

## Section 1: 10-Q

**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 26, 2019

OR

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

Commission File Number: 000-18590

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 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 has submitted electronically and posted on its corporate Web site, 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).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicated 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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 9, 2019, there were 12,522,778 shares of the Registrant's common stock, par value \$0.001 per share, issued and outstanding.

**Title of each class**

**Trading Symbol(s)**

**Name of each exchange on which registered**

Common Stock, \$0.001 par value

GTIM

Nasdaq Stock Exchange

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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)*

	<u>March 26,</u> <u>2019</u>	<u>September 25,</u> <u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,399	\$ 3,477
Receivables, net of allowance for doubtful accounts of \$0	597	1,735
Prepaid expenses and other	658	151
Inventories	1,026	1,004
Notes receivable	15	14
Total current assets	<u>5,695</u>	<u>6,381</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Land and building	4,787	5,002
Leasehold improvements	29,145	27,844
Fixtures and equipment	25,980	24,948
Total property and equipment	59,912	57,794
Less accumulated depreciation and amortization	(24,091)	(22,549)
Total net property and equipment	<u>35,821</u>	<u>35,245</u>
<b>OTHER ASSETS:</b>		
Notes receivable, net of current portion	24	32
Deposits and other assets	217	207
Trademarks	3,900	3,900
Other intangibles, net	70	35
Goodwill	15,150	15,150
Total other assets	<u>19,361</u>	<u>19,324</u>
<b>TOTAL ASSETS:</b>	<u>\$ 60,877</u>	<u>\$ 60,950</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt and capital lease obligations	\$ -	\$ 17
Accounts payable	2,736	3,774
Deferred income	79	92
Other accrued liabilities	4,823	4,452
Total current liabilities	<u>7,638</u>	<u>8,335</u>
<b>LONG-TERM LIABILITIES:</b>		
Maturities of long-term debt and capital lease obligations due after one year	12,300	7,472
Deferred and other liabilities	8,260	7,922
Total long-term liabilities	<u>20,560</u>	<u>15,394</u>
<b>STOCKHOLDERS' EQUITY:</b>		
Good Times Restaurants Inc. stockholders' equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized, no shares issued and outstanding as of 03/26/19 and 09/25/18	-	-
Common stock, \$.001 par value; 50,000,000 shares authorized, 12,522,778 and 12,481,162 shares issued and outstanding as of 03/26/19 and 09/25/18, respectively	13	12
Capital contributed in excess of par value	57,438	59,385
Accumulated deficit	(26,915)	(25,414)
Total Good Times Restaurants Inc. stockholders' equity	<u>30,536</u>	<u>33,983</u>
Non-controlling interests	2,143	3,238
Total stockholders' equity	<u>32,679</u>	<u>37,221</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 60,877</u>	<u>\$ 60,950</u>



**Good Times Restaurants Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
(Unaudited)

(In thousands except share and per share data)

	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>March 26, 2019</u>	<u>March 27, 2018</u>	<u>March 26, 2019</u>	<u>March 27, 2018</u>
<b>NET REVENUES:</b>				
Restaurant sales	\$ 26,954	\$ 23,342	\$ 52,101	\$ 45,939
Franchise revenues	218	254	441	505
Total net revenues	<u>27,172</u>	<u>23,596</u>	<u>52,542</u>	<u>46,444</u>
<b>RESTAURANT OPERATING COSTS:</b>				
Food and packaging costs	7,903	7,118	15,426	14,321
Payroll and other employee benefit costs	10,228	8,642	19,781	16,921
Restaurant occupancy costs	2,165	1,788	4,130	3,428
Other restaurant operating costs	2,829	2,137	5,412	4,253
Preopening costs	193	496	820	1,073
Depreciation and amortization	1,089	882	2,123	1,728
Total restaurant operating costs	<u>24,407</u>	<u>21,063</u>	<u>47,692</u>	<u>41,724</u>
General and administrative costs	2,193	1,898	4,254	3,815
Advertising costs	547	602	1,175	1,197
Franchise costs	16	11	23	21
Asset impairment costs	-	72	-	72
Gain on restaurant asset sale	(9)	(9)	(39)	(17)
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>18</b>	<b>(41)</b>	<b>(563)</b>	<b>(368)</b>
<b>Other Expenses:</b>				
Interest expense, net	(199)	(91)	(359)	(174)
Other income	1	-	-	-
Total other expenses, net	<u>(198)</u>	<u>(91)</u>	<u>(359)</u>	<u>(174)</u>
<b>NET LOSS</b>	<b>\$ (180)</b>	<b>\$ (132)</b>	<b>\$ (922)</b>	<b>\$ (542)</b>
Income attributable to non-controlling interests	(270)	(299)	(579)	(472)
<b>NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>	<b>\$ (450)</b>	<b>\$ (431)</b>	<b>\$ (1,501)</b>	<b>\$ (1,014)</b>
<b>BASIC AND DILUTED LOSS PER SHARE:</b>				
Net loss attributable to Common Shareholders	\$ (.04)	\$ (.03)	\$ (.12)	\$ (.08)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>				
Basic and Diluted	12,522,778	12,468,326	12,513,844	12,456,537

*See accompanying notes to condensed consolidated financial statements (unaudited)*

**Good Times Restaurants Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity (Unaudited)**  
**Year-to-Date March 26, 2019**  
*(In thousands, except share and per share data)*

	Preferred Stock		Common Stock		Capital Contributed in Excess of Par Value	Non- Controlling Interest In Partnerships	Accumulated Deficit	Total
	Issued Shares	Par Value	Issued Shares	Par Value				
BALANCES, September 26, 2018	-	\$ -	12,481,162	\$ 12	\$ 59,385	\$ 3,238	\$ (25,414)	\$37,221
Stock-based compensation cost					112			112
Restricted stock unit vesting			40,949	1				1
Stock option exercise			667		3			3
Income attributable to non-controlling interests						309		309
Distributions to unrelated limited partners						(478)		(478)
Net loss attributable to Good Times Restaurants Inc and comprehensive loss							(1,051)	(1,051)
BALANCES, December 25, 2018	-	\$ -	12,522,778	\$ 13	\$ 59,500	\$ 3,069	\$ (26,465)	\$36,117
Stock-based compensation cost					109			109
Income attributable to non-controlling interests						270		270
Distributions to unrelated limited partners						(408)		(408)
Purchase of non-controlling interest					(2,171)	(788)		(2,959)
Net loss attributable to Good Times Restaurants Inc and comprehensive loss							(450)	(450)
BALANCES, March 26, 2019	-	\$ -	12,522,778	\$ 13	\$ 57,438	\$ 2,143	\$ (26,915)	\$ 32,679

*See accompanying notes to condensed consolidated financial statements (unaudited)*

**Good Times Restaurants Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity (Unaudited)**  
**Year-to-Date March 27, 2018**  
*(In thousands, except share and per share data)*

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Capital Contributed in Excess of Par Value</u>	<u>Non- Controlling Interest In Partnerships</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Issued Shares</u>	<u>Par Value</u>	<u>Issued Shares</u>	<u>Par Value</u>				
BALANCES, September 27, 2017	-	\$ -	12,427,280	\$ 12	\$ 58,939	\$ 2,713	\$ (24,380)	\$37,284
Stock-based compensation cost					118			118
Restricted stock unit vesting			41,046					-
Income attributable to non-controlling interests						173		173
Distributions to unrelated limited partners						(256)		(256)
Net loss attributable to Good Times Restaurants Inc and comprehensive loss							(583)	(583)
BALANCES, December 26, 2017	-	\$ -	12,468,326	\$ 12	\$ 59,057	\$ 2,630	\$ (24,963)	\$36,736
Stock-based compensation cost					97			97
Income attributable to non-controlling interests						299		299
Distributions to unrelated limited partners						(242)		(242)
Contributions from unrelated limited partners						17		17
Net loss attributable to Good Times Restaurants Inc and comprehensive loss							(431)	(431)
BALANCES, March 27, 2018	-	\$ -	12,468,326	\$ 12	\$ 59,154	\$ 2,704	\$ (25,394)	\$36,476

*See accompanying notes to condensed consolidated financial statements (unaudited)*



**Good Times Restaurants Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)  
(In thousands)

	<b>Year-to-Date</b>	
	<b>March 26, 2019</b>	<b>March 27, 2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (922)	\$ (542)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,248	1,852
Accretion of deferred rent	273	244
Amortization of lease incentive obligation	(242)	(201)
Asset impairment costs	-	72
Stock-based compensation expense	221	215
Recognition of deferred gain on sale of restaurant building	(18)	(17)
Changes in operating assets and liabilities:		
Change in:		
Receivables and other	1,138	(40)
Inventories	(22)	(24)
Deposits and other	(556)	35
Change in:		
Accounts payable	(32)	(98)
Deferred liabilities	368	703
Accrued and other liabilities	31	794
Net cash provided by operating activities	<u>2,487</u>	<u>2,993</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for the purchase of property and equipment	(3,793)	(4,169)
Payments for the purchase of non-controlling interests	(2,724)	-
Proceeds from sale leaseback transaction	-	1,397
Proceeds from sale of fixed assets	8	-
Payments received from franchisees and others	7	6
Net cash used in investing activities	<u>(6,502)</u>	<u>(2,766)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on notes payable and long-term debt	6,150	1,400
Principal payments on notes payable and long-term debt	(1,330)	(1,608)
Proceeds from stock option exercise	3	-
Net distributions paid to non-controlling interests	(886)	(481)
Net cash provided by (used in) financing activities	<u>3,937</u>	<u>(689)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(78)</b>	<b>(462)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b><u>3,477</u></b>	<b><u>4,337</u></b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b><u>\$ 3,399</u></b>	<b><u>\$ 3,875</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 312	\$ 68
Change in accounts payable attributable to the purchase of property and equipment	\$ (1,006)	\$ (383)
Increase in accrued liabilities attributable to the purchase of Non-controlling interest	\$ 285	\$ -

*See accompanying notes to condensed consolidated financial statements (unaudited)*

**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**

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

BD of Colo was formed by Good Times Restaurants Inc. in 2013 to develop Bad Daddy's Burger Bar restaurants in the state of Colorado. Subsequently, BDI and BDFD were acquired by Good Times Restaurants Inc. on May 7, 2015. Combined, these entities compose our Bad Daddy's operating segment, which as of March 26, 2019, operates twenty-eight company-owned and five joint venture full-service upscale casual dining restaurants under the name Bad Daddy's Burger Bar, primarily located in Colorado and in the Southeast region of the United States, franchises one restaurant in South Carolina, and licenses the Bad Daddy's brand for use at an airport Bad Daddy's restaurant under third-party operations and ownership.

Drive Thru commenced operations in 1986 and as of March 26, 2019, operates nineteen Company-owned and seven joint venture drive-thru fast food hamburger restaurants under the name Good Times Burgers & Frozen Custard. Drive Thru's Company-owned restaurants are located in Colorado. In addition, Drive Thru has nine franchisee-owned restaurants, with seven operating in Colorado and two in Wyoming.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles and practices of the United States of America ("GAAP") for interim financial information. 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 26, 2019 and the results of its operations and its cash flows for the two fiscal quarters ended March 26, 2019 and March 27, 2018. Operating results for the two fiscal quarters ended March 26, 2019 are not necessarily indicative of the results that may be expected for the year ending September 24, 2019. The condensed consolidated balance sheet as of September 25, 2018 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 25, 2018.

*Fiscal Year* – The Company's fiscal year is a 52/53-week year ending on the last Tuesday of September. In a 52-week fiscal year, each of the Company's quarterly periods consist of 13 weeks. The additional week in a 53-week fiscal year is added to the first quarter, making such quarter consist of 14 weeks.

*Advertising Costs* – We utilize Advertising Funds to administer certain advertising programs for both the Bad Daddy's and Good Times brands that benefit both us and our franchisees. We and our franchisees are required to contribute a percentage of gross sales to the fund. As the contributions to these funds are designated and segregated for advertising. We consolidate the Advertising Funds into our financial statements whereby contributions from franchisees, when received, are recorded and included as a component of franchise revenues. As we intend to utilize all of the advertising contributions towards advertising expenditures, we recognize costs equal to franchisee contributions to the advertising funds on a quarterly basis. Contributions to the Advertising Funds from our franchisees were \$142,000 and \$175,000 for the first two quarters of 2019 and 2018, respectively.

