GOOD TIMES RESTAURANTS INC
Form 10QSB
May 02, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended: March 31, 2001

Commission file number: 0-18590

GOOD TIMES RESTAURANTS INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

84-1133368

(I.R.S. Employer Identification No.)

601 CORPORATE CIRCLE, GOLDEN, CO 80401

(Address of principal executive offices)

(303) 384-1400

(Issuer's telephone number)

(Former name, former address and former fiscal year, since last report.)

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.

[X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS

Total number of shares of common stock outstanding at May 2, 2001.

2,242,263 SHARES OF COMMON STOCK, .001 PAR VALUE

Transitional Small Business Disclosure Format (check one): [ ] Yes [X] No

Form 10-QSB

Quarter Ended March 31, 2001

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For the three months ended March 31, 2001

and 2000 and for the six months ended

March 31, 2001 and 2000

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and 2000 and for the six months ended

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GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, September 30,

J001J000

CURRENT ASSETS:

Cash and cash equivalent $ 918,000 $1,126,000

Investments, at fair valueI99,000J99,000

ReceivablesI09,000I72,000

Inventories 91,000 85,000

Prepaid expenses and otherM4,000K8,000

Notes receivable 34,000 51,000

Total current assetsI,405,000I,771,000

PROPERTY AND EQUIPMENT, at cost:

Land and buildingK,899,000K,728,000

Leasehold improvementsJ,691,000J,649,000

Fixtures and equipment 4,102,000 3,913,000

I0,692,000I0,290,000

Less accumulated depreciation and amortization (4,232,000) (3,854,000)

N,460,000N,436,000

OTHER ASSETS:

Notes receivableK69,000L05,000

Deposits & other 78,000 78,000

L47,000L83,000

TOTAL ASSETS $8,312,000 $8,690,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Current maturities of long-term debt and capital leases $ 264,000 $ 236,000

Accounts payableL35,000M79,000

Lease obligations, RTC and Las Vegas 81,000 93,000

Accrued liabilities - other 661,000 595,000

Total current liabilitiesI,441,000I,503,000

LONG-TERM LIABILITIES:

Debt and capitalized leases, net of current portionI,476,000I,626,000

Lease obligations, RTC and Las Vegas, net of

current portionI46,000I77,000

Deferred liabilities 368,000 346,000

Total long-term liabilitiesI,990,000J,149,000

MINORITY INTERESTS IN PARTNERSHIPSI,124,000I,202,000

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Cont.)

March 31, September 30,

J001J000

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 as of March 31, 2001

and 2,226,995 shares issued and

outstanding as of September 30, 2000J,000J,000

Capital contributed in excess of par valueI3,240,000I3,221,000

Accumulated deficit (9,485,000) (9,387,000)

Total stockholders' equity 3,757,000 3,836,000

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $8,312,000 $8,690,000

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended Six Months Ended

March 31, March 31,

J001J000J001J000

NET REVENUES:

Restaurant sales, net $3,732,000 $3,194,000 $7,639,000 $6,471,000

Franchise net revenues 69,000 35,000 145,000 86,000

Total revenuesK,801,000K,229,000O,784,000N,557,000

RESTAURANT OPERATING EXPENSES:

Food & paper costsI,331,000I,140,000J,685,000J,284,000

Labor, occupancy & otherI,698,000I,436,000K,398,000J,812,000

Opening expensesO,000J7,000J2,000O5,000

Accretion of deferred rentI0,000I0,000J0,000I7,000

Depreciation & amortization 205,000 189,000 406,000 358,000

Total restaurant operating costsK,251,000J,802,000N,531,000M,546,000

INCOME FROM RESTAURANT OPERATIONSM50,000L27,000I,253,000I,011,000

OTHER OPERATING EXPENSES:

Selling, general & administrative expensesM82,000L94,000I,202,000 1,313,000

Loss, (income) from operating RTC stores 0 9,000 0 16,000

Total other operating expensesM82,000M03,000I,202,000I,329,000

INCOME (LOSS) FROM OPERATIONS (32,000) (76,000)M1,000 (318,000)

OTHER INCOME & (EXPENSES):

