

GOOD TIMES RESTAURANTS INC
Form 10KSB
December 21, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended: September 30, 2001

OR

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

For the transition period from _____ to _____

Commission file number: 000-18590

Good Times Restaurants Inc.

(Exact name of small business issuer in its charter)

Nevada

84-1133368

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

601 Corporate Circle, Golden, Colorado

80401

(Address of principal executive offices) (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 par value

(Title of class)

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

Yes [X] No []

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [X]

The issuer's revenues for its most recent fiscal year ended September 30, 2001 were \$16,646,000.

As of December 14, 2001, the aggregate market value of the 1,168,967 shares of common stock held by non-affiliates of the issuer, based on the closing bid price of the common stock on December 14, 2001 of \$2.46 per share as reported on the Nasdaq Smallcap Market, was \$2,875,659.

As of December 14, 2001, the issuer had 2,252,030 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 9 through 12 of Part III of this form is incorporated by reference from the issuer's definitive proxy statement to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this form in connection with issuer's annual meeting of shareholders to be held on January 25, 2002.

Transitional Small Business Disclosure Format Yes [] No [X]

TABLE OF CONTENTS

Part I

Item 1. Description of Business	4 - 13

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Item 2. Description of Property	13 - 14
Item 3. Legal Proceedings	14
Item 4. Submission of Matters to a Vote of Security Holders	14

Part II

Item 5. Market for Common Equity and Related Stockholder Matters	15
Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD & A)	15 - 21
Item 7. Financial Statements	F1 - F22
Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	22

Part III

Items 9. Directors, Executives, Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act	22
Item 10. Executive Compensation.	22
Item 11. Security Ownership of Certain Beneficial Owners and Management	22
Item 12. Certain Relationships and Related Transactions	22

Item 13. Exhibits and Reports on Form 8-K	22 - 24
Signatures	25

-

PART I

Item 1. Description of Business.

Overview

Good Times Restaurants Inc., a Nevada corporation (the "Company"), was organized in 1987. The Company is essentially a holding company for its wholly owned subsidiary, Good Times Drive Thru Inc., which is engaged in the business of developing, owning, operating and franchising hamburger-oriented drive-through restaurants under the name Good Times Drive Thru Burgers(SM). During 2001, the restaurants' brand name, trademark and logo were changed to Good Times Burgers & Frozen Custard to reflect a strategic repositioning of the Good Times concept. Most of the Company's restaurants are located in the Denver, Colorado metropolitan area. "Good Times" where used herein refers to the operations of Good Times Drive Thru Inc. and of the Company.

Recent Developments

During fiscal 2001, we implemented a new frozen custard product line and strategically repositioned our brand name, logo, graphics and concept to Good Times Burgers & Frozen Custard. The initial results of the repositioning have significantly impacted sales trends with same store sales increases of 7% in August 2001, 12% in September 2001, 13.8% in October 2001 and 20% in November 2001. Twenty-nine of the company owned and franchised restaurants have installed the new product line, signage and graphics, and the installation for the remaining stores in our primary market is expected by January 2002. Radio and public relations support for the repositioning began in August 2001.

Also during fiscal 2001, the Company opened its 35th restaurant in Brighton, Colorado and relocated one franchised restaurant to a new location.

In October 2000, Good Times Restaurants entered into a licensing agreement with the Winter Park Ski Resort in Colorado. Under the agreement, the Company receives license revenues for sales of its products by the resort at restaurant facilities at the base of the ski area, and is entering its second season at the resort. The agreement also provides for the option of future sales of the Company's products at other locations at the resort.

Good Times Restaurants Business

The Company currently operates and franchises a total of thirty-five Good Times restaurants, of which thirty-four are in Colorado, with thirty-one in the Denver greater metropolitan area, one in Grand Junction, one in Silverthorne, and one in Winter Park. There is one franchised Good Times restaurant in Boise, Idaho. Eleven of the restaurants are company-owned and nine are owned jointly with two separate co-development partners. Fifteen Good Times restaurants are franchised restaurants with ten operating in the Denver metropolitan area, one in Grand Junction, Colorado, one in Greeley, Colorado, one in Longmont, Colorado, one in Winter Park, Colorado, and one in Boise, Idaho. Good Times is also offering franchises for the development of additional Good Times restaurants.

The Good Times Burgers & Frozen Custard Concept

Good Times was initially developed as a drive-through only, limited menu hamburger restaurant concept featuring high quality products and extremely fast service, with menu prices 30-40 percent lower than the major hamburger chains. The early price advantage has diminished due to continued aggressive price discounting by the major chains and the repositioning of Good Times' menu and pricing toward higher quality.

Over the last two fiscal years, the Company has positioned its business concept away from a price point focus to one based on developing strong differentiation in its core hamburger menu through:

- a more distinctive taste profile of its products,
- the fastest speed of service (as reported by third party research),
- a strong brand personality built through its advertising and employee service methods, and
- the highest quality ingredients in the hamburger quick service segment.

Additionally, in fiscal 2001 the Company introduced fresh frozen custard, not only as an additional product but as a strategic repositioning of the concept with another high quality product that will complement Good Times' reputation and historical focus on high quality hamburgers. The repositioning is targeted at broadening Good Times' consumer appeal and demographic base, increasing sales in the afternoon and evening dayparts with a new snack or treat occasion and creating a more highly differentiated brand for the consumer. The repositioning involved building remodeling, new equipment, new signage and new graphics on uniforms, packaging and promotional materials in fiscal 2001 and early fiscal 2002. The initial results of the repositioning have significantly impacted sales trends with same store sales increases over the prior year periods of 7% in August 2001, 12% in September 2001, 13.8% in October 2001 and 20% in November 2001.

Fresh frozen custard is a premium ice cream (requiring in excess of 10% butterfat content) with a proprietary vanilla blend that is prepared from highly specialized equipment that minimizes the amount of air that is added to the mix and that creates smaller ice crystals than other frozen dairy desserts. The custard is scooped similarly to hard-packed ice cream but is served at a slightly warmer temperature. The resulting product is smoother, creamier and thicker than typical soft serve or hard-packed ice cream products. Good Times serves the frozen custard in cups and cones, specialty sundaes and "Spoonbenders", a mix of custard and toppings, and we anticipate it will become a larger percentage of sales in fiscal 2002 and 2003.

The Company believes it has an advantage in providing a superior level of service and quality, but has been limited in its ability to effectively advertise and build awareness of its brand, compared to the other larger hamburger chains. The Company believes the repositioning undertaken in fiscal 2001 will provide more destination qualities for its brand and more unique product messages for its media advertising. Even though our advertising was limited to radio and on-site communications during the year, we were awarded ten prestigious awards from the Denver Advertising Federation for our advertising campaign.

The Company plans to develop additional double drive-through restaurants in Colorado, which is divided into two primary media markets Denver and Colorado Springs/Pueblo. Good Times' food preparation and service systems deliver a quality meal with a faster order-delivery response time providing the capacity to reach the same sales levels as traditional hamburger chains. Typically, a customer receives an order 30 to 60 seconds after their vehicle reaches the take-out window during peak order periods. The simplicity of the menu, the relatively low capital investment, and the efficient design of the building and equipment allow Good Times to sell its products at comparable or lower prices than the major fast food hamburger chains except during short term discount promotions by the competition. The relatively limited menu allows maximum attention to be devoted to food quality and speed of service.

Menu

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

The menu of a Good Times Burgers & Frozen Custard restaurant is limited to hamburgers, cheeseburgers, chicken sandwiches, french fries, onion rings, milkshakes, soft drinks and frozen custard products. Each menu item is made to order at the time the customer places the order and is not pre-prepared.

The hamburger patty is prepared with specially formulated and seasoned 100% USDA approved beef, served on a 4 1/4 inch sesame seed bun. Hamburgers and cheeseburgers are garnished with fresh lettuce, fresh sliced sweet red onions, mayonnaise, mustard, ketchup, pickles and fresh sliced tomato. The cheese is 100% pure sharp American, thickly sliced. Other specialty hamburger toppings include guacamole, bacon, and proprietary sauces. The chicken sandwiches include a spiced, battered whole muscle breast patty and a grilled spicy breast patty, both served with mayonnaise, lettuce and tomato. Equipment has been automated and equipped with compensating computers to deliver a consistent product and minimize the skills required of employees.

Fresh frozen custard is offered in cups, cones, waffle cones, specialty sundaes and "Spoonbenders", a blended combination of custard and various toppings. In addition to fresh vanilla frozen custard, management has developed several other proprietary flavors to be offered seasonally and on a rotating basis in fiscal 2002.

The Building

The existing double drive-through Good Times restaurants are less than one-third the size of the typical restaurant buildings of the four largest hamburger chains and require approximately one-half to two thirds of the land area. The current standard Good Times restaurant building is a double drive-through and walk-up style structure containing approximately 880 square feet built on 18,000 to 30,000 square-foot lots. Most existing restaurants utilize a double drive-through concept that allows simultaneous service from opposite sides of the restaurant and one or two walk-up windows with a patio for outdoor eating.

Management continually examines methods to refine the floor plan and design elements of the restaurant building to gain operating efficiencies and to enhance the look and feel of the dining area for customers. The Company has developed a new 2,300 square foot prototype building with a dining room and 70 seats and a 1,800 square foot building with 38 seats.

Management believes that the building form, design and aesthetic appeal address key issues and concerns of the consumer: speed, cleanliness, security, eye appeal, and an identifiable brand image. The exterior consists of a cream-colored dry-vit system with an enclosed glass vestibule at the front for walk-up service. A brightly lit multi-colored fascia band runs the length of both sides of the building in addition to product and Good Times proprietary signage. The double drive-through buildings are transportable and therefore can be moved from an unsuccessful site to a better location. Future buildings may be "stick built" on-site for greater cost efficiency, limiting our ability to relocate these stores.