**Note 2. Revenue**

In May 2014, the Financial Accounting Standards Board issued *Revenue from Contracts with Customers* ("Topic 606"), which was subsequently amended by several Accounting Standards Updates. These new or updated standards expanded the disclosure requirements related to revenue and revenue recognition. The Company adopted Topic 606 in the first quarter of its 2019 fiscal year and applied the guidance retrospectively to the prior periods presented. Topic 606 primarily impacts the accounting presentation of the Company's advertising contribution funds. Because advertising expenses are incurred within the respective year in which contributions are recorded, there was no change to the consolidated balance sheet, however for the first two fiscal quarters of 2018 franchise revenues and advertising costs are each \$175,000 greater than originally presented, and for the first two fiscal quarters of 2019 franchise revenues and advertising costs are each \$142,000 greater than would have been reflected under the former presentation.

*Revenue Recognition*

Revenues consist primarily of sales from restaurant operations and franchise revenue, which includes franchisee royalties and contributions to advertising funds. Revenues associated with gift card breakage are immaterial to our financials. The Company recognizes revenue, pursuant to the new and updated standards, when it satisfies a performance obligation by transferring control over a product or service to a customer, typically a restaurant customer or a franchisee/licensee.

The Company recognizes revenues in the form of restaurant sales at the time of the sale when payment is made by the customer, as the Company has completed its performance obligation, namely the provision of food and beverage, and the accompanying customer service, during the customer's visit to the restaurant. The Company sells gift cards to customers and recognizes revenue from gift cards primarily in the form of restaurant revenue. Gift Card breakage, which is recognized when the likelihood of a gift card being redeemed is remote, is determined based upon the Company's historic redemption patterns, and is immaterial to our overall financial statements.

Revenues we receive from our franchise and license agreements include sales-based royalties, and from our franchise agreements also may include advertising fund contributions, area development fees, and franchisee fees. We recognize sales-based royalties from franchisees and licensees as the underlying sales occur. We similarly recognize advertising fund contributions from franchisees as the underlying sales occur. The Company also provides its franchisees with services associated with opening new restaurants and operating them under franchise and development agreements in exchange for area development and franchise fees. The Company would capitalize these fees upon receipt from the franchisee and then would amortize those over the contracted franchise term as the services comprising the performance obligations are satisfied. We have not received material development or franchise fees in the years presented, and the primary performance obligations under existing franchise and development agreements have been satisfied prior to the earliest period presented in our financial statements.

**Note 3. Goodwill and Intangible Assets**

The following table presents goodwill and intangible assets as of March 26, 2019 and September 25, 2018:

	March 26, 2019			September 25, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization						
Franchise rights	116	(92)	24	116	(81)	35
Non-compete agreements	65	(19)	46	15	(15)	-
	<u>\$ 181</u>	<u>\$ (111)</u>	<u>\$ 70</u>	<u>\$ 131</u>	<u>\$ (96)</u>	<u>\$ 35</u>
Indefinite-lived intangible assets:						
Trademarks	\$ 3,900	\$ -	\$ 3,900	\$ 3,900	\$ -	\$ 3,900
Intangible assets, net	<u>\$ 4,081</u>	<u>\$ (111)</u>	<u>\$ 3,970</u>	<u>\$ 4,031</u>	<u>\$ (96)</u>	<u>\$ 3,935</u>
Goodwill	<u>\$ 15,150</u>	<u>\$ -</u>	<u>\$ 15,150</u>	<u>\$ 15,150</u>	<u>\$ -</u>	<u>\$ 15,150</u>

The Company had no goodwill impairment losses in the periods presented in the above table or any prior periods.

In February 2019 the Company acquired all of the membership interests of three joint venture entities to which the Company was already a party to and the transaction resulted in an increase to non-compete agreements of \$50,000, see Note 11.

There were no impairments to intangible assets during the two quarters ended March 26, 2019. The aggregate amortization expense related to these intangible assets subject to amortization was approximately \$15,000 for the two quarters ended March 26, 2019.

The estimated aggregate future amortization expense as of March 26, 2019 is as follows:

Remainder of 2019	\$ 19
2020	28
2021	17
2022	6
	<u>\$ 70</u>

**Note 4. Common Stock**

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.

**Note 5. Stock-Based Compensation**

The Company has traditionally maintained incentive compensation plans that include provision for the issuance of equity-based awards. The Company established the 2008 Omnibus Equity Incentive Compensation Plan in 2008 (the “2008 Plan”) and has outstanding awards that were issued under the 2008 Plan. Subsequently, the 2008 Plan expired in 2018 and the Company established a new plan, the 2018 Omnibus Equity Incentive Plan (the “2018 Plan”) during the third fiscal quarter of 2018, pursuant to shareholder approval. Future awards will be issued under the 2018 plan.

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). The company recognizes the impact of forfeitures as forfeitures occur.

Our net loss for the two quarters ended March 26, 2019 and March 27, 2018 includes \$221,000 and \$215,000, 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 two quarters ended March 26, 2019. 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 two quarters ended March 26, 2019, the Company granted a total of 99,832 incentive stock options, from available shares under its 2018 Plan, with exercise prices between \$4.66 and \$5.00 and per-share weighted average fair values between \$2.68 and \$3.16.

During the two quarters ended March 27, 2018, the Company granted a total of 18,274 incentive stock options, from available shares under its 2008 Plan, as amended, with an exercise prices between \$2.70 and \$2.73 and per-share weighted average fair values between \$1.65 and \$1.95.

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:

	<u>Year-to-Date</u>	
	<u>March 26, 2019</u>	<u>March 27, 2018</u>
	<u>Incentive and Non- Qualified Stock Options</u>	<u>Incentive and Non-Qualified Stock Options</u>
Expected term (years)	7.5	7.5
Expected volatility	70.65% to 70.80%	75.33 % to 75.67%
Risk-free interest rate	3.01% to 3.10%	2.17% to 2.35%
Expected dividends	-	-

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 two quarters ended March 26, 2019 under all plans:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Avg. Remaining Contractual Life (Yrs.)</u>
Outstanding-at beginning of year	634,647	\$ 3.36	
Options granted	99,832	\$ 4.76	
Options exercised	(667)	\$ 4.41	
Forfeited	(9,287)	\$ 3.94	
Expired	(17,203)	\$ 4.41	
Outstanding March 26, 2019	707,322	\$ 3.52	6.6
Exercisable March 26, 2019	434,011	\$ 3.23	5.2

As of March 26, 2019, the aggregate intrinsic value of the outstanding and exercisable options was approximately \$61,000 and \$61,000, 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 26, 2019, the total remaining unrecognized compensation cost related to non-vested stock options was \$618,000 and is expected to be recognized over a weighted average period of approximately 2.4 years.

There were 667 stock options exercised during the two quarters ended March 26, 2019 with proceeds of approximately \$4,000. There were no stock options exercised during the two quarters ended March 27, 2018.



**Restricted Stock Units**

During the two quarters ended March 26, 2019, the Company granted a total of 79,988 restricted stock units from available shares under its 2018 Plan. The shares were issued with a grant date fair market value of \$3.95 which is equal to the closing price of the stock on the date of the grant. The restricted stock units vest over three years following the grant date.

During the two quarters ended March 27, 2018, the Company granted a total of 37,037 shares of restricted stock from available shares under its 2008 Plan, as amended. The shares were issued with a grant date fair market value of \$2.70 which is equal to the closing price of the stock on the date of the grant. The restricted stock grant vests over three years following the grant date.

A summary of the status of non-vested restricted stock as of March 26, 2019 is presented below.

	<b>Shares</b>	<b>Grant Date Fair Value Per Share</b>
Non-vested shares at beginning of year	149,614	\$2.70 to \$4.18
Granted	79,988	\$3.95
Forfeited	(3,207)	\$3.15 to \$4.18
Vested	(40,951)	\$2.70 to \$4.18
Non-vested shares at March 26, 2019	185,444	\$2.70 to \$4.18

As of March 26, 2019, there was approximately \$518,000 of total unrecognized compensation cost related to non-vested restricted stock. This cost is expected to be recognized over a weighted average period of approximately 1.5 years.

**Note 6. Notes Payable and Long-Term Debt****Cadence Credit Facility**

The Company maintains a credit agreement with Cadence Bank (“Cadence”) pursuant to which, as amended, Cadence agreed to loan the Company up to \$17,000,000 with a maturity date of December 31, 2021 (the “Cadence Credit Facility”). On February 21, 2019 the Cadence Credit Facility was amended, in connection with the RGWP Repurchase, to retroactively attribute EBITDA previously attributed to non-controlling interests to the Company for purposes of certain financial covenants. As amended by the various amendments, the Cadence Credit Facility accrues commitment fees on the daily unused balance of the facility at a rate of 0.25%. All borrowings under the Cadence Credit Facility, as amended, bear interest at a variable rate based upon the Company’s election of (i) 2.5% plus the base rate, which is the highest of the (a) Federal Funds Rate plus 0.5%, (b) the Cadence bank publicly-announced prime rate, and (c) LIBOR plus 1.0%, or (ii) LIBOR, with a 0.250% floor, plus 3.5%. Interest is due at the end of each calendar quarter if the Company selects to pay interest based on the base rate and at the end of each LIBOR period if it selects to pay interest based on LIBOR. As of March 26, 2019, the weighted average interest rate applicable to borrowings under the Cadence Credit Facility was 5.9907%.

The Cadence Credit Facility, as amended, contains certain affirmative and negative covenants and events of default that the Company considers customary for an agreement of this type, including covenants setting a maximum leverage ratio of 5.35:1, a minimum fixed charge coverage ratio of 1.25:1 and minimum liquidity of \$2,000,000. As of March 26, 2019, the Company was in compliance with the covenants under the Cadence Credit Facility.

As a result of entering into the Cadence Credit Facility and the various amendments, the Company paid loan origination costs including professional fees of approximately \$232,000 and is amortizing these costs over the term of the credit agreement.

The obligations under the Cadence Credit Facility are collateralized by a first-priority lien on substantially all of the Company’s assets.

As of March 26, 2019, the outstanding balance on borrowings against the facility was \$12,300,000. Availability of the Cadence Credit Facility for borrowings is reduced by the outstanding face value of any letters of credit issued under the facility. As of March 26, 2019, the outstanding face value of such letters of credit was \$157,500.

**Note 7. Net Loss per Common Share**

Our basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive securities for this calculation consist of in-the-money outstanding stock options, restricted stock units and warrants (which were assumed to have been exercised at the average market price of the common shares during the reporting period). The treasury stock method is used to measure the dilutive impact of in-the-money stock options. Options and restricted stock grants for 892,766 and 781,789 shares of common stock were not included in computing diluted EPS for the two quarters ended March 26, 2019 and March 27, 2018, respectively, because their effects were anti-dilutive.

**Note 8. Contingent Liabilities and Liquidity**

We remain contingently liable on various leases underlying restaurants that were previously sold to franchisees. We have never experienced any losses related to these contingent lease liabilities, however if a franchisee defaults on the payments under the leases, we would be liable for the lease payments as the assignor or sub-lessor of the lease. Currently we have not been notified nor are we aware of any leases in default by the franchisees, however there can be no assurance that there will not be in the future which could have a material effect on our future operating results.

Additionally, in the normal course of business, there may be various claims in process, matters in litigation, and other contingencies brought against the company by employees, vendors, customers, franchisees, or other parties. Evaluating these contingencies is a complex process that may involve substantial judgment on the potential outcome of such matters, and the ultimate outcome of such contingencies may differ from our current analysis. We review the adequacy of accruals and disclosures related to such contingent liabilities in consultation with legal counsel. While it is not possible to predict the outcome of these claims with certainty, it is management's opinion that potential losses associated with such contingencies would be immaterial to our financial statements.