Minority income (expense), net (36,000) (39,000) (107,000) (45,000)

Interest, net (21,000) (12,000) (44,000) (14,000)

Other, net 2,000 (2,000) 2,000 (4,000)

Total other income & (expenses) (55,000) (53,000) (149,000) (63,000)

NET INCOME (LOSS) ($87,000) ($129,000) ($98,000) ($381,000)

BASIC & DILUTED NET INCOME (LOSS) PER COMMON SHARE ($ .04) ($ .06) ($ .04) ($ .17)

WEIGHTED AVERAGE COMMON SHARES AND

EQUIVALENTS USED IN PER SHARE CALCULATION

BASICJ,242,263J,226,995J,237,062J,224,746

DILUTED N/A N/A N/A N/A

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended Six Months Ended

March 31, March 31,

J001J000J001J000

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss) ($87,000) ($129,000) ($98,000) ($381,000)

Depreciation and amortizationJ15,000J03,000L27,000K84,000

Minority interestK6,000K9,000I07,000L5,000

Changes in operating assets & liabilities--

(Increase) decrease in:

Prepaids & receivables (18,000)I88,000L6,000N8,000

Inventories (3,000)J,000 (6,000) (15,000)

Other assetsK9,000 (1,000)M3,000H

(Decrease) increase in:

Accounts payableI54,000 (86,000) (144,000) (492,000)

Accrued interestHK,000HL,000

Accrued property taxesJ5,000J1,000N5,000M8,000

Accrued payroll & P/R taxesI1,000I,000I,000L,000

Other accrued liabilities/deferred income (13,000) (131,000) (23,000) (191,000)

Net cash provided by (used in)

operating activityK59,000I10,000L28,000 (516,000)

CASH FLOWS FROM INVESTING ACTIVITIES:

(Purchase) sale - FF&E, land, building

& improvements (204,000) (289,000) (450,000) (866,000)

CASH FLOWS FROM FINANCING ACTIVITIES:

Debt incurred (paid), net (65,000)M63,000 (121,000)O89,000

Distributions to minority interests in partnerships (76,000) (79,000) (186,000) (122,000)

Paid in capital activity 0 0 20,000 17,000

Net cash provided by (used in) (141,000)L84,000 (287,000)N84,000

financing activities

INCREASE (DECREASE) IN CASH $ 14,000 $305,000 ($309,000) ($698,000)

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. UNAUDITED FINANCIAL STATEMENTS:

In the opinion of management, the accompanying unaudited consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of March 31, 2001, the results of its operations and its cash flow for the three month period ended March 31, 2001 and for the six month period ended March 31, 2001. Operating results for the three month period ended March 31, 2001 and for the six month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending September 30, 2001.

The consolidated balance sheet as of September 30, 2000 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these financial statements should be read in conjunction with the Company's Form 10-KSB for the fiscal year ended September 30, 2000.

2. CONTINGENT LIABILITY

The Company remains contingently liable on several leases of restaurants that were previously sold. The Company is also a guarantor on a Small Business Administration loan to a franchisee.

3. STOCK TRANSACTIONS

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS FOR THE COMPANY

General

This Form 10-QSB contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. Also, documents subsequently filed by the Company with the SEC and incorporated herein by reference may contain forward-looking statements. The Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance and that actual results could differ materially from those in the forward-looking statements as a result of various factors, including but not limited to the following:

> (I) The Company competes with numerous well established competitors who have substantially greater financial resources and longer operating histories than the Company. Competitors have increasingly offered selected food items and combination meals, including hamburgers, at discounted prices, and continued discounting by competitors may adversely affect revenues and profitability of Company restaurants.
>
> (II) The Company may be negatively impacted if the Company experiences consistent same store sales declines. Same store sales comparisons will be dependent, among other things, on the success of Company advertising and promotion of new and existing menu items. No assurances can be given that such advertising and promotions will in fact be successful.

The Company may also be negatively impacted by other factors common to the restaurant industry such as: changes in consumer tastes away from red meat and fried foods; increases in the cost of food, paper, labor, health care, workers' compensation or energy; inadequate number of hourly paid employees; and/or decreases in the availability of affordable capital resources. The Company cautions the reader that such risk factors are not exhaustive, particularly with respect to future filings.