Management performs extensive site evaluation and expects a minimum number of buildings will ever have to be moved. However, one Good Times unit was relocated from a development condemned under eminent domain proceedings in 1999 and one franchise-owned building was relocated to a new site in fiscal 2001.

Plan of Operation

The Company's primary objective for fiscal 2002 is to further reposition its business concept away from direct competition with the large national hamburger chains through the development and promotion of fresh frozen custard and highly differentiated taste profiles of its hamburgers. This repositioning is intended to build on the substantial brand equity that Good Times has in product quality and taste in its core menu of hamburgers and fries and to more definitively differentiate the Good Times brand and concept from the competition. Management has established the following criteria for the frozen custard product category for continued development in fiscal 2002:

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

- to add incremental sales in dayparts complementary to its primary lunch sales periods (afternoon and evening "snack" occasions),
- to improve cost of sales as a percentage of restaurant sales,
- to be highly unique within the quick service hamburger restaurant category,
- to broaden the demographic profile of Good Times' primary customer base to 18 - 54 years old from 18 - 34 years old, and
- to reduce the reliance on value, convenience and the "impulse buyer" as sales drivers and to increase customer patronage based on more original attributes of the menu offerings.

As of December 2001 only three restaurants in the Company's primary market have not yet completed the conversion to implement frozen custard due to delays in building permit approvals. Management anticipates that the remaining restaurants will have the repositioning fully implemented by January 2002.

The Company's other objectives for fiscal 2002 are to:

- accelerate the development of additional company-owned, joint-venture and franchised restaurants in Colorado,
- introduce limited new menu offerings, and
- advertise competitive price points for its products.

Good Times' ongoing objective is to increase average restaurant sales through increased customer counts in each primary daypart (lunch, dinner and late-night), selective menu and price promotions and effective marketing of Good Times' competitive attributes of high quality products, unique taste profiles and demonstrable value. The Company expects modest product price increases in 2002 due to anticipated higher hourly wages and commodity costs.

Colorado is divided into two primary media markets, Denver and Colorado Springs/Pueblo. The Company has plans to fully develop the Denver market and then develop the Colorado Springs/Pueblo market, depending on availability of financing and suitable restaurant sites. Management estimates that the Denver market will support 45-55 Good Times restaurants and the Colorado Springs/Pueblo market will support 8-12 restaurants. Media advertising is important to effectively build brand awareness and the repositioning of the concept. All of our growth for fiscal 2002 and 2003 will be focused in Colorado to increase media and supervision efficiencies.

As of December 14, 2001, the Company operated twenty company-owned and joint venture Good Times restaurants and had fourteen franchised restaurants open in Colorado and one in Boise, Idaho.

	<u>December 14, 2000</u>	<u>December 14, 2001</u>
Company-owned restaurants	11	11
Joint venture restaurants	9	9
Franchise operated	<u>15</u>	<u>15</u>
restaurants		
Total restaurants	35	35

Management anticipates that Good Times and its franchisees will begin development of a total of five to ten Good

Times units in the Denver ADI in 2002.

Operations and Management

Good Times has defined three additional ingredients essential to its success:

- ◆ consistent delivery of high quality, great tasting products that are proprietary whenever possible,
- ◆ superior levels of friendly, fast service, and
- ◆ competitive pricing

The order system at each Good Times restaurant is equipped with an internal timing device that displays and records the time each order takes to prepare and deliver. The total transaction time for the delivery of food at the window is approximately 30 to 60 seconds during peak times.

Each Good Times unit employs a general manager, one to two assistant managers and approximately 15 to 25 employees, most of whom work part-time during three shifts. Operating systems and training materials are utilized to ensure consistent performance to Good Times' standards. An eight to ten week training program is utilized to train restaurant managers on all phases of the operation. Ongoing training is provided as necessary. Management of Good Times believes that incentive compensation of its restaurant managers is essential to the success of its business. Accordingly, in addition to a salary, managerial employees may be paid a bonus based upon proficiency in meeting financial, customer service and quality performance objectives.

The Company uses several sources of customer feedback to evaluate each restaurant's service and quality performance, including an extensive secret shopper program, customer comment phone line and web site comments. Additionally, management uses both its own primary consumer research for product development and customer usage and attitude patterns as well as third party market research that evaluates Good Times' performance ratings on several different operating attributes against key competitors.

The Company currently purchases 100% of its restaurant food and paper supplies from Yancey's Food Service. The Company does not believe that the current reliance on this sole vendor will have any long-term material adverse effect since the Company believes that there are a sufficient number of other suppliers from which food and paper supplies could be purchased. The Company does not anticipate any difficulty in continuing to obtain an adequate quantity of food and paper supplies of acceptable quality and at acceptable prices.

Financial and management control is maintained through the use of automated data processing and centralized accounting and management information systems that are provided by the Company. Restaurant managers forward sales reports, vendor invoices, payroll data and other operating information to Good Times' headquarters weekly and sales data is collected daily via an automated "polling" of each restaurant's point-of-sale system. Management receives daily, weekly and monthly reports identifying food, labor and operating expenses and other significant indicators of restaurant performance. Management of Good Times believes that these reporting systems enhance its ability to control and manage operations.

Marketing and Advertising

The marketing efforts of Good Times focus on building "brand awareness" of Good Times' attributes for the best tasting, unique products within the context of ad campaigns that build upon a brand personality that is irreverent and funny, combined with specific product messages. Fiscal 2000's advertising consisted primarily of television advertising and fiscal 2001's advertising consisted primarily of radio advertising with on-site and point of purchase merchandising. The radio advertising campaign had a consistent creative theme with the television advertising and provided more media weeks coverage than the television campaign. The 2001 campaign overall garnered ten awards for its creative execution.

Signage is one of the most important elements for establishing identity at each location. The Good Times restaurant sign package that has been developed offers flexibility based on local codes, site layout and surrounding property. The Company's signage, logos and graphics for 20 of the 35 restaurants were redone in fiscal 2001 to support the strategic repositioning of the brand to Good Times Burgers & Frozen Custard, with the remaining stores to be completed by January 2001.

Franchise Program

Good Times has prepared prototype area rights and franchise agreements, a Uniform Franchise Offering Circular and advertising material to be utilized in soliciting prospective franchisees. Good Times seeks to attract franchisees that are experienced restaurant operators, well capitalized and have demonstrated the ability to develop multi-unit franchises. Good Times currently reviews sites selected for franchises and monitors performance of franchise units. Good Times is currently considering potential franchisees only for development of units in Colorado and anticipates developing an owner-operator franchise agreement in addition to its traditional franchise agreement.

Good Times estimates that it will cost a franchisee on average approximately \$475,000 to \$625,000 to open a Good Times double drive-through restaurant, including pre-opening costs and working capital, assuming the land is leased. A franchisee typically will pay a royalty of 4% of net sales, an advertising fee of at least 0.5% of net sales, plus participation in regional advertising up to 5% of net sales, or a higher amount approved by the advertising cooperative, and initial development and franchise fees totaling \$20,000 per restaurant. Among the services and materials which Good Times provides to franchisees are site selection assistance, plans and specifications for construction of the Good Times Drive Thru restaurants, an operating manual which includes product specifications and quality control procedures, training, on-site pre-opening supervision and advice from time to time relating to operation of the franchised restaurant.

Good Times has entered into twelve franchise agreements in the Denver ADI. Twelve franchise restaurants and nine joint-venture restaurants are operating in the Denver ADI. One franchise restaurant is open in Grand Junction, Colorado, one in the Winter Park Resort and one franchise restaurant is open in Boise, Idaho.

Employees

At December 14, 2001, the Company had approximately 573 employees, including 300 full-time employees. The Company considers its employee relations to be good. None of its employees is covered by a collective bargaining agreement.

Competition

The restaurant industry, including the fast food segment, is highly competitive. Good Times competes with a large number of other hamburger-oriented fast food restaurants in the areas in which it operates. Many of these restaurants are owned and operated by regional and national restaurant chains, many of which have greater financial resources and experience than does the Company. Restaurant companies that currently compete with Good Times in the Denver market include McDonald's, Burger King, Wendy's and Carl's Jr. Double drive-through restaurant chains such as Rally's Hamburgers and Checker's Drive-In Restaurants, which currently operate a total of over 800 double drive-through restaurants in various markets in the United States, are not currently operating in Colorado. Management of Good Times believes that these double drive-through restaurant chains will not expand into Colorado based on their publicly reported objectives and resources. However, the Company cannot assure you that they will not enter the Colorado market and become significant competitors of Good Times.

Management of Good Times believes that it may have a competitive advantage in terms of quality of product and price-value compared to traditional fast food hamburger chains. However, price discounting by the major fast food hamburger chains has had a detrimental effect on Good Times' customer transactions in prior years. Early

development of its double drive-through concept in Colorado has given Good Times an advantage over other double drive-through chains that may seek to expand into Colorado because of Good Times' brand awareness and present restaurant locations. Nevertheless, Good Times may be at a competitive disadvantage with other restaurant chains with greater name recognition and marketing capability. Furthermore, most of Good Times' competitors in the fast-food business operate more restaurants, have been established longer and have greater financial resources and name recognition than Good Times. There is also active competition for management personnel, as well as for attractive commercial real estate sites suitable for restaurants.

Trademarks

Good Times has registered its mark "Good Times! Drive Thru Burgers"(SM) with the State of Colorado and intends to register that mark in each state where it or a franchisee intends to open a restaurant and intends to register its new mark "Good Times Burgers & Frozen Custard" with the State of Colorado. Good Times currently relies solely on common law trademark protection and state registration, which will not protect it against a prior user of the same or a similar mark. If prior use is established, Good Times may not be able to use its mark in the geographic area of the prior use. While the mark is important to Good Times, unavailability of the mark in any particular geographic area into which it desires to expand operations may not necessarily preclude that expansion. However, name non-availability may preclude the economies and other advantages which may be available through nationwide or regional marketing and advertising.