**Note 9. Impairment of Long-Lived Assets and Goodwill**

**Long-Lived Assets.** We review our long-lived assets for impairment, including land, property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the capitalized costs of the assets to the future undiscounted net cash flows expected to be generated by the assets and the expected cash flows are based on recent historical cash flows at the restaurant level (the lowest level that cash flows can be determined).

On January 30, 2018 the Company closed one Good Times restaurant in Aurora, Colorado. A non-cash impairment charge of \$219,000 related to this restaurant was previously taken in the fiscal year ended September 26, 2017 and no additional loss from disposal of assets has been subsequently recognized in the current year, nor is any additional loss expected. The Company is currently marketing the property and intends to sublease the property to a suitable tenant over the approximate 17-year remaining term of the lease. The Company expects to be able to sublease this property at or above its contractual lease rate but does not expect such sublease commencement until later in fiscal 2019. As such, we recorded accretion expense recognized as non-cash rent of approximately \$48,000 in the fiscal year ended September 25, 2018, and approximately \$73,000 in the two quarters ended March 26, 2019, reflecting the expected fair value of future lease costs, net of sublease income, associated with the closing of this restaurant.

Given the results of our analysis at March 27, 2018, we identified one restaurant where the expected future cash flows would not be sufficient to recover the carrying value of the associated assets. This restaurant, an additional Good Times restaurant in Aurora, Colorado, was closed on April 22, 2018. We recorded a non-cash charge of \$72,000 related to the impairment of this restaurant during the quarter ending March 27, 2018. No additional loss from disposal of assets is expected associated with this property. Prior to its closure, on April 6, 2018, the Company entered into a sublease of this property, the terms of which will provide sublease income substantially equal to the lease costs over the approximate 5 remaining years of the lease.

**Trademarks.** Trademarks have been determined to have an indefinite life. We evaluate our trademarks for impairment annually and on an interim basis as events and circumstances warrant by comparing the fair value of the trademarks with their carrying amount. There was no impairment required to the acquired trademarks as of March 26, 2019 and March 27, 2018.

**Goodwill.** Goodwill represents the excess of cost over fair value of the assets of businesses the Company acquired. Goodwill is not amortized, but rather, the Company is required to test goodwill for impairment on an annual basis or whenever indications of impairment arise. The Company considers its operations to be comprised of two reporting units: (1) Good Times restaurants and (2) Bad Daddy's restaurants. As of March 26, 2019, the Company had \$96,000 of goodwill attributable to the Good Times reporting unit and \$15,054,000 of goodwill attributable to its Bad Daddy's reporting unit. No goodwill impairment charges were recognized as of March 26, 2019 and March 27, 2018.

**Note 10. Income Taxes**

We account for income taxes using the liability method, whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value. The deferred tax assets are reviewed periodically for recoverability and valuation allowances are adjusted as necessary.

The Company has significant net operating loss carry-forwards from prior years and incurred additional net operating losses during the two quarters ended March 26, 2019 and March 27, 2018. These losses resulted in an increase in the related deferred tax assets; however, valuation allowances were provided which reduced these deferred tax assets to zero; therefore, no income tax provision or benefit was recognized for the two quarters ended March 26, 2019 and March 27, 2018 resulting in an effective income tax rate of 0% for both periods.

The Company is subject to taxation in various jurisdictions within the U.S. The Company continues to remain subject to examination by U.S. federal authorities for the years 2015 through 2018. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. No accrual for interest and penalties was considered necessary as of March 26, 2019.

#### **Note 11. Non-controlling Interests**

Non-controlling interests are presented as a separate item in the stockholders' equity section of the condensed consolidated balance sheet. The amount of consolidated net income or loss attributable to non-controlling interests is presented on the face of the condensed consolidated statement of operations. Changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions, while changes in ownership interest that do result in deconsolidation of a subsidiary require gain or loss recognition based on the fair value on the deconsolidation date.

The equity interests of the unrelated limited partners and members are shown on the accompanying consolidated balance sheet in the stockholders' equity section as a non-controlling interest and is adjusted each period to reflect the limited partners' and members' share of the net income or loss as well as any cash contributions or distributions to or from the limited partners and members for the period. The limited partners' and members' share of the net income or loss in the subsidiary is shown as non-controlling interest income or expense in the accompanying consolidated statement of operations. All inter-company accounts and transactions are eliminated.

On February 6, 2019, the Company concurrently entered into and closed on a Membership Interest Purchase Agreement with RGWP, LLC (the "RGWP Repurchase"), pursuant to which the Company agreed to acquire all of the remaining membership interests of three entities to which the Company is already a party to and already owned a controlling interest: Bad Daddy's Burger Bar of Seaboard LLC, Bad Daddy's Burger Bar of Cary, LLC, and BDBB of Olive Park NC, LLC. The purchase price was approximately \$3.0 million of which \$2.7 was paid at closing, \$300,000 was accrued at March 26, 2019 and paid subsequent to the quarter end. These entities own and operate three Bad Daddy's Burger Bar restaurants in the greater Raleigh, NC market. The purchase agreement contains various representations, warranties, and covenants of the Seller that are customary in transactions of this nature.

The RGWP Repurchase resulted in a \$788,000 reduction in non-controlling interests, an increase to non-compete agreements of \$50,000 and a \$2,171,000 reduction in additional paid in capital.

The following table summarizes the activity in non-controlling interests during the quarter ended March 31, 2019:

	<u>Bad Daddy's</u>	<u>Good Times</u>	<u>Total</u>
Balance at September 25, 2018	\$ 2,861	\$ 377	\$ 3,238
Income attributable to non-controlling interests	484	95	579
Distributions to unrelated limited partners	(761)	(125)	(886)
Purchase of non-controlling interest	(788)	-	(788)
Balance at March 26, 2019	\$ 1,796	\$ 347	\$ 2,143

Our remaining non-controlling interests consist of one joint venture partnership involving seven Good Times restaurants and five joint venture partnerships involving five Bad Daddy's restaurants.

#### **Note 12. Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This update was issued to replace the current revenue recognition guidance, creating a more comprehensive five-step model. In March 2016, the FASB issued No. ASU 2016-04, "Liabilities – Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products." This pronouncement provides guidance for the derecognition of prepaid stored-value product liabilities, consistent with the breakage guidance in Topic 606. These amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We adopted these ASUs effective as of September 26, 2018. The adoption of these new standards did not have a material impact to our revenue recognition related to Company-owned restaurant sales, recognition of royalty fees from our franchise agreement, or impact from recognition of gift card breakage. As discussed in Note 2 and further described below, the adoption of this standard did have an impact on the presentation of advertising fund contributions from our franchisees. Prior to the adoption of these new standards, we accounted for advertising expenses net of advertising contributions from our franchisees. Subsequently, as described in Notes 1 and 2, we now account for franchisee advertising contributions as a component of franchise revenue. Because advertising expenses are incurred within the respective year in which contributions are recorded, there was no change to the consolidated balance sheet, however for the first two fiscal quarters of 2018 franchise revenues and advertising costs are each \$175,000 greater than originally presented, and for the first two fiscal quarters of 2019 franchise revenues and advertising costs are each \$142,000 greater than would have been reflected under the former presentation.



In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, (ASU 2016-02), which replaces the existing guidance in Accounting Standard Codification 840, Leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. This pronouncement requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. Subsequently FASB has issued several other Accounting Standards Updates, including ASU 2018-11 and ASU 2018-12, which among other things provide for a practical expedient related to the recognition of the cumulative effective on retained earnings resulting from the adoption of the pronouncements. We expect to adopt these ASU’s effective September 25, 2019 and expect that the adoption of these standards will result in a significant increase in our long-term assets and liabilities given we have a significant number of leases.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment,” which eliminates Step 2 from the impairment test applied to goodwill. Under the new standard, goodwill impairment tests will compare the fair value of a reporting unit with it’s carrying amount. An impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value, not to exceed the total amount of goodwill. This pronouncement is effective for annual and interim periods beginning after December 15, 2019 and should be applied on a prospective basis. We adopted this ASU effective as of the quarter-end March 26, 2019. The adoption of the new standard did not have a material impact on our financial position or results from operations.

**Note 13. Subsequent Events**

None.

**Note 14. Segment Reporting**

All of our Good Times Burgers and Frozen Custard restaurants (Good Times) compete in the quick-service drive-through dining industry while our Bad Daddy’s Burger Bar restaurants (Bad Daddy’s) compete in the full-service upscale casual dining industry. We believe that providing this additional financial information for each of our brands will provide a better understanding of our overall operating results. Income (loss) from operations represents revenues less restaurant operating costs and expenses, directly allocable general and administrative expenses, and other restaurant-level expenses directly associated with each brand including depreciation and amortization, pre-opening costs and losses or gains on disposal of property and equipment. Unallocated corporate capital expenditures are presented below as reconciling items to the amounts presented in the consolidated financial statements.

The following tables present information about our reportable segments for the respective periods:

	Quarter Ended		Year-to-Date	
	March 26, 2019	March 27, 2018	March 26, 2019	March 27, 2018
Revenues				
Bad Daddy’s	\$ 20,474	\$ 16,047	\$ 38,815	\$ 31,123
Good Times	6,698	7,549	13,727	15,321
	\$ 27,172	\$ 23,596	\$ 52,542	\$ 46,444
Income (loss) from operations				
Bad Daddy’s	\$ 374	\$ 198	\$ (194)	\$ 8
Good Times	(219)	(139)	(145)	(158)
Corporate	(137)	(100)	(224)	(218)
	\$ 18	\$ (41)	\$ (563)	\$ (368)
Capital expenditures				
Bad Daddy’s	\$ 632	\$ 2,063	\$ 3,118	\$ 3,989
Good Times	241	157	629	177
Corporate	2	2	46	3
	\$ 875	\$ 2,222	\$ 3,793	\$ 4,169

	March 26, 2019	September 25, 2018
Property and equipment, net		
Bad Daddy’s	\$ 29,971	\$ 29,642
Good Times	5,488	5,234
Corporate	362	369
	\$ 35,821	\$ 35,245

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q 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-K for the fiscal year ended September 25, 2018. 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 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. For further discussion of our exposure to market risk, refer to Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 25, 2018.

### Overview.

Good Times Restaurant Inc., through its subsidiaries (collectively, the "Company" or "we", "us" or "our") operates and franchises/licenses full service hamburger-oriented restaurants under the name Bad Daddy's Burger Bar (Bad Daddy's) and operates and franchises hamburger-oriented drive-through restaurants under the name Good Times Burgers & Frozen Custard (Good Times).

We are focused on developing the Bad Daddy's concept with company-owned restaurants in major markets of the U.S., while continuing to improve the profitability of Good Times and opportunistically developing additional Good Times restaurants in our home state of Colorado, allowing us to leverage the strength and opportunities of both brands.

### Growth Strategies and Outlook.

We believe there are significant opportunities to develop new units, grow customer traffic and increase awareness of our brands. The following sets for the key elements of our growth strategy:

- Pursue disciplined growth of company-operated Bad Daddy's restaurants
- Optimize the long-term profitability of Good Times restaurants to reinvest in Bad Daddy's development, while improving operational efficiencies for both concepts
- Generate consistently positive same-store sales in both brands by delivering food and service that are differentiated in each of their respective competitive segments

### Restaurant locations.

As of March 26, 2019, we operated, franchised or licensed a total of thirty-five Bad Daddy's restaurants and thirty-five Good Times restaurants. The following table presents the number of restaurants operating at the end of the first two fiscal quarters of 2019 and 2018.

