

Good Times Restaurants Inc.
Form 10-Q
August 10, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 2018

OR

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

Commission File Number: 0-18590

(Exact Name of
Registrant as Specified in
Its Charter)

NEVADA
(State or Other Jurisdiction of
Incorporation or Organization)

84-1133368
(I.R.S. Employer
Identification Number)

141 UNION BLVD, SUITE 400, LAKEWOOD, CO 80228

(Address of Principal Executive Offices, Including Zip Code)

(303) 384-1400

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 10, 2018, there were 12,471,765 shares of the Registrant's common stock, par value \$0.001 per share, issued and outstanding.

Form 10-Q

Quarter Ended June 26, 2018

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CERTIFICATIONS

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| | Jun 26, 2018 | Sep 26, 2017 |
|--|-----------------|-----------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$3,186 | \$4,337 |
| Receivables, net of allowance for doubtful accounts of \$0 | 702 | 573 |
| Prepaid expenses and other | 312 | 296 |
| Inventories | 906 | 847 |
| Notes receivable | 14 | 13 |
| Total current assets | 5,120 | 6,066 |
| PROPERTY AND EQUIPMENT: | | |
| Land and building | 5,002 | 5,001 |
| Leasehold improvements | 25,852 | 21,159 |
| Fixtures and equipment | 23,732 | 20,945 |
| Total property and equipment | 54,586 | 47,105 |
| Less accumulated depreciation and amortization | (21,473) | (18,636) |
| Total net property and equipment | 33,113 | 28,469 |
| Assets held for sale | 0 | 1,221 |
| OTHER ASSETS: | | |
| Notes receivable, net of current portion | 35 | 46 |
| Deposits and other assets | 233 | 240 |
| Trademarks | 3,900 | 3,900 |
| Other intangibles, net | 41 | 61 |
| Goodwill | 15,150 | 15,150 |
| Total other assets | 19,359 | 19,397 |
| TOTAL ASSETS: | \$57,592 | \$55,153 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt and capital lease obligations | \$17 | \$17 |
| Accounts payable | 4,447 | 3,311 |
| Deferred income | 97 | 41 |
| Other accrued liabilities | 3,383 | 3,547 |
| Total current liabilities | 7,944 | 6,916 |
| LONG-TERM LIABILITIES: | | |

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| | | |
|---|-----------------|-----------------|
| Maturities of long-term debt and capital lease obligations due after one year | \$5,126 | \$5,339 |
| Deferred and other liabilities | 7,204 | 5,614 |
| Total long-term liabilities | 12,330 | 10,953 |
| STOCKHOLDERS' EQUITY: | | |
| Good Times Restaurants Inc. stockholders' equity: | | |
| Preferred stock, \$.01 par value; 5,000,000 shares authorized, no shares issued and outstanding as of 06/26/18 and 09/26/17 | 0 | 0 |
| Common stock, \$.001 par value; 50,000,000 shares authorized, 12,468,326 and 12,427,280 shares issued and outstanding as of 06/26/18 and 09/26/17, respectively | 12 | 12 |
| Capital contributed in excess of par value | 59,242 | 58,939 |
| Accumulated deficit | (25,090) | (24,380) |
| Total Good Times Restaurants Inc. stockholders' equity | 34,164 | 34,571 |
| Non-controlling interests | 3,154 | 2,713 |
| Total stockholders' equity | 37,318 | 37,284 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$57,592 | \$55,153 |

See accompanying notes to condensed consolidated financial statements

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

(In thousands except share and per share data)

| | Quarter Ended | | Year to Date | |
|--|---------------|----------------|----------------|------------------|
| | Jun 26, 2018 | Jun 27, 2017 | Jun 26, 2018 | Jun 27, 2017 |
| NET REVENUES: | | | | |
| Restaurant sales | \$25,990 | \$21,518 | \$71,929 | \$55,981 |
| Franchise royalties | 185 | 184 | 515 | 515 |
| Total net revenues | 26,175 | 21,702 | 72,444 | 56,496 |
| RESTAURANT OPERATING COSTS: | | | | |
| Food and packaging costs | 7,833 | 6,822 | 22,154 | 17,591 |
| Payroll and other employee benefit costs | 9,155 | 7,546 | 26,076 | 20,216 |
| Restaurant occupancy costs | 1,850 | 1,484 | 5,278 | 4,207 |
| Other restaurant operating costs | 2,373 | 1,896 | 6,626 | 5,003 |
| Preopening costs | 610 | 819 | 1,683 | 1,737 |
| Depreciation and amortization | 937 | 753 | 2,665 | 2,086 |
| Total restaurant operating costs | 22,758 | 19,320 | 64,482 | 50,840 |
| General and administrative costs | 2,069 | 1,831 | 5,884 | 5,222 |
| Advertising costs | 565 | 514 | 1,587 | 1,357 |
| Franchise costs | 11 | 28 | 32 | 80 |
| Asset impairment costs | 0 | 0 | 72 | 0 |
| Gain on restaurant asset sale | (9 |) (6 |) (26 |) (17 |
| INCOME (LOSS) FROM OPERATIONS | 781 | 15 | 413 | (986) |
| Other expenses: | | | | |
| Interest expense, net | (96 |) (49 |) (270 |) (105 |
| Other income (loss) | 0 | (1 |) 0 | (1 |
| Total other expenses, net | (96 |) (50 |) (270 |) (106 |
| NET INCOME (LOSS) | \$685 | \$(35) | \$143 | \$(1,092) |
| Income attributable to non-controlling interests | (381 |) (212 |) (853 |) (499 |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$304 | \$(247) | \$(710) | \$(1,591) |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE: | | | | |
| Net income (loss) attributable to Common Shareholders | \$.02 | \$(.02) | \$(.06) | \$(.13) |

WEIGHTED AVERAGE COMMON SHARES
OUTSTANDING

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 12,468,326 | 12,301,007 | 12,460,467 | 12,296,793 |
| Diluted | 12,665,172 | N/A | N/A | N/A |

See accompanying notes to condensed consolidated financial statements

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

| | Fiscal Year to Date | |
|--|---------------------|-----------------|
| | Jun 26, 2018 | Jun 27, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 143 | \$(1,092) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| activities: | | |
| Depreciation and amortization | 2,849 | 2,244 |
| Accretion of deferred rent | 414 | 422 |
| Amortization of lease incentive obligation | (313) | (205) |
| Asset impairment costs | 72 | 0 |
| Stock-based compensation expense | 303 | 609 |
| Recognition of deferred gain on sale of restaurant building | (26) | (19) |
| Loss on disposal of assets | 0 | 2 |
| Changes in operating assets and liabilities: | | |
| Change in: | | |
| Receivables and other | (128) | (646) |
| Inventories | (59) | (157) |
| Deposits and other | (59) | (124) |
| Change in: | | |
| Accounts payable | 194 | 745 |
| Deferred liabilities | 1,258 | 1,257 |
| Accrued and other liabilities | (21) | (161) |
| Net cash provided by operating activities | 4,627 | 2,875 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for the purchase of property and equipment | (6,560) | (11,178) |
| Proceeds from sale leaseback transaction | 1,397 | 1,927 |
| Payment for the purchase of non-controlling interests | 0 | (54) |
| Payments received from franchisees and others | 10 | 9 |
| Net cash used in investing activities | (5,153) | (9,296) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings on notes payable and long-term debt | 1,400 | 4,100 |
| Principal payments on notes payable and long-term debt | (1,613) | (21) |
| | (412) | 96 |

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| | | |
|---|---------|----------|
| Net contributions (distributions) received by (paid to) non-controlling interests | | |
| Net cash provided by (used in) financing activities | (625) | 4,175 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,151) | (2,246) |
| CASH AND CASH EQUIVALENTS, beginning of period | 4,337 | 6,330 |
| CASH AND CASH EQUIVALENTS, end of period | \$3,186 | \$4,084 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$276 | \$55 |
| Change in accounts payable attributable to the purchase of property and equipment | \$942 | \$682 |

See accompanying notes to condensed consolidated financial statements

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GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 1.

