

GOOD TIMES RESTAURANTS INC

FORM 10KSB

(Annual Report (Small Business Issuers))

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**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB**

(Mark One)

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

For the fiscal year ended September 30, 1999 OR

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

EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-18590

GOOD TIMES RESTAURANTS INC.

(Exact name of small business issuer in its charter)

Nevada

84-1133368

(State or other jurisdiction of
incorporation or organization)

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

601 Corporate Circle, Golden, Colorado

80401

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

NONE

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

Common Stock, \$.001 par value

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

Issuer's revenues for its most recent fiscal year ended September 30, 1999 were \$13,608,000.

As of December 1, 1999, the aggregate market value of the 1,060,820 shares of common stock held by non-affiliates of the issuer, based on the closing bid price of the common stock on December 1, 1999 of \$2.62 per share was reported on the Nasdaq was \$2,779,348.

As of December 1, 1999, the issuer had 2,226,995 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The information required by Items 9 through 12 of Part III of this form is incorporated by reference from the registrant's definitive proxy statement to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this form in connection with registrant's Annual Meeting of Shareholders to be held on January 20, 2000.

Transitional Small Business Disclosure Format Yes No X

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BACKGROUND

Good Times Restaurants Inc. (the "Company") was organized under Nevada law in 1987 and is the holding company for a wholly-owned subsidiary that is engaged in the business of developing, owning, operating and franchising restaurants under the name Good Times Drive Thru Burgers(SM). Good Times Drive Thru Burgers(SM) restaurants are owned, operated and franchised by the Company's subsidiary, Good Times Drive Thru Inc.

GOOD TIMES

Good Times Drive Thru Inc. is engaged in the operation and development of the Good Times Drive Thru Burgers(SM) restaurants. During fiscal 1998 and 1999, four restaurants were developed two of which feature a lobby with interior seating. Drive Thru currently operates and franchises a total of thirty Good Times restaurants, of which twenty-nine are in Colorado, with twenty-seven in the Denver greater metropolitan area, one in Grand Junction and one in Silverthorne.

There is one franchised Good Times restaurant in Boise, Idaho. Six of the restaurants are company-owned and nine are owned jointly with two separate co-development partners. Fifteen Good Times restaurants are franchised restaurants with ten operating in the Denver metropolitan area, one in Silverthorne, Colorado, one in Grand Junction, Colorado, one in Greeley, Colorado, one in Longmont, Colorado and one in Boise, Idaho. Good Times is offering franchises for the development of additional Good Times restaurants.

In fiscal 1998, Drive Thru developed two new franchised restaurants, one of which was a conversion of a 1,700 square foot fast food restaurant and the other is a new prototype 2,300 square foot building with 70 seats.

In fiscal 1999, Drive Thru developed two new restaurants, one a franchised restaurant which opened in July 1999 and one a company-owned restaurant which opened subsequent to September 30, 1999.

THE CONCEPT. Good Times was initially developed as a drive thru only, limited menu concept featuring high quality products and extremely fast service, with menu prices 30-40 percent lower than the major hamburger chains. The price advantage once held has diminished due to continued aggressive price discounting by the major chains and price increases on Good Times' products.

The hamburger fast food market remains intensely competitive with the major competitors aggressively discounting menu prices. Over the last two fiscal years, the Company has positioned the concept away from a price point focus to one based on developing strong differentiation in the taste of its products (with a more distinctive taste profile), the speed of service, the overall value and a differentiated brand personality built through its advertising and employee service methods. The average expenditure per customer has increased approximately 23% over the last two years. The Company believes it has an advantage in providing a superior level of service and quality, but has been limited in its ability to effectively advertise and build awareness of its brand until "critical mass" in restaurant sales are achieved in the Colorado market for consistent television and radio advertising. The Company believes it is beginning to reach critical mass.

Beginning in September 1997, Drive Thru initiated a television advertising campaign focused on building its brand personality, taste superiority positioning and general awareness and continued the campaign throughout fiscal 1998 and 1999.

It is management's intent to continue to develop the concept based upon those attributes important to the quick service restaurant consumer other than price such as taste, speed and overall value supported by highly differentiated products and brand personality in its advertising.

The Company plans to develop additional double drive thru restaurants and restaurants with seating and a single drive thru lane in fiscal 2000, depending on individual site dynamics and the best format for the highest return on investment. Good Times' food preparation and service systems deliver a quality meal with a faster order-delivery response time and have the capacity to reach the same sales levels as traditional hamburger chains. Typically, a customer receives an order 30 to 45 seconds after their vehicle reaches the take-out window during peak order periods. The simplicity of the menu, the relatively low capital investment, and the efficient design of the building and equipment allow Good Times to sell its products at comparable or lower prices than the major fast food hamburger chains except during short term discount

promotions by the competition.

The relatively limited menu allows maximum attention to be devoted to food quality and speed of service.

The Company's objectives for fiscal 2000 are to continue to build additional company-owned, joint-venture and franchised restaurants in Colorado.

Additionally, the Company plans to introduce limited new menu offerings and advertise what it believes to be competitive price points for its products. Drive Thru's ongoing objective is to continue to increase average restaurant sales through increased customer counts in each daypart (lunch, dinner and late-night), selective menu and price promotions and effective marketing of Good Times competitive attributes of high quality products, quick service and overall value.

The Company anticipates modest price increases in 2000 in anticipation of higher hourly wages and commodity costs.

Colorado is divided into two primary television markets, Denver and Colorado Springs/Pueblo. It is the Company's intent to fully develop the Denver market and then develop the Colorado Springs market over the next three to four years, depending on availability of financing and suitable restaurant sites. Management estimates that the Denver market will support 40-50 Good Times restaurants and the Colorado Springs market will support 8-12 restaurants.

MENU. The menu of a Good Times restaurant is limited to hamburgers, cheeseburgers, chicken sandwiches, french fries, onion rings, milkshakes and soft drinks. Each sandwich is made to order at the time the customer places the order and is not pre-prepared.

The hamburger patty is 4.0 ounces of specially formulated and seasoned 100% USDA approved beef, served on a 4 1/4-inch sesame seed bun. Hamburgers and cheeseburgers are garnished with fresh lettuce, fresh sliced sweet red onions, mayonnaise, mustard, ketchup, pickles and fresh sliced tomato. The cheese is 100% pure sharp American, thickly sliced. The chicken sandwiches include a spiced, battered whole muscle breast patty and a grilled spicy breast patty, both served with mayonnaise, lettuce and tomato. Equipment has been automated and equipped with compensating computers to deliver a consistent product and minimize the skills required of employees.

As of December 1, 1999, the price of the deluxe Good Times hamburger was \$1.59, the deluxe cheeseburger \$1.99, the deluxe double cheeseburger \$2.99, the deluxe bacon-cheeseburger \$2.49, the chicken sandwich \$2.79, french fries \$.99 and \$1.19, onion rings \$1.69 and a 22-ounce soft drink \$.99.

Good Times restaurants are generally open 14 to 16 hours per day, seven days a week, for lunch, dinner and late-night snacks and meals.

THE BUILDING. The existing double drive thru Good Times restaurants are less than one-third the size of the typical restaurants of the four largest hamburger chains and require approximately one-half the land area based upon management's experience in the restaurant industry and research reports. The current standard Good Times restaurant building is a double drive-through and walk-up style structure containing approximately 880 square feet built on 18,000 to 30,000 square-foot lots. Most existing restaurants utilize a double drive-thru concept that allows simultaneous service from opposite sides of the restaurant and one or two walk-up windows with a patio for outdoor eating. The Company has developed a new 2,300 square foot prototype building with a dining room and 70 seats and a 1,000 square foot, 48 seat addition for existing restaurants that may be used on select locations.