#### Company-Owned/Co-Developed/Joint Venture:

State	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	2019	2018	2019	2018	2019	2018
Colorado	26	27	12	12	38	39
Georgia	0	0	4	1	4	1
Oklahoma	0	0	1	1	1	1
North Carolina	0	0	14	11	14	11
South Carolina	0	0	1	0	1	0
Tennessee	0	0	1	0	1	0
Total:	26	27	33	25	59	52

**Franchise/License:**

State	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	2019	2018	2019	2018	2019	2018
Colorado	7	8	0	0	7	8
North Carolina	0	0	1	1	1	1
South Carolina	0	0	1	1	1	1
Wyoming	2	2	0	0	2	2
Total:	9	10	2	2	11	12

**Results of Operations**

***Fiscal quarter ended March 26, 2019 compared to fiscal quarter ended March 27, 2018:***

**Net Revenues.** Net revenues for the quarter ended March 26, 2019 increased \$3,576,000 or 15.2% to \$27,172,000 from \$23,596,000 for the quarter ended March 27, 2018. Bad Daddy's concept revenues increased \$4,427,000 while our Good Times concept revenues decreased \$851,000.

Bad Daddy's restaurant sales increased \$4,430,000 to \$20,384,000 for the quarter ended March 26, 2019 from \$15,954,000 for the quarter ended March 27, 2018, primarily attributable to the six new restaurants opened in the last two quarters of fiscal 2018 and two new restaurant opened in the two quarters of fiscal 2019. Bad Daddy's same store restaurant sales increased 1.3% during the quarter ended March 26, 2019 compared to the same prior-year quarter. Adjusted for the impact of a single storm in Colorado that resulted in the loss of twelve operating days the same store sales increase would have been 1.8%. Bad Daddy's restaurants are included in same store sales after they have been open a full eighteen months. Comparable sales are calculated excluding weeks during which restaurants are closed for major remodels. The average menu price increase for the quarter ended March 26, 2019 over the same prior-year quarter was approximately 1.7%. There were twenty-one restaurants included in the same store sales base at the end of the quarter. Additionally, net revenues decreased by \$2,000 due to lower franchise revenues compared to the same prior-year quarter. The current and prior year quarters include franchise advertising contributions of \$3,000 and \$4,000, respectively.

Good Times restaurant sales decreased \$818,000 to \$6,570,000 for the quarter ended March 26, 2019 from \$7,388,000 for the quarter ended March 27, 2018. Good Times same store restaurant sales decreased 7.5% during the quarter ended March 26, 2019 compared to the same prior-year quarter. Same store sales were affected by a single storm in Colorado that caused the loss of approximately twenty-seven operating days. Adjusted for this loss, same store sales would have been down 5.9%. To align Good Times' same store sales calculations with same store sales calculations for Bad Daddy's, beginning in fiscal 2018 Good Times restaurants are included in the same store sales calculation after they have been open a full eighteen months. In addition to the decline in same store sales, restaurant sales decreased \$241,000 due to two restaurants that were closed in January and April of 2018. The average menu price increase for the quarter ended March 26, 2019 over the same prior-year quarter was approximately 2.8%. Franchise revenues decreased \$33,000 for the quarter ended March 26, 2019, compared to the same prior year quarter, primarily due to one franchise location that closed in September 2018 and one location that was temporarily closed due to a fire that occurred in April 2018. The current and prior year quarters include franchise advertising contributions of \$67,000 and \$83,000, respectively.

**Food and Packaging Costs.** Food and packaging costs for the quarter ended March 26, 2019 increased \$785,000 to \$7,903,000 (29.3% of restaurant sales) from \$7,118,000 (30.5% of restaurant sales) for the quarter ended March 27, 2018.

Bad Daddy's food and packaging costs were \$5,804,000 (28.5% of restaurant sales) for the quarter ended March 26, 2019, up from \$4,727,000 (29.6% of restaurant sales) for the quarter ended March 27, 2018. This increase is primarily due to a greater number of operating restaurants during the current quarter versus the same quarter in the prior year. The decline as a percent of sales is primarily due to a sequential reduction in cost of proteins, primarily beef, coupled with year-over-year increases in menu prices.

Good Times food and packaging costs were \$2,099,000 (31.9% of restaurant sales) for the quarter ended March 26, 2019, down from \$2,391,000 (32.4% of restaurant sales) for the quarter ended March 27, 2018. The decrease as a percent of sales is due primarily to reduced prices for bacon and all-natural beef, coupled with year-over-year increases in menu prices.

**Payroll and Other Employee Benefit Costs.** Payroll and other employee benefit costs for the quarter ended March 26, 2019 increased \$1,586,000 to \$10,228,000 (37.9% of restaurant sales) from \$8,642,000 (37.0% of restaurant sales) for the quarter ended March 27, 2018.

Bad Daddy's payroll and other employee benefit costs were \$7,669,000 (37.6% of restaurant sales) for the quarter ended March 26, 2019 up from \$5,969,000 (37.4% of restaurant sales) in the same prior year period. The \$1,700,000 increase was primarily attributable to the six new restaurants opened in the last two quarters of fiscal 2018 and two new restaurants opened in the first two quarters of fiscal 2019. As a percent of sales, payroll and employee benefits costs increased by 0.2%, as increased wages, particularly for kitchen workers, increased in all states due to a competitive market for workers, and due to statutory wage increases for front-of-house employees in Colorado, all of which combined exceeded the impact of our year-over-year menu price increases.

Good Times payroll and other employee benefit costs were \$2,559,000 (39.0% of restaurant sales) in the quarter ended March 26, 2019, down from \$2,673,000 (36.2% of restaurant sales) in the same prior year period. Payroll and other employee benefit costs decreased \$114,000 from the same prior-year quarter due two stores that were closed in January and April of 2018, coupled with lower average weekly sales, but increased as a percentage of restaurant sales primarily due to the average wage paid to our employees and the deleveraging impact of lower weekly sales. The average wage increased approximately 10.4% in the quarter ended March 26, 2019 compared to the same prior year period. This average wage increase is attributable to a very competitive labor market in Colorado and statutory increases in the minimum wage rate.

**Occupancy Costs.** Occupancy costs for the quarter ended March 26, 2019 increased \$377,000 to \$2,165,000 (8.0% of restaurant sales) from \$1,788,000 (7.7% of restaurant sales) for the quarter ended March 27, 2018.

Bad Daddy's occupancy costs were \$1,354,000 (6.6% of restaurant sales) for the quarter ended March 26, 2019 up from \$1,018,000 (6.4% of restaurant sales) in the same prior year period. The \$336,000 increase was primarily attributable to the six new restaurants opened in the last two quarters of fiscal 2018 and two new restaurants opened in the first two quarters of fiscal 2019.

Good Times occupancy costs were \$811,000 (12.3% of restaurant sales) in the quarter ended March 26, 2019, up from \$770,000 (10.4% of restaurant sales) in the same prior year period. The \$41,000 increase was primarily attributable to an increase in property taxes and common area costs compared to the same prior year period, and the increase as a percentage of sales is due to the deleveraging impact of lower average unit volumes.

**Other Operating Costs.** Other operating costs for the quarter ended March 26, 2019, increased \$692,000 to \$2,829,000 (10.5% of restaurant sales) from \$2,137,000 (9.2% of restaurant sales) for the quarter ended March 27, 2018.

Bad Daddy's other operating costs were \$2,237,000 (11.0% of restaurant sales) for the quarter ended March 26, 2019 up from \$1,541,000 (9.7% of restaurant sales) in the same prior year period. The \$696,000 increase was primarily attributable to the six new restaurants opened in the last two quarters of fiscal 2018 and two new restaurants opened in the first two quarters of fiscal 2019. The percentage increase was primarily attributable to higher costs of general restaurant supplies and approximately \$163,000 of increased commissions paid to delivery service providers in the current quarter which were not incurred in the prior year quarter.

Good Times other operating costs were \$592,000 (9.0% of restaurant sales) in the quarter ended March 26, 2019, down from \$596,000 (8.1% of restaurant sales) in the same prior year period. The increase as a percentage of sales is due to the deleveraging impact of lower average unit volumes.

**New Store Preopening Costs.** In the quarter ended March 26, 2019, we incurred \$193,000 of preopening costs compared to \$496,000 for the quarter ended March 27, 2018. All of the preopening costs are related to our Bad Daddy's restaurants.

Preopening costs in the current quarter are primarily attributable to two restaurants: one restaurant that opened during the first fiscal quarter, and one restaurant that opened in January 2019. In the prior-year period, pre-opening costs are related to the two Bad Daddy's restaurants opened during the first fiscal quarter of 2018 and one that opened during the second quarter of fiscal 2018.

Preopening costs typically occur over a period of approximately five months, although the exact timing varies by location. We typically spend approximately \$275,000 to \$350,000 per location.

**Depreciation and Amortization Costs.** Depreciation and amortization costs for the quarter ended March 26, 2019, increased \$207,000 to \$1,089,000 from \$882,000 in the quarter ended March 27, 2018.

Bad Daddy's depreciation and amortization costs were \$863,000 for the quarter ended March 26, 2019 up from \$656,000 in the same prior year period. This increase was mainly attributable to the nine new restaurants opened in fiscal 2018 and two new restaurants opened in the two quarters ended March 26, 2019.

Good Times depreciation and amortization costs were \$225,000 for the quarter ended March 26, 2019 down from \$226,000 in the same prior year period.

**General and Administrative Costs.** General and administrative costs for the quarter ended March 26, 2019, increased \$295,000 to \$2,193,000 (8.1% of total revenue) from \$1,898,000 (8.0% of total revenues) for the quarter ended March 27, 2018.

The \$295,000 increase in general and administrative expenses in the quarter ended March 26, 2019 is primarily attributable to:

- Increase in salaries, wages, and employee benefit costs associated with manager training of \$107,000
- Decrease in shared services salaries, wages, and employee benefit costs of \$44,000
- Increase in salaries, wages, and employee benefit costs associated with district management of \$85,000, primarily related to additional district management for our east coast Bad Daddy's markets, partially offset by reductions in the Colorado market costs for both Bad Daddy's and Good Times
- Increase in training and recruiting costs of \$46,000
- Increase in professional fees and preliminary site costs of \$67,000
- Net increases in all other expenses of \$34,000

Total general and administrative costs will continue to increase as we build up our infrastructure to support the growth of both of our brands, however we anticipate over the long term they will decrease as a percentage of revenue as additional restaurants are developed.

**Advertising Costs.** Advertising costs for the quarter ended March 26, 2019, decreased \$55,000 to \$547,000 (2.0% of total revenue) from \$602,000 (2.6% of total revenue) for the quarter ended March 27, 2018. The decline as a percentage of revenues is primarily due to the growth of the Bad Daddy's segment, which has lower advertising costs as a percentage of revenue compared to the Good Times segment.

Bad Daddy's advertising costs were \$190,000 (0.9% of total revenue) in the quarter ended March 26, 2019 compared to \$177,000 (1.1% of total revenue) in the same prior year period. The \$13,000 increase was primarily attributable to the six new restaurants opened during the last two quarters of fiscal 2018 and the two restaurants opened during the first two fiscal quarters of 2019, partially offset by a reduction in local store marketing. The current and prior year quarters include advertising costs of \$3,000 and \$4,000, respectively, of costs associated with franchise advertising contributions.

Good Times advertising costs were \$357,000 (5.4% of total revenue) in the quarter ended March 26, 2019 compared to \$425,000 (5.8% of total revenue) in the same prior year period. This \$68,000 decline is due primarily to reduced contributions to the advertising fund due to the two restaurants that closed during fiscal 2018 and lower sales among existing company- and franchisee-owned restaurants. The current and prior year quarters include advertising costs of \$67,000 and \$83,000, respectively, of costs associated with franchise advertising contributions.

Bad Daddy's advertising costs consist primarily of contributions made to the advertising materials fund based on a percentage of restaurant sales as well as local store marketing efforts.

Good Times advertising costs consists primarily of contributions made to the advertising materials fund and a regional advertising cooperative based on a percentage of restaurant sales which are used to provide television and radio advertising, social media and on-site and point-of-purchase. Advertising costs are presented gross, with franchisee contributions to the fund being recognized as a component of franchise revenues. As a percentage of total revenue, we expect advertising costs to remain relatively stable at approximately 5.4% of total revenue for the Good Times segment.

**Franchise Costs.** Franchise costs were \$16,000 and \$11,000 for the quarters ended March 26, 2019 and March 27, 2018, respectively. The costs are primarily related to the Good Times franchised restaurants.