Basis of Presentation

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles and practices of the United States of America (“GAAP”) for interim financial information. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of June 26, 2018 and the results of its operations and its cash flows for the fiscal quarters ended June 26, 2018 and June 27, 2017. Operating results for the fiscal quarters ended June 26, 2018 are not necessarily indicative of the results that may be expected for the year ending September 25, 2018. The condensed consolidated balance sheet as of September 26, 2017 is derived from the audited financial statements but does not include all disclosures required by generally accepted accounting principles. As a result, these condensed consolidated financial statements should be read in conjunction with the Company's Form 10-K for the fiscal year ended September 26, 2017.

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

Advertising Costs – We utilize Advertising Funds to administer certain advertising programs for both the Good Times and Bad Daddy’s brands that benefit both us and our franchisees. We and our franchisees are required to contribute a percentage of gross sales to the fund. As the contributions to these funds are designated and segregated for advertising, we act as an agent for the franchisees with respect to these contributions. We consolidate the Advertising Funds into our financial statements on a net basis, whereby contributions from franchisees, when received, are recorded as offsets to reported advertising expenses. Contributions to the Advertising Funds from our franchisees were \$264,000 and \$271,000 for the first three fiscal quarters of 2018 and 2017, respectively.

Note 2. Goodwill and Intangible Assets

The following table presents goodwill and intangible assets as of June 26, 2018 and September 26, 2017 (in thousands):

| | June 26, 2018 | | | September 26, 2017 | | |
|--|--------------------------------------|-------------------------------------|------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangible assets subject to amortization: | | | | | | |
| Franchise rights | 116 | (75 |) 41 | 116 | (57 |) 59 |
| Non-compete agreements | 15 | (15 |) 0 | 15 | (13 |) 2 |
| | \$ 131 | \$ (90 |) \$ 41 | \$ 131 | \$ (70 |) \$ 61 |
| Indefinite-lived intangible assets: | | | | | | |
| Trademarks | \$ 3,900 | \$ 0 | \$ 3,900 | \$ 3,900 | \$ 0 | \$ 3,900 |
| Intangible assets, net | \$ 4,031 | \$ (90 |) \$ 3,941 | \$ 4,031 | \$ (70 |) \$ 3,961 |
| Goodwill | \$ 15,150 | \$ 0 | \$ 15,150 | \$ 15,150 | \$ 0 | \$ 15,150 |

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

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There were no impairments to intangible assets during the three quarters ended June 26, 2018. The aggregate amortization expense related to these intangible assets subject to amortization was \$20,000 for the three quarters ended June 26, 2018.

The estimated aggregate future amortization expense as of June 26, 2018 is as follows (in thousands):

| | |
|-------------------|------|
| Remainder of 2018 | \$6 |
| 2019 | 23 |
| 2020 | 12 |
| | \$41 |

Note 3.

Common Stock

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

Note 4.

Stock-Based Compensation

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

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the grant). The company recognizes the impact of forfeitures as forfeitures occur.

Our net loss for the three quarters ended June 26, 2018 and June 27, 2017 includes \$303,000 and \$609,000, respectively, of compensation costs related to our stock-based compensation arrangements.

Stock Option awards

The Company measures the compensation cost associated with stock option awards by estimating the fair value of the award as of the grant date using the Black-Scholes pricing model. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company's stock options and stock awards granted during the first three fiscal quarters ended June 26, 2018. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive equity awards.

During the three quarters ended June 26, 2018, the Company granted a total of 18,274 incentive stock options, from available shares under its 2008 Plan, as amended, with exercise prices between \$2.70 and \$2.73 and per-share weighted average fair values between \$1.65 and \$1.95. The Company did not issue any stock options under the 2018 plan during the three quarters ended June 26, 2018.

During the three quarters ended June 27, 2017, the Company granted a total of 151,834 incentive stock options, from available shares under its 2008 Plan, as amended, with exercise prices between \$3.05 and \$3.15 and per-share weighted average fair values between \$2.17 and \$2.30.

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

| | Fiscal 2018 | Fiscal 2017 |
|-------------------------|--|--|
| | Incentive and Non-Statutory Stock Options | Incentive and Non-Statutory Stock Options |
| Expected term (years) | 7.5 | 6.5 to 7.5 |
| Expected volatility | 75.33% to 75.67% | 75.41% to 80.70% |
| Risk-free interest rate | 2.17% to 2.35% | 1.49% to 2.40% |
| Expected dividends | 0 | 0 |

We estimate expected volatility based on historical weekly price changes of our common stock for a period equal to the current expected term of the options. The risk-free interest rate is based on the United States treasury yields in effect at the time of grant corresponding with the expected term of the options. The expected option term is the number of years we estimate that options will be outstanding prior to exercise considering vesting schedules and our historical exercise patterns.

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The following table summarizes stock option activity for the three quarters ended June 26, 2018 under all plans:

| | Shares | Weighted Average Exercise Price | Weighted Avg. Remaining Contractual Life (Yrs.) |
|----------------------------------|-----------|--|---|
| Outstanding-at beginning of year | 681,922 | \$ 4.25 | |
| Options granted | 18,274 | \$ 2.71 | |
| Options exercised | 0 | | |
| Forfeited | (43,807) | \$ 4.49 | |
| Expired | (2,933) | \$ 17.25 | |
| Outstanding June 26, 2018 | 653,456 | \$ 4.14 | 6.0 |
| Exercisable June 26, 2018 | 508,483 | \$ 4.29 | 5.3 |

As of June 26, 2018, the aggregate intrinsic value of the outstanding and exercisable options was \$391,000 and \$348,000, respectively. Only options whose exercise price is below the current market price of the underlying stock are included in the intrinsic value calculation.

As of June 26, 2018, the total remaining unrecognized compensation cost related to non-vested stock options was \$318,000 and is expected to be recognized over a weighted average period of approximately 1.8 years.

There were no stock options exercised during the three quarters ended June 26, 2018 and June 27, 2017.

Restricted Stock Units

During the three quarters ended June 26, 2018, the Company granted a total of 37,037 restricted stock units from available shares under its 2008 Plan, as amended. The shares were issued with a grant date fair market value of \$2.70 which is equal to the closing price of the stock on the date of the grant. The restricted stock units vest over three years following the grant date. The Company did not issue any restricted stock units under the 2018 plan during the three quarters ended June 26, 2018.

During the three quarters ended June 27, 2017, the Company granted a total of 103,440 shares of restricted stock from available shares under its 2008 Plan, as amended. The shares were issued with grant date fair market values of \$3.15 and \$3.20 which is equal to the closing price of the stock on the date of the grants. The restricted stock grants vest between three months and three years following the grant date.

A summary of the status of non-vested restricted stock as of June 26, 2018 is presented below.

| | Shares | Grant Date Fair Value Per Share |
|--|-----------|--|
| Non-vested shares at beginning of year | 115,039 | \$3.15 to \$8.60 |
| Granted | 37,037 | \$2.70 |
| Forfeited | (16,699) | \$3.15 to \$4.18 |
| Vested | (41,037) | \$3.15 to \$4.18 |
| Non-vested shares at June 26, 2018 | 94,340 | \$2.70 to \$8.60 |

As of June 26, 2018, there was \$186,000 of total unrecognized compensation cost related to non-vested restricted stock. This cost is expected to be recognized over a weighted average period of approximately 1.3 years.

Note 5.