The Company had thirty-five units open at March 31, 2001, of which fifteen were franchised or licensed units, nine joint-venture units and eleven company-owned units compared to thirty-three units open at March 31, 2000, of which fifteen were franchised units, nine joint-venture units and nine company-owned units. In April 2001 the Company entered into a licensing agreement for the sale of Good Times custard products at the Six Flags Elitch Gardens food concession. Management anticipates that the Company and its existing franchisees will develop a total of two to three Good Times units in the Denver ADI in 2001.

The following presents certain historical financial information of the operations of the Company. This financial information includes the results of the Company for the three months and six months ended March 31, 2000 and the results of the Company for the three months and six months ended March 31, 2001.

Results of Operations

Net Revenues

Net revenues for the three months ended March 31, 2001 increased $572,000 (17.7%) to $3,801,000 from $3,229,000 for the three months ended March 31, 2000. Restaurant sales increased $162,000 due to four new company-owned restaurants that opened in October and December 1999 and February and September 2000, and $193,000 due to one restaurant that was purchased from a franchisee in May 2000. Franchise revenues increased $34,000 to $69,000 from $35,000 for the three months ended March 31, 2000 due to an increase in franchise royalties. Same store restaurant sales increased $183,000, or 6.7%, during the three months ended March 31, 2001 for restaurants that were open for the full periods ending March 31, 2001 and March 31, 2000.

Net revenues for the six months ended March 31, 2001 increased $1,227,000 (18.7%) to $7,784,000 from $6,557,000 for the six months ended March 31, 2000. Restaurant sales increased $658,000 due to four new company-owned restaurants that opened in October and December 1999 and February and September 2000, and $380,000 due to one restaurant that was purchased from a franchisee in May 2000. Franchise revenues increased $59,000 to $145,000 from $86,000 for the six months ended March 31, 2000 due to an increase in franchise royalties and development fees. Same store restaurant sales increased $130,000, or 2.2%, during the six months ended March 31, 2001 for restaurants that were open for the full six month periods ending March 31, 2001 and March 31, 2000. Same store sales in October and November decreased 2.8% and 6.8% respectively. Weather in Colorado was unseasonably cold in October and November and as a result same store sales were negatively impacted.

Food and Paper Costs

For the three months ended March 31, 2001 the Company's food and paper costs increased to $1,331,000 from $1,140,000 due to increased restaurant sales. Food and paper costs were 35.7% of restaurant sales for the three months ended March 31, 2001, compared to 35.7% for the same prior year period.

For the six months ended March 31, 2001 the Company's food and paper costs increased to $2,685,000 from $2,284,000 due to increased restaurant sales. Food and paper costs decreased to 35.1% of restaurant sales for the six months ended March 31, 2001 compared to 35.3% for the same prior year period.

Labor, Occupancy and Other Expenses

For the three months ended March 31, 2001 the Company's labor, occupancy and other expenses increased $262,000 from $1,436,000 (45% of restaurant sales) to $1,698,000 (45.5% of restaurant sales) compared to the same prior year period.

The increase in labor, occupancy and other expenses for the three months ended March 31, 2001 is attributable to expenses of $225,000 for four additional restaurants that opened in fiscal 2000 and one additional restaurant purchased from a franchisee in May 2000. In addition there was a $44,000 increase in restaurant operating expenses attributable to a same store sales increase of $183,000.

For the six months ended March 31, 2001 the Company's labor, occupancy and other expenses increased $586,000 from $2,812,000 (43.5% of restaurant sales) to $3,398,000 (44.5% of restaurant sales) compared to the same prior year period. The increase in labor, occupancy and other expenses for the six months ended March 31, 2001 is primarily attributable to expenses of $563,000 for four additional restaurants that opened in fiscal 2000 and one additional restaurant purchased from a franchisee in May 2000.

Labor, occupancy and other expenses increased as a percentage of restaurant sales in the six months ended March 31, 2001 primarily due to the decrease in same store restaurant sales for the three months ended December 31, 2000.