**Asset impairment costs.** There were no asset impairment costs for the quarter ended March 26, 2019 and asset impairment costs were \$72,000 for the quarter ended March 27, 2018. The costs are related to a Good Times restaurant that was closed and subleased in April 2018, as described in Note 9 to the financial statements.

**Gain on Restaurant Asset Disposals.** The gain on restaurant asset disposals for the quarter ended March 26, 2019 and the quarter ended March 27, 2018 was consistent at \$9,000 for both periods. The gain in the both periods is related to deferred gains on previous sale lease-back transactions on two Good Times restaurants.

**Loss from Operations.** Income from operations was \$18,000 in the quarter ended March 26, 2019 compared to a loss from operations of \$41,000 in the quarter ended March 27, 2018.

The change in income from operations for the quarter and year-to-date was due primarily to matters discussed in the "Net Revenues", "Restaurant Operating Costs", "Asset Impairment Costs" and "General and Administrative Costs" sections above.

**Net Loss.** The net loss was \$180,000 for the quarter ended March 26, 2019 compared to a net loss of \$132,000 in the quarter ended March 27, 2018.

The change in net loss for the quarter was primarily attributable to the matters discussed in the "Net Revenues", "Restaurant Operating Costs", "Asset Impairment Costs" and "General and Administrative Costs", as well as an increase in net interest expense of \$108,000 for the current quarter, compared to the same prior year period.

**Income Attributable to Non-Controlling Interests.** The non-controlling interest represents the limited partners' or members' share of income in the Good Times and Bad Daddy's joint venture restaurants.

For the quarter ended March 26, 2019, the income attributable to non-controlling interests was \$270,000 compared to \$299,000 for the quarter ended March 27, 2018.



\$233,000 of the current quarter's income is attributable to the BDI joint-venture restaurants, compared to \$224,000 in the same prior year period. This increase is due to an increase in joint venture store operating weeks due to two new joint venture restaurants opened during the final quarter of fiscal 2018, offset by the elimination of non-controlling interest beginning this fiscal quarter associated with the repurchase of interests in the three Raleigh area restaurants. \$36,000 of the current quarter's income is attributable to the Good Times joint-venture restaurants, compared to \$75,000 in the same prior year period. This decline is due to the reduction in profitability of the seven co-developed Good Times restaurants.

***Fiscal two quarters ended March 26, 2019 compared to fiscal two quarters ended March 27, 2018:***

***Net Revenues.*** Net revenues for the two quarters ended March 26, 2019 increased \$6,098,000 or 13.1% to \$52,542,000 from \$46,444,000 for the quarter ended March 27, 2018. Bad Daddy's concept revenues increased \$7,692,000 while our Good Times concept revenues decreased \$1,594,000.

Bad Daddy's restaurant sales increased \$7,693,000 to \$38,634,000 for the two quarters ended March 26, 2019 from \$30,941,000 for the two quarters ended March 27, 2018, primarily attributable to the nine new restaurants opened in fiscal 2018 and two new restaurant opened in the two quarters ended March 26, 2019. Bad Daddy's same store restaurant sales increased 0.8% during the two quarters ended March 26, 2019 compared to the same prior-year period. Bad Daddy's restaurants are included in same store sales after they have been open a full eighteen months. Comparable sales are calculated excluding weeks during which restaurants are closed for major remodels. The average menu price increase for the two quarters ended March 26, 2019 over the same prior-year period was approximately 2.6%. There were twenty-one restaurants included in the same store sales base at the end of the quarter. Franchise revenues decreased \$1,000 for the two quarters ended March 26, 2019 compared to the same prior-year period. The current and prior year periods include franchise advertising contributions of \$7,000 and \$8,000, respectively.

Good Times restaurant sales decreased \$1,531,000 to \$13,467,000 for the two quarters ended March 26, 2019 from \$14,998,000 for the two quarters ended March 27, 2018. Good Times same store restaurant sales decreased 6.3% during the two quarters ended March 26, 2019 compared to the same prior-year period. To align Good Times' same store sales calculations with same store sales calculations for Bad Daddy's, beginning in fiscal 2018 Good Times restaurants are included in the same store sales calculation after they have been open a full eighteen months. Restaurant sales decreased \$578,000 due to two restaurants that were closed in January and April of 2018. The average menu price increase for the two quarters ended March 26, 2019 over the same prior-year period was approximately 3.2%. Franchise revenues decreased \$63,000 for the two quarters ended March 26, 2019, compared to the same prior year period, primarily due to one franchise location that closed in September 2018 and one location that was temporarily closed due to a fire that occurred in April 2018. The current and prior year quarters include franchise advertising contributions of \$135,000 and \$167,000, respectively.

***Food and Packaging Costs.*** Food and packaging costs for the two quarters ended March 26, 2019 increased \$1,105,000 to \$15,426,000 (29.6% of restaurant sales) from \$14,321,000 (31.2% of restaurant sales) for the two quarters ended March 27, 2018. This increase is primarily due to a greater number of operating restaurants during the current period versus the same period in the prior year.

Bad Daddy's food and packaging costs were \$11,073,000 (28.7% of restaurant sales) for the two quarters ended March 26, 2019, up from \$9,360,000 (30.3% of restaurant sales) for the two quarters ended March 27, 2018. This increase is primarily due to a greater number of operating restaurants during the current period versus the same period in the prior year. The decline as a percent of sales is primarily due to a sequential reduction in cost of proteins, primarily beef, coupled with year-over-year increases in menu prices.

Good Times food and packaging costs were \$4,353,000 (32.3% of restaurant sales) for the two quarters ended March 26, 2019, down from \$4,961,000 (33.1% of restaurant sales) for the two quarters ended March 27, 2018. In addition to the factors affecting the quarter ending March 26, 2019, current year food and packaging costs at Good Times were favorably affected by the increased discounting of kid's meals that was in place during the first quarter of fiscal 2018.

***Payroll and Other Employee Benefit Costs.*** Payroll and other employee benefit costs for the two quarters ended March 26, 2019 increased \$2,860,000 to \$19,781,000 (38.0% of restaurant sales) from \$16,921,000 (36.8% of restaurant sales) for the two quarters ended March 27, 2018.

Bad Daddy's payroll and other employee benefit costs were \$14,651,000 (37.9% of restaurant sales) for the two quarters ended March 26, 2019 up from \$11,563,000 (37.4% of restaurant sales) in the same prior year period. The \$3,088,000 increase was primarily attributable to the nine new restaurants opened in fiscal 2018 and two new restaurants opened in the two quarters ended March 26, 2019. As a percent of sales, payroll and employee benefits costs increased by 0.5%, as increased wages, particularly for kitchen workers, increased in all states due to a competitive market for workers, and due to statutory wage increases for front-of-house employees in Colorado, all of which combined exceeded the impact of our year-over-year menu price increases.

Good Times payroll and other employee benefit costs were \$5,130,000 (38.1% of restaurant sales) in the two quarters ended March 26, 2019, down from \$5,358,000 (35.7% of restaurant sales) in the same prior year period. Payroll and other employee benefit costs decreased \$258,000 from the same prior-year quarter due two stores that were closed in January and April of 2018, coupled with lower average weekly sales, but increased as a percentage of restaurant sales primarily due to the average wage paid to our employees and the deleveraging impact of lower weekly sales. The average wage increased approximately 10.4% in the two quarters ended March 26, 2019 compared to the same prior year period. This average wage increase is attributable to a very competitive labor market in Colorado and statutory increases in the minimum wage rate.

**Occupancy Costs.** Occupancy costs for the two quarters ended March 26, 2019 increased \$702,000 to \$4,130,000 (7.9% of restaurant sales) from \$3,428,000 (7.5% of restaurant sales) for the two quarters ended March 27, 2018.

Bad Daddy's occupancy costs were \$2,632,000 (6.8% of restaurant sales) for the two quarters ended March 26, 2019 up from \$1,958,000 (6.3% of restaurant sales) in the same prior year period. The \$674,000 increase was primarily attributable to the nine new restaurants opened in fiscal 2018 and two new restaurants opened in the two quarters ended March 26, 2019.

Good Times occupancy costs were \$1,498,000 (11.1% of restaurant sales) in the two quarters ended March 26, 2019, up from \$1,470,000 (9.8% of restaurant sales) in the same prior year period. The \$28,000 increase was primarily attributable to an increase in property taxes and common area costs compared to the same prior year period, and the increase as a percentage of sales is due to the deleveraging impact of lower average unit volumes.

**Other Operating Costs.** Other operating costs for the two quarters ended March 26, 2019, increased \$1,159,000 to \$5,412,000 (10.4% of restaurant sales) from \$4,253,000 (9.3% of restaurant sales) for the two quarters ended March 27, 2018.

Bad Daddy's other operating costs were \$4,220,000 (10.9% of restaurant sales) for the two quarters ended March 26, 2019 up from \$3,008,000 (9.7% of restaurant sales) in the same prior year period. The \$1,212,000 increase was primarily attributable to the nine new restaurants opened in fiscal 2018 and two new restaurants opened in the two quarters ended March 26, 2019. The percentage increase was primarily attributable to higher costs of general restaurant supplies and approximately \$301,000 of increased commissions paid to delivery service providers in the current year which were not incurred in the prior year.

Good Times other operating costs were \$1,192,000 (8.9% of restaurant sales) in the two quarters ended March 26, 2019, down from \$1,245,000 (8.3% of restaurant sales) in the same prior year period. The decrease was primarily attributable to the two restaurants that closed in 2018. The increase as a percentage of sales is due to the deleveraging impact of lower average unit volumes.

**New Store Preopening Costs.** In the two quarters ended March 26, 2019, we incurred \$820,000 of preopening costs compared to \$1,073,000 for the two quarters ended March 27, 2018. All of the preopening costs are related to our Bad Daddy's restaurants.

Preopening costs in the two quarters ended March 26, 2019 are primarily attributable to four restaurants: two that opened late during the fourth quarter of fiscal 2018, one restaurant that opened during the first fiscal quarter of 2019, and one restaurant that opened in the second fiscal quarter of 2019. In the prior-year period, pre-opening costs are related to the two Bad Daddy's restaurants opened during the first fiscal quarter of 2018 and one that opened during the second quarter of fiscal 2018.

Preopening costs typically occur over a period of approximately five months, although the exact timing varies by location. We typically spend approximately \$275,000 to \$350,000 per location.

**Depreciation and Amortization Costs.** Depreciation and amortization costs for the two quarters ended March 26, 2019, increased \$395,000 to \$2,123,000 from \$1,728,000 in the two quarters ended March 27, 2018.

Bad Daddy's depreciation and amortization costs were \$1,679,000 for the two quarters ended March 26, 2019 up from \$1,276,000 in the same prior year period. This increase was mainly attributable to the nine new restaurants opened in fiscal 2018 and two new restaurants opened in the two quarters ended March 26, 2019.

Good Times depreciation and amortization costs were \$444,000 for the two quarters ended March 26, 2019 down from \$452,000 in the same prior year period.

**General and Administrative Costs.** General and administrative costs for the two quarters ended March 26, 2019, increased \$439,000 to \$4,254,000 (8.1% of total revenue) from \$3,815,000 (8.2% of total revenues) for the two quarters ended March 27, 2018.

The \$439,000 increase in general and administrative expenses in the two quarters ended March 26, 2019 is primarily attributable to:

- Increase in salaries, wages, and employee benefit costs associated with manager training of \$275,000
- Decrease in shared services salaries, wages, and employee benefit costs of \$97,000
- Increase in salaries, wages, and employee benefit costs associated with district management of \$107,000, primarily related to additional district management for our east coast Bad Daddy's markets, partially offset by a reduction in the Colorado market costs for our Good Times locations
- Increase in training and recruiting costs of \$70,000
- Increase in professional fees and preliminary site costs of \$24,000
- Net increases in all other expenses of \$60,000

Total general and administrative costs will continue to increase as we build up our infrastructure to support the growth of both of our brands, however we anticipate over the long term they will decrease as a percentage of revenue as additional restaurants are developed.