Notes Payable and Long-Term Debt

Cadence Credit Facility

On September 8, 2016, the Company entered into a credit agreement with Cadence Bank (“Cadence”) pursuant to which Cadence agreed to loan the Company up to \$9,000,000 (the “Cadence Credit Facility”). On September 11, 2017, the Cadence Credit Facility was amended to increase the loan maximum to \$12,000,000 and extend the maturity date to December 31, 2020. The Cadence Credit Facility accrues commitment fees on the daily unused balance of the facility at a rate of 0.25%. All borrowings under the Cadence Credit Facility bear interest at a variable rate based upon the Company’s election of (i) 3.0% plus the base rate, which is the highest of the (a) Federal Funds Rate plus 0.5%, (b) the Cadence bank publicly-announced prime rate, and (c) LIBOR plus 1.0%, or (ii) LIBOR, with a 0.125% floor, plus 4.0%. Interest is due at the end of each calendar quarter if the Company selects to pay interest based on the base rate and at the end of each LIBOR period if it selects to pay interest based on LIBOR. As of June 26, 2018, the weighted average interest rate applicable to borrowings under the Cadence Credit Facility was 6.0062%.

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The Cadence Credit Facility contains certain affirmative and negative covenants and events of default that the Company considers customary for an agreement of this type, including covenants setting a maximum leverage ratio of 5.35:1, a minimum fixed charge coverage ratio of 1.25:1 and minimum liquidity of \$2,500,000. As of June 26, 2018, the Company was in compliance with its covenants.

As a result of entering into the Cadence Credit Facility and the amendment, the Company paid loan origination costs including professional fees of approximately \$197,000 and is amortizing these costs over the term of the credit agreement.

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

As of June 26, 2018, the outstanding balance on the facility was \$5,100,000.

Note 6. Net Income (Loss) per Common Share

Our basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive securities for this calculation consist of in-the-money outstanding stock options, restricted stock grants and warrants (which were assumed to have been exercised at the average market price of the common shares during the reporting period). The treasury stock method is used to measure the dilutive impact of in-the-money stock options.

The following table reconciles basic weighted-average shares outstanding to diluted weighted-average shares outstanding:

| | Quarter Ended | | Year to Date | |
|---|-----------------|-----------------|-----------------|-----------------|
| | Jun 26, 2018 | Jun 27, 2017 | Jun 26, 2018 | Jun 27, 2017 |
| Weighted-average shares outstanding-basic | 12,468,326 | 12,301,007 | 12,460,467 | 12,296,793 |
| Effect of potentially dilutive securities | | | | |
| Stock options | 102,506 | 0 | 0 | 0 |
| Restricted stock units | 94,340 | 0 | 0 | 0 |
| Weighted-average shares outstanding-diluted | 12,665,172 | 12,301,007 | 12,460,467 | 12,296,793 |

Excluded from diluted weighted-average
shares outstanding:

| | | | | |
|--------------|---------|---------|---------|---------|
| Antidilutive | 272,348 | 983,109 | 781,789 | 983,109 |
|--------------|---------|---------|---------|---------|

Note 7. Contingent Liabilities and Liquidity

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

Note 8. Impairment of Long-Lived Assets and Goodwill

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

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

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

Trademarks. Trademarks have been determined to have an indefinite life. We evaluate our trademarks for impairment annually and on an interim basis as events and circumstances warrant by comparing the fair value of the trademarks with their carrying amount. There was no impairment required to the acquired trademarks as of June 26, 2018 and June 27, 2017.

Goodwill. Goodwill represents the excess of cost over fair value of the assets of businesses the Company acquired. Goodwill is not amortized, but rather, the Company is required to test goodwill for impairment on an annual basis or whenever indications of impairment arise. The Company considers its operations to be comprised of two reporting units: (1) Good Times restaurants and (2) Bad Daddy's restaurants. As of June 26, 2018, the Company had \$96,000 of goodwill associated with the Good Times reporting unit and \$15,054,000 of goodwill associated with its Bad Daddy's reporting unit. No goodwill impairment charges were recognized as of June 26, 2018 and June 27, 2017.

Note 9.

Income Taxes

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

The Company has significant net operating loss carry-forwards from prior years and incurred additional net operating losses during the three quarters ended June 26, 2018 and June 27, 2017. These losses resulted in an increase in the related deferred tax assets; however, valuation allowances were provided which reduced these deferred tax assets to zero; therefore, no income tax provision or benefit was recognized for the three quarters ended June 26, 2018 and June 27, 2017 resulting in an effective income tax rate of 0% for both periods.

The Company is subject to taxation in various jurisdictions within the U.S. The Company continues to remain subject to examination by U.S. federal authorities for the years 2014 through 2017. The Company believes that its income tax

filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. No accrual for interest and penalties was considered necessary as of June 26, 2018.

On December 22, 2017 the U.S. government enacted legislation that has been commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U.S. corporate income tax rates and implementing a territorial tax system. As 100% of our current operations, and our operations for the foreseeable future are conducted within the U.S., the changes with respect to treatment of earnings outside of the U.S. will have no impact on our financial statements. In addition to the change in the corporate income tax rate and changes related to foreign source income, the Tax Act makes changes to the deductibility of certain items, such as meals provided to employees; and changes that allow for accelerated depreciation of certain capital expenditures. Due to a combination of the current full valuation allowance on our deferred tax assets, as well as a significant Net Operating Loss carryforward, we do not believe that the legislative changes enacted by the Tax Act will have a material impact on our financial statements.

Note 10.

Non-controlling Interests

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

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

The following table summarizes the activity in non-controlling interests during the three quarters ended June 26, 2018 (in thousands):

| | Good Times | Bad Daddy's | Total |
|-------------------------------|---------------|----------------|----------|
| Balance at September 26, 2017 | \$ 434 | \$ 2,279 | \$ 2,713 |
| Income | 296 | 557 | 853 |
| Contributions | 0 | 578 | 578 |
| Distributions | (339) | (651) | (990) |
| Balance at June 26, 2018 | \$ 391 | \$ 2,763 | \$ 3,154 |

Our non-controlling interests consist of one joint-venture partnership involving seven Good Times restaurants and seven joint-venture partnerships involving seven Bad Daddy's restaurants, including one Bad Daddy's restaurant that is currently under construction. Six of the seven Bad Daddy's joint-venture partnerships were established prior to the beginning of fiscal 2018 to fund the construction of Bad Daddy's restaurants in North Carolina. Two of these six restaurants opened in fiscal 2017 and one opened during the first quarter of fiscal 2018. One of the Bad Daddy's joint-venture partnerships was established in fiscal 2018 to fund the construction of a Bad Daddy's restaurant in Greensboro, North Carolina which opened on July 16, 2018.

Note 11.**Recent Accounting Pronouncements**

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” (ASU 2016-09). ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The areas for simplification include income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. In May 2017, the FASB issued ASU No. 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” This pronouncement provides clarity in guidance in the instance of a change in the terms or conditions of a share-based payment award. Both pronouncements are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016 and early adoption is permitted for financial statements that have not been previously issued. The Company adopted both ASUs effective with its 2018 fiscal year; such adoption did not have material impact on our financial position or results from operations.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This update was issued to replace the current revenue recognition guidance, creating a more comprehensive five-step model. In March 2016, the FASB issued No. ASU 2016-04, “Liabilities – Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products.” This pronouncement provides guidance for the derecognition of prepaid stored-value product liabilities, consistent with the breakage guidance in Topic 606. These amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We do not expect that the adoption of these new standards will have a material impact to our revenue recognition related to company-owned restaurant sales, recognition of royalty fees from our franchise agreement, or impact from recognition of gift card breakage.