Management of Drive Thru believes that the building form, design and aesthetic appeal address key issues and concerns of the consumer: speed, cleanliness, security, eye appeal and an identifiable brand image. The exterior consists of a cream-colored dry-vit system with an enclosed glass vestibule at the front for walk-up service. A brightly lit multi-colored fascia band runs the length of both sides of the building in addition to product and Good Times proprietary signage. The rest rooms and walk-in refrigerators are modular components of the building. The double drive thru buildings are transportable and therefore can be moved from an unsuccessful site to a better location. Management does extensive site evaluation and expects a minimum number of buildings will ever have to be moved, however one Good Times unit was relocated from a development under eminent domain proceedings in 1999.

PLAN OF OPERATION. The first objective of Drive Thru has been to develop critical mass in the Denver television market (referred to as the Denver ADI which includes Boulder, Greeley, Longmont and other communities in northern Colorado.) In the past, Management believed that critical mass in Denver required approximately 20 restaurants to be operating. However, increased advertising by its competitors and significant increases in the cost of advertising in Denver has caused management to reevaluate critical mass as requiring over 35 Good Times restaurants in the Denver ADI.

As of December 15, 1999, the Company operated seventeen company-owned and joint-venture Good Times restaurants and had fourteen franchised restaurants open in Colorado and one in Boise, Idaho.

	December 15, 1998	December 15, 1999
Company-owned restaurants	6	8
Joint venture restaurants	9	9
Franchise operated restaurants	14	15

During fiscal 1999, Drive Thru opened one franchised restaurant. One company-owned restaurant was closed in March 1998 due to the condemnation of the development on which it was located. The building and equipment were sold to a franchisee and relocated to a new site in July 1999.

Management anticipates that Drive Thru and its franchisees will develop a total of five to seven Good Times units in the Denver ADI in 2000.

OPERATIONS AND MANAGEMENT. Good Times has defined three ingredients essential to its success: (i) consistent delivery of high quality, great tasting products that are proprietary whenever possible; (ii) superior speed of service; and (iii) competitive value pricing. The order system at each Good Times restaurant is equipped with an internal timing device that displays and records the time each order takes to prepare and deliver. The total transaction time for the delivery of food at the window is approximately 30 to 45 seconds during peak times.

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

Drive Thru presently purchases its products from independent food processors and distributors and does not anticipate any difficulty in continuing to obtain an adequate quantity of food products of acceptable quality and at acceptable prices.

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

Drive Thru employs a full-time Director of Human Resources whose principal responsibility is to recruit and coordinate the training of management personnel required for continued expansion of Good Times units in the Denver ADI.

MARKETING AND ADVERTISING. Prior to fiscal 1998, marketing activities focused on radio advertising and restaurant level promotions in the immediate trade area around each location. The Company implemented a consistent television advertising campaign in fiscal 1998 and anticipates increasing its level of spending on television advertising in fiscal 2000.

The marketing efforts of Good Times focus on building "brand awareness" of Good Times' attributes for the best tasting, unique products within the context of ad campaigns that are "irreverent, funny and full of surprises", combined with specific product messages.

Signage is one of the most important elements for establishing identity at each location. The Good Times restaurant sign package that has been developed offers flexibility based on local codes, site layout and surrounding property.

FRANCHISE PROGRAM. Good Times has prepared prototype area rights and franchise agreements, a Uniform Franchise Offering Circular and advertising material to be utilized in soliciting prospective franchisees. Good Times seeks to attract franchisees having experience as restaurant operators, that are well-capitalized and have demonstrated the ability to develop multi-unit franchises.

Good Times currently reviews sites selected for franchises and monitors performance of franchise units. Good Times is considering potential franchisees only for development of units in Colorado.

Drive Thru estimates that it will cost a franchisee on average approximately \$475,000 to \$625,000 to open a Good Times double drive thru restaurant, including pre-opening costs and working capital, assuming the land is leased.

A franchisee typically will pay a royalty of 4% of net sales, an advertising fee of at least 0.5% of net sales, plus participation in regional or national advertising up to 5% of net sales, or a higher amount unanimously approved by the advertising cooperative, and initial development and franchise fees aggregating \$20,000 per unit. Among the services and materials which Drive Thru provides to franchisees are site selection assistance, plans and specifications for construction of the Good Times drive thru restaurants, an operating manual which includes product specifications and quality control procedures, training, on-site pre-opening supervision and advice from time to time relating to operation of the franchised restaurant.

Drive Thru has entered into six franchise agreements in the Denver ADI. Thirteen franchise restaurants and nine joint-venture restaurants are operating in the Denver ADI. One franchise restaurant in Grand Junction, Colorado has been open pursuant to the development agreement for the Western Slope of Colorado. One joint-venture restaurant opened in Boise, Idaho in 1995, and effective November 1, 1996, that restaurant was sold as a franchise restaurant.

OPERATIONS TO DATE. Prior to 1997, Good Times developed 24 restaurants, of which 9 were franchised, 7 were company-owned and 8 were joint ventured. In calendar 1997, Drive Thru opened one company-owned unit, two joint-ventured restaurants and one franchised restaurant. In calendar 1998, Drive Thru opened two franchised restaurants, and closed one company-owned restaurant due to the condemnation of the development on which it was located. In calendar 1999, Drive Thru opened one franchised restaurant and two company-owned restaurants.

EMPLOYEES. At December 1, 1999, Drive Thru employed approximately 335 persons (approximately 165 full time and 170 part time employees). Drive Thru considers its employee relations to be good. None of its employees is covered by a collective bargaining agreement.

ROUND THE CORNER

On September 30, 1995, the Company completed the sale of Round The Corner Restaurants, Inc. ("RTC") to Hot Concepts in consideration for \$100,000 in cash, a note in the amount of \$291,394, and the assumption of all of RTC's liabilities.

The sale of RTC by the Company resulted in a deferred gain of \$66,000. The Company was notified in August, 1996 of financial difficulties at RTC and of its Chapter 11 bankruptcy filing in October, 1996. In addition to the write-off of the note receivable, the Company recorded reserves of \$350,000 for potential losses associated with its guarantee of two restaurant leases and a note payable. The two restaurants have 15 and 36 months of remaining lease liability as of September 30, 1999. The Company entered into a settlement agreement in 1997 with RTC whereby RTC paid the Company \$300,000 for the settlement of all of the Company's claims against RTC.

BAILEY PREFERRED STOCK AND COMMON STOCK INVESTMENT

On May 31, 1996, the Company entered into a Series A Convertible Preferred Stock Purchase Agreement with The Bailey Company ("TBC") for the purchase by TBC of one million shares of Series A Convertible Preferred Stock. The aggregate purchase price for such shares was \$1 million.

Effective August 31, 1998, TBC converted all of the Convertible Preferred Stock into 426,667 shares of Common Stock of the Company. Additionally, under a separate agreement TBC and its controlling owner agreed to guarantee up to \$6 million of future mortgage debt obligations of the Company for the development of new restaurants.

On June 30, 1999 The Bailey Company completed the purchase of 350,000 shares, at \$3.00 per share, of Common Stock of the Company for \$1,050,000. The shares constitute additional shares of "Restricted Stock" under the May 31, 1996 Registration Rights Agreement between The Company and The Bailey Company.

GOVERNMENT REGULATION

Each of the Good Times restaurants is subject to the regulations of various health, sanitation, safety and fire agencies in the jurisdiction in which the restaurant is located. Difficulties or failures in obtaining the required licenses or approvals could delay or prevent the opening of a new Good Times restaurant. Federal and state environmental regulations have not had a material effect on Good Times' operations. More stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations.

The Company and Drive Thru are subject to the Fair Labor Standards Act which governs such matters as minimum wages, overtime and other working conditions. In addition, the Company and Drive Thru are subject to the Americans With Disabilities Act (the "ADA") which requires restaurants and other facilities open to the public to provide for access and use of facilities by the handicapped.

Management believes that the Company and Drive Thru are in compliance with the **ADA.**

The Company and Drive Thru are also subject to federal and state laws regulating franchise operations, which vary from registration and disclosure requirements in the offer and sale of franchises to the application of statutory standards regulating franchise relationships.