In addition we own trademarks or service marks that have been registered, or for which applications are pending, with the United States Patent and Trademark Office including but not limited to: "Mighty Deluxe", "Wild Fries", "Chicken Dunkers" and "Spoonbender".

Government Regulation

Each Good Times restaurant is subject to the regulations of various health, sanitation, safety and fire agencies in the jurisdiction in which the restaurant is located. Difficulties or failures in obtaining the required licenses or approvals could delay or prevent the opening of a new Good Times restaurant. Federal and state environmental regulations have not had a material effect on Good Times' operations. More stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations. Good Times is subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime, and other working conditions. In addition, Good Times is subject to the Americans With Disabilities Act, which requires restaurants and other facilities open to the public to provide for access and use of facilities by the handicapped. Management believes that Good Times is in compliance with the Americans With Disabilities Act.

Good Times is also subject to federal and state laws regulating franchise operations, which vary from registration and disclosure requirements in the offer and sale of franchises to the application of statutory standards regulating franchise relationships.

Special Note Regarding Forward-Looking Statements

Certain statements in this Form 10-KSB under "Item 1. Description of Business," "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-KSB constitute "forward-looking statements" within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. When we use the words such as "believes", "expects", "anticipates" or similar expressions, we are making forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors such as the risk factors discussed below which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

Risk Factors

You should consider carefully the following risk factors before making an investment decision with respect to Good Times Restaurants securities.

We Have Accumulated Losses.

We have incurred losses in every fiscal year since inception except 1999 and as of September 30, 2001 we had an accumulated deficit of \$9,468,000. As of September 30, 2001, we had working capital deficit of \$190,000.

We Must Sustain Same Store Sales Increases

. As we develop additional restaurants, we expect that the increase in operating income generated by those restaurants will improve our financial results. However, we cannot assure you that we will achieve profitability on a consistent basis. We must sustain same store sales increases in existing restaurants to achieve profitability. Sales increases will depend in part on the success of our advertising and promotion of new and existing menu items and the consumer acceptance of the concept repositioning initiated in 2001. We cannot assure you that our advertising and promotional efforts will in fact be successful.

The Hamburger Restaurant Market Is Highly Competitive

. The hamburger restaurant market is highly competitive. Our competitors include many recognized national and regional fast-food hamburger restaurant chains such as McDonald's, Burger King, Wendy's and Carl's Jr. We also compete with small regional and local hamburger and other fast-food restaurants, many of which feature drive-through service. Most of our competitors have greater financial resources, marketing programs and name recognition. All of the major hamburger chains have increasingly offered selected food items and combination meals at discounted prices and have recently intensified their promotions of value priced meals. Continued discounting by competitors may adversely affect the revenues and profitability of our restaurants.

Sites May Be Difficult To Acquire.

Location of our restaurants in high-traffic and readily accessible areas is an important factor for our success. Drive-through restaurants require sites with specific characteristics and there are a limited number of suitable sites available in our geographic markets. Since suitable locations are in great demand, we may not be able to obtain optimal sites at a reasonable cost. In addition, we cannot assure you that the sites we do obtain will be successful.

We May Require Additional Financing

. In order to fully develop the Denver and Colorado Springs/Pueblo markets and to expand into markets outside of Colorado, we will require additional financing. Although we have recently obtained debt facilities for the borrowing of additional capital, we cannot assure you that these facilities will adequately finance our planned developments or that additional financing will be available on reasonable terms.

We Depend on Key Management Employees.

We believe our current operations and future success depend largely on the continued services of our management employees, in particular Boyd E. Hoback, our president and chief executive officer. Although we have entered into an employment agreement with Mr. Hoback, he may voluntarily terminate his employment with us at any time. In addition, we do not maintain key-person insurance on Mr. Hoback's life. The loss of Mr. Hoback's services, or other key management personnel, could have a material adverse effect on our financial condition and results of operations.

Our board of directors has adopted a shareholder rights plan, which is often referred to as a "poison pill."

The plan makes it more difficult for a third party to acquire control of us without approval of the board of directors, even if the acquisition would be at a premium to the market price of our common stock. In addition, our articles of incorporation authorize the board of directors to issue without shareholder approval up to 5,000,000 shares of preferred stock. The issuance of preferred stock could make it more difficult for a third party to acquire us.

Our Nasdaq Listing Is Important.

Our common stock is currently listed for trading on the Nasdaq SmallCap Market. The Nasdaq maintenance rules require among other things that our common stock price remain above \$1.00 per share and that we have minimum net tangible assets in excess of \$2 million. We were required to obtain shareholder approval in 1998 for a reverse stock split to maintain a sufficient per share price to preserve our Nasdaq listing.

You are cautioned that the risk factors discussed above are not exhaustive.

Item 2. Description of Property.

The Company currently leases approximately 3,350 square feet of space for its executive offices in Golden, Colorado for approximately \$44,000 per year. The lease is on a month to month basis. The Company currently anticipates extending the lease at a competitive market rate. The space is leased from The Bailey Company, a significant stockholder of the Company, at their corporate headquarters.

As of December 14, 2001, Good Times has an ownership interest in twenty Good Times units, all of which are located in Colorado. Nine of these restaurants are held in joint venture limited partnerships of which Good Times is the general partner and has a 50% interest in eight of the partnership restaurants and a 78% interest in one partnership restaurant. There are eleven Good Times units that are wholly owned by Good Times.

Most existing Good Times restaurants are free-standing structures containing approximately 880 square feet (except for three conversions of other fast food restaurants that are 1,700-2,500 square feet, one conversion of a double drive-through building to one of 1,900 square feet with seating, one prototype 2,300 square foot building with seating and one prototype 1,800 square foot building with seating) situated on lots of approximately 18,000 to 30,000 square feet. The underlying land is subject to ground leases at all but one of these locations. Good Times intends to acquire new sites both through ground leases and purchase agreements supported by mortgage and leasehold financing arrangements.

All of the restaurants are regularly maintained by the Company's repair and maintenance staff as well as by outside contractors, when necessary. Management believes that all of its properties are in good condition and that there will not be a need for significant capital expenditures to maintain the operational and aesthetic integrity of the Company's properties for the foreseeable future, other than recurring maintenance and periodic capital improvements. All of the Company's properties are covered up to replacement cost under its insurance policies.

Item 3

. Legal Proceedings.

The Company is not involved in any material legal proceedings. The Company is subject to various lawsuits in the normal course of business. These lawsuits are not expected to have a material impact to the Company.

Item 4.

Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2001.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Shares of Good Times Restaurants common stock are listed for trading on the Nasdaq Smallcap Market under the symbol "GTIM." The following table presents the quarterly high and low bid prices for Good Times Restaurants common stock as reported by the Nasdaq Smallcap Market for each quarter within the last two fiscal years. The quotations reflect interdealer prices, without retail mark-ups, markdowns or commissions and may not represent actual transactions.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
December 31, 1999	\$3.12	\$2.19
March 31, 2000	2.87	1.87
June 30, 2000	3.00	1.87
September 30, 2000	2.00	1.12
December 31, 2000	2.25	1.12
March 31, 2001	2.87	1.37
June 30, 2001	2.00	1.55
September 30, 2001	1.95	1.50

As of December 14, 2001 there were approximately 363 holders of record of Common Stock. However management estimates that there are not fewer than 1,533 beneficial owners of the Company's Common Stock. The NASDAQ symbol for the Common Stock is "GTIM".

Dividend Policy

The Company has never paid dividends on its common stock and does not anticipate paying dividends in the foreseeable future. In addition, the Company has obtained financing under loan agreements that restrict the payment of dividends. The Company's ability to pay future dividends will necessarily depend on its earnings and financial condition. However, since restaurant development is capital intensive, the Company currently intends to retain any earnings for that purpose.

Item 6.

Management's Discussion and Analysis of Financial Condition and Results

of Operations.

The following selected financial data is derived from the Company's historical financial statements and is qualified in its entirety by such financial statements which are included in Item 7 hereof.

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARY

The following presents certain historical financial information of the Company. This financial information includes the combined operations of the Company and Good Times for the fiscal years ended September 30, 2000 and 2001.

September 30,		
Operating Data:	<u>2000</u>	<u>2001</u>
Net Revenues	\$14,806,000	\$16,646,000
Restaurant Operating Costs:		
Food and paper costs	5,116,000	5,741,000
Labor, occupancy and other	6,489,000	7,505,000
Depreciation and amortization	<u>796,000</u>	<u>910,000</u>
Total restaurant operating costs	12,401,000	14,156,000
Income From Restaurant Operations	2,405,000	2,490,000
Other Operating Expenses:		
Selling, General and Administrative Expense	2,296,000	2,092,000
Loss from operating RTC stores	15,000	0
Loss (Gain) on disposal of restaurants and equipment	1,000	29,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Loss from lease guarantees	<u>2,000</u>	<u>0</u>
Total Other Operating Expenses	2,314,000	2,121,000
Income (Loss) from Operations	91,000	369,000
Other Income and (expenses)		
Minority income (expense), net	(224,000)	(259,000)
Interest, net	(54,000)	(95,000)
Loss from store condemnation lawsuit	0	(46,000)
Other, net	<u>(87,000)</u>	<u>(50,000)</u>
Total other income and (expenses)	(365,000)	(450,000)
Net Income (loss) attributable to Common Shareholders	<u>(\$274,000)</u>	<u>(\$81,000)</u>
Basic and Diluted Earnings Per Share	(\$.12)	(\$.04)
Weighted Average Shares and equivalents used in per share calculations:		
Basic and Diluted	2,225,871	2,239,670

September 30,

2000

2001

Balance Sheet Data:

Working Capital	\$268,000	(\$190,000)
Total assets	8,690,000	9,242,000
Minority Interest	1,202,000	1,071,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Long-term debt	1,626,000	2,121,000
Stockholders' equity	\$3,836,000	\$3,774,000
Results of Operations		

Net Revenues

Net revenues for the fiscal year ended September 30, 2001 increased \$1,840,000 (12.4%) to \$16,646,000 from \$14,806,000 for the fiscal year ended September 30, 2000. Restaurant sales increased \$1,070,000 due to three new company-owned restaurants that opened in December 1999 and February and September 2000, and \$414,000 due to one restaurant that was purchased from a franchisee in May 2000. Same store restaurant sales increased \$253,000, or 1.95%, during fiscal 2001 for restaurants that were open for the full fiscal 2000 and 2001 periods. During the third and fourth quarters of fiscal 2001 company-operated stores were closed for a combined total of approximately eighteen days for remodeling associated with the implementation of frozen custard, with estimated lost sales of \$50,000. Net revenues increased \$102,000 due to an increase in franchise development fees and royalties from \$294,000 in fiscal 2000 to \$396,000 in fiscal 2001.