In February 2016, the Financial Accounting Standards Board (“FASB”) FASB issued Accounting Standards Update No. ASU No. 2016-02, “Leases (Topic 842)”, (ASU 2016-02), which replaces the existing guidance in Accounting Standard Codification 840, Leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 This pronouncement requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. The Company is currently assessing the impact that adoption of ASU 2016-02 will have on its consolidated financial position or results of operations and expect that it will result in a significant increase in our long-term assets and liabilities given we have a significant number of leases.

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

Table of Contents**Note 12.****Subsequent Events**

On June 22, 2018, the Company commenced a tender offer related to a one-time option exchange that was approved by the shareholders at the Company's 2018 annual meeting. As described in Note 4, we account for share-based payments in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification 718, Compensation—Stock Compensation ("ASC Topic 718"). This option exchange would be subject to modification accounting under ASC Topic 718, including the provisions of ASU 2017-09, and we would recognize incremental compensation expense, if any, resulting from the Replacement Options granted in the Option Exchange. This Option Exchange is intended to be materially "cost neutral" from an accounting standpoint. To be cost neutral, the value of the stock options surrendered as calculated immediately prior to their surrender must be approximately equal to the value of the new stock options received by employees and directors in the Option Exchange. We use the Black-Scholes option pricing model to estimate the fair value of all stock options granted to employees and directors and have used that model in constructing the provisions of the Option Exchange. The tender offer period concluded on July 23, 2018, and as the final inputs to the pricing model resulted in lower implied values for the replacement options than for the surrendered options, we expect to recognize no stock compensation expense related to this transaction.

Note 13.**Segment Reporting**

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

The following tables present information about our reportable segments for the respective periods (in thousands):

| | Quarter Ended | | Three Quarters Ended | |
|-------------------------------|---------------|--------------|----------------------|--------------|
| | Jun 26, 2018 | Jun 27, 2017 | Jun 26, 2018 | Jun 27, 2017 |
| Revenues | | | | |
| Good Times | \$8,317 | \$8,634 | \$23,471 | \$22,550 |
| Bad Daddy's | 17,858 | 13,068 | 48,973 | 33,946 |
| | \$26,175 | \$21,702 | 72,444 | \$56,496 |
| Income (loss) from operations | | | | |
| Good Times | \$423 | \$421 | \$265 | \$82 |

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| | | | | |
|----------------------|---------|---------|---------|----------|
| Bad Daddy's | 430 | (244) | 438 | (540) |
| Corporate | (72) | (162) | (290) | (528) |
| | \$781 | \$15 | \$413 | \$(986) |
| Capital expenditures | | | | |
| Good Times | \$113 | \$1,677 | \$290 | \$4,560 |
| Bad Daddy's | 2,270 | 2,737 | 6,259 | 6,404 |
| Corporate | 8 | 67 | 11 | 214 |
| | \$2,391 | \$4,481 | \$6,560 | \$11,178 |

| | | |
|-----------------------------|----------|----------|
| | Jun 26, | Sep 26, |
| | 2018 | 2017 |
| Property and equipment, net | | |
| Good Times | \$5,352 | \$7,061 |
| Bad Daddy's | 27,354 | 22,133 |
| Corporate | 407 | 496 |
| | \$33,113 | \$29,690 |

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

This Form 10-Q contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and the disclosure of risk factors in the Company's form 10-K for the fiscal year ended September 26, 2017. Also, documents subsequently filed by us with the SEC and incorporated herein by reference may contain forward-looking statements. We caution investors that any forward-looking statements made by us are not guarantees of future performance and actual results could differ materially from those in the forward-looking statements as a result of various factors, including but not limited to the following:

(I) We compete with numerous well-established competitors who have substantially greater financial resources and longer operating histories than we do. Competitors have increasingly offered selected food items and combination meals, including hamburgers, at discounted prices, and continued discounting by competitors may adversely affect revenues and profitability of Company restaurants.

(II) We may be negatively impacted if we experience same store sales declines. Same store sales comparisons will be dependent, among other things, on the success of our advertising and promotion of new and existing menu items. No assurances can be given that such advertising and promotions will in fact be successful.

We may also be negatively impacted by other factors common to the restaurant industry such as: changes in consumer tastes away from red meat and fried foods; increases in the cost of food, paper, labor, health care, workers' compensation or energy; inadequate number of hourly paid employees; and/or decreases in the availability of affordable capital resources. We caution the reader that such risk factors are not exhaustive, particularly with respect to future filings. For further discussion of our exposure to market risk, refer to Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 26, 2017.

Overview.

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

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

Growth Strategies and Outlook.

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

- Pursue disciplined growth of company-owned and joint-venture Bad Daddy's restaurants
- Remodel/refresh our Good Times restaurants
- Optimize the long-term profitability of Good Times restaurants to reinvest in Bad Daddy's development
- Generate consistently positive same-store sales in both brands by delivering food and service that are differentiated in each of their respective competitive segments
- Leverage our infrastructure

Restaurant locations.

As of June 26, 2018, we operated, franchised or licensed a total of thirty-six Good Times restaurants and twenty-nine Bad Daddy's restaurants. The following table presents the number of restaurants operating at the end of the third fiscal quarters of 2018 and 2017.

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The following table presents the number of restaurants open at the end of the fiscal quarters June 26, 2018 and June 27, 2017.

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

| State | Good Times Burgers & Frozen Custard | | Bad Daddy's Burger Bar | | Total | |
|----------------|-------------------------------------|------|------------------------|------|-------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Colorado | 26 | 28 | 12 | 12 | 38 | 40 |
| Georgia | 0 | 0 | 2 | 0 | 2 | 0 |
| North Carolina | 0 | 0 | 11 | 9 | 11 | 9 |
| Oklahoma | 0 | 0 | 1 | 0 | 1 | 0 |
| Tennessee | 0 | 0 | 1 | 0 | 1 | 0 |
| Total: | 26 | 28 | 27 | 21 | 53 | 49 |

¹ One restaurant closed in Aurora, CO during Q2 2018 and one restaurant in Denver, CO closed in Q3 2018.

² Six restaurants opened between Q3 2017 and Q3 2018: Norman (OK); Christenbury and Greenville (NC); Chamblee and Smyrna (GA), and Chattanooga (TN).

Franchise/License:

| State | Good Times Burgers & Frozen Custard | | Bad Daddy's Burger Bar | | Total | |
|-----------------------------|-------------------------------------|---------------------------|---------------------------|---------------------------|-------|------|
| | J018 ¹ 2017 | J018 ² 2017 | J018 ² 2017 | J018 ² 2017 | 2018 | 2017 |
| Colorado | 8 | 8 | 0 | 0 | 8 | 8 |
| North Carolina ¹ | 0 | 0 | 1 | 1 | 1 | 1 |
| South Carolina | 0 | 0 | 1 | 1 | 1 | 1 |
| Wyoming ² | 2 | 2 | 0 | 0 | 2 | 2 |
| Total: | 10 | 10 | 2 | 2 | 12 | 12 |

¹ One franchised location, in Aurora, is currently closed temporarily for reconstruction following a building fire. The location is anticipated to reopen approximately three months.

² The two restaurants in Wyoming are "dual brand" concept restaurants operated by a franchisee of both Good Times and Taco John's.

³ One North Carolina location, at the Charlotte Douglas International Airport, is operated pursuant to a License Agreement.

Results of Operations

The following presents certain historical financial information of our operations. This financial information includes results for our first three fiscal quarters ended June 26, 2018 and June 27, 2017.

Net Revenues. Net revenues for the quarter ended June 26, 2018 increased \$4,473,000 or 20.6% to \$26,175,000 from \$21,702,000 for the quarter ended June 27, 2017. Bad Daddy's concept revenues increased \$4,790,000 while our Good Times concept revenues decreased \$317,000.