COMPETITION

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

Management of Drive Thru believes that it may have a competitive advantage in terms of quality of product and price-value compared to

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

TRADEMARKS - COLORADO

Drive Thru has registered its mark "Good Times! Drive Thru Burgers"(SM) in the State of Colorado and will endeavor to register such mark in each state it or franchisee intends to open a restaurant. At present, Drive Thru relies solely upon common law trademark protection and state registration. Such reliance will not protect Drive Thru against a prior user of the mark and, if prior use is established, Drive Thru may not be able to use the mark in the area of such use.

While the mark is important to Drive Thru, unavailability of the mark in any particular geographic area into which it desires to expand operations may not necessarily be materially adverse. Such name non-availability may, however, preclude the economies and other advantages which may be available through nationwide or regional marketing and advertising.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases approximately 3,350 square feet of space for its executive offices in Golden, Colorado for approximately \$44,000 per year. The lease is for a one year period expiring in April, 2000 and provides an option for Good Times Restaurants to renew for an additional one-year period expiring in April 2001. The space is leased from The Bailey Company at their corporate headquarters.

As of December 15, 1999, Drive Thru has an ownership interest in 17 Good Times units, all of which are located in Colorado. Nine of these restaurants are held in limited partnerships of which Drive Thru is the general partner and has a 50% interest in eight of the partnership restaurants and a 78% interest in one partnership restaurant. There are eight Good Times units wholly-owned by Drive Thru. One restaurant building and equipment package was moved from an operating site in fiscal 1998 due to condemnation of the development. The restaurant and equipment were sold to a franchisee and relocated to a new site in July 1999.

Each of the existing Good Times restaurants is a free-standing structure containing approximately 880 square feet (except for three conversions of other fast food restaurants that are 1,700-2,500 square feet, one conversion of a double drive thru building to one of 1,900 square feet with seating and one prototype 2,300 square foot building with seating) situated on lots of approximately 18,000 to 30,000 square feet. The land is leased at all but one of these locations.

Drive Thru intends to acquire new sites both through land leases and purchase agreements supported by mortgage and leasehold financing agreements.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 1999.

PART II

ITEM 5. MARKET FOR COMMON EQUITY STOCK AND RELATED STOCKHOLDER MATTERS

The Company's outstanding shares of Common Stock (the "Common Stock") are listed for trading in Nasdaq Smallcap Market. The following table sets forth the quarterly high and low bid prices as reported by the NASDAQ from December 31, 1997 through September 30, 1999, as adjusted for the one-for-five reverse stock split in February 1998. The quotations reflect prices, without retail mark-ups or mark-downs or commissions and may not represent actual transactions.

Common Stock Bid Prices	Series A Warrants Bid Prices	Series B Warrants Bid Prices
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Quarter Ended	High	Low	High	Low	High	Low
December 31, 1997	1.90	1.90	.16	.28	.31	.63
March 31, 1998	3.50	3.41	.16	.28	.16	.38
June 30, 1998	2.56	2.56	.22	.28	.22	.38
September 30, 1998	2.50	2.31	.22	.28	.22	.38
December 31, 1998	3.88	3.63	.31	.31	.25	.25
March 31, 1999	3.00	3.00	.62	.62	.31	.31
June 30, 1999	3.00	3.00	.31	.31	.31	.31
September 30, 1999	3.12	2.87	*	*	*	*

* Series A and Series B Warrants expired on June 30, 1999, therefore prices are not available after the expiration date of June 30, 1999.

In January 1999, the Company gave notice to the holders of the Series A and Series B warrants that the expiration date of such warrants had been extended from February 10, 1999 to June 30, 1999 and the exercise price of such warrants had been changed to \$3.00 per share. Prior to the June 30, 1999 expiration, approximately 106,000 warrants were exercised and the Company received net proceeds of approximately \$291,000. The balance of the Series A and Series B Warrants expired.

As of December 1, 1999, there were approximately 361 holders of record of Common Stock. However, management estimates that there are not fewer than 1,274 beneficial owners of the Company's Common Stock. The NASDAQ symbol for the Common Stock is "GTIM".

DIVIDEND POLICY

The Company has never paid dividends on its Common Stock, certain loan agreements restrict the payment of dividends, and does not anticipate paying dividends in the foreseeable future. The Company's ability to pay future dividends will necessarily depend upon its earnings and financial condition. However, since restaurant development is capital intensive, it is the intention of the Company to retain earnings, if any, for that purpose.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

The following presents certain historical financial information of the Company. This financial information includes the combined operations of the Company and Drive Thru for the fiscal years ended September 30, 1998 and September 30, 1999.

Operating Data:	Year Ended September 30,	
	1998	1999
Net Revenue	\$13,065,000	\$13,608,000
Restaurant Operating Costs:		
Food and paper costs	4,537,000	4,706,000
Labor, occupancy and other	5,820,000	5,537,000
Depreciation and amortization	698,000	665,000
Total restaurant operating costs	11,055,000	10,908,000
Income From Restaurant Operations	2,010,000	2,700,000
Other Operating Expenses:		
Selling, General and Administrative Expense	1,839,000	2,009,000
Loss from operating RTC stores	31,000	63,000
Loss (Gain) on disposal of restaurants and equipment	(225,000)	(69,000)
Loss from lease guarantees	217,000	17,000
Total Other Operating Expenses	1,862,000	2,020,000
Income (Loss) from Operations	148,000	680,000
Other Income and (expenses)		
Minority income (expense), net	(266,000)	(420,000)

Interest, net	(51,000)	33,000
Loss from store condemnation lawsuit	0	(179,000)
Other, net	(57,000)	(56,000)
Total other income and (expenses)	(374,000)	(622,000)
Net Income (loss)	\$(226,000)	\$ 58,000
Preferred Stock Dividends in Arrears	(40,000)	0
Net Income (Loss) Attributable to Common Shareholders	\$(266,000)	\$ 58,000
Basic and Diluted Earnings Per Share	\$ (.20)	\$.03
Weighted Average Shares and equivalents used in per share calculations:		
Basic	1,345,156	1,921,361
Diluted	1,345,156	1,946,666

	September 30,	
	1998	1999
Balance Sheet Data:		
Working Capital (deficit)	\$(114,000)	\$ 564,000
Total assets	6,578,000	8,537,000
Minority Interest	1,465,000	1,310,000
Long-term debt	463,000	747,000
Stockholders' equity	\$2,682,000	\$4,092,000

This Form 10-KSB contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Also, documents subsequently filed by the Company with the SEC and incorporated herein by reference may contain forward-looking statements. The Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance and that actual results could differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including but not limited to the following:

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

(II) The Company may be negatively impacted if the Company is unable to sustain same store sales increases that were experienced during fiscal 1999. Sales increases will be dependent, among other things, on the success of Company advertising and promotion of new and existing menu items. No assurances can be given that such advertising and promotions will in fact be successful.

The Company may also be negatively impacted by other factors common to the restaurant industry such as: changes in consumer tastes away from red meat and fried foods; increases in the cost of food, paper, labor, health care, workers' compensation or energy; an inadequate number of hourly paid employees; the future of the technology systems of the Company or of those parties with which the Company has material relationships to be Year 2000 compliant and/or decreases in the availability of affordable capital resources. The Company cautions the reader that such risk factors are not exhaustive, particularly with respect to future filings.