Total restaurant sales for Good Times and its franchisees were \$26,376,000 for fiscal 2001 compared to \$24,511,000 for fiscal 2000.

Average restaurant gross sales:

	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>
Company operated	\$866,000	\$884,000
Franchise operated	786,000	802,000
System total	834,000	854,000

Food and Paper Costs

Food and paper costs for fiscal 2001 increased due to increased restaurant sales. Food and paper costs were 35.3% of restaurant sales for both fiscal 2001 and 2000. Commodity cost increases were offset by menu price increases therefore food and paper costs as a percent of restaurant sales remained the same.

Labor, Occupancy and Other Expenses

For fiscal 2001 labor, occupancy and other expenses increased \$1,016,000, from \$6,489,000 (44.7% of restaurant sales) to \$7,505,000 (46.2% of restaurant sales), compared to fiscal 2000. The increase in labor, occupancy and other expenses is attributable to:

- the expenses include \$915,000 for three additional restaurants that opened in fiscal 2000 and one additional restaurant purchased from a franchisee in May 2000,
- an increase in the average wages for restaurant employees of approximately 8.6%,
- opening expenses of \$54,000 due to the opening of one new restaurant and the remodeling of seventeen restaurants, and

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

- health insurance expense increased approximately \$48,000 from fiscal 2000 primarily due to rising health care costs.

Labor, occupancy and other expenses increased as a percentage of restaurant sales in fiscal 2001 primarily due to the increase in wages for restaurant employees and the addition of new restaurants with lower average restaurant sales.

Depreciation and Amortization Expenses

For fiscal 2001 depreciation and amortization expenses increased \$114,000, from \$796,000 to \$910,000, compared to fiscal 2000. Depreciation expense increased \$79,000 for the three new restaurants that opened in December 1999 and February and September 2000, as well as the restaurant purchased from a franchisee in May 2000. In addition, depreciation expense increased approximately \$40,000 due to capital asset additions related to the frozen custard implementation.

Income from Restaurant Operations

For fiscal 2001 income from restaurant operations was \$2,490,000 compared to \$2,405,000 for fiscal 2000. Income from restaurant operations as a percentage of restaurant sales was 15.3% for fiscal 2001, a decrease from 16.6% for fiscal 2000. Cash flow from restaurant operations (income from restaurant operations plus depreciation, opening expenses and accretion of deferred rent) as a percentage of restaurant sales was 21.5% for fiscal 2001 compared to 23% for fiscal 2000.

The decrease in both income and cash flow from restaurants as a percentage of restaurant sales for fiscal 2001 was primarily a result of the increase in average wages for restaurant employees, the increase in health care costs and the addition of new restaurants with lower average restaurant sales. Income from restaurant operations reflect regional supervision, opening expenses and accretion of deferred rent of \$375,000 for fiscal 2001 and \$380,000 for fiscal 2000.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased from \$2,296,000 (15.8% of restaurant sales) in fiscal 2000 to \$2,092,000 (12.9% of restaurant sales) in fiscal 2001. The decrease in selling, general and administrative expenses is attributable to reduced advertising expenditures, which decreased advertising expense to \$1,030,000 (6.3% of restaurant sales) for fiscal 2001 from \$1,205,000 (8.3% of restaurant sales) for fiscal 2000. The reduction in advertising expenditures was a result of shifting from television advertising in fiscal 2000 to less expensive radio advertising in fiscal 2001

Management anticipates that fiscal 2001 advertising will consist primarily of radio advertising with on-site and point of purchase merchandising and will be approximately 6% of restaurant sales for fiscal 2002.

Loss from RTC Lease Guarantees

In 1995, the Company sold the Round The Corner Restaurants chain. In connection with the sale the Company remained a guarantor on one restaurant lease. Due to the Round The Corner Restaurants bankruptcy in 1996, the Company was required to perform on the guarantee. The restaurant has twelve months of remaining lease liability as of September 30, 2001.

Income from Operations

Income from operations increased to \$369,000 in fiscal 2001 compared to \$91,000 in fiscal 2000. This increase was primarily attributable to the increase in income from restaurant operations and the decrease in selling, general and administrative expenses for fiscal 2001. These factors were partially offset by a \$29,000 loss on the disposal of

signage related to the implementation of frozen custard.

Net Income (Loss)

Net loss was (\$81,000) for fiscal 2001 compared to a net loss of (\$274,000) for fiscal 2000. The change from fiscal 2000 to fiscal 2001 was primarily attributable to the increase in income from operations for fiscal 2001, offset by an increase in net interest expense of \$41,000 in fiscal 2001 due to an increase in debt and lease financing for the new company-owned stores opened during fiscal 2000 and the frozen custard implementation. In addition, minority interest expense increased \$35,000 due to increased income from restaurant operations of the joint venture restaurants for fiscal 2001, and the Company had a \$46,000 loss in 2001 from a store condemnation.

Liquidity and Capital Resources

Cash and Working Capital

As of September 30, 2001, the Company had \$1,400,000 of cash and liquid short-term investments on hand. The Company currently plans to use the cash balance and cash generated from operations for increasing the Company's working capital reserves and, along with additional debt financing, for the development of new company-owned and joint venture restaurants and reinvestment in existing restaurants for the implementation of frozen custard. Management believes that the current cash on hand and additional cash expected from operations in fiscal 2002 will be sufficient to cover the Company's working capital requirements for fiscal 2002.

As of September 30, 2001, the Company had a working capital deficit of \$190,000. Because restaurant sales are collected in cash and accounts payable for food and paper products are paid two to four weeks later, restaurant companies often operate with working capital deficits. The Company anticipates that working capital deficits will be incurred in the future as new Good Times restaurants are opened.

Capital Expenditures

The Company currently has commitments, net of financing, for capital expenditures related to the frozen custard implementation of approximately \$175,000.

The Company currently does not have any material commitments for capital expenditures to develop new restaurants. However, management currently is negotiating for the acquisition of new sites for the development of new company-owned and franchise restaurants. The Company currently intends to obtain additional debt financing for the development of new company-owned restaurants.

Financing Transactions

In fiscal 2000 the Company entered into two commitment letters with a financial institution, which provides for a line of credit for the Company to borrow up to \$1,850,000 in long-term financing for the development of five new Good Times Restaurants and the repayment of a \$300,000 note payable. The balance outstanding under this line of credit was \$715,000 at September 30, 2001. The line of credit requires monthly reductions of the outstanding balance in varying amounts, with any remaining balance due in 2007.

In fiscal 2001 the Company entered into a loan agreement with GE Capital, which provided for \$1,200,000 in long term financing for the equipment, signage and building remodels related to the introduction of frozen custard in all company-owned and joint-venture restaurants. The balance outstanding under this note was \$934,000 at September 30, 2001. The remaining \$266,000 will be borrowed by the Company in the 1st quarter of fiscal 2002. Monthly payments of principal and interest of approximately \$19,000 will be due beginning in December 2001 with the final payment due in November 2008.

Cash Flows

Net cash provided by operating activities was \$1,348,000 for fiscal 2001 compared to \$560,000 in fiscal 2000. The increased net cash provided by operating activities for fiscal 2001 was the result of decrease in the net loss of (\$81,000) and non-cash reconciling items totaling \$1,429,000 (comprised principally of depreciation and amortization of \$921,000, minority interest of \$259,000 and increases in operating assets and liabilities totaling \$249,000).

Net cash used in investing activities in fiscal 2001 was \$1,553,000, which reflects payments for the purchase or property and equipment of \$1,692,000. The Company uses cash in investing activities for capital expenditures consisting primarily of expenditures for the development of new Good Times restaurants and refurbishment of existing restaurants. In fiscal 2001 capital expenditures related to the implementation of frozen custard were \$1,363,000.

Net cash used in investing activities in fiscal 2000 was \$1,557,000, which reflects payments for the purchase of property and equipment of \$1,585,000. In fiscal 2000 the Company developed three company-owned restaurants and purchased one restaurant from a franchisee.

Net cash provided by financing activities in fiscal 2001 was \$280,000, which includes principal payments on notes payable and long term debt of \$144,000, net repayments on lines of credit of \$120,000, borrowings on notes payable and long term debt related to the implementation of frozen custard of \$934,000, distributions to minority interests in partnerships of \$423,000 and contributions from minority interests in partnerships of \$33,000.

Net cash provided by financing activities in fiscal 2000 was \$375,000, which includes principal payments on notes payable and long term debt of \$410,000, borrowings on notes payable and long-term debt of \$290,000, net borrowings on lines of credit of \$835,000, distributions to minority interests in partnerships of \$369,000 and contributions from minority interests in partnerships of \$29,000.