Good Times restaurant sales decreased \$321,000 to \$8,225,000 for the quarter ended June 26, 2018 from \$8,546,000 for the quarter ended June 27, 2017. Good Times same store restaurant sales increased 3.8% during the quarter ended June 26, 2018 compared to the same prior-year quarter. To align Good Times' same store sales calculations with same store sales calculations for Bad Daddy's, beginning in fiscal 2018 Good Times restaurants are included in the same store sales calculation after they have been open a full eighteen months. Offsetting the same store sales increase restaurant sales decreased \$300,000 from the same prior-year quarter due to one restaurant that is not included in same store sales that opened in March 2017 and decreased \$310,000 due to two restaurants that were closed in January and April of 2018. The average menu price increase for the quarter ended June 26, 2018 over the same prior-year quarter was approximately 4.9%. Franchise revenues increased \$4,000 for the quarter ended June 26, 2018 due to an increase in franchise fees offset by a decrease in restaurant sales at the franchise locations.

Bad Daddy's restaurant sales increased \$4,793,000 to \$17,765,000 for the quarter ended June 26, 2018 from \$12,972,000 for the quarter ended June 27, 2017, primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three fiscal quarters of 2018. Bad Daddy's same store restaurant sales increased 0.5% during the quarter ended June 26, 2018 compared to the same prior-year quarter. Bad Daddy's restaurants are included in same store sales after they have been open a full eighteen months. Comparable sales are calculated excluding weeks during which restaurants are closed for major remodels. The average menu price increase for the quarter ended June 26, 2018 over the same prior-year quarter was approximately 4.6%. There were fifteen restaurants included in the same store sales base at the end of the quarter. Additionally, net revenues were decreased by \$3,000 of lower franchise royalties and license fees compared to the prior-year quarter. Net revenues for the three quarters ended June 26, 2018 increased \$15,948,000 or 28.2% to \$72,444,000 from \$56,496,000 for the three quarters ended June 27, 2017. Bad Daddy's concept revenues increased \$15,027,000 while our Good Times concept revenues increased \$921,000.

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Good Times restaurant sales increased \$913,000 to \$23,223,000 for the three quarters ended June 26, 2018 from \$22,310,000 for the three quarters ended June 27, 2017. Good Times same store restaurant sales increased 4.9% during the three quarters ended June 26, 2018 compared to the same prior-year quarters. Prior to fiscal 2018, restaurants were included in same store sales after they have been open a full fifteen months. To align Good Times' same store sales calculations with same store sales calculations for Bad Daddy's, beginning in fiscal 2018 Good Times restaurants are included in the same store sales calculation after they have been open a full eighteen months. Restaurant sales increased from the prior three quarters due to the same store sales increase and the opening of one new restaurant in March 2017, partially offset by a decrease in restaurant sales related to the two restaurants that closed in January and April of 2018. The average menu price increase for three quarters ended June 26, 2018 over the same prior-year quarters was approximately 4.4%. Franchise revenues increased \$9,000 for the three quarters ended June 26, 2018 due to an increase in franchise renewal fees.

Bad Daddy's restaurant sales increased \$15,035,000 to \$48,706,000 for the three quarters ended June 26, 2018 from \$33,671,000 for the three quarters ended June 27, 2017, primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three fiscal quarters of 2018. Bad Daddy's same store restaurant sales increased 0.5% during the three quarters ended June 26, 2018 compared to the same prior-year quarters. Bad Daddy's restaurants are included in same store sales after they have been open a full eighteen months. The average menu price increase for the three quarters ended June 26, 2018 over the same prior-year quarters was approximately 3.9%. There were fourteen restaurants included in the same store sales base at the end of the quarter. Additionally, net revenues were reduced by \$9,000 of lower franchise royalties and license fees compared to the prior-year quarters.

Restaurant Operating Costs

Food and Packaging Costs. Food and packaging costs for the quarter ended June 26, 2018 increased \$1,011,000 to \$7,833,000 (30.1% of restaurant sales) from \$6,822,000 (31.4% of restaurant sales) for the quarter ended June 27, 2017.

Good Times food and packaging costs were \$2,654,000 (32.3% of restaurant sales) for the quarter ended June 26, 2018, down from \$2,792,000 (32.7% of restaurant sales) for the quarter ended June 27, 2017. This decrease as a percent of sales is due primarily to the impact of higher menu pricing on flat to slightly lower commodity costs, the most significant declines in costs attributable to bacon.

Bad Daddy's food and packaging costs were \$5,179,000 (29.2% of restaurant sales) for the quarter ended June 26, 2018, up from \$4,030,000 (31.1% of restaurant sales) for the quarter ended June 27, 2017. This increase is primarily due to a greater number of operating restaurants during the current quarter versus the same quarter in the prior year. The decline as a percent of sales is primarily due to a sequential reduction in cost of proteins, primarily beef, coupled with year-over-year increases in menu prices.

Food and packaging costs for the three quarters ended June 26, 2018 increased \$4,563,000 to \$22,154,000 (30.8% of restaurant sales) from \$17,591,000 (31.4% of restaurant sales) for the three quarters ended June 27, 2017.

Good Times food and packaging costs were \$7,615,000 (32.8% of restaurant sales) for the three quarters ended June 26, 2018, up from \$7,191,000 (32.2% of restaurant sales) for the three quarters ended June 27, 2017. Food and packaging costs were affected by higher commodity costs versus the year ago period during the first and second quarters of the year, primarily in beef and bacon, offset by flat to lower pricing during the third fiscal quarter. Food and packaging costs were additionally affected by increased discounting of kid's meals during the first quarter of fiscal 2018.

Bad Daddy's food and packaging costs were \$14,539,000 (29.9% of restaurant sales) for the three quarters ended June 26, 2018, up from \$10,400,000 (30.9% of restaurant sales) for the three quarters ended June 27, 2017. This increase is primarily due to a greater number of operating restaurants during the current quarter versus the same quarter in the prior year. The decline as a percent of sales is primarily due to a sequential reduction in cost of proteins, primarily beef, coupled with year-over-year increases in menu prices.

Payroll and Other Employee Benefit Costs. Payroll and other employee benefit costs for the quarter ended June 26, 2018 increased \$1,609,000 to \$9,155,000 (35.2% of restaurant sales) from \$7,546,000 (35.1% of restaurant sales) for the quarter ended June 27, 2017.

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Good Times payroll and other employee benefit costs were \$2,716,000 (33.0% of restaurant sales) in the quarter ended June 26, 2018, down from \$2,846,000 (33.3% of restaurant sales) in the same prior-year period. Payroll and other employee benefit costs decreased \$232,000 from the same prior-year quarter due two stores that were closed in January and April of 2018 and one store that that opened in March 2017. The decrease was offset by a \$102,000 increase in costs related to the same store restaurant sales increase as well as an increase in the average wage paid to our employees, which increased approximately 8.9% in the quarter ended June 26, 2018 compared to the same prior year period. This average wage increase is attributable to a very competitive labor market in Colorado and statutory increases in the minimum wage rate.

Bad Daddy's payroll and other employee benefit costs were \$6,439,000 (36.2% of restaurant sales) for the quarter ended June 26, 2018 up from \$4,700,000 (36.2% of restaurant sales) in the same prior year period. The \$1,739,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018. As a percent of sales, payroll and employee benefits costs did not change from the prior year, as increased wages, particularly for kitchen workers, increased in all states due to a competitive market for workers, and as statutory wage increases for front-of-house employees in Colorado were offset by a greater number of restaurants operating in states subject to the federal tip credit laws.

Payroll and other employee benefit costs for the three quarters ended June 26, 2018 increased \$5,860,000 to \$26,076,000 (36.3% of restaurant sales) from \$20,216,000 (36.1% of restaurant sales) for the three quarters ended June 27, 2017.