RESULTS OF OPERATIONS

FISCAL YEARS 1999 AND 1998

NET REVENUES. Net revenues for the year ended September 30, 1999 increased \$543,000 (4.2%) to \$13,608,000 from \$13,065,000 for the year ended September 30, 1998. Net revenues increased \$1,207,000 or 10.7% during fiscal 1999 from same store net revenues for restaurants that were open for the full fiscal 1998 and 1999 periods. The increase in same store net revenues is attributable to menu price increases taken since February 1997 and a new television advertising campaign that was initiated in September 1998 featuring the introduction of a new onion ring product. Net revenues increased \$144,000 due to one restaurant that was not open for the full prior year period. Net revenues decreased \$851,000 due to one company-owned restaurant that was closed in March 1998 as a result of the condemnation of the development (the restaurant was relocated to a new site), and one company-owned restaurant that was sold to a franchisee in September 1998. Net revenues increased \$44,000 due to an increase in franchise development fees and royalties from \$306,000 in fiscal 1998 to \$350,000 in fiscal 1999.

Net revenues from Drive Thru and its franchisees were \$23,690,000 for the fiscal year ended September 30, 1999 compared to \$20,560,000 for the prior fiscal year.

FOOD AND PAPER COSTS. For the year ended September 30, 1999, Drive Thru's food and paper costs were 35.5% of net restaurant sales

compared to 35.6% of net restaurant sales in fiscal 1998.

LABOR, OCCUPANCY AND OTHER EXPENSES. For the year ended September 30, 1999 Drive Thru's labor, occupancy and other expenses decreased \$283,000, from \$5,820,000 (45.6% of net restaurant revenues) to \$5,537,000 (41.8% of net restaurant revenues), compared to the year ended September 30, 1998. The decrease in labor, occupancy and other expenses is attributable to 1) the prior year period expenses include two additional restaurants, one of which was closed in March 1998 and the other was sold to a franchisee in September 1998; and 2) an increase in same store net restaurant sales, which causes restaurant expenses to decrease as a percentage of net restaurant sales.

DEPRECIATION AND AMORTIZATION EXPENSES. For the year ended September 30, 1999 Drive Thru's depreciation and amortization expenses decreased \$33,000, from \$698,000 to \$665,000, compared to the year ended September 30, 1998. The decrease is attributable to the restaurant that was sold to a franchisee in September 1998 and the restaurant that was closed in March 1998.

INCOME FROM RESTAURANT OPERATIONS. For the year ended September 30, 1999 Drive Thru's income from restaurant operations was \$2,700,000 compared to \$2,010,000 for the year ended September 30, 1998.

Drive Thru's income from restaurant operations as a percentage of net restaurant revenues was 20.4% for the year ended September 30, 1999, an increase from 15.7% for the prior year period. The increase in income from restaurant operations is attributable to menu price increases as well as management's focus on improving restaurant labor and operating efficiencies and expenses. Cash flow from restaurant operations (income from restaurant operations plus depreciation, opening expenses and accretion of deferred rent) as a percentage of net restaurant sales was 25.8% for the year ended September 30, 1999 compared to 21.8% for the year ended September 30, 1998. Income from restaurant operations reflect regional supervision, opening expenses and accretion of deferred rent of \$277,000 for the year ended September 30, 1999 and \$286,000 for the year ended September 30, 1998.

INCOME FROM OPERATIONS. Drive Thru's income from operations improved to \$680,000 in fiscal 1999 compared to \$148,000 in fiscal 1998. Income from operations for the year ended September 30, 1999 includes a gain of \$59,000 from the sale to a franchisee of a restaurant building and equipment (the restaurant sold had been closed in March 1998 due to condemnation of the development). The Company sold RTC as of September 30, 1995. In October 1996, the purchaser of RTC declared bankruptcy. The following discussion and analysis includes expenses and liabilities related to the Company's guarantee of certain RTC leases. Income from operations was negatively impacted during fiscal 1999 by \$17,000 of expenses associated with one RTC lease guarantee compared to \$217,000 during fiscal 1998 and \$63,000 of expenses associated with the operation by Good Times of one RTC restaurant, compared to \$31,000 during fiscal 1998. Selling, general and administrative expenses increased from \$1,839,000 (14.1% of net revenues) in the year ended September 30, 1998 to \$2,009,000 (14.8% of net revenues) in the year ended September 30, 1999. The increase in selling, general and administrative expenses is attributable to increased television advertising, which increased advertising expense to \$888,000 (6.7% of net restaurant sales) for the year ended September 30, 1999 from \$800,000 (6.3%) for the year ended September 30, 1998, and to increased training and recruiting expenses which increased to \$147,000 for the year ended September 30, 1999 from \$89,000 for the year ended September 30, 1998.

NET INCOME (LOSS). The net income for Drive Thru was \$58,000 for the fiscal year ended September 30, 1999 compared to a net loss of (\$226,000) for the fiscal year ended September 30, 1998. Minority interest expense increased \$154,000 as a result of improved Income from Restaurant Operations in the joint-venture restaurants for the year ended September 30, 1999. Net interest income increased \$84,000 in fiscal 1999 due to an increase in interest earning cash reserves compared to fiscal 1998, and a reduction in interest expense of \$19,000 compared to fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1999, the Company had \$1,748,000 of cash and cash equivalents on hand. The Company currently plans to use the cash balance and cash generated from operations for increasing the Company's working capital reserves and for the development of new restaurants. Management believes that the current cash on hand and additional cash expected from operations in fiscal 2000 will be sufficient to cover the working capital needs of the Company for the 2000 fiscal year.

During fiscal 1999, the Company executed a commitment letter with Safeco Credit Company whereby Safeco has committed to provide up to \$3,000,000 in mortgage debt financing for the development of the Company's new prototype restaurants, including the purchase of land underlying the restaurants. The balance outstanding is \$510,000 at September 30, 1999. The Company also entered into two commitment letters with a financial institution. Under the terms of the commitments the Company can borrow up to \$1,850,000 in long term financing to be used only for the development of five new Good Times Restaurants and the repayment of a \$300,000 note due to a third party. There were no borrowings under those commitments as of September 30, 1999.

Effective August 31, 1998, TBC converted all of the Convertible Preferred Stock into 426,667 shares of Common Stock of the Company. Additionally, under a separate agreement TBC and its principal owner agreed to guarantee up to \$6 million of future mortgage debt obligations of the Company for the development of new restaurants. In fiscal 1999, TBC purchased 350,000 shares of common stock for \$1,050,000 in cash, and received 25,000 warrants in conjunction with the purchases.

The Company remains contingently liable on one Las Vegas restaurant lease that has been subleased, and two RTC restaurant leases, one of which has been subleased. Management anticipates minimal future losses from the RTC or Vegas lease contingencies.

As of September 30, 1999, the Company had working capital of \$564,000. Because restaurant sales are collected in cash and accounts payable for food and paper products are paid two to four weeks later, restaurant companies often operate with working capital deficits. It is anticipated that working capital deficits will be incurred as new Drive Thru restaurants are opened.

Net cash provided by operating activities of the Company was \$1,234,000 for fiscal 1999 compared to \$385,000 in fiscal 1998. For fiscal 1999, this was the result of net income of \$58,000 and non-cash reconciling items totaling \$1,176,000 (comprised principally of depreciation and amortization of \$665,000, minority interest of \$420,000 and increases in operating assets and liabilities totaling \$91,000).

Net cash used in investing activities by the Company in fiscal 1999 was \$903,000, which reflects the purchase of property and equipment of \$935,000, and proceeds from the sale of assets of \$289,000. Drive Thru utilizes cash provided by investing activities for working capital and for capital expenditures consisting primarily of expenditures for the development of new Good Times restaurants and refurbishment of existing restaurants. In fiscal 1999 Drive Thru developed one company-owned restaurant.

Net cash provided by investing activities by the Company in fiscal 1998 was \$530,000, which included the purchase of property and equipment of \$231,000 and proceeds from the sale of assets of \$532,000.

Net cash provided by financing activities by the Company in fiscal 1999 was \$649,000 which includes proceeds from the sale of common stock and the exercise of warrants of \$1,336,000, contributions from minority interests in partnerships of \$11,000, distributions to minority interests in partnerships of \$586,000 and principal payments on notes payable and long term debt of \$112,000.