Depreciation and Amortization Expenses

For the three months ended March 31, 2001 the Company's depreciation and amortization expenses increased $16,000, from $189,000 to $205,000 compared to the same prior year period. The increase is attributable to an increase of $15,000 in depreciation expense for the four new company-owned restaurants that opened in fiscal 2000 and the restaurant purchased from a franchisee in May 2000.

For the six months ended March 31, 2001 the Company's depreciation and amortization expenses increased $48,000, from $358,000 to $406,000 compared to the same prior year period. The increase is primarily attributable to an increase of $46,000 in depreciation expense for the four new company-owned restaurants that opened in fiscal 2000 and the restaurant purchased from a franchisee in May 2000.

Income From Restaurant Operations

For the three months ended March 31, 2001, income from restaurant operations increased to $550,000 from $427,000 for the same prior year period. The Company's income from restaurant operations as a percentage of restaurant sales increased to 14.7% for the three months ended March 31, 2001 from 13.4% for the same prior year period. Cash flow from restaurant operations (income from restaurant operations plus depreciation and amortization) increased to 20.2% of restaurant sales for the three months ended March 31, 2001 from 19.3% for the same prior year period as a result of the increase in same store sales in the current period. Additionally, the current year period includes new store opening expenses of $7,000 compared to $27,000 for the same prior year period.

For the six months ended March 31, 2001, income from restaurant operations increased to $1,253,000 from $1,011,000 for the same prior year period. The Company's income from restaurant operations as a percentage of restaurant sales increased to 16.4% for the six months ended March 31, 2001 from 15.6% for the same prior year period. Cash flow from restaurant operations (income from restaurant operations plus depreciation and amortization) increased to 21.7% of restaurant sales for the six months ended March 31, 2001 from 21.2% for the same prior year period. Additionally, the current year period includes new store opening expenses of $22,000 compared to $75,000 for the same prior year period.

Selling, General and Administrative Expenses

For the three months ended March 31, 2001, selling, general and administrative expenses increased to $582,000 (15.6% of restaurant sales) from $494,000 (15.5% of restaurant sales) for the same prior year period. The increase in selling, general and administrative expenses is primarily attributable to increased advertising in the three months ended March 31, 2001, which increased advertising expenses to $217,000 (5.8% of restaurant sales) from $111,000 (3.5% of restaurant sales) for the same prior year period. The increase in advertising expenses for the three months ended March 31,2001 is attributable to increased media levels and production costs compared to the same prior year period.

For the six months ended March 31, 2001, selling, general and administrative expenses decreased to $1,202,000 (15.7% of restaurant sales) from $1,313,000 (20.3% of restaurant sales) for the same prior year period. The decrease in selling, general and administrative expenses is primarily attributable to decreased advertising expenses in the six months ended March 31, 2001, which decreased to $444,000 (5.8% of restaurant sales) from $528,000 (8.2% of restaurant sales) for the same prior year period. The decrease in advertising expenses for the six months ended March 31, 2001 is attributable to decreased media levels and production costs in the first quarter compared to the prior year when media spending increased for the implementation of a television advertising campaign.

Income (Loss) From Operations

The Company had a loss from operations of ($32,000) in the three months ended March 31, 2001 compared to a loss from operations of ($76,000) for the same prior year period. The increase in income from operations of $44,000 is attributable to an increase in income from restaurant operations of $123,000, an increase in selling, general and administrative expenses of $88,000 and a decrease in the loss from operating RTC stores of $9,000.

The Company had income from operations of $51,000 in the six months ended March 31, 2001 compared to a loss from operations of ($318,000) for the same prior year period. The increase in income from operations of $369,000 is attributable to an increase in income from restaurant operations of $242,000, a decrease in selling, general and administrative expenses of $111,000, and a decrease in the loss from operating RTC stores of $16,000.