Good Times payroll and other employee benefit costs were \$8,074,000 (34.8% of restaurant sales) in the three quarters ended June 26, 2018, up from \$7,706,000 (34.5% of restaurant sales) in the same prior year period. \$94,000 of the \$368,000 increase in payroll and other employee benefit expenses was attributable to the new Good Times restaurant that opened in March 2017. The remaining \$274,000 of the increase is primarily due to the increase in restaurant sales and an increase in the average wage paid to our employees, which increased approximately 8.5% in the three quarters ended June 26, 2018 compared to the same prior year period. This average wage increase is attributable to a very competitive labor market in Colorado and statutory increases in the minimum wage rate.

Bad Daddy's payroll and other employee benefit costs were \$18,002,000 (37.0% of restaurant sales) for the three quarters ended June 26, 2018 up from \$12,510,000 (37.2% of restaurant sales) in the same prior year period. The \$5,492,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018. The decrease of 0.2% in payroll and other employee benefit costs as a percentage of restaurant sales was mainly due to a higher percentage of restaurants outside of Colorado than last year, states in which there is a lower statutory minimum wage for tipped employees as compared to Colorado, partially offset by higher wages rates for back-of-house employees.

Occupancy Costs. Occupancy costs for the quarter ended June 26, 2018 increased \$366,000 to \$1,850,000 (7.1% of restaurant sales) from \$1,484,000 (6.9% of restaurant sales) for the quarter ended June 27, 2017.

Good Times occupancy costs were \$694,000 (8.4% of restaurant sales) in the quarter ended June 26, 2018, up from \$693,000 (8.1% of restaurant sales) in the same prior year period. Occupancy costs decreased \$24,000 compared to the same prior year period due to the two restaurants closed in 2018 offset by an increase of \$25,000 in the remaining restaurants.

Bad Daddy's occupancy costs were \$1,156,000 (6.5% of restaurant sales) for the quarter ended June 26, 2018 up from \$791,000 (6.1% of restaurant sales) in the same prior year period. The \$365,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018.

Occupancy costs for the three quarters ended June 26, 2018 increased \$1,071,000 to \$5,278,000 (7.3% of restaurant sales) from \$4,207,000 (7.5% of restaurant sales) for the three quarters ended June 27, 2017.

Good Times occupancy costs were \$2,164,000 (9.3% of restaurant sales) in the three quarters ended June 26, 2018, up from \$2,075,000 (9.3% of restaurant sales) in the same prior year period. The increase was primarily attributable to the new Good Times restaurant that opened in March 2017.

Bad Daddy's occupancy costs were \$3,114,000 (6.4% of restaurant sales) for the three quarters ended June 26, 2018 up from \$2,132,000 (6.3% of restaurant sales) in the same prior year period. The \$982,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018.

Other Operating Costs. Other operating costs for the quarter ended June 26, 2018, increased \$477,000 to \$2,373,000 (9.1% of restaurant sales) from \$1,896,000 (8.8% of restaurant sales) for the quarter ended June 27, 2017.

Good Times other operating costs were \$648,000 (7.9% of restaurant sales) in the quarter ended June 26, 2018, down from \$680,000 (8.0% of restaurant sales) in the same prior year period. The decrease was primarily attributable to the two restaurants that closed in 2018.

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Bad Daddy's other operating costs were \$1,725,000 (9.7% of restaurant sales) for the quarter ended June 26, 2018 up from \$1,216,000 (9.4% of restaurant sales) in the same prior year period. The \$509,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018. The percentage increase was primarily attributable to higher cost of general restaurant supplies and commissions paid to delivery service providers in the current year which were not incurred in the prior year.

Other operating costs for the three quarters ended June 26, 2018, increased \$1,623,000 to \$6,626,000 (9.2% of restaurant sales) from \$5,003,000 (8.9% of restaurant sales) for the three quarters ended June 27, 2017.

Good Times other operating costs were \$1,891,000 (8.1% of restaurant sales) in the three quarters ended June 26, 2018, up from \$1,833,000 (8.2% of restaurant sales) in the same prior year period. The increase was primarily attributable to increases in repairs and maintenance and bank credit card fees as well as the new Good Times restaurant that opened in March 2017.

Bad Daddy's other operating costs were \$4,735,000 (9.7% of restaurant sales) for the three quarters ended June 26, 2018 up from \$3,170,000 (9.4% of restaurant sales) in the same prior year period. The \$1,565,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018. The percentage increase was primarily attributable to higher cost of general restaurant supplies and commissions paid to delivery service providers in the current year which were not incurred in the prior year

New Store Preopening Costs. In the quarter ended June 26, 2018, we incurred \$610,000 of preopening costs compared to \$819,000 for the quarter ended June 27, 2017.

Good Times preopening costs were \$0 for the quarter ended June 26, 2018 compared to \$46,000 in the same prior year period. The prior year costs were related to a new restaurant that opened in March 2017.

Bad Daddy's preopening costs were \$610,000 for the quarter ended June 26, 2018 compared to \$773,000 in the same prior year period. Preopening costs in the current quarter are primarily attributable one restaurant that opened in Georgia in the second quarter and two restaurants that opened in April and June 2018. In the prior-year period, pre-opening costs are related to the Bad Daddy's restaurants opened during 2017 in Colorado and North Carolina.

In the three quarters ended June 26, 2018, we incurred \$1,683,000 of preopening costs compared to \$1,737,000 for the three quarters ended June 27, 2017.

Good Times preopening costs were \$0 for the three quarters ended June 26, 2018 compared to \$150,000 in the same prior year period. The prior year costs were related to a new restaurant that opened in March 2017.

Bad Daddy's preopening costs were \$1,683,000 for the three quarters ended June 26, 2018 compared to \$1,587,000 in the same prior year period. Preopening costs in the current three quarters are primarily attributable to five restaurants that opened during the first three quarters. In the prior-year period, pre-opening costs are related to the Bad Daddy's restaurants opened during 2017 in Colorado and North Carolina.

Depreciation and Amortization Costs. Depreciation and amortization costs for the quarter ended June 26, 2018, increased \$184,000 from \$753,000 in the quarter ended June 27, 2017 to \$937,000.

Good Times depreciation costs increased \$22,000 from \$217,000 in the quarter ended June 27, 2017 to \$239,000 in the quarter ended June 26, 2018. The increase was primarily attributable to the new Good Times restaurant that opened in March 2017.

Bad Daddy's depreciation costs increased \$162,000 from \$536,000 in the quarter ended June 27, 2017 to \$698,000 in the quarter ended June 26, 2018. This increase was mainly attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018.

Depreciation and amortization costs for the three quarters ended June 26, 2018, increased \$579,000 from \$2,086,000 in the three quarters ended June 27, 2017 to \$2,665,000.

Good Times depreciation costs increased \$94,000 from \$598,000 in the three quarters ended June 27, 2017 to \$692,000 in the three quarters ended June 26, 2018. The increase was primarily attributable to the new Good Times restaurant that opened in March 2017.

Bad Daddy's depreciation costs increased \$485,000 from \$1,488,000 in the three quarters ended June 27, 2017 to \$1,973,000 in the three quarters ended June 26, 2018. The \$485,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018.

General and Administrative Costs. General and administrative costs for the quarter ended June 26, 2018, increased \$238,000 to \$2,069,000 (7.9% of total revenue) from \$1,831,000 (8.4% of total revenues) for the quarter ended June 27, 2017.