Net cash used in financing activities by the Company in fiscal 1998 was \$555,000 which includes principal payments on notes payable and long term debt of \$152,000, borrowings on notes payable and long-term debt of \$18,000, distributions to minority interests in partnerships of \$440,000 and contributions from minority interests in partnerships of \$19,000.

Neither the Company nor Drive Thru currently have any bank lines of credit.

The Company intends to use its cash resources and cash generated from operations for working capital, and for the development of new company-owned and joint-venture restaurants in combination with planned additional debt financing. Management intends to continue to develop Good Times restaurants through franchising and joint development activities with existing and new franchisees.

YEAR 2000 READINESS DISCLOSURE

Computer programs or other embedded technology that have been written using two digits to define the applicable year and that have time-sensitive logic may recognize a date using "00" as the Year 1900 rather than the Year 2000. This could result in widespread miscalculations or system failures. If we and our material vendors and suppliers are unable to address Year 2000 issues in a timely manner, under a worst case scenario it could result in material financial risk, including the loss of revenue and substantial unanticipated costs. Therefore, we plan to devote all resources necessary to resolve significant Year 2000 issues in a timely manner.

Both information technology systems and non-IT systems using embedded technology may be affected by the Year 2000. We have undertaken an enterprise-wide program to prepare our IT and non-IT systems and applications for the Year 2000. We completed the assessment phase of our Year 2000 program and have implemented all computer hardware and software replacements and upgrades as of September 30, 1999. We have completed the process of surveying whether vendors and suppliers with which we have material relationships are Year 2000 compliant. This assessment process included contacting each vendor's IT department to inquire as to their state of Year 2000 readiness and requesting written documentation outlining each vendor's Year 2000 compliance plan. We have contacted our major food supplier and have received assurances that such supplier has addressed the Year 2000 issue and the specific actions that are being taken in connection with its business operations. However, we have not independently verified the accuracy of any third party's Year 2000 readiness assurances.

Expenditures for Year 2000 issues were approximately \$125,000 for fiscal 1999. Although management believes that Good Times is reasonably well prepared for any impact of the Year 2000, since many Year 2000 factors outside the Company's control could cause significant disruptions of business activities, such as the failure of third parties to be Year 2000 compliant, we are not able to determine whether the Year 2000 will have a material effect on our financial condition, results of operations or cash flows.

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INDEPENDENT AUDITOR'S REPORT

To the Stockholders and
Board of Directors
Good Times Restaurants Inc.
Golden, Colorado

We have audited the accompanying consolidated balance sheet of Good Times Restaurants Inc. and subsidiaries as of September 30, 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended September 30, 1998 and 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Good Times Restaurants Inc. and subsidiaries as of September 30, 1999, and the results of their operations and their cash flows for the years ended September 30, 1998 and 1999, in conformity with generally accepted accounting principles.

Hein + Associates LLP

Denver, Colorado
November 5, 1999

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET SEPTEMBER 30, 1999

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$1,748,000
Investments, at fair value	299,000
Receivables	192,000
Inventories	55,000
Prepaid expenses and other	37,000
Notes receivable	48,000
Total current assets	2,379,000
PROPERTY AND EQUIPMENT, AT COST:	
Land and building	3,340,000
Leasehold improvements	2,349,000
Fixtures and equipment	3,039,000
	8,728,000
Less accumulated depreciation and amortization	(3,080,000)
	5,648,000
OTHER ASSETS:	
Notes receivable	435,000
Other	75,000
	510,000
TOTAL ASSETS	\$8,537,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Current maturities of long-term debt	\$399,000
Accounts payable	607,000
Lease obligations, RTC and Las Vegas	202,000
Accrued other liabilities	607,000
Total current liabilities	<u>1,815,000</u>
LONG-TERM LIABILITIES:	
Debt, net of current portion	747,000
Lease obligations, RTC and Las Vegas, net of current portion	260,000
Deferred liabilities	313,000
Total long-term liabilities	<u>1,320,000</u>
MINORITY INTERESTS IN PARTNERSHIPS	1,310,000
COMMITMENTS (NOTES 2, 5, 6, and 9)	
STOCKHOLDERS' EQUITY:	
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued and outstanding	
Common stock, \$.001 par value; 50,000,000 shares authorized, 2,221,507 shares issued and outstanding	2,000
Capital contributed in excess of par value	13,203,000
Accumulated deficit	(9,113,000)
Total stockholders' equity	<u>4,092,000</u>
TOTAL LIABILITIES and Stockholders' Equity	<u>\$8,537,000</u> =====

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED SEPTEMBER 30,	
	1998	1999
NET REVENUES:		
Restaurant sales	\$12,759,000	\$13,258,000
Area development and franchise fees	65,000	20,000
Franchise royalties	241,000	330,000
Total net revenues	<u>13,065,000</u>	<u>13,608,000</u>
RESTAURANT OPERATING COSTS:		
Food and paper costs	4,537,000	4,706,000
Restaurant labor costs	3,989,000	3,802,000
Restaurant occupancy costs	1,370,000	1,322,000
Accretion of deferred rent	46,000	27,000
Other restaurant operating costs	390,000	362,000
Opening expenses	25,000	24,000
Depreciation and amortization	698,000	665,000
Total restaurant operating costs	<u>11,055,000</u>	<u>10,908,000</u>
INCOME FROM RESTAURANT OPERATIONS	2,010,000	2,700,000
OTHER OPERATING EXPENSES (INCOME):		
General and administrative	1,039,000	1,121,000
Advertising	800,000	888,000
Loss from operating RTC stores	31,000	63,000
Loss (gain) on disposal of restaurants and equipment	(225,000)	(69,000)
Loss from RTC lease guarantees	217,000	17,000
Total other operating expenses	<u>1,862,000</u>	<u>2,020,000</u>
INCOME FROM OPERATIONS	148,000	680,000
OTHER INCOME (EXPENSES):		
Interest income	40,000	105,000

Interest expense	(91,000)	(72,000)
Minority interest in income of partnerships	(266,000)	(420,000)
Loss from store condemnation lawsuit	-	(179,000)
Other, net	(57,000)	(56,000)
Total other expenses, net	(374,000)	(622,000)
NET INCOME (LOSS)	\$ (226,000)	\$ 58,000
PREFERRED STOCK DIVIDENDS	\$ (40,000)	\$ -
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (266,000)	\$ 58,000
Basic and Diluted Earnings Per Share	\$ (.20)	\$.03
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	1,345,156	1,921,361
Diluted	1,345,156	1,946,666

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE PERIOD FROM OCTOBER 1, 1997 THROUGH SEPTEMBER 30, 1999

	PREFERRED STOCK		COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE	ACCUMULATED DEFICIT	TOTAL
	ISSUED SHARES	PAR VALUE	ISSUED SHARES	PAR VALUE			
BALANCES, OCT 1, 1997	1,000,000	10,000	1,279,556	\$1,000	\$11,827,000	\$(8,945,000)	\$2,893,000
Stock issued to employee benefit plan	-	-	7,414	-	15,000	-	15,000
Common stock issued as preferred stock dividends	-	-	34,282	-	-	-	-
Preferred stock converted to common stock	(1,000,000)	(10,000)	426,667	1,000	9,000	-	-
Net loss	-	-	-	-	-	(226,000)	(226,000)
BALANCES, SEPTEMBER 30, 1998	-	-	1,747,919	2,000	11,851,000	9,171,000	2,682,000
Stock issued to employee benefit plan	-	-	7,072	-	16,000	-	16,000
Common stock issued as preferred stock dividends	-	-	10,684	-	-	-	-
Private placement stock purchase	-	-	350,000	-	1,045,000	-	1,045,000

Exercise of warrants	-	-	105,832	-	291,000	-	291,000
Net income	-	-	-	-	-	58,000	58,000
BALANCES, SEPTEMBER 30, 1999	-	\$-	\$2,221,507	\$2,000	\$13,203,000	\$(9,113,000)	\$4,092,000
	===	====	=====	=====	=====	=====	=====