Contingencies

The Company remains contingently liable on one Las Vegas restaurant lease that has been subleased, and one RTC restaurant lease that has been subleased. Management anticipates minimal future losses from the RTC or Las Vegas lease contingencies. The Company is also contingently liable on several ground leases that have been subleased or assigned to franchisees. The Company has never experienced any losses or anticipates any future losses from those contingent lease liabilities. The Company is also a guarantor on a Small Business Administration loan to a franchisee of approximately \$333,000.

Item 7. Financial Statements

INDEX TO FINANCIAL STATEMENTS

PAGE

Good Times Restaurants Inc. and Subsidiary

:

Independent Auditor's Report	F-2
Consolidated Balance Sheet	F-3
- September 30, 2001	
Consolidated Statements of Operations	F-5
- For the Years Ended September 30, 2000 and 2001	
Consolidated Statement of Stockholders' Equity	
- For the Period from October 1, 1999 through September 30, 2001	F-6
Consolidated Statements of Cash Flows	
- For the Years Ended September 30, 2000 and 2001	F-7
Notes to Consolidated Financial Statements	F-8

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and

Board of Directors

Good Times Restaurants, Inc.

Golden, Colorado

We have audited the accompanying consolidated balance sheet of Good Times Restaurants, Inc. and Subsidiary as of September 30, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended September;30, 2000 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Good Times Restaurants, Inc. and Subsidiary as of September 30, 2001, and the results of their operations and their cash flows for the years ended September 30, 2000 and 2001, in conformity with accounting principles generally accepted in the United States of America.

Hein + Associates LLP

Denver, Colorado

November 9, 2001

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 2001

ASSETS

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Current Assets

:		
	Cash and cash equivalents	\$1,201,000
	Investments, at fair value	199,000
	Receivables	60,000
	Inventories	95,000
	Prepaid expenses and other	23,000
	Notes receivable	<u>32,000</u>
	Total current assets	1,610,000

Property and Equipment

, at cost:

	Land and building	4,251,000
	Leasehold improvements	2,692,000
	Fixtures and equipment	<u>4,833,000</u>
		11,776,000
		<u>(4,610,000)</u>
	Less accumulated depreciation and amortization)
		7,166,000

Other Assets

:		
	Notes receivable	389,000
	Other	<u>77,000</u>
		<u>466,000</u>
	Total Assets	<u>\$9,242,000</u>

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 2001

(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

:	
Current maturities of long-term debt	\$312,000
Lease obligations	63,000
Accounts payable	643,000
Lease obligations, RTC and Las Vegas	91,000
Deferred income	49,000
Accrued other liabilities	<u>642,000</u>
Total current liabilities	1,800,000

Long-Term Liabilities

:	
Debt, net of current portion	2,121,000
Lease obligations, net of current portion	36,000
Lease obligations, RTC and Las Vegas, net of current portion	61,000
Deferred liabilities	<u>379,000</u>
Total long-term liabilities	2,597,000

Minority Interests in Partnerships	1,071,000
------------------------------------	-----------

Commitments and Contingencies

(Notes 2 and 5)

Stockholders' Equity

:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued and outstanding		-
Common stock, \$.001 par value; 50,000,000 shares authorized, 2,242,263 shares issued and outstanding		2,000
Capital contributed in excess of par value		13,240,000
Accumulated deficit		<u>(9,468,000)</u>
)	
Total stockholders' equity		<u>3,774,000</u>
Total Liabilities and Stockholders' Equity		<u>\$9,242,000</u>

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended		
	September 30,		
	2000		2001
Net Revenues			
:			
Restaurant sales	\$14,512,000		\$16,250,000
Area development and franchise fees	-		28,000
Franchise royalties	<u>294,000</u>		<u>368,000</u>
Total net revenues	14,806,000		16,646,000
Restaurant Operating Costs			
:			
Food and paper costs	5,116,000		5,741,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Restaurant labor costs		4,352,000		4,987,000
Restaurant occupancy costs		1,588,000		1,922,000
Accretion of deferred rent		36,000		39,000
Other restaurant operating costs		419,000		503,000
Opening expenses		94,000		54,000
Depreciation and amortization		<u>796,000</u>		<u>910,000</u>
Total restaurant operating costs		<u>12,401,000</u>		<u>14,156,000</u>
Income from Restaurant Operations		2,405,000		2,490,000
Other Operating Expenses (Income)				
:				
General and administrative		1,091,000		1,062,000
Advertising		1,205,000		1,030,000
Loss from operating RTC stores		15,000		-
Loss (gain) on disposal of restaurants and equipment		1,000		29,000
Loss from RTC lease guarantees		<u>2,000</u>		=
Total other operating expenses		<u>2,314,000</u>		<u>2,121,000</u>
Income From Operations		91,000		369,000
Other Income (Expenses)				
:				
Interest income		88,000		54,000
Interest expense		(142,000)		(149,000)
Minority interest in income of partnerships		(224,000)		(259,000)
Loss from store condemnation lawsuit		-		(46,000)
		<u>(87,000)</u>		<u>(50,000)</u>

Other, net))
Total other expenses, net	<u>(365,000)</u>	<u>(450,000)</u>
Net Loss	<u>\$(274,000)</u>	<u>\$(81,000)</u>
Basic and Diluted Earnings (Loss) Per Share	<u>\$ (.12)</u>	<u>\$ (.04)</u>
Weighted Average Common Shares Outstanding		
:		
Basic and diluted	<u>2,225,871</u>	<u>2,239,670</u>

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE PERIOD FROM OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2001

	Common Stock		Capital in	Accumulated	Total
	Issued Shares	Par Value	Excess of Par Value		
Balances October 1, 1999	2,221,507	\$2,000	\$13,203,000	\$(9,113,000)	\$4,092,000
Stock issued to employee benefit plan	5,488	-	18,000	-	18,000
Net loss	=	=	=	<u>(274,000)</u>	<u>(274,000)</u>
Balances September 30, 2000	2,226,995	2,000	13,221,000	(9,387,000)	3,836,000
Stock issued to employee benefit plan	15,268	-	19,000	-	19,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Net loss	=	=	=	(81,000)	(81,000)
Balances					
, September 30, 2001	2,242,263	\$2,000	\$13,240,000	\$(9,468,000)	\$3,774,000

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		
	September 30,		
	2000		2001
Cash Flows from Operating Activities			
:			
Net loss	\$(274,000)		\$(81,000)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	796,000		921,000
Accretion of deferred rent	36,000		39,000
Minority interest	224,000		259,000
Loss (gain) on disposal of property, restaurants and equipment, net	1,000		35,000
Loss on sale of assets	-		4,000
Loss on lease guarantees	2,000		-
Loss on condemnation lawsuit	-		27,000
Common stock issued to 401(k) Plan for Company match	18,000		19,000
Changes in operating assets and			

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

liabilities:			
(Increase) decrease in:			
Receivables	21,000		85,000
Inventories	(30,000)		(11,000)
Prepaid expenses and other	(8,000)		16,000
(Decrease) increase in:			
Accounts payable	(28,000)		64,000
Accrued and other liabilities	<u>(198,000)</u>		<u>(29,000)</u>
Net cash provided by operating activities	560,000		1,348,000
Cash Flows Used In Investing Activities			
:			
Payments for the purchase of property and equipment	(1,585,000)		(1,692,000)
Proceeds from sale of assets	-		3,000
Proceeds from sale of investments	-		101,000
Loans made to franchisees and to others	(8,000)		(36,000)
Payments received on loans to franchisees and to others	<u>36,000</u>		<u>71,000</u>
Net cash used in investing activities	(1,557,000)		(1,553,000)
Cash Flows From Financing Activities			
:			
Principal payments on notes payable, capital leases, and long-term debt	(410,000)		(144,000)
Borrowings on notes payable and long-term debt	290,000		934,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Borrowing on lines-of-credit	2,290,000		1,789,000
Repayments on lines-of-credit	(1,455,000)		(1,909,000)
Distributions paid to minority interests in partnerships	(369,000)		(423,000)
Contributions from minority interest in partnerships	<u>29,000</u>		<u>33,000</u>
Net cash provided by (used in) financing activities	<u>375,000</u>		<u>280,000</u>
Increase (Decrease) in Cash and Cash Equivalents	(622,000)		75,000
Cash and Cash Equivalents, beginning of period	<u>1,748,000</u>		<u>1,126,000</u>
Cash and Cash Equivalents, end of period	<u>\$1,126,000</u>		<u>\$1,201,000</u>
Supplemental Disclosures of Cash Flow Information			
:			
Cash paid for interest	<u>\$125,000</u>		<u>\$145,000</u>

1. **Organization and Summary of Significant Accounting Policies**

:

Organization

- Good Times Restaurants Inc. (Good Times or the Company) is a Nevada corporation. The Company operates through its subsidiary Good Times Drive Thru Inc. (Drive Thru).

Drive Thru commenced operations in 1986 and, as of September 30, 2001, operates 20 company-owned and joint venture drive-thru fast food hamburger restaurants. The Company's restaurants are located in Colorado. In addition, Drive Thru has 14 franchises operating in Colorado and 1 in Boise, Idaho, and is offering franchises for development of additional Drive Thru restaurants.

Principles of Consolidation

- The consolidated financial statements include the accounts of Good Times and its subsidiaries, including certain limited partnerships that are approximately 50% owned and in which the Company exercises control as general partner. All intercompany accounts and transactions are eliminated. The unrelated limited partners' equity of each partnership has been recorded as minority interest in the accompanying consolidated financial statements.

Opening Costs

- Opening costs are expensed as incurred.