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The \$238,000 increase in general and administrative expenses in the quarter ended June 26, 2018 is primarily attributable to:

- Increase in salaries, wages, and employee benefit costs of \$163,000
- Decrease in incentive stock compensation cost of \$117,000
- Increase in professional fees, director's fees and financial relations of \$209,000 primarily attributable to payments to departing directors pursuant to a settlement agreement with shareholders affiliated with two directors; and professional services associated with a one-time option exchange and the establishment of a new equity compensation plan to replace the former plan which had expired
- Net decreases in all other expenses of \$17,000

General and administrative costs for the three quarters ended June 26, 2018, increased \$662,000 to \$5,884,000 (8.1% of total revenue) from \$5,222,000 (9.2% of total revenues) for the three quarters ended June 27, 2017.

The \$662,000 increase in general and administrative expenses in the three quarters ended June 26, 2018 is primarily attributable to:

- Increase in salaries, wages, and employee benefit costs of \$487,000
- Decrease in incentive stock compensation cost of \$306,000
- Increase in professional fees, director's fees and financial relations of \$266,000 primarily attributable to legal expenses related to the Company's response to SEC filings by shareholders affiliated with two former directors, payments to departing directors pursuant to a settlement agreement with shareholders affiliated with two directors, and professional services associated with a one-time option exchange and the establishment of a new equity compensation plan to replace the former plan which had expired
- Increase in stock exchange fees and expenses of \$23,000 primarily attributable to our annual NASDAQ listing fee
- Increase in our corporate office rent of \$68,000
- Increase in payroll processing fees of \$18,000
- Increase in travel and entertainment expenses of \$53,000
- Net increases in all other expenses of \$53,000

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

Advertising Costs. Advertising costs for the quarter ended June 26, 2018, increased \$51,000 to \$565,000 (2.2% of restaurant sales) from \$514,000 (2.4% of restaurant sales) for the quarter ended June 27, 2017.

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Good Times advertising costs were \$372,000 (4.5% of restaurant sales) in the quarter ended June 26, 2018 compared to \$382,000 (4.5% of restaurant sales) in the same prior year period.

Bad Daddy's advertising costs were \$193,000 (1.1% of restaurant sales) in the quarter ended June 26, 2018 compared to \$132,000 (1.0% of restaurant sales) in the same prior year period. The \$61,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018.

Advertising costs for the three quarters ended June 26, 2018, increased \$230,000 to \$1,587,000 (2.2% of restaurant sales) from \$1,357,000 (2.4% of restaurant sales) for the three quarters ended June 27, 2017.

Good Times advertising costs were \$1,062,000 (4.6% of restaurant sales) in the three quarters ended June 26, 2018 compared to \$1,004,000 (4.5% of restaurant sales) in the same prior year period.

Bad Daddy's advertising costs were \$525,000 (1.1% of restaurant sales) in the three quarters ended June 26, 2018 compared to \$353,000 (1.0% of restaurant sales) in the same prior year period. The \$172,000 increase was primarily attributable to the six new restaurants opened in fiscal 2017 and the five new restaurants opened in the first three quarters of 2018.

Good Times advertising costs consists primarily of contributions made to the advertising materials fund and a regional advertising cooperative based on a percentage of restaurant sales. We anticipate that for the balance of fiscal 2018 Good Times advertising costs will remain consistent as a percentage of restaurant sales and will consist primarily of television advertising, social media and on-site and point-of-purchase merchandising totaling approximately 4.5% of restaurant sales.

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

Franchise Costs. Franchise costs were \$11,000 and \$28,000 for the quarters ended June 26, 2018 and June 27, 2017, respectively.

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Franchise costs were \$32,000 and \$80,000 for the three quarters ended June 26, 2018 and June 27, 2017, respectively.

The costs are primarily related to the Good Times franchised restaurants. The year-over-year declines in both the current quarter and the year-to-date period are due to improved efficiencies associated with a reorganization of franchise support for the Good Times brand.

Asset impairment costs. Asset impairment costs were \$72,000 and \$0 for the three quarters ended June 26, 2018 and June 27, 2017, respectively. The costs are related to a Good Times restaurant that was closed and subleased in April 2018.

Gain on Restaurant Asset Disposals. The gain on restaurant asset disposals for the quarter ended June 26, 2018 was \$9,000 compared to a gain of \$6,000 in the quarter ended June 27, 2017.

The gain on restaurant asset disposals for the three quarters ended June 26, 2018 was \$26,000 compared to a gain of \$17,000 in the three quarters ended June 27, 2017.

The gain in both periods is primarily related to deferred gains on previous sale lease-back transactions on two Good Times restaurants.

Income (loss) from Operations. Income from operations was \$781,000 in the quarter ended June 26, 2018 compared to \$15,000 in the quarter ended June 27, 2017.

Income from operations was \$413,000 in the three quarters ended June 26, 2018 compared to a loss from operations of (\$986,000) in the three quarters ended June 27, 2017.

The change in income from operations for the three quarters ended June 26, 2018 is due primarily to matters discussed in the "Net Revenues", "Restaurant Operating Costs", "Asset Impairment Costs" and "General and Administrative Costs" sections above.

Net Income (loss). Net income was \$685,000 for the quarter ended June 26, 2018 compared to a net loss of (\$35,000) in the quarter ended June 27, 2017.

Net income was \$143,000 for the three quarters ended June 26, 2018 compared to a net loss of (\$1,092,000) in the three quarters ended June 27, 2017.

The change from the three quarters ended June 26, 2018 to the three quarters ended June 27, 2017 was primarily attributable to the matters discussed in the "Net Revenues", "Restaurant Operating Costs", "Asset Impairment Costs" and "General and Administrative Costs", as well as an increase in net interest expense of \$165,000 for the three quarters ended June 27, 2017 compared to the same prior year period.

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

For the quarter ended June 26, 2018, the income attributable to non-controlling interests was \$381,000 compared to \$212,000 for the quarter ended June 27, 2017.

\$142,000 of the current quarter's income is attributable to the Good Times joint-venture restaurants, compared to \$104,000 in the same prior year period. \$239,000 of the current quarter's income is attributable to the BDI joint-venture restaurants, compared to \$108,000 in the same prior year period. This \$131,000 increase is primarily due to a greater number of joint-venture store operating weeks in the current quarter compared to the same prior year period.

For the three quarters ended June 26, 2018, the income attributable to non-controlling interests was \$853,000 compared to \$499,000 for the three quarters ended June 27, 2017. \$296,000 of the current three quarter's income is attributable to the Good Times joint-venture restaurants, compared to \$266,000 in the same prior year period. \$557,000 of the current three quarter's income is attributable to the BDI joint-venture restaurants, compared to \$233,000 in the same prior year period. This \$324,000 increase is primarily due to a greater number of joint-venture store operating weeks in the current three quarters compared to the same prior year period.

Adjusted EBITDA

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

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

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

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

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

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

The following table reconciles net loss to EBITDA and Adjusted EBITDA (*in thousands*) for the fiscal third quarters:

| | Third Quarter | | Year to Date | |
|------------------|---------------|------|--------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Adjusted EBITDA: | | | | |

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| | | | | |
|-----------------------------------|---------|----------|----------|-----------|
| Net income (loss), as reported | \$304 | \$(247) | \$(710) | \$(1,591) |
| Depreciation and amortization | 897 | 727 | 2550 | 2,001 |
| Interest expense, net | 97 | 50 | 272 | 108 |
| EBITDA | 1,298 | 530 | 2,112 | 518 |
| Preopening expense | 565 | 685 | 1,541 | 1,400 |
| Non-cash stock-based compensation | 88 | 205 | 303 | 609 |
| GAAP rent in excess of cash rent | (35) | (18) | (51) | (34) |
| Non-cash disposal of asset | (9) | (6) | (26) | (17) |
| Asset impairment charge | 0 | 0 | 72 | 0 |
| Adjusted EBITDA | \$1,907 | \$1,396 | \$3,951 | \$2,476 |

Liquidity and Capital Resources

Cash and Working Capital

As of June 26, 2018, we had a working capital deficit of \$2,824,000. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have two to four weeks to pay our vendors. This benefit may increase when new Bad Daddy's and Good Times restaurants are opened. We believe that with our ability to access the Cadence Bank credit facility in addition to cash flow generated from our existing restaurants, that we will have sufficient capital to meet our working capital, long term debt obligations and recurring capital expenditure needs in fiscal 2018. As of June 26, 2018, we had total commitments outstanding of \$1,379,000 related to construction contracts for Bad Daddy's restaurants currently under development. We anticipate these commitments will be funded out of existing cash or future borrowings against the Cadence Bank credit facility.