GOOD TIMES RESTAURANTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED SEPTEMBER 30,	
	1998	1999
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(226,000)	\$58,000
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	698,000	665,000
Accretion of deferred rent	46,000	27,000
Minority interest	266,000	420,000
Gain on disposal of property, restaurants and equipment, net	(225,000)	(69,000)
Loss on lease guarantees	217,000	17,000
Loss on condemnation lawsuit	-	179,000
Common stock issued to 401(k) Plan for Company match	15,000	16,000
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(42,000)	(92,000)
Inventories	(1,000)	(3,000)
Prepaid expenses and other	3,000	(68,000)
(Decrease) increase in:		
Accounts payable	(24,000)	166,000
Accrued and other liabilities	(342,000)	(82,000)
Net cash provided by operating activities	385,000	1,234,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the purchase of property and equipment	(231,000)	(935,000)
Proceeds from sale of assets	532,000	289,000
Purchase of investments	-	(299,000)
Loans made to franchisees	(451,000)	(261,000)
Payments received on loans to franchisees	380,000	303,000
Payment received for RTC bankruptcy settlement	300,000	-
Net cash provided by (used in) investing activities	530,000	(903,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable and long-term debt	(152,000)	(112,000)
Borrowings on notes payable and long-term debt	18,000	-
Distributions paid to minority interests in partnerships	(440,000)	(586,000)
Contributions from minority interest in partnerships	19,000	11,000
Proceeds from the sale of common stock	-	1,045,000
Proceeds from exercise of warrants	-	291,000
Net cash provided by (used in) financing activities	(555,000)	649,000
INCREASE IN CASH AND CASH EQUIVALENTS	360,000	980,000
CASH AND CASH EQUIVALENTS, beginning of period	408,000	768,000
CASH AND CASH EQUIVALENTS, end of period	\$ 768,000	\$1,748,000
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 91,000	\$ 72,000

	=====	=====
Cash paid for taxes	\$ -	\$ -
	=====	=====
Purchase of land, building, and equipment through notes and debt	\$ 18,000	\$ 700,000
	=====	=====
Conversion of preferred stock to common stock	\$1,000,000	\$ -
	=====	=====

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION - Good Times Restaurants Inc. (Good Times or the Company) is a Nevada corporation. In July 1992, Good Times merged with Round the Corner Restaurants, Inc. (RTC), and subsequently sold all of the stock of RTC in 1995. The Company operates through its subsidiary Good Times Drive Thru Inc. (Drive Thru).

Drive Thru commenced operations in 1986 and, as of September 30, 1999, operates 15 company-owned and joint venture drive-thru fast food hamburger restaurants. The Company's restaurants are located in Colorado. In addition, Drive Thru has 14 franchises operating in Colorado and one in Boise, Idaho, and is offering franchises for development of additional Drive Thru restaurants.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of Good Times and its subsidiaries, including certain 50% (approximately) owned limited partnerships in which the Company exercises control as general partner. All intercompany accounts and transactions are eliminated.

The unrelated limited partners' equity of each partnership has been recorded as minority interest in the accompanying consolidated financial statements.

OPENING COSTS - Opening costs are expensed as incurred.

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

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

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

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

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

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

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

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

DEFERRED LIABILITIES - Rent expense is reflected on a straight-line basis over the term of the lease for all leases containing step-ups in base rent. An obligation representing future payments (which totaled \$264,000 as of September 30, 1999) has been reflected in the

accompanying consolidated balance sheet as a deferred liability. The remaining balance includes a deferred gain of \$49,000 on the sale of a restaurant.

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

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

STATEMENT OF CASH FLOWS - For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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

NET INCOME (LOSS) PER COMMON SHARE - The income (loss) per share is presented in accordance with the provisions of SFAS No. 128, Earnings Per Share. SFAS No. 128 replaced the presentation of primary and fully diluted earnings (loss) per share (EPS) with a presentation of basic EPS and diluted EPS. Basic EPS is calculated by dividing the income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK - CREDIT RISK represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly effected by changes in economic or other conditions.

Financial instruments with off-balance-sheet risk to the Company include lease liabilities whereby the Company is contingently liable as the primary lessee of certain leases that were assigned to third parties in connection with various store closures (see Note 6).

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and receivables. At September 30, 1999, notes receivable totaled \$483,000 and were from three entities. The notes receivables are generally collateralized by buildings and equipment and guaranteed by certain individuals. Additionally, the Company has receivables of \$192,000, which consists principally of current franchise receivables.

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

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

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

COMPREHENSIVE INCOME (LOSS) - In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. SFAS No. 130, which is effective for fiscal years beginning after December 15, 1997, defines comprehensive income as all changes in shareholders' equity exclusive of transactions with owners, such as capital investments. Comprehensive income includes net income or loss, changes in certain assets and liabilities that are reported directly in equity such as translation adjustments on investments in foreign subsidiaries, and certain changes in minimum pension liabilities. The Company's comprehensive income (loss) was equal to its net income (loss) for all periods presented in these financial statements.

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

RECLASSIFICATION - Certain reclassifications have been made to conform 1998 financial statements to the presentation in 1999. The reclassifications had no effect on net loss.

2. SALE OF RESTAURANTS:

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

In 1995, the Company closed its operations in Las Vegas (LV) and has subsequently focused substantially all its market efforts in Colorado. In connection with the closure of restaurants in LV, the Company subleased its property location. Under its sublease agreement, the Company has a continuing liability for a portion of the lease. As of September 30, 1999, the estimated liability for the RTC and LV lease obligations is \$462,000 of which \$202,000 is recorded as a current liability.

In 1996, the Company sold its interest in one of its managed limited partnerships to the limited partner. The Company remains a guarantor on \$228,000 of notes payable assumed by the purchaser. The purchaser and an additional guarantor have personally agreed to indemnify the Company for any payments made on the note by the Company.

The Company closed a store because a local government body condemned the development on which it was located. The Company moved the building and equipment to a storage facility, and in 1999, sold the building and equipment to a franchisee to open a new store. As a result of a court ruling on the condemnation, the Company recorded a loss in 1999 of \$179,000 associated with the charge-off of its carrying costs on the site. The Company expects to be reimbursed for certain costs, which is included as a \$20,000 receivable at September 30, 1999 and continues to pursue recovery of additional amounts related to the condemnation.

In 1998, the Company sold a restaurant to a franchisee for \$374,000 cash and a \$76,000 note. The Company recognized a gain on the sale in the amount of approximately \$184,000, which is included in loss (gain) on disposal of restaurants and equipment.

3. INVESTMENTS AND INVESTMENT INCOME:

Investments as of September 30, 1999 consist of the following:

	Cost	Unrealized Gain (Loss)	Investments
Fixed income bonds and CDs	\$299,000	\$ -	\$299,000

4. NOTES RECEIVABLE:

Notes receivable consist of the following as of September 30, 1999:

Note receivable, 8%, monthly payments of principal and interest are due in the amount of \$3,410, with the final payment due in June 2010. Collateralized by a building and equipment and guaranteed by an individual.	\$294,000
Note receivable, 12%, monthly payments of principal and interest in the amount of \$760, with the final payment in September 2001. Collateralized by a second interest in building and equipment.	76,000
Note receivable, 8%, monthly payments of principal and interest are due in the amount of \$940, with the final payment due in June 2008. This receivable may be due earlier if sales generated by the collateralized restaurant exceed a certain dollar amount. Collateralized by a second interest in a building and guaranteed by an individual.	71,000
Note receivable, 9%, monthly payments of principal and interest in the amount of \$1,245, with final payment in September 2000 collateralized by building and equipment. The note is personally guaranteed by an individual. The borrower of this note has not made payments in over one year, and the noteholder was brought to court to collect. The judgment order was in favor of the Company for the full note balance, plus interest and attorney fees. The Company believes that the collateral and the noteholder's personal net worth is adequate to cover the judgment order amount.	42,000
	483,000
Less current portion.	(48,000)
	\$435,000
	=====

5. DEBT:

Note payable to a financial institution, monthly payments of interest only are due until December 1, 1999. Starting in

Net rent paid	\$ 852,000
	=====

As of September 30, 1999, future minimum rental commitments required under Good Times and Drive Thru capital and operating leases that have initial or remaining noncancellable lease terms in excess of one year are as follows:

	OPERATING LEASES
2000	\$ 1,465,000
2001	1,354,000
2002	1,333,000
2003	1,226,000
2004	1,151,000
Thereafter	8,017,000
	<u>14,546,000</u>
Less sublease rentals	(4,815,000)
	<u>\$ 9,731,000</u>
	=====

The Company remains contingently liable on several leases of restaurants that were previously sold, which have been included in the future minimum rental commitment schedule above. The Company is also a guarantor on a Small Business Administration loan to a franchisee for approximately \$357,000.