**Advertising Costs.** Advertising costs for the two quarters ended March 26, 2019, decreased \$22,000 to \$1,175,000 (2.2% of total revenue) from \$1,197,000 (2.6% of total revenue) for the two quarters ended March 27, 2018. The decline as a percentage of revenues is primarily due to the growth of the Bad Daddy's segment, which has lower advertising costs as a percentage of revenue compared to the Good Times segment.

Bad Daddy's advertising costs were \$441,000 (1.1% of total revenue) in the two quarters ended March 26, 2019 compared to \$341,000 (1.1% of total revenue) in the same prior year period. The \$100,000 increase was primarily attributable to the nine new restaurants opened during the final three quarters of fiscal 2018 and first two fiscal quarters of 2019, as well as a media buy during the first quarter of fiscal 2019 in Colorado that was not covered by the ad fund contributions. The current and prior year quarters include advertising costs of \$7,000 and \$8,000, respectively, of costs associated with franchise advertising contributions.

Good Times advertising costs were \$734,000 (5.3% of total revenue) in the two quarters ended March 26, 2019 compared to \$856,000 (5.6% of total revenue) in the same prior year period. This \$122,000 decline is due primarily to reduced contributions to the advertising fund due to the two restaurants that closed during fiscal 2018 and lower sales among existing company- and franchisee-owned restaurants. The current and prior year quarters include advertising costs of \$135,000 and \$167,000, respectively, of costs associated with franchise advertising contributions.

Bad Daddy's advertising costs consist primarily of contributions made to the advertising materials fund based on a percentage of restaurant sales as well as local store marketing efforts.

Good Times advertising costs consists primarily of contributions made to the advertising materials fund and a regional advertising cooperative based on a percentage of restaurant sales which are used to provide television and radio advertising, social media and on-site and point-of-purchase. Advertising costs are presented gross, with franchisee contributions to the fund being recognized as a component of franchise revenues. As a percentage of total revenue, we expect advertising costs to remain relatively stable at approximately 5.5% of total revenue for the Good Times segment.

**Franchise Costs.** Franchise costs were \$23,000 and \$21,000 for the two quarters ended March 26, 2019 and March 27, 2018, respectively. The costs are primarily related to the Good Times franchised restaurants.

**Asset impairment costs.** There were no asset impairment costs for the two quarters ended March 26, 2019 and asset impairment costs were \$72,000 for the two quarters ended March 27, 2018. The costs are related to a Good Times restaurant that was closed and subleased in April 2018, as described in Note 9 to the financial statements.

**Gain on Restaurant Asset Disposals.** The gain on restaurant asset disposals for the two quarters ended March 26, 2019 was \$39,000 compared to a gain of \$17,000 in the two quarters ended March 27, 2018. \$17,000 of the gain in both the current and prior year periods is related to deferred gains on previous sale lease-back transactions on two Good Times restaurants. The additional gain of \$22,000 in the two quarters ended March 26, 2019 is related to insurance claim reimbursements where assets were destroyed.

**Loss from Operations.** The loss from operations was \$563,000 in the two quarters ended March 26, 2019 compared to a loss from operations of \$368,000 in the two quarters ended March 27, 2018.

The change in income from operations for the quarter and year-to-date was due primarily to matters discussed in the "Net Revenues", "Restaurant Operating Costs", "Asset Impairment Costs" and "General and Administrative Costs" sections above.

**Net Loss.** The net loss was \$922,000 for the two quarters ended March 26, 2019 compared to a net loss of \$542,000 in the two quarters ended March 27, 2018.

The change in net loss for the two quarters was primarily attributable to the matters discussed in the "Net Revenues", "Restaurant Operating Costs", "Asset Impairment Costs" and "General and Administrative Costs", as well as an increase in net interest expense \$185,000 for the two quarters ended March 27, 2018, compared to the same prior year period.

**Income Attributable to Non-Controlling Interests.** The non-controlling interest represents the limited partners' or members' share of income in the Good Times and Bad Daddy's joint venture restaurants.

For the two quarters ended March 26, 2019, the income attributable to non-controlling interests was \$579,000 compared to \$472,000 for the two quarters ended March 27, 2018.

\$484,000 of the current two quarter's income is attributable to the BDI joint-venture restaurants, compared to \$318,000 in the same prior year period. This \$166,000 increase is due to an increase in joint venture store operating weeks due to two new joint venture restaurants opened during the final quarter of fiscal 2018, offset by the elimination of non-controlling interest beginning this fiscal quarter associated with the repurchase of interests associated with the three Raleigh area restaurants. \$95,000 of the current quarter's income is attributable to the Good Times joint-venture restaurants, compared to \$154,000 in the same prior year period. This decline is due to the reduction in profitability of the seven co-developed Good Times restaurants.

## Adjusted EBITDA

EBITDA is defined as net income (loss) before interest, income taxes and depreciation and amortization.

Adjusted EBITDA is defined as EBITDA plus non-cash stock-based compensation expense, preopening expense, non-recurring acquisition costs, GAAP rent in excess of cash rent, and non-cash disposal of assets. Adjusted EBITDA is intended as a supplemental measure of our performance that is not required by or presented in accordance with GAAP. We believe that EBITDA and Adjusted EBITDA provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results. Our management uses EBITDA and Adjusted EBITDA (i) as a factor in evaluating management's performance when determining incentive compensation and (ii) to evaluate the effectiveness of our business strategies.

We believe that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with other fast casual restaurants, which may present similar non-GAAP financial measures to investors. In addition, you should be aware when evaluating EBITDA and Adjusted EBITDA that in the future we may incur expenses similar to those excluded when calculating these measures. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate Adjusted EBITDA in the same fashion.

Our management does not consider EBITDA or Adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of EBITDA and Adjusted EBITDA is that they exclude significant expenses and income that are required by GAAP to be recorded in the Company's financial statements. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- stock based compensation expense is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing performance for a particular period;
- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only as a supplemental measure. You should review the reconciliation of net loss to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

The following table reconciles net loss to EBITDA and Adjusted EBITDA for the fiscal second quarter and year-to-date periods:

	Quarter Ended		Year-to-Date	
	March 26, 2019	March 27, 2018	March 26, 2019	March 27, 2018
<b>Adjusted EBITDA:</b>				
<b>Net loss, as reported</b>	\$ (450)	\$ (431)	\$ (1,501)	\$ (1,014)
Depreciation and amortization	1,068	845	2,061	1,653
Interest expense, net	199	91	359	175
EBITDA	817	505	919	814
Preopening expense	193	491	799	976
Non-cash stock-based compensation	109	97	221	215
GAAP rent-cash cash difference	37	11	(6)	(16)
Gain on disposal of assets	(9)	(9)	(39)	(17)
Asset impairment charge	-	72	-	72
Adjusted EBITDA	<u>\$ 1,147</u>	<u>\$ 1,167</u>	<u>\$ 1,894</u>	<u>\$ 2,044</u>

## **Liquidity and Capital Resources**

### **Cash and Working Capital**

As of March 26, 2019, we had a working capital deficit of \$1,943,000. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within a few days of the related sale, and we typically have two to four weeks to pay our vendors. The working capital deficit may increase when new Bad Daddy's and Good Times restaurants are opened. We believe that with our ability to access the Cadence Bank credit facility in addition to cash flow generated from our existing restaurants, that we will have sufficient capital to meet our working capital, long term debt obligations and capital expenditure needs in fiscal 2019. As of March 26, 2019, we had \$732,000 of commitments outstanding related to construction contracts for one Bad Daddy's restaurant currently under development and one Good Times restaurant undergoing an extensive remodel.

### **Financing**

The Company maintains a credit agreement with Cadence Bank ("Cadence") pursuant to which, as amended, Cadence agreed to loan the Company up to \$17,000,000 with a maturity date of December 31, 2021 (the "Cadence Credit Facility"). On February 21, 2019 the Cadence Credit Facility was amended, in connection with the RGWP Repurchase, to retroactively attribute EBITDA previously attributed to non-controlling interests to the Company for purposes of certain financial covenants. As amended by the various amendments, the Cadence Credit Facility accrues commitment fees on the daily unused balance of the facility at a rate of 0.25%. All borrowings under the Cadence Credit Facility, as amended, bear interest at a variable rate based upon the Company's election of (i) 2.5% plus the base rate, which is the highest of the (a) Federal Funds Rate plus 0.5%, (b) the Cadence bank publicly-announced prime rate, and (c) LIBOR plus 1.0%, or (ii) LIBOR, with a 0.250% floor, plus 3.5%. Interest is due at the end of each calendar quarter if the Company selects to pay interest based on the base rate and at the end of each LIBOR period if it selects to pay interest based on LIBOR. As of March 26, 2019, the weighted average interest rate applicable to borrowings under the Cadence Credit Facility was 5.9907%.

The Cadence Credit Facility, as amended, contains certain affirmative and negative covenants and events of default that the Company considers customary for an agreement of this type, including covenants setting a maximum leverage ratio of 5.35:1, a minimum fixed charge coverage ratio of 1.25:1 and minimum liquidity of \$2,000,000. As of March 26, 2019, the Company was in compliance with the covenants under the Cadence Credit Facility.

As a result of entering into the Cadence Credit Facility and the various amendments, the Company paid loan origination costs including professional fees of approximately \$232,000 and is amortizing these costs over the term of the credit agreement.

The obligations under the Cadence Credit Facility are collateralized by a first-priority lien on substantially all of the Company's assets.

As of March 26, 2019, the outstanding balance on borrowings against the facility was \$12,300,000. Availability of the Cadence Credit Facility for borrowings is reduced by the outstanding face value of any letters of credit issued under the facility. As of March 26, 2019, the outstanding face value of such letters of credit was \$157,500.

### **Capital Expenditures**

Planned capital expenditures for the balance of fiscal 2019 include normal recurring capital expenditures for existing Good Times and Bad Daddy's restaurants, new Bad Daddy's restaurants and reimaging and remodel costs for Good Times restaurants.

### **Assets Held for Sale**

None.

### **Cash Flows**

Net cash provided by operating activities was \$2,487,000 for the two quarters ended March 26, 2019. The net cash provided by operating activities for the two quarters ended March 26, 2019 was the result of a net loss of \$922,000 as well as cash and non-cash reconciling items totaling \$3,409,000 (these reconciling items are comprised of 1) depreciation and amortization of \$2,248,000, 2) accretion of deferred rent of \$273,000, 3) amortization of lease incentive obligations of \$242,000, 4) stock-based compensation expense of \$221,000, 5) a decrease in receivables and other assets of \$1,138,000, 6) an increase in deferred liabilities related to tenant allowances of \$368,000, 7) a decrease in accounts payable of \$32,000, 8) an increase in prepaid expenses of \$507,000 and 9) a net decrease in other operating assets and liabilities of \$58,000).

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Net cash provided by operating activities was \$2,993,000 for the two quarters ended March 27, 2018. The net cash provided by operating activities for the two quarters ended March 28, 2017 was the result of a net loss of \$542,000 as well as cash and non-cash reconciling items totaling \$3,535,000 (comprised of 1) depreciation and amortization of \$1,852,000, 2) accretion of deferred rent of \$244,000, 3) amortization of lease incentive obligations of \$201,000, 4) stock-based compensation expense of \$215,000, 5) Non-cash asset impairment costs of \$72,000, 6) an increase in receivables of \$40,000, 7) an increase in deferred liabilities related to tenant allowances of \$703,000, 8) a decrease in accounts payable of \$98,000, 8) an increase in accrued liabilities of \$794,000 and 9) a net decrease in other operating assets and liabilities of \$59,000).