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Financing

On September 8, 2016, the Company entered into a credit agreement with Cadence Bank (“Cadence”) pursuant to which Cadence agreed to loan the Company up to \$9,000,000 (the “Cadence Credit Facility”). On September 11, 2017, the Cadence Credit Facility was amended to increase the loan maximum to \$12,000,000 and extend the maturity date to December 31, 2020. The Cadence Credit Facility accrues commitment fees on the daily unused balance of the facility at a rate of 0.25%. All borrowings under the Cadence Credit Facility bear interest at a variable rate based upon the Company’s election of (i) 3.0% plus the base rate, which is the highest of the (a) Federal Funds Rate plus 0.5%, (b) the Cadence bank publicly-announced prime rate, and (c) LIBOR plus 1.0%, or (ii) LIBOR, with a 0.125% floor, plus 4.0%. Interest is due at the end of each calendar quarter if the Company selects to pay interest based on the base rate and at the end of each LIBOR period if it selects to pay interest based on LIBOR. As of June 26, 2018, the weighted average interest rate applicable to borrowings under the Cadence Credit Facility was 6.0062%.

The Cadence Credit Facility contains certain affirmative and negative covenants and events of default that the Company considers customary for an agreement of this type, including covenants setting a maximum leverage ratio of 5.35:1, a minimum fixed charge coverage ratio of 1.25:1 and minimum liquidity of \$2,500,000. As of June 26, 2018, the Company was in compliance with its covenants.

As a result of entering into the Cadence Credit Facility and the amendment, the Company paid loan origination costs including professional fees of approximately \$197,000 and is amortizing these costs over the term of the credit agreement.

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

As of June 26, 2018, the outstanding balance on the facility was \$5,100,000.

Capital Expenditures

Planned capital expenditures for the balance of fiscal 2018 include normal recurring capital expenditures for existing Good Times and Bad Daddy’s restaurants, new Bad Daddy’s restaurants and reimage and remodel costs for Good Times restaurants.

Assets Held For Sale

On April 28, 2017 the Company purchased the land and building of a company owned Good Times in Brighton, Colorado for \$1,179,000. At September 26, 2017 \$1,221,000 of assets were classified as assets held for sale in the accompanying consolidated balance sheet. We finalized a sale lease-back transaction in November 2017 with proceeds of \$1,397,000. The resulting gain of \$170,000 on the transaction was deferred and will be recognized over the life of the fifteen-year lease.

Cash Flows

Net cash provided by operating activities was \$4,627,000 for the three quarters ended June 26, 2018. The net cash provided by operating activities for the three quarters ended June 27, 2017 was the result of net income of \$143,000 as well as cash and non-cash reconciling items totaling \$4,484,000 (comprised of 1) depreciation and amortization of \$2,849,000, 2) accretion of deferred rent of \$414,000, 3) amortization of lease incentive obligations of \$313,000, 4) stock-based compensation expense of \$303,000, 5) Non-cash asset impairment costs of \$72,000, 6) an increase in receivables of \$128,000, 7) an increase in deferred liabilities related to tenant allowances of \$1,258,000, 8) an increase in accounts payable of \$194,000, 8) an decrease in accrued liabilities of \$21,000 and 9) a net decrease in other operating assets and liabilities of \$144,000).

Net cash provided by operating activities was \$2,875,000 for the three quarters ended June 27, 2017. The net cash provided by operating activities for the three quarters ended June 27, 2017 was the result of a net loss of \$1,092,000 as well as cash and non-cash reconciling items totaling \$3,967,000 (comprised of 1) depreciation and amortization of \$2,244,000, 2) accretion of deferred rent of \$422,000, 3) amortization of lease incentive obligations of \$205,000, 4) stock-based compensation expense of \$609,000, 5) an increase in receivables of \$646,000, 6) an increase in deferred liabilities related to tenant allowances of \$1,254,000, 7) an increase in accounts payable of \$745,000, 8) a decrease in accrued liabilities of \$161,000 and 8) a net decrease in other operating assets and liabilities of \$295,000).

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Net cash used in investing activities for the three quarters ended June 26, 2018 was \$5,153,000 which primarily reflects the purchases of property and equipment of \$6,560,000 and sale leaseback proceeds of \$1,397,000. Purchases of property and equipment is comprised primarily of the following:

- \$5,952,000 in costs for the development of Bad Daddy's locations
- \$307,000 for miscellaneous capital expenditures related to our Bad Daddy's restaurants
- \$301,000 for miscellaneous capital expenditures related to our Good Times restaurants

Net cash used in investing activities for the three quarters ended June 27, 2017 was \$9,296,000 which primarily reflects the purchases of property and equipment of \$11,178,000 and sale leaseback proceeds of \$1,927,000. Purchases of property and equipment comprised of the following:

- \$6,109,000 in costs for the development of Bad Daddy's locations
- \$295,000 for miscellaneous capital expenditures related to our Bad Daddy's restaurants
- \$167,000 in costs related to our existing Good Times locations, for reimaging and remodeling
- \$2,278,000 for the development of one new Good Times location
- \$1,179,000 for the purchase of the land and building underlying an existing Good Times location
- \$936,000 for miscellaneous capital expenditures related to our Good Times restaurants
- \$214,000 for miscellaneous capital expenditures and remodeling costs related to our corporate office

Net cash used in financing activities for the three quarters ended June 26, 2018 was \$625,000, which includes principal payments on notes payable, long-term debt and capital leases of \$1,613,000, borrowings on notes payable and long-term debt of \$1,400,000 and net distributions to non-controlling interests of \$412,000.

Net cash provided by financing activities for the three quarters ended June 27, 2017 was \$4,175,000, which includes principal payments on notes payable, long term debt and capital leases of \$21,000, borrowings on notes payable and long-term debt of \$4,100,000, contributions from non-controlling interests of \$834,000 and distributions to non-controlling interests of \$738,000.

Contingencies

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

Impact of Inflation

The total menu price increases at our Good Times restaurants during fiscal 2017 were approximately 4.5%, and we raised menu prices approximately 2.8% during the first three quarters of fiscal 2018. The total menu increases taken at our Bad Daddy's restaurants during fiscal 2017 were approximately 2.9% on average. We raised menu prices during the first three quarters of fiscal 2018 approximately 3.2%. Commodity costs rose significantly during the final two fiscal quarters of 2017 but declined on a sequential basis during the first two fiscal quarters of 2018, less significantly for the Good Times concept where we have not experienced the same sequential and year-over-year declines in the cost of certified "all-natural" beef. When combined with anticipated menu price increases, we expect Good Times' and Bad Daddy's' food and packaging costs to be relatively consistent or slightly elevated compared with the current quarter, as a percentage of sales during the remainder of fiscal 2018.

Seasonality

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4T. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 26, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit No. Description

| | |
|---------|---|
| *31.1 | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u> |
| *31.2 | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u> |
| *32.1 | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

*filed herewith

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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: August 10, 2018

Boyd E. Hoback

President and Chief Executive Officer

Ryan M. Zink

Chief Financial Officer