The Company is subject to litigation in the normal course of business. The litigation is not expected to have a material impact to the Company.

7. MANAGED LIMITED PARTNERSHIPS:

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

8. INCOME TAXES:

Deferred tax assets (liabilities) are comprised of the following at September 30, 1999:

	Current	Long-Term
Deferred assets (liabilities):		
Partnership basis difference	\$ -	\$ 572,000
Net operating loss carryforward	-	2,003,000
Property and equipment basis differences	-	(1,045,000)
Other accrued liability difference	140,000	46,000
	<u>140,000</u>	<u>1,576,000</u>
Net deferred tax assets	140,000	1,576,000
Less valuation allowance*	(140,000)	(1,576,000)
	<u>\$ -</u>	<u>\$ -</u>
Net deferred tax assets	\$ -	\$ -
	=====	=====

* The valuation allowance increased by \$2,000 during the year ended September 30, 1999.

The Company has no taxable income under Federal and state tax laws. Therefore, no provision for income taxes was included. The Company has net operating loss carryforwards of approximately \$5,360,000 for income tax purposes which expire from 2002 through 2012. The use of these losses may be restricted in the future due to changes in ownership.

Total income tax expense for the years ended 1999 and 1998 differed from the amounts computed by applying the U.S. Federal statutory tax rates to pre-tax income as follows:

	1999	1998
Total expense computed by applying the U.S.	<u> </u>	<u> </u>

statutory rate (34%)	\$20,000	\$(77,000)
Effect of net operating loss carryforward	(22,000)	77,000
Other	2,000	-
Provision for income taxes (rounded)	\$ -	\$ -
	=====	=====

9. RELATED PARTIES:

In fiscal 1998, the Bailey Company (the "Baileys"), a significant common stock stockholder, converted all of the outstanding Convertible Preferred Stock to common stock. In fiscal 1999, the Baileys purchased 350,000 shares of common stock, and received 25,000 warrants in conjunction with the purchases (see Notes 10 and 11).

The Baileys have entered into a co-development agreement with the Company as well as two franchise agreements and an attendant management agreement. The Company also leases office space from the Bailey's. Rent paid to the Baileys in 1999 was \$44,000. The Baileys and the Company have guaranteed a loan made to the co-development partnership in the amount of \$150,000. The Baileys construction division renovated a new store of the Company, which opened in October 1999. The Company owed the Baileys approximately \$150,000 for this construction at September 30, 1999. Two of the Company's Board members are principals of the Baileys. As described in Note 5, the Baileys have also agreed to guarantee certain loan arrangements and the Company has agreed to pay the Baileys a fee for this guarantee.

10. STOCKHOLDERS' EQUITY:

In 1998, the shareholders approved a one-for-five reverse stock split of the Company's common stock. All references to number of shares, except shares Authorized, and to per share information in the consolidated financial statements have been adjusted to reflect the reverse stock split on a retroactive basis.

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

In 1996, the Company closed the sale of \$1 million of preferred stock. In August 1998, the preferred stockholder exercised its right to convert the preferred stock to common stock at a rate of \$2.34375. All such preferred stock was converted and none is outstanding at September 30, 1999. At September 30, 1998, there were \$25,000 of dividends in arrears, which were paid in fiscal 1999.

A significant stockholder entity purchased 350,000 shares of common stock through two private placements in fiscal 1999. In conjunction with the second purchase, the significant stockholder received 25,000 warrants.

11. STOCK-BASED COMPENSATION:

Earnings Per Share - The following is a reconciliation of basic and diluted EPS:

	FOR THE YEAR ENDED SEPTEMBER 30, 1999		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
BASIC EPS			
Income available to common shareholders	\$58,000	1,921,361	\$.03
			===
Effect of dilutive options and warrants	-	25,305	
DILUTED EPS			
Income available to common shareholders plus assumed conversions	\$58,000	1,946,666	\$.03
	=====	=====	===

Vested options to purchase 115,999 shares of common stock were outstanding at September 30, 1999. All of these options had a dilutive effect on the 1999 EPS. For purposes of calculating diluted EPS, those options resulted in 25,305 incremental shares for 1999, determined using the treasury stock method. These options had exercise prices ranging from \$2.31 to \$2.50 per share for 1999.

The Company also had warrants outstanding at September 30, 1999 to purchase 35,000 shares of common stock. All of these warrants had an anti-dilutive effect on the diluted EPS and were therefore excluded from the calculation.

Basic and diluted EPS were the same for fiscal 1998 as the Company had losses from continuing operations and therefore, the effect of all potential common stocks was antidilutive.

The Company has an incentive stock option plan (the ISO) and a non-statutory stock option plan (the NSO) whereby 525,000 shares and 125,000 shares, respectively, are reserved for issuance. As of September 30, 1999, options for the purchase of 236,880 and 48,001 shares of common stock are outstanding under these plans, respectively, and no options have been exercised.

The following is a summary of activity under these stock option plans for the years ended September 30, 1998 and 1999.

INCENTIVE STOCK OPTIONS - Activity for incentive stock options is summarized below.

	1998		1999	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	71,500	\$2.50	106,180	\$2.50
Canceled	(1,200)	\$2.50	(1,700)	\$2.42
Granted	35,880	\$2.50	132,400	\$3.12
Outstanding, end of year	106,180	\$2.50	236,880	\$2.85
	=====		=====	

For all incentive stock options granted during 1998 and 1999, the weighted average fair value per option was approximately \$1.64 and \$2.56, respectively. The outstanding options at September 30, 1998 and 1999 had weighted average exercise prices of \$2.50 and \$2.85, respectively.

At September 30, 1999, options for 67,998 shares were exercisable. Additional options will become exercisable as follows:

YEAR ENDING SEPTEMBER 30,	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
2000	22,646	\$2.86
2001	40,134	\$2.91
2002	53,420	\$2.96
2003	52,682	\$3.12
Total	168,882	
	=====	

If not previously exercised, options outstanding at September 30, 1999 will expire as follows:

[/TABLE]

YEAR ENDING SEPTEMBER 30,	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
[C]	[C]	[C]
2007	70,400	\$2.50
2008	131,700	\$2.50
2009	34,780	\$3.12
Total	236,880	
	=====	

[/TABLE]

NON-QUALIFIED STOCK OPTIONS - The Company has also granted non-qualified options which are summarized as follows for the years ended September 30, 1998 and 1999:

[TABLE]

1998	1999
WEIGHTED	WEIGHTED

	NUMBER OF SHARES	AVERAGE EXERCISE PRICE	NUMBER OF SHARES	AVERAGE EXERCISE PRICE
[C]	[C]	[C]	[C]	[C]
Outstanding, beginning of year	21,121	\$11.70	26,000	\$ 5.38
Granted	14,000	\$ 2.50	34,001	\$ 2.31
Canceled/expired	(9,121)	\$15.60	(12,000)	\$ 8.75
	=====		=====	
Outstanding, end of year	26,000	\$ 5.38	48,001	\$ 2.37

For all non-qualified stock options granted during 1998 and 1999, the weighted average fair value per option was approximately \$1.07 and \$1.65, respectively. The outstanding options at September 30, 1998 and 1999 had weighted average exercise prices of \$5.38 and \$2.37, respectively.