Net cash used in investing activities for the two quarters ended March 26, 2019 was \$6,502,000 which primarily reflects the purchases of property and equipment of \$3,793,000 and the purchase of non-controlling interests of \$2,724,000. Purchases of property and equipment is comprised primarily of the following:

- \$2,910,000 in costs for the development of Bad Daddy's locations
- \$208,000 for miscellaneous capital expenditures related to our Bad Daddy's restaurants
- \$458,000 for remodel and reimagining related to our Good Times restaurants
- \$172,000 for miscellaneous capital expenditures related to our Good Times restaurants
- \$45,000 for miscellaneous capital expenditures for our corporate office

Net cash used in investing activities for the two quarters ended March 27, 2018 was \$2,766,000 which primarily reflects the purchases of property and equipment of \$4,169,000 and sale leaseback proceeds of \$1,397,000. Purchases of property and equipment is comprised primarily of the following:

- \$3,774,000 in costs for the development of Bad Daddy's locations
- \$214,000 for miscellaneous capital expenditures related to our Bad Daddy's restaurants
- \$177,000 for miscellaneous capital expenditures related to our Good Times restaurants

Net cash provided by financing activities for the two quarters ended March 26, 2019 was \$3,937,000, which includes principal payments on notes payable and long-term debt of \$1,330,000, borrowings on notes payable and long-term debt of \$6,150,000, proceeds from the exercise of stock options of \$3,000 and distributions to non-controlling interests of \$886,000.

Net cash used in financing activities for the two quarters ended March 27, 2018 was \$689,000, which includes principal payments on notes payable, long-term debt and capital leases of \$1,608,000, borrowings on notes payable and long-term debt of \$1,400,000 and net distributions to non-controlling interests of \$481,000.

## **Contingencies**

We remain contingently liable on various leases underlying restaurants that were previously sold to franchisees. We have never experienced any losses related to these contingent lease liabilities, however if a franchisee defaults on the payments under the leases, we would be liable for the lease payments as the assignor or sublessor of the lease. Currently we have not been notified nor are we aware of any leases in default under which we are contingently liable, however there can be no assurance that there will not be in the future, which could have a material effect on our future operating results.

Additionally, in the normal course of business, there may be various claims in process, matters in litigation, and other contingencies brought against the company by employees, vendors, customers, franchisees, or other parties. Evaluating these contingencies is a complex process that may involve substantial judgment on the potential outcome of such matters, and the ultimate outcome of such contingencies may differ from our current analysis. We review the adequacy of accruals and disclosures related to such contingent liabilities in consultation with legal counsel. While it is not possible to predict the outcome of these claims with certainty, it is management's opinion that potential losses associated with such contingencies would be immaterial to our financial statements.

## **Impact of Inflation**

The total menu price increases at our Good Times restaurants during fiscal 2018 were approximately 2.8%, and we raised menu prices approximately 1.9% during the first two quarters of fiscal 2019. The total menu increases taken at our Bad Daddy's restaurants during fiscal 2018 were approximately 3.8% on average. We raised menu prices during the first two quarters of fiscal 2019 approximately 0.9%. Commodity costs began to decline during the first half of fiscal 2018 and continued to decline into the first quarter of fiscal 2019. Commodity costs were relatively stable during the second quarter of fiscal 2019. When combined with anticipated menu price increases, we expect Good Times' and Bad Daddy's' food and packaging costs to be relatively consistent or slightly elevated compared with the current quarter, as a percentage of sales during the remainder of fiscal 2019.

## **Seasonality**

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

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

Not required.

**ITEM 4T. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this report on form 10Q, the Company's Chief Executive Officer and Controller (its principal executive officer and principal financial officer, respectively) have concluded that the Company's disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 26, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is periodically 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 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in our most recent Annual Report filed with the Securities and Exchange Commission.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

(a) Exhibits. The following exhibits are furnished as part of this report:

<u>Exhibit No.</u>	<u>Description</u>
*31.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</a>
*31.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350</a>
*32.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906</a>
*10.1	<a href="#">Third Amendment to Credit Agreement, dated February 21, 2019, by and among Good Times Restaurants Inc., each of its wholly-owned subsidiaries and Cadence Bank, N.A.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\*filed herewith



**SIGNATURES**

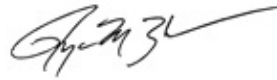
In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: May 10, 2019

**GOOD TIMES RESTAURANTS INC.**



Boyd E. Hoback  
President and Chief Executive Officer



Ryan M. Zink  
Chief Financial Officer

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**Section 2: EX-10.1 (EXHIBIT 10.1)**

Exhibit 10.1

**THIRD AMENDMENT TO CREDIT AGREEMENT**

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated February 21, 2019, is by and among GOOD TIMES RESTAURANTS INC., a Nevada corporation (the "Borrower"), the Guarantors, the Lenders and CADENCE BANK, NATIONAL ASSOCIATION, as Administrative Agent (in such capacity, the "Administrative Agent").

**WITNESSETH**

**WHEREAS**, the Borrower, the Guarantors, the Lenders and the Administrative Agent are parties to that certain Credit Agreement, dated September 8, 2016 (as amended by that certain First Amendment to Credit Agreement, dated September 11, 2017, that certain Second Amendment to Credit Agreement, dated as of October 31, 2018, and as further amended, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement"; capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement);

**WHEREAS**, Bad Daddy's International LLC ("BDI") has, on or about February 6, 2019, acquired 100% of the Equity Interests of (i) Bad Daddy's Burger Bar Of Seaboard, LLC ("BDBB Seaboard"), (ii) Bad Daddy's Burger Bar Of Cary, LLC ("BDBB Cary"), and (iii) BDBB Of Olive Park NC, LLC ("BDBB Olive Park"; collectively with BDBB Seaboard and BDBB Cary, the "2019 JVs") not previously owned by BDI, such that, after giving effect thereto, the 2019 JVs became wholly-owned Subsidiaries of BDI (the "2019 JV Acquisitions");

**WHEREAS**, the Administrative Agent and the Lenders have provided consent to the 2019 JV Acquisitions pursuant to that certain Consent dated February 5, 2019;

**WHEREAS**, the Loan Parties have requested that the Lenders make certain amendments to the Credit Agreement as set forth herein; and

**WHEREAS**, the Lenders have agreed to amend the Credit Agreement on the terms and conditions set forth herein.

**NOW, THEREFORE**, in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

**ARTICLE I  
AMENDMENTS TO CREDIT AGREEMENT**

**1.1 Amendments to Credit Agreement.**

(a) The definition of “Consolidated EBITDA” in Section 1.01 of the Credit Agreement is hereby amended by adding a new paragraph to the end thereof as follows:

Notwithstanding the foregoing, Consolidated EBITDA for any period which includes the fiscal quarter ending on or about (1) June 26, 2018 shall be deemed to include \$200,070 in connection with the 2019 JV Acquisitions, (2) September 25, 2018 shall be deemed to include \$135,463 in connection with the 2019 JV Acquisitions, (3) December 25, 2018 shall be deemed to include \$144,869 in connection with the 2019 JV Acquisitions and (4) March 26, 2019 shall be deemed to include \$51,620 in connection with the 2019 JV Acquisitions.



(b) The definition of “Excluded Subsidiary” in Section 1.01 of the Credit Agreement is hereby amended and restated in its entirety as follows:

“Excluded Subsidiary” (a) Fast Restaurants Co-Development Limited Partnership, (b) [RESERVED], (c) [RESERVED], (d) Bad Daddy’s Burger Bar of Winston-Salem, LLC, (e) [RESERVED], (f) BD of Greenville, LLC, (g) BD of Wendover Commons, LLC, (h) BD of McDaniel Village, LLC and (i) any other Subsidiary of the Loan Parties that is a joint venture any portion of the Equity Interests of which are held by a third party, unless consent of the third party to such Subsidiary guaranteeing the Obligations is obtained.

(c) Section 1.01 of the Credit Agreement is hereby amended by inserting the following new definition in the appropriate alphabetical order therein:

“2019 JV Acquisitions” means the acquisitions made by Bad Daddy’s International LLC, on or about February 6, 2019, of 100% of the Equity Interests of (i) Bad Daddy’s Burger Bar Of Seaboard, LLC, (ii) Bad Daddy’s Burger Bar Of Cary, LLC and (iii) BDBB Of Olive Park NC, LLC not previously owned by Bad Daddy’s International LLC, such that, after giving effect thereto, each of the foregoing became wholly-owned Subsidiaries of Bad Daddy’s International LLC.

(d) Schedule 5.19(a) to the Credit Agreement is hereby amended and restated in its entirety as set forth on Schedule 5.19(a) hereto.

## ARTICLE II CONDITIONS

**2.1 Closing Conditions.** This Amendment shall be deemed effective as of the date set forth above upon receipt by the Administrative Agent of:

(a) a copy of this Amendment duly executed by each of the Borrower, the Guarantors, the Administrative Agent and the Lenders;

(b) a Joinder Agreement duly executed by each of the 2019 JVs, the Borrower and the Administrative Agent;

(c) with respect to each of the 2019 JVs, the following items, in each case in form and substance satisfactory to the Administrative Agent:

(i) (A) searches of UCC filings in the jurisdiction of incorporation or formation, as applicable, of each of the 2019 JVs, (B) copies of the financing statements on file in such jurisdictions and evidence that no Liens exist other than Permitted Liens, and (C) tax lien, judgment and bankruptcy searches;

(ii) searches of ownership of Intellectual Property in the appropriate governmental offices and such patent/trademark/copyright filings as requested by the Administrative Agent in order to perfect the Administrative Agent’s security interest in the Intellectual Property;

(iii) completed UCC financing statements for each appropriate jurisdiction as is necessary, in the Administrative Agent's sole discretion, to perfect the Administrative Agent's security interest in the Collateral with respect to each of the 2019 JVs;

(iv) Pledged Equity with respect to each of the 2019 JVs (to the extent such Pledged Equity is certificated); and

(v) to the extent required to be delivered, filed, registered or recorded pursuant to the terms and conditions of the Collateral Documents, all instruments, documents and chattel paper in the possession of any of the 2019 JVs, together with allonges or assignments as may be necessary or appropriate to create and perfect the Administrative Agent's and the Lenders' security interest in the Collateral with respect to each of the 2019 JVs;

(d) an officer's certificate dated as of the date hereof, executed by a Responsible Officer of each of the 2019 JVs, certifying as to the Organization Documents of each of the 2019 JVs (which, to the extent filed with a Governmental Authority, shall be certified as of a recent date by such Governmental Authority), the resolutions of the governing body of each of the 2019 JVs, the good standing, existence or its equivalent of each of the 2019 JVs and of the incumbency (including specimen signatures) of the Responsible Officers of each of the 2019 JVs;

(e) an opinion or opinions of counsel for the Loan Parties, dated the date hereof and addressed to the Administrative Agent and the Lenders, with respect to the 2019 JVs and the matters contemplated in this Amendment, in form and substance acceptable to the Administrative Agent; and

(f) any fees and expenses owing to the Administrative Agent in connection with this Amendment.

### ARTICLE III MISCELLANEOUS

**3.1 Amended Terms.** On and after the date hereof, all references to the Credit Agreement in each of the Loan Documents shall hereafter mean the Credit Agreement as amended by this Amendment. Except as specifically amended hereby or otherwise agreed, the Credit Agreement is hereby ratified and confirmed and shall remain in full force and effect according to its terms.

**3.2 Representations and Warranties of the Loan Parties.** Each of the Loan Parties represents and warrants as follows:

(a) Each Loan Party has all requisite power and authority and has taken all necessary corporate and other action to authorize the execution, delivery and performance of this Amendment in accordance with its terms.

(b) The execution, delivery and performance by each Loan Party of this Amendment been duly authorized by all necessary corporate or other organizational action and constitutes a legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms.

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Loan Parties of this Amendment.

(d) The representations and warranties set forth in the Loan Documents are true and correct in all material respects as of the date hereof (except for those that are qualified by materiality, which are true and correct in all respects).

(e) No event has occurred and is continuing which constitutes a Default or an Event of Default.

(f) The Collateral Documents continue to create a valid security interest in, and Lien upon, the Collateral, in favor of the Administrative Agent, for the benefit of the Lenders, which security interests and Liens are perfected in accordance with the terms of the Collateral Documents and prior to all Liens other than Permitted Liens.

(g) The Obligations of the Loan Parties are not reduced or modified by this Amendment and are not subject to any offsets, defenses or counterclaims.