Cash and Cash Equivalents

- The Company considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Investments

- Investments are accounted for in accordance with Statement of Financial Accounting Standard (SFAS) No.115, *Accounting for Certain Investments in Debt and Equity Securities*. Pursuant to SFAS No. 115, the Company's investments are classified as available-for-sale based on management's intent. Investments classified as available-for-sale are stated at market value, with unrealized gains and losses, net of applicable income taxes, reported as a separate component of stockholder's equity. These investments are comprised of primarily certificates of deposit (CDs). The fair market value of these investments approximates their costs and there are no material unrealized gains or losses.

Inventories

- Inventories are stated at the lower of cost or market, determined by the first-in, first-out method, and consist of restaurant food items and related paper supplies.

Property and Equipment

- Depreciation is recognized on the straight-line method over the estimated useful lives of the assets or the lives of the related leases, if shorter, as follows:

Building	15 years
Leasehold improvements	7-15 years
Fixtures and equipment	3-8 years

Maintenance and repairs are charged to expense as incurred, and expenditures for major improvements are capitalized. When assets are retired, or otherwise disposed of, the property accounts are relieved of costs and accumulated depreciation with any resulting gain or loss credited or charged to income.

Impairment

- The Company follows SFAS No. 121, when assessing properties for impairment. The undiscounted cash flows are compared to the net book value on a restaurant-by-restaurant basis. If the undiscounted cash flows are less than the net book value, the restaurant is written down to its fair market value.

Sales of Restaurants and Restaurant Equity Interests

- Sales of restaurants or non-controlling equity interests in restaurants developed by the Company are accounted for under the full accrual method or the installment method. Under the full accrual method, gain is not recognized until the collectibility of the sales price is reasonably assured and the earnings process is virtually complete without further contingencies. When a sale does not meet the requirements for income recognition, gain is deferred until those requirements are met. Under the installment method, gain is recognized as principal payments on the related notes receivable are collected.

Deferred Liabilities

- Rent expense is reflected on a straight-line basis over the term of the lease for all leases containing step-ups in base rent. An obligation representing future payments (which totaled \$339,000 as of September 30, 2001) has been reflected in the accompanying consolidated balance sheet as a deferred liability. The remaining balance includes a deferred gain of \$40,000 on the sale of a restaurant.

Advertising

- The Company incurs advertising expense in connection with marketing of its restaurant operations. Advertising costs are expensed the first time the advertising takes place.

Franchise and Area Development Fees

- Individual franchise fee revenue is deferred when received and is recognized as income when the Company has substantially performed all of its obligations under the franchise agreement and the franchisee has commenced operations. Area development fees and related direct expenses are recognized ratably upon opening of the applicable restaurants. Continuing royalties from franchisees, which are a percentage of the gross sales of franchised operations, are recognized as income when earned. Franchise development expenses, which consist primarily of legal costs associated with developing and executing master franchise agreements, are expensed as incurred.

Income Taxes

- Income taxes are provided for in accordance with SFAS No.109, *Accounting for Income Taxes*. SFAS No. 109 requires an asset and liability approach in the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of the Company's assets and liabilities.

Net Income (Loss) Per Common Share

- The income (loss) per share is presented in accordance with the provisions of SFAS No. 128, *Earnings Per Share*. Basic EPS is calculated by dividing the income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Financial Instruments and Concentrations of Credit Risk

- Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly effected by changes in economic or other conditions. Financial instruments with off-balance-sheet risk to the Company include lease liabilities whereby the Company is contingently liable as the primary lessee of certain leases that were assigned to third parties in connection with various store closures (see Note 5).

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, investments and receivables. At September 30, 2001, notes receivable totaled \$421,000 and were from four entities. The notes receivables are generally collateralized by buildings and equipment and guaranteed by certain individuals. Additionally, the Company has other current receivables of \$60,000.

The Company purchases 100% of its restaurant food and paper from one vendor. The Company believes that there are a sufficient number of other suppliers from which food and paper could be purchased to prevent any long-term adverse consequences.

The Company operates in one industry segment, restaurants. A geographic concentration exists because the Company's customers are generally located in the State of Colorado.

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of all the Company's financial instruments approximate fair value as a result of the short-term maturities or interest rates that approximate the Company's current expected borrowing and lending rates.

Comprehensive Income (Loss)

) - Comprehensive income includes net income or loss, changes in certain assets and liabilities that are reported directly in equity such as adjustments resulting from unrealized gains or losses on held to maturity investments. The Company's comprehensive loss was equal to its net loss for all periods presented in these financial statements.

Accounting Estimates

- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and the accompanying notes. The actual results could differ from those estimates.

New Accounting Pronouncements

- In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS 141") and No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. For all business combinations for which the date of acquisition is after June 30, 2001, SFAS 141 also establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain, rather than deferred and amortized. SFAS 142 changes the accounting for goodwill and other intangible assets after an acquisition. The most significant changes made by SFAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. The Company does not believe that the adoption of these statements will have a material effect on its financial position, results of operations, or cash flows.

In June 2001, the FASB also approved for issuance SFAS 143 "Asset Retirement Obligations." SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the timing of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. The Company does not believe that the adoption of this statement will have a material effect on its financial position, results of operations or cash flows.

In August 2001, the FASB also approved SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 replaces SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, *Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business*, for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. At this time, the Company cannot estimate the effect of this statement on its financial position, results of operations, or cash flows.

2. Sale of Restaurants

:

In connection with the sale of Round The Corner Restaurants, Inc. (RTC) in 1995, the Company remained a guarantor on certain property leases. RTC subsequently declared bankruptcy and the Company became obligated to perform on their guarantee.

In 1995, the Company closed its operations in Las Vegas (LV) and has subsequently focused substantially all its market efforts in Colorado. In connection with the closure of restaurants in LV, the Company subleased its property location. Under its sublease agreement, the Company has a continuing liability for a portion of the lease. As of September 30, 2001, the estimated liability for the RTC and LV lease obligations is \$152,000 of which \$91,000 is recorded as a current liability

In 1996, the Company sold its interest in one of its managed limited partnerships to the limited partner. The Company remains a guarantor on \$168,000 of notes payable assumed by the purchaser. The purchaser and an additional guarantor have personally agreed to indemnify the Company for any payments made on the note by the Company.

The Company closed a store because a local government body condemned the development on which it was located. The Company moved the building and equipment to a storage facility, and in 1999, sold the building and equipment to a franchisee to open a new store. As a result of a court ruling on the condemnation, the Company recorded a loss in 1999 of \$179,000 associated with the charge-off of its abandoned improvements on the site. The Company expected to be reimbursed for certain costs, which was included as a \$27,000 receivable at September 30, 2000, however, efforts to recover these costs were exhausted. The Company wrote-off the receivable and other associated costs totaling \$46,000 at September 30, 2001.

3. Notes Receivable

:

Notes receivable consist of the following as of September 30, 2001:

Note receivable, 7%, interest only payments of \$1,391 due monthly until March 31, 2002, at which time monthly payments of principal and interest are due in the amount of \$2,702 with the final payment due in March 2007. Collateralized by a second interest in a building and equipment and guaranteed by an individual. \$239,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Note receivable, 12%, interest only payments of \$760 due monthly until September 30, 2002, at which time monthly payments of principal and interest are due in the amount of \$1,691 with the final payment due in September 2007. Collateralized by a second interest in building and equipment and guaranteed by an individual.	76,000
Note receivable, 8%, monthly payments of principal and interest are due in the amount of \$940, with the final payment due in June 2008. This receivable may be due earlier if sales generated by the collateralized restaurant exceed a certain dollar amount. Collateralized by a second interest in a building and guaranteed by an individual.	59,000
Note receivable, 10%, weekly payments of principal and interest equaling 5% of the gross sales until paid in full or through April 2006. Collateralized by equipment.	34,000
Note receivable, 9%, quarterly payments of principal and interest are due in the amount of \$7,000, with final payment in January 2002 collateralized by building and equipment. The note is personally guaranteed by an individual.	<u>13,000</u>
	421,000
Less current portion.	<u>32,000</u>
	<u>\$389,000</u>

4. Debt

:

The Company entered into an interim note agreement from a financial institution for \$1,200,000 with interest due monthly at 4.25% over the one week average of five year U.S. Treasury Note. Principal payments will commence upon closing of the term note, no later than December 31, 2001, with a term of 84 months with interest to be determined at closing. The Company has agreed to certain covenants to remain in effect while the note is outstanding. The loan is secured by all assets of two specific stores and all equipment purchased under the note.

\$934,000

The Company obtained a loan from a financial institution in 1999. Under the terms of the loan, the Company can borrow up to \$3,000,000. Borrowings under the commitment can be made only for the development of three new Good Times Restaurants. The loan is partially guaranteed by a significant stockholder (or entities related to the significant stockholder, see Note 8). The Company has agreed to pay the guarantors an annual fee in the amount of 1% of the average outstanding guaranteed portion of the principal in cash or 1.5% of the average outstanding principal in common stock, and issued a warrant to purchase 426,667 shares at \$.0001 per share which is only exercisable in the event of

672,000

the bankruptcy of the Company. The warrant expires when the loan has been repaid and the significant shareholder is no longer a guarantor. Furthermore, the Company agreed to certain covenants to remain in effect so long as the guarantee is in place. Monthly payments of principal and interest are due in the amount of \$8,000 with the final payment due in November 2014. The interest rate on the note is variable based on the average yield on 30-day financial commercial paper plus 3%. At the option of the Company through August 2004, the interest rate may be converted to a fixed rate equal to the 10-year treasury bill rate plus 3%, with a floor of 8%, collateralized by land, building and equipment for the three developed Good Times Restaurants.

Line of Credit up to \$527,000 with a financial institution providing for monthly reductions equal to .98% through March 2002 with increasing reductions ranging from 1.07% to 1.53% of the outstanding balance until 2007 at which time any outstanding balance is payable in full. The interest rate on the line of credit is variable at a per annum rate equal to the sum of 2.75% plus the 30-day Dealer Commercial Paper Rate, based on actual days elapsed over a 360-day year. The Company has agreed to certain covenants to remain in effect while the loan is outstanding, collateralized by equipment at two Good Times Restaurants.

