Amendment No. 1 to Form S-1, filed on September 23, 2014 and declared effective on September 24, 2014, and Post-Effective Amendment No. 1 to Form S-1, filed on January 29, 2015 and declared effective on February 4, 2015. The Form S-1 was filed to register the resale by the selling stockholders named in the prospectus included in the Form S-1 of up to 2,094,236 shares of the registrant's common stock, par value \$0.01 per share. The Post-Effective Amendment No. 2 on Form S-3 was filed by the Company to convert the Form S-1 into a registration statement on Form S-3.

On January 26, 2015, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") which was declared effective by the SEC on March 25, 2015. The registration statement allows the Company to issue common stock from time to time up to an aggregate amount of \$75 million, of which \$22,688,052 has been issued.

On January 29, 2015, the Company filed an Amendment No. 1 to the Initial Registration Statement on Form S-1 which registered for sale 2,094,236 shares of the Company's common stock by certain selling Stockholders as further described in our Annual Report on Form 10-K/A for the fiscal year ended September 30, 2014. The Amendment No. 1 was filed to update the financial information and other disclosures, among other things, including the Company's audited consolidated financial statements for the fiscal year ended September 30, 2014.

On May 7, 2015, the Company completed a public offering of 2,783,810 shares of its common stock, which included the full exercise of the underwriters' over-allotment option, at \$8.15 per share for net proceeds, after deducting underwriting discounts and commissions and offering expenses, of approximately \$20.6 million. Net proceeds were used for the acquisition of BDI and to fund the remodeling and reimagining of existing Good Times Burgers & Frozen Custard restaurants, for the development of new Bad Daddy's Burger Bar restaurants, as working capital reserves and for future investment at the discretion of our Board of Directors.

Note 5.

Stock-Based Compensation

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 service period (generally the vesting period of the grant).

Our net loss for the six month periods ended March 31, 2016 and March 31, 2015 includes \$355,000 and \$153,000, respectively, of compensation costs related to our stock-based compensation arrangements.

Stock Option awards

The Company measures the compensation cost associated with stock option awards by estimating the fair value of the award as of the grant date using the Black-Scholes 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 and stock awards granted during the six months ended March 31, 2016. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive equity awards.

During the six months ended March 31, 2016, the Company granted a total of 22,686 non-statutory stock options and a total of 54,110 incentive stock options, from available shares under its 2008 Plan, as amended, with exercise prices between of \$5.29 and \$6.23 and per-share weighted average fair values between \$2.87 and \$4.52.

During the six months ended March 31, 2015, the Company granted a total of 80,871 non-statutory stock options and a total of 103,955 incentive stock options all with an exercise price of \$7.79 and per-share weighted average fair value of \$5.85.

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

	Fiscal 2016 Incentive Stock Options	Fiscal 2015 Incentive Stock Options	Fiscal 2015 Non-Statutory Stock Options
Expected term (years)	6.5 to 7.5	6.5	6.5
Expected volatility	81.77% to 89.08%	87.40% to 112.11%	87.40%
Risk-free interest rate	1.65% to 2.07%	1.85% to 1.94%	1.85%
Expected dividends	0	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.

The following table summarizes stock option activity for the six-month period ended March 31, 2016 under all plans:

	Shares	Weighted Average Exercise Price	Weighted Avg. Remaining Contractual Life (Yrs.)
Outstanding-beginning of year	540,444	\$5.27	
Options granted	76,796	\$5.31	
Options exercised	(6,864)	\$2.20	
Forfeited	(12,991)	\$8.08	
Expired	(13,917)	\$17.04	
Outstanding March 31, 2016	583,468	\$4.97	7.4
Exercisable March 31, 2016	294,533	\$4.45	6.1

As of March 31, 2016, the aggregate intrinsic value of the outstanding and exercisable options was \$497,000 and \$363,000, respectively. Only options whose exercise price is below the current market price of the underlying stock are included in the intrinsic value calculation.

As of March 31, 2016, the total remaining unrecognized compensation cost related to non-vested stock options was \$957,000 and is expected to be recognized over a weighted average period of approximately 4.6 years.

There were 6,864 stock options exercised during the six months ended March 31, 2016 with proceeds of \$15,000 and 3,891 stock options exercised during the six months ended March 31, 2015 with proceeds of \$7,000.

Restricted Stock Grants

During the six months ended March 31, 2016, the Company granted a total of 44,755 shares of restricted stock to certain employees and executive officers from available shares under its 2008 Plan, as amended. The shares were issued with grant date fair market values of \$4.18 which is equal to the closing price of the stock on the date of the grants. The restricted stock grants vest over three years following the grant date.

A summary of the status of non-vested restricted stock as of March 31, 2016 is presented below.