**3.3 Reaffirmation of Obligations.** Each Loan Party hereby ratifies the Credit Agreement and each other Loan Document and acknowledges and reaffirms (a) that it is bound by all terms of the Credit Agreement and each other Loan Document and (b) that it is responsible for the observance and full performance of its respective obligations under the Loan Documents.

**3.4 Loan Document.** This Amendment shall constitute a Loan Document under the terms of the Credit Agreement.

**3.5 Expenses.** The Loan Parties agree to pay all reasonable costs and expenses of Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of the Administrative Agent's legal counsel.

**3.6 Entirety.** This Amendment and the other Loan Documents embody the entire agreement among the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof.

**3.7 Counterparts; Telecopy.** This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or other electronic imaging means (e.g., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Amendment.

**3.8 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

**3.9 Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

**3.10 Consent to Jurisdiction; Service of Process; Waiver of Jury Trial.** The jurisdiction, services of process and waiver of jury trial provisions set forth in Sections 11.14 and 11.15 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF the parties hereto have caused this Amendment to be duly executed on the date first above written.

BORROWER:

GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation

By: /s/ Ryan M. Zink

Name: Ryan M. Zink

Title: Treasurer and Chief Financial Officer

GUARANTORS:

GOOD TIMES DRIVE THRU INC.,  
a Colorado corporation

By: /s/ Ryan M. Zink

Name: Ryan M. Zink

Title: Treasurer and Chief Financial Officer

BD OF COLORADO LLC,  
a Colorado limited liability company

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its manager

By: /s/ Ryan M. Zink

Name: Ryan M. Zink

Title: Treasurer and Chief Financial Officer

GOOD TIMES RESTAURANTS INC.  
THIRD AMENDMENT

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BAD DADDY'S FRANCHISE DEVELOPMENT, LLC,

a North Carolina limited liability company

By: BAD DADDY'S INTERNATIONAL, LLC,  
a North Carolina limited liability company, its member

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its sole member

By: /s/ Ryan M. Zink  
Name: Ryan M. Zink  
Title: Treasurer and Chief Financial Officer

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its member

By: /s/ Ryan M. Zink  
Name: Ryan M. Zink  
Title: Treasurer and Chief Financial Officer

BAD DADDY'S INTERNATIONAL, LLC,  
a North Carolina limited liability company

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its sole member

By: /s/ Ryan M. Zink  
Name: Ryan M. Zink  
Title: Treasurer and Chief Financial Officer

GOOD TIMES RESTAURANTS INC.  
THIRD AMENDMENT

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BAD DADDY'S BURGER BAR, LLC,  
a North Carolina limited liability company

By: BAD DADDY'S INTERNATIONAL, LLC,  
a North Carolina limited liability company, its sole member

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its sole member

By: /s/ Ryan M. Zink  
Name: Ryan M. Zink  
Title: Treasurer and Chief Financial Officer

BAD DADDY'S BURGER BAR OF BALLANTYNE,  
LLC,  
a North Carolina limited liability company

By: BAD DADDY'S INTERNATIONAL, LLC,  
a North Carolina limited liability company, its sole member

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its sole member

By: /s/ Ryan M. Zink  
Name: Ryan M. Zink  
Title: Treasurer and Chief Financial Officer

BAD DADDY'S BURGER BAR OF BIRKDALE, LLC,  
a North Carolina limited liability company

By: BAD DADDY'S INTERNATIONAL, LLC,  
a North Carolina limited liability company, its sole member

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its sole member

By: /s/ Ryan M. Zink  
Name: Ryan M. Zink  
Title: Treasurer and Chief Financial Officer

GOOD TIMES RESTAURANTS INC.  
THIRD AMENDMENT

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BAD DADDY'S BURGER BAR OF MOORESVILLE, LLC,  
a North Carolina limited liability company

By: BAD DADDY'S INTERNATIONAL, LLC,  
a North Carolina limited liability company, its sole member

By: GOOD TIMES RESTAURANTS INC.,  
a Nevada corporation, its sole member

By: /s/ Ryan M. Zink  
Name: Ryan M. Zink  
Title: Treasurer and Chief Financial Officer

GOOD TIMES RESTAURANTS INC.  
THIRD AMENDMENT

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ADMINISTRATIVE  
AGENT:

CADENCE BANK, NATIONAL ASSOCIATION,  
as Administrative Agent

By: /s/ Josh Taylor

Name: Josh Taylor

Title: Senior Vice President

LENDERS:

CADENCE BANK, NATIONAL ASSOCIATION  
as a Lender

By: /s/ Josh Taylor

Name: Josh Taylor

Title: Senior Vice President

GOOD TIMES RESTAURANTS INC.  
THIRD AMENDMENT

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Schedule 5.19(a)  
Subsidiaries of Loan Parties

- 1) Subsidiaries of Good Times Restaurants Inc., a Nevada corporation (“GTIM”)
    - a) Good Times Drive Thru Inc., a Colorado corporation
      - i) Number of Shares of each class outstanding - 1,000,000 shares – Common Stock
      - ii) Wholly Owned by GTIM– 1,000,000 shares – 100%
      - iii) Nature of the Interest – Common Stock - voting
      - iv) No Series A stock is outstanding
      - v) No Series C stock is outstanding
    - b) BD of Colorado LLC, a Colorado limited liability company
      - i) Number of Units outstanding – 100
      - ii) Wholly owned by GTIM – 100 Units -- 100% membership interest
      - iii) Nature of the Interest single class membership interest - voting
    - c) Bad Daddy’s Franchise Development, LLC, a North Carolina limited liability company
      - i) Number of Units outstanding –10,000 Class A Units
      - ii) Wholly owned – 100% Class A membership interest:  
(4,800 Units or 48% owned by GTIM) and (5,200 Units or 52% owned by BDI)
      - iii) Nature of the Interest single class membership interest - voting
    - d) Bad Daddy’s International, LLC, a North Carolina limited liability company (“BDI”)
      - i) No Units issued
      - ii) Wholly owned – 100% membership interest
      - iii) Nature of the Interest single class membership interest - voting
  - 2) Subsidiaries of Good Times Drive Thru Inc., a Colorado corporation
    - a) Fast Restaurants Co-Development LLLP, a Colorado limited liability limited partnership
      - i) Joint Venture consists of 50% ownership in 6 Good Times Drive Thru restaurants and 78.5% ownership in 1 Good Times Drive Thru restaurant.
      - ii) Nature of the partnership interest owned is General Partner
  - 3) Subsidiaries of BD of Colorado LLC, a Colorado limited liability company
    - a) None
  - 4) Subsidiaries of Bad Daddy’s Franchise Development, LLC, a North Carolina limited liability company
    - a) None
  - 5) Subsidiaries of Bad Daddy’s International, LLC, a North Carolina limited liability company
    - a) Bad Daddy’s Burger Bar, LLC, a North Carolina limited liability company
      - i) No Units issued
      - ii) Wholly owned – 100% membership interest
      - iii) Nature of the Interest – Single class membership interest - voting
-

- b) Bad Daddy's Franchise Development, LLC, a North Carolina limited liability company
    - i) Number of Units outstanding –10,000 Class A Units
    - ii) Wholly owned – 100% Class A membership interest:  
(4,800 Units or 48% owned by GTIM) and (5,200 Units or 52% owned by BDI)
    - iii) Nature of the Interest single class membership interest - voting
  - c) Bad Daddy's Burger Bar of Ballantyne, LLC, a North Carolina limited liability company
    - i) No Units issued
    - ii) Wholly owned – 100% membership interest
    - iii) Nature of the Interest – Single class membership interest - voting
  - d) Bad Daddy's Burger Bar of Birkdale, LLC, a North Carolina limited liability company
    - i) No Units issued
    - ii) Wholly owned – 100% membership interest
    - iii) Nature of the Interest -- Single class membership interest - voting
  - e) Bad Daddy's Burger Bar of Mooresville, LLC, a North Carolina limited liability company
    - i) No Units issued
    - ii) Wholly owned – 100% membership interest
    - iii) Nature of the Interest -- Single class membership interest - voting
  - f) Bad Daddy's Burger Bar of Seaboard, LLC, a North Carolina limited liability company
    - i) 10,000 Units of Class A and 526 Units of Class B outstanding
    - ii) Wholly owned – 100% membership interest
    - iii) Nature of the Interest –Class A membership interest - voting
  - g) Bad Daddy's Burger Bar of Cary, LLC, a North Carolina limited liability company
    - i) 10,000 Units of Class A and 0 Units of Class B outstanding
    - ii) Wholly owned – 100% membership interest
    - iii) Nature of the Interest – Class A membership interest - voting
  - h) Bad Daddy's Burger Bar of Winston-Salem, LLC, a North Carolina limited liability company
    - i) 9,700 Units of Class A and 1,077.78 Units of Class B outstanding
    - ii) 2,500 Units (25.78%) of Class A owned by BDI - 23.202% of all membership interests
    - iii) Nature of the Interest -- Class A membership interest - voting
  - i) BDBB of Olive Park NC, LLC, a North Carolina limited liability company
    - i) 10,000 Units of Class A and 0 Units of Class B outstanding
    - ii) Wholly owned – 100% membership interest
    - iii) Nature of the Interest Class A membership interest - voting
  - j) Bad Daddy's of Fayetteville, LLC, a North Carolina limited liability company
    - i) 94,000 Units of Class A and 6,000 Units of Class B outstanding
    - ii) 50,000 Units (53.191%) of Class A owned by BDI – 50% of all membership interests
    - iii) Nature of the Interest Class A membership interest – voting
-

- k) [RESERVED]
  - l) BD of Greenville, LLC, a North Carolina limited liability company
    - i) 10,000 Units of Class A and 0 Units of Class B outstanding
    - ii) 5,790 (58%) Class A units owned by BDI – 58% of all membership interests
    - iii) Nature of the Interest Class A membership interest – voting
  - m) BD of Wendover Commons, LLC, a North Carolina limited liability company
    - i) 100,000 Units of Class A and 0 Units of Class B outstanding
    - ii) 51,000 (51%) Class A units owned by BDI – 51% of all membership interests
    - iii) Nature of the Interest Class A membership interest – voting
  - n) BD of McDaniel Village, LLC, a South Carolina limited liability company
    - i) 100,000 Units of Class A and 0 Units of Class B outstanding
    - ii) 51,000 (51%) Class A units owned by BDI – 51% of all membership interests
    - iii) Nature of the Interest Class A membership interest – voting
  - 6) Bad Daddy’s Burger Bar, LLC, a North Carolina limited liability company
    - a) None
  - 7) Bad Daddy’s Burger Bar of Ballantyne, LLC, a North Carolina limited liability company
    - a) None
  - 8) Bad Daddy’s Burger Bar of Birkdale, LLC, a North Carolina limited liability company
    - a) None
  - 9) Bad Daddy’s Burger Bar of Mooresville, LLC, a North Carolina limited liability company
    - a) None
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## Section 3: EX-31.1 (EXHIBIT 31.1)

**Exhibit 31.1**


### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Boyd E. Hoback, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Good Times Restaurants Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2019



Boyd E. Hoback  
President and Chief Executive Officer

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## Section 4: EX-31.2 (EXHIBIT 31.2)

**Exhibit 31.2**

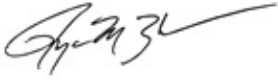
### CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Ryan M. Zink, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Good Times Restaurants Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2019



Ryan M. Zink  
Chief Financial Officer

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## Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

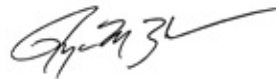
In connection with the Quarterly Report on Form 10-Q of Good Times Restaurants Inc. (the "Company") for the period ended March 26, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Boyd E. Hoback, as Chief Executive Officer of the Company, and Ryan M. Zink as Chief Financial Officer, each hereby certifies, pursuant to and solely for the purpose of 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

- (1.) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and
- (2.) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.



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Boyd E. Hoback  
Chief Executive Officer  
May 10, 2019



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Ryan M. Zink  
Chief Financial Officer  
May 10, 2019

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