527,000

Line of Credit up to \$188,000 with a financial institution providing for monthly reductions equal to 1.52% through March 2002 with increasing reductions ranging from 1.65% to 1.96% of the outstanding balance until 2005 at which time any outstanding balance is payable in full. The interest rate on the line of credit is variable at a per annum rate equal to the sum of 2.75% plus the 30-day Dealer Commercial Paper Rate, based on actual days elapsed over a 360-day year. The loan is partially guaranteed by a significant stockholder (or entities related to the significant stockholder, see Note 8). The Company has agreed to certain covenants to remain in effect while the loan is outstanding. This note is guaranteed by a significant stockholder entity (see Note 8), collateralized by equipment at one Good Times Restaurant.

188,000

Promissory note, payable by a limited partnership, of which the Company is the general partner, interest and principal payable monthly, with the final payment due in August 2004. The interest rate on the note is variable based on the 30-day commercial paper plus 3%, with a floor of 6%. At the option of the Company, the interest rate may be converted to a fixed rate equal to the 7-year treasury bill rate plus 3%, with a floor of 8%. This note is guaranteed by the Company, and the limited partner who is also a significant stockholder (see Note 8), collateralized by building and equipment of the associated Good Times Restaurant.

	95,000
Other, various terms.	<u>17,000</u>
	2,433,000
Less current portion.	<u>(312,000)</u>
)
	<u>\$2,121,000</u>

As of September 30, 2001, debt payments over the next five years are as follows:

2002	\$312,000
2003	355,000
2004	376,000
2005	342,000
2006	338,000
Thereafter	<u>710,000</u>
	<u>\$2,433,000</u>

5.

6. Commitments and Contingencies

:

The Company leases certain equipment under capital leases. The liabilities under capital leases are recorded at the present value of the minimum lease payments and consist of the following:

Capital lease obligations, collateralized by capital assets purchased, payable in monthly installments of \$1,528, including interest at 8.7%, due through April 2002.	\$11,000
Capital lease obligations, collateralized by capital assets purchase payable in monthly installments of \$722, including interest at 8.77%, due through May 2002.	5,000
Capital lease obligations, primarily for computer and equipment, payable in monthly installments of \$1,465, including interest at 8.80%, due May 2003.	27,000
Capital lease obligations, primarily for computer and equipment, payable in monthly installments of \$1,465 including interest at 8.79%, due through May 2002.	27,000

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Capital lease obligations, primarily for computer and equipment, payable in monthly installments of \$1,138, including interest at 10.14%, due January 2003. 16,000

Capital lease obligations, primarily for computer and equipment, payable in monthly installments of \$310, including interest at 9.15%, due through January 2005. 13,000

99,000

Less current portion (63,000)

)

Long-term portion \$36,000

Future minimum payments due as of September 30, 2001 are as follows:

Years Ended June 30

,

2002 \$69,000

2003 32,000

2004 4,000

2005 1,000

106,000

Less amount representing interest (7,000)

)

Present value of future minimum lease payments \$99,000

The net book value of the equipment under capital leases at September 30, 2001 is approximately \$163,000.

The Company' office space, and the land underlying the Drive Thru restaurant facilities, are leased under operating leases. Certain leases include provisions for additional contingent rental payments if sales volumes exceed specified levels. The Company paid no material amounts as a result of these provisions.

Following is a summary of operating lease activities:

				Operating Leases 2001

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Minimum rentals				\$1,499,000
Less sublease rentals				(440,000)
)
Net rent paid				<u>\$1,059,000</u>

As of September 30, 2001, future minimum rental commitments required under Good Times and Drive Thru operating leases that have initial or remaining noncancellable lease terms in excess of one year are as follows:

				Operating Leases
2002				\$1,426,000
2003				1,423,000
2004				1,280,000
2005				1,207,000
2006				1,154,000
Thereafter				<u>7,993,000</u>
				14,483,000
Less sublease rentals				(3,013,000)
)
				<u>\$11,470,000</u>

The Company remains contingently liable for \$490,000 on several leases of restaurants that were previously sold, which have been included in the future minimum rental commitment schedule above. The Company is also a guarantor on a Small Business Administration loan to a franchisee for approximately \$333,000.

8. Managed Limited Partnerships

:

Drive Thru is the general partner of certain limited partnerships that were formed to develop Drive Thru restaurants. Limited partner contributions have been used to construct new restaurants. Drive Thru, as a general partner, generally receives an allocation of approximately 50% of the profit and losses and a fee for its management services. The limited partners' equity has been recorded as a minority interest in the accompanying consolidated financial statements.

9. Income Taxes

:

Deferred tax assets (liabilities) are comprised of the following at September 30, 2001:

	Current	Long Term
Deferred assets (liabilities):		
Partnership basis difference	\$ -	\$484,000
Tax effect of net operating loss carryforward	-	1,883,000
Property and equipment basis differences	-	(1,076,000)
Other accrued liability difference	26,000	31,000
Other, net	<u>9,000</u>	<u>-</u>
Net deferred tax assets	35,000	1,322,000
Less valuation allowance*	<u>(35,000)</u>	<u>(1,322,000)</u>
))
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

* The valuation allowance decreased by \$286,000 during the year ended September 30, 2001.

The Company has no taxable income under Federal and state tax laws. Therefore, no provision for income taxes was included. The Company has net operating loss carryforwards of approximately \$5,047,000 for income tax purposes which expire from 2002 through 2021. The use of these net operating loss carryforwards may be restricted due to changes in ownership.

Total income tax expense for the years ended 2000 and 2001 differed from the amounts computed by applying the U.S. Federal statutory tax rates to pre-tax income as follows:

	2000	2001
Total expense (benefit) computed by applying the U.S. statutory rate (34%)	\$(93,000)	\$(28,000)
Effect of net operating loss carryforward	90,000	25,000
Other	<u>3,000</u>	<u>3,000</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

10. Related Parties

:

The Baileys have entered into a co-development agreement with the Company as well as two franchise agreements and an attendant management agreement. The Company also leases office space from the Baileys. Rent paid to the Baileys in 2000 and 2001 was \$44,000 and \$44,000, respectively. The Baileys and the Company have guaranteed a loan made to the co-development partnership in the amount of \$95,000. The Baileys construction division has performed the custard remodel for the Company. The Company owed the Baileys and the Baileys' subsidiaries an aggregate of approximately \$100,000 for this construction at September 30, 2001. The Company believes these transactions are at fair market value. Two of the Company's Board members are principals of the Baileys, and the Baileys are significant shareholders of the Company. As described in Note 4, the Baileys have also agreed to guarantee certain loan arrangements and the Company has agreed to pay the Baileys a fee for this guarantee.

11. Stockholders' Equity

:

The Company has the authority to issue 5,000,000 shares of preferred stock. The Board of Directors has the authority to issue such preferred shares in series and determine the rights and preferences of the shares as may be determined by the Board of Directors.

12. Stock-Based Compensation

:

Earnings Per Share

- Basic and diluted EPS were the same for fiscal 2001 as the Company had losses from continuing operations and therefore, the effect of all potential common stocks totaling 425,972 was antidilutive.

The Company has an incentive stock option plan (the ISO) and a non-statutory stock option plan (the NSO) whereby 525,000 shares and 125,000 shares, respectively, are reserved for issuance. As of September 30, 2001, options for the purchase of 328,971 and 72,001 shares of common stock are outstanding under these plans, respectively, and no options have been exercised.

The following is a summary of activity under these stock option plans for the years ended September 30, 2000 and 2001.

Incentive Stock Options

- Activity for incentive stock options is summarized below.

	2000			2001		
	Number	Weighted		Number	Weighted	
	Of Shares	Average		Of Shares	Average	
		Exercise			Exercise	
		Price			Price	

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Outstanding, beginning of year	236,880		\$2.85	314,971		\$2.92
Canceled	(2,400)		\$2.55	(7,600)		\$2.45
Granted	<u>80,491</u>		\$3.12	<u>21,600</u>		\$1.38
Outstanding, end of year	<u>314,971</u>		\$2.92	<u>328,971</u>		\$2.83

For all incentive stock options granted during 2000 and 2001, the weighted average fair value per option was approximately \$2.66 and \$1.15, respectively. All options granted in 2000 and 2001 had an exercise price equal to the market price on the date of grant.

Options will become exercisable as follows:

Year Ending September 30,				Number of Shares	Weighted Average Exercise Price
Options exercisable at 2001				135,064	\$2.72
2002				69,740	\$2.96
2003				79,109	\$3.04
2004				36,978	\$2.84
2005				<u>8,080</u>	\$1.38
Total				<u>328,971</u>	

If not previously exercised, options outstanding at September 30, 2001 will expire as follows:

Year Ending September 30,				Number of Shares	Weighted Average Exercise Price
2007				68,400	\$2.50
2008				33,380	\$2.50
2009				129,700	\$3.14
2010				77,291	\$3.12
2011				<u>20,200</u>	\$1.38

Total				<u>328,971</u>	

Non-Qualified Stock Options

- The Company has also granted non-qualified options which are summarized as follows for the years ended September 30, 2000 and 2001:

	2000			2001		
	Number of Shares	Weighted Average Exercise Price		Number of Shares	Weighted Average Exercise Price	
Outstanding, beginning of year	48,001	\$2.37		60,001	\$2.52	
Granted	12,000	\$3.12		12,000	\$1.38	
Canceled/expired	-	\$-		-	\$-	
Outstanding, end of year	<u>60,001</u>	\$2.52		<u>72,001</u>	\$2.33	

For all non-qualified stock options granted during 2000 and 2001, the weighted average fair value per option was approximately \$2.21 and \$0.98 respectively. The outstanding options at September 30, 2000 and 2001 had weighted average exercise prices of \$2.52 and \$2.33 respectively. All non-qualified stock options were granted at an exercise price equal to market price on the date of grant.