Net Income (Loss)

The net loss for the Company was ($87,000) for the three months ended March 31, 2001 compared to a net loss of ($129,000) for the same prior year period. The change from the three months ended March 31, 2000 to March 31, 2001 was primarily attributable to the increase in income from operations for the three months ended March 31, 2001. The increase was partially offset by an increase in net interest expense of $9,000 for the three months ended March 31, 2001 due to a decrease in interest earning cash reserves and an increase in debt and lease financing for the new company-owned stores opened during fiscal 2000. Additionally, minority interest expense decreased $3,000 for the three months ended March 31, 2001 due to increased advertising expenses of the joint-venture restaurants compared to the same prior year period.

The net loss for the Company was ($98,000) for the six months ended March 31, 2001 compared to a net loss of ($381,000) for the same prior year period. The change from the six months ended March 31, 2000 to March 31, 2001 was primarily attributable to the increase in income from operations for the six months ended March 31, 2001. The increase was partially offset by an increase in net interest expense of $30,000 for the six months ended March 31, 2001. Additionally, minority interest expense increased $62,000 for the six months ended March 31, 2001 due to increased income from restaurant operations of the joint-venture restaurants compared to the same prior year period.

Liquidity and Capital Resources

Cash and Working Capital

As of March 31, 2001, the Company had $1,117,000 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, purchase of its common stock under the stock repurchase plan 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 new signage and a new product category. Management believes that the current cash on hand and additional cash expected from operations in fiscal 2001 will be sufficient to cover the Company's working capital requirements for fiscal 2001.

As of March 31, 2000, the Company had a working capital deficit of $36,000. 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 Drive Thru restaurants are opened.

The Company anticipates total capital expenditures related to the implementation of frozen custard in all company-owned and joint-venture restaurants to be approximately $1.4 million. Loan proceeds and cash contributions from joint-venture partners are anticipated to be approximately $1.2 million, with the balance of $200,000 provided from cash on hand and cash flow from operations.

Cash Flows

Net cash provided by operating activities was $359,000 for the three months ended March 31, 2001 compared to net cash provided by operating activities of $110,000 for the same prior year period. The net cash provided by operating activities for the three months ended March 31, 2001 was the result of a net loss of ($87,000) and non-cash reconciling items totaling $446,000 (comprised of depreciation and amortization of $215,000, minority interest of $36,000 and increases in operating assets and liabilities totaling $195,000).

Net cash used in investing activities for the three months ended March 31, 2001 was $204,000, which reflects payments for the purchase of property and equipment. Included in the $204,000 is $162,000, which was used to reinvest in existing restaurants for the implementation of frozen custard.

Net cash used in investing activities for the three months ended March 31, 2000 was $289,000, which reflects payments for the purchase of property and equipment.

Net cash used in financing activities for the three months ended March 31, 2001 was $141,000, which includes principal payments on notes payable and long term debt of $65,000 and distributions to minority interests in partnerships of $76,000.

Net cash provided by financing activities for the three months ended March 31, 2000 was $484,000, which includes net proceeds from debt financing of $563,000 and distributions to minority interests in partnerships of $79,000.

For the six months ended March 31, 2001, cash decreased $309,000. Net cash provided by operations was $428,000, net cash used in investing activities was $450,000 and net cash used in financing activities was $287,000.

Impact of Inflation

The Company has not experienced a significant impact from inflation. It is anticipated that any operating expense increases will be recovered by increasing menu prices to the extent that is prudent considering competition.

Seasonality

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

GOOD TIMES RESTAURANTS INC. & SUBSIDIARIES

Part II. Other Information

Item 1. Legal Proceedings

Good Times Restaurants is subject to legal proceedings which are incidental to its business. These legal proceedings are not expected to have a material impact on the Company.

The Company has been involved in condemnation proceedings with Westminster Plaza LLC and the Westminster Economic Development Association as a result of one of its restaurants being part of a condemnation of a larger development on which it leased land from Westminster Plaza LLC. In June 1999 the court ruled against the Company's claim for compensation for its leasehold improvements and value of its lease. The Company has appealed the court's decision.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit No.	Description
J7.1	*Financial Data Schedule

*filed herewith

SIGNATURES

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

GOOD TIMES RESTAURANTS INC.

DATE: May 2, 2001

BY: /s/Boyd E. Hoback

Boyd E. Hoback, President and

Chief Executive Officer

BY: /s/Sue Knutson

Sue Knutson, Controller