All outstanding non-qualified options were exercisable at September 30, 2001. If not previously exercised, non-qualified options outstanding at September 30, 2001 will expire as follows:

Year Ending September 30,	Number of Shares	Weighted Average Exercise Price
2002	14,000	\$2.50
2003	34,001	\$2.31
2004	12,000	\$3.12
2005	<u>12,000</u>	\$1.38
Total	<u>72,001</u>	

Stock Purchase Warrants

- The Company has granted warrants which are summarized as follows for the years ended September 30, 2000 and 2001:

	2000			2001		
	Number of Shares	Weighted Average Exercise Price		Number of Shares	Weighted Average Exercise Price	
Outstanding, beginning of year	35,000	\$4.86		25,000	\$4.00	
Granted	-	\$-		-	\$-	
Expired	(10,000)	\$7.00		=	\$-	
Outstanding, end of year	<u>25,000</u>	\$4.00		<u>25,000</u>	\$4.00	

All outstanding warrants were exercisable at September 30, 2001. If not previously exercised, all warrants outstanding at September 30, 2001 will expire in 2004.

The Company has contingently issuable warrants for the purchase of 426,667 shares of common stock (see Note 4).

Pro Forma Stock-Based Compensation Disclosures

- The Company applies APB Opinion 25 and related interpretations in accounting for stock options and warrants which are granted to employees. Accordingly, no compensation cost has been recognized for grants of options and warrants to employees since the exercise prices were not less than the fair value of the Company's common stock on the grant dates. Had compensation cost been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net loss and loss per share would have been changed to the pro forma amounts indicated below.

	Year Ended September 30,					
	2000			2001		
Net income (loss) applicable to common stockholders:						
As reported				\$(274,000)		\$(81,000)

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

	Pro forma					(401,000)		(225,000)
Net income (loss) per common share:								
	As reported					\$(.12)		\$(.04)
	Pro forma					(.18)		(.10)

The fair value of each employee option granted in 2000 and 2001 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

				Year Ended September 30,		
				2000		2001
Expected volatility				114% to 121%		116%
Risk-free interest rate				6.5%		6.0%
Expected dividends				-		-
				3-5		3-5

Expected terms (in years)								
------------------------------------	--	--	--	--	--	--	--	--

Subsequent to year-end, the Company issued 97,900 incentive stock options at an exercise price of \$1.75. These options expire in the fiscal year 2011. The Company also issued 52,999 non-statutory options at an exercise price of \$1.75, which expire in the year 2006.

13. Retirement Plan

:

The Company has a 401(k) profit sharing plan (the Plan). Eligible employees may make voluntary contributions to the Plan, which are matched by the Company, using the Company's common stock in an amount equal to 25% of the employees contribution up to 6% of their compensation. The amount of employee contributions is limited as specified in the Plan. The Company may, at its discretion, make additional contributions to the Plan or change the matching percentage.

Item 8. Changes In and Disagreements with Accountants on Accounting and

Financial Disclosure.

During the two most recent fiscal years, Good Times Restaurants has not had any changes in or disagreements with its independent accountants on matters of accounting or financial disclosure.

PART III

Items 9-12.

The information required by Items 9 through 12 of Part III is incorporated by reference from the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its Annual Meeting of Shareholders to be held on January 25, 2002.

Item 13.

Exhibits and Reports on Form 8-K.

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

Exhibit	<u>Description</u>
<u>Number</u>	

- 3.1 Articles of Incorporation of the Registrant (previously filed on November 30, 1988 as Exhibit 3.1 to the registrant's Registration Statement on Form S-18 (File No. 33-25810-LA) and incorporated herein by reference)

- 3.2 Amendment to Articles of Incorporation of the Registrant dated January 23, 1990 (previously filed on January 18, 1990 as Exhibit 3.1 to the registrant's Current Report on Form 8-K (File No. 0-18590) and incorporated herein by reference)

- 3.3 Amendment to Articles of Incorporation (previously filed as Exhibit 3.5 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1996 and (File No. 0-18590) incorporated herein by reference)

- 3.4 Restated Bylaws of Registrant dated November 7, 1997 (previously filed as Exhibit 3.6 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1997 (File No. 0-18590) and incorporated herein by reference)

- 4.1 Shareholder Rights Plan dated as of February 24, 1998 (previously filed as Exhibit 10.15 to the registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 (File No. 0-18590) and incorporated herein by reference)

- 4.2 Amendment No. 1 to Shareholder Rights Plan dated effective as of September 21, 1999 (previously filed as Exhibit 4.1 to the registrant's Current Report on Form 8-K dated October 14, 1999 (File No. 0-18590) and incorporated herein by reference)

- 4.3 Amendment No. 2 to Shareholder Rights Plan dated effective as of October 31, 2001 (previously filed as Exhibit 4.3 to the registrant's Current Report on Form 8-K dated November 15, 2001 (File No. 0-18590) and incorporated herein by reference)

- 10.1 Form of Promissory Note dated June 1, 1995 by and between Good Times Restaurants Inc. And Boulder Radiologist Inc. Pension Plan FBO Dubach in the amount of \$300,000 due and payable on May 31, 2000 (previously filed as Exhibit 10.28 to the registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 1995 (File No. 0-18590) and incorporated herein by reference)

- 10.2

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

Form of Promissory Note dated November 3, 1995 by and between AT&T Commercial Finance Corporation, Boise Co-Development Limited Partnership, Good Times Good Times Inc. as general partner, and Good Times Restaurants Inc. as guarantor in the amount of \$254,625 (previously filed as Exhibit 10.34 to the registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 1995 (File No. 0-18590) and incorporated herein by reference)

- 10.3 Form of Promissory Note dated November 3, 1995 by and between AT&T Commercial Finance Corporation, Boise Co-Development Limited Partnership, Good Times Good Times Inc. as general partner, and Good Times Restaurants as guarantor in the amount of \$104,055 (previously filed as Exhibit 10.35 to the registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 1995 (File No. 0-18590) and incorporated herein by reference)
- 10.4 Registration Rights Agreement dated May 31, 1996 regarding registration rights of the common stock issuable upon conversion of the Series A Convertible Preferred Stock (previously filed as Exhibit 10.15 to the registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 1995 (File No. 0-18590) and incorporated herein by reference)
- 10.5 Employment Agreement dated May 3, 1996 between Registrant and Boyd E. Hoback (previously filed as Exhibit 10.17 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1996 (File No. 0-18590) and incorporated herein by reference)
- 10.6 Amendment and Agreement regarding Series A Convertible Preferred Stock by and between Good Times Restaurants Inc. and The Bailey Company dated December 3, 1997, effective as of October 31, 1997 (previously filed as Exhibit 10.13 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1997 (File No. 0-18590) and incorporated herein by reference)
- 10.7 Indemnification by Dr. Kenneth Dubach to Good Times Good Times Inc. dated December 10, 1996 with respect to the promissory note of the Boise Co-Development Limited Partnership dated November 3, 1995 in the original amount of \$254,625 and the promissory note dated November 3, 1995 in the original amount of \$104,055 (previously filed as Exhibit 10.14 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1997 (File No. 0-18590) and incorporated herein by reference)
- 10.8 Office lease (previously filed as Exhibit 10.12 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998 (File No. 0-18590) and incorporated herein by reference)

- 10.9 The Bailey Company Guaranty Agreement (previously filed as Exhibit 10.13 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998 (File No. 0-18590) and incorporated herein by reference)

- 10.10 Safeco commitment letter (previously filed as Exhibit 10.14 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998 (File No. 0-18590) and incorporated herein by reference)

- 10.11 1992 Incentive Stock Option Plan, as amended (previously filed as Exhibit 4.9 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998 (File No. 0-18590) and incorporated herein by reference)

- 10.12 1992 Non-Statutory Stock Option Plan, as amended (previously filed as Exhibit 4.10 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998 (File No. 0-18590) and incorporated herein by reference)

- 10.13 The Bailey Company Private Placement Letter Agreement dated March 12, 1999 (previously filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2000 (File No. 0-18590) and incorporated herein by reference)

- 10.14 Merrill Lynch Commitment Letter dated November 17, 1999 for Line of Credit (previously filed as Exhibit 10.18 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1999 (File No. 0-18590) and incorporated herein by reference)

- 10.15 * Capital Term Note dated November 14, 2001

- 21.1 Subsidiaries of registrant (previously filed as Exhibit 21.1 to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998 (File No. 0-18590) and incorporated herein by reference)

- 23.1 *Consent of HEIN + ASSOCIATES LLP

*Filed herewith.

Edgar Filing: GOOD TIMES RESTAURANTS INC - Form 10KSB

b. Reports on Form 8-K. There were no reports on Form 8-K filed by the registrant during the fourth quarter of the fiscal year ended September 30, 2001.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOOD TIMES RESTAURANTS INC.

Date: December 14, 2001 By: /s/ Boyd E. Hoback, President and

Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Geoffrey R. Bailey	Chairman of the Board	December 14, 2001
/s/ Boyd E. Hoback	President and Chief Executive Officer(principal executive and financial officer) and Director	December 14, 2001
/s/ Susan Knutson	Controller (principal accounting officer)	December 14, 2001
/s/ Dan W. James II	Director	December 14, 2001
/s/ David E. Bailey	Director	December 14, 2001
/s/ Thomas P. McCarty	Director	December 14, 2001

/s/ Alan A. Teran

Director

December 14, 2001

/s/ Richard J. Stark

Director

December 14, 2001