All outstanding non-qualified options were exercisable at September 30, 1999. If not previously exercised, non-qualified options outstanding at September 30, 1999 will expire as follows:

YEAR ENDING SEPTEMBER 30,	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
[C]	[C]	[C]
2002	14,000	\$2.50
2003	34,001	\$2.31
	=====	
Total	48,001	

STOCK PURCHASE WARRANTS - The Company has granted warrants which are summarized as follows for the years ended September 30, 1998 and 1999:

	1998		1999	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	571,073	\$9.85	546,603	\$ 9.95
Granted	-	\$ -	25,000	\$ 4.00
Repriced - canceled	-	\$ -	(536,603)	\$ 7.00
Repriced - reissued	-	\$ -	536,603	\$ 3.00
Exercised	-	\$ -	(105,832)	\$ 3.00
Expired	(24,470)	\$6.75	(430,771)	\$ 3.00
	=====		=====	
Outstanding, end of year	546,603	\$9.95	35,000	\$ 4.86

All outstanding warrants were exercisable at September 30, 1999. If not previously exercised, warrants outstanding at September 30, 1999 will expire as follows:

YEAR ENDING SEPTEMBER 30,	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
2000	10,000	\$7.00
2004	25,000	\$4.00
	=====	
Total	35,000	

=====

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

	YEAR ENDED SEPTEMBER 30,	
	1998	1999
Net income (loss) applicable to common stockholders:		
As reported	\$(266,000)	\$58,000
Pro forma	(297,000)	(64,000)
Net income (loss) per common share:		
As reported	\$ (.20)	.03
Pro forma	\$ (.22)	(.03)

The fair value of each employee option granted in 1998 and 1999 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	YEAR ENDED SEPTEMBER 30,	
	1998	1999
Expected volatility	105%	114%
Risk-free interest rate	5.5%	5.5%
Expected dividends	-	-
Expected terms (in years)	4	5

Subsequent to year-end, the Company issued 79,791 incentive stock options at a exercise price of \$3.12. These options expire in the fiscal year 2010. The Company also issued 12,000 non-statutory options at an exercise price of \$3.12, which expire in the year 2004.

12. RETIREMENT PLAN:

The Company has a 401(k) profit sharing plan (the Plan). Eligible employees may make voluntary contributions to the Plan, which are matched by the Company, using the Company's common stock in an amount equal to 25% of the employees contribution up to 6% of their compensation. The amount of employee contributions is limited as specified in the Plan. The Company may, at its discretion, make additional contributions to the Plan or change the matching percentage. The Company has accrued for contributions of \$20,000 at September 30, 1999.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEMS 9-12.

The information required by Items 9 through 12 of Part III is incorporated by reference from the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its Annual Meeting of Shareholders to be held on January 20, 2000.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

Exhibit Number	Description
3.1	Articles of Incorporation of the Registrant (previously filed on November 30, 1988 as Exhibit 3.1 to the registrant's Registration Statement on Form S-18 (File No. 33-25810-LA) and incorporated herein by reference and incorporated herein by reference)
3.2	Amendment to Articles of Incorporation of the Registrant dated January 23, 1990 (previously filed on January 18, 1990 as Exhibit 3.1 to the registrant's Registration Statement on Form 8-K)

(File No. 33-25810-LA) and incorporated herein by reference)

- 3.4 Restated Bylaws of Registrant dated June 10, 1996 (previously filed as Exhibit 3.4 to the registrant's Form 10-KSB for the fiscal year ended September 30, 1996 and incorporated herein by reference)
- 3.5 Certificate of Amendment of Articles of Incorporation (previously filed as Exhibit 3.5 to the registrant's Form 10-KSB for the fiscal year ended September 30, 1996 and incorporated herein by reference)
- 3.6 Restated Bylaws of Registrant dated November 7, 1997 (previously filed as Exhibit 3.6 to the registrant's Form 10-KSB for the fiscal year ended September 30, 1997 and incorporated herein by reference)
- 4.1 Form of Warrant Certificate for the purchase of an aggregate of 920,000 shares of registrant's common stock issued in 1990 public offering (previously filed as Exhibit 4.2 to the registrant's Registration Statement on Form S-1 (File No. 33-33972) on March 26, 1990 and incorporated herein by reference)
- 4.2 Form of Underwriters' Warrant for the purchase of 80,000 shares issued in connection with 1990 public offering (previously filed as Exhibit 1.4 on the registrant's Registration Statement on Form S-1 (File No. 33-33972) on March 26, 1990 and incorporated herein by reference)
- 4.3 Form of Underwriters' Warrant for the purchase of 69,000 units issued in connection with 1992 public offering (previously filed as Exhibit 1.4 on the registrant's Registration Statement on Form S-1 (File No. 33-46813) on March 27, 1992 and incorporated herein by reference)
- 4.4 Form of Warrant Certificate for the purchase of an aggregate of 720,000 shares of registrant's common stock issued in 1992 public offering (previously filed as Exhibit 4.4 on the registrant's Registration Statement on Form S-1 (File No. 33-46813) on March 27, 1992 and incorporated herein by reference)
- 4.5 Amended and Restated Warrant Agreement (previously filed as Exhibit 4.3 on the registrant's Statement on Form S-1 (File No. 33-46813) on March 27, 1992 and incorporated herein by reference)
- 4.6 Form of Warrant Certificate or purchase an aggregate of 105,000 shares of registrant's common stock issued in November 1991 private offering (previously filed as Exhibit 4.2 on registrants Form 10-KSB for the fiscal year ended September 30, 1991 and incorporated herein by reference)
- 4.7 Form of Registration Rights Agreement relating to 105,000 shares of the registrant's common stock issuable upon exercise of warrants issued in November 1991 private offering (previously filed as Exhibit 4.3 on registrants Form 10-KSB for the fiscal year ended September 30, 1991 and incorporated herein by reference)
- 4.8 Form of Warrant Certificate for the purchase of an aggregate 50,000 shares of registrant's common stock issued to limited partners of Good Times Limited Partnership I (previously filed as Exhibit 4.14 on the registrant's Registration Statement on Form S-1 (File No. 33-46813) on March 27, 1992 and incorporated herein by reference)
- 4.11 Form of Warrant dated June 1, 1995 for the purchase of 50,000 shares of registrant's common stock at an exercise price of \$1.40 per share issued to Boulder Radiologists Inc., Defined Benefit plan - Dubach, of indebtedness by registrant to Dr. Kenneth Dubach (previously filed as Exhibit 4.15 on registrant's Form 10-KSB/A for the fiscal year ended September 30, 1995 and incorporated herein by reference)
- 4.12 First Amended and Restated Series B Warrant Agreement (previously filed as Exhibit 4.16 on registrant's Form 10-KSB for the fiscal year ended September 30, 1996 and incorporated herein by reference)
- 4.13 Third Amended and Restated Warrant Agreement (previously filed as Exhibit 4.17 on registrant's Form 10-KSB for the fiscal year ended September 30, 1996 and incorporated herein by reference)
- 4.14 Fourth Amended and Restated Warrant Agreement made effective as of February 10, 1999 between Good Times Restaurants Inc. And American Securities Transfer, Inc. Regarding the Series A Warrants of Good Times Restaurants Inc. (previously filed as Exhibit 7.1 to the registrant's current report on Form 8-K dated April 6, 1999 (File No. 0-18590) and incorporated herein by reference)
- 4.15 Second Amended and Restated Warrant Agreement made effective as of

February 10, 1999 between Good Times Restaurants Inc. And American Securities Transfer, Inc. Regarding the Series B Warrants of Good Times Restaurants (previously filed as Exhibit 7.2 to the registrant's current report on Form 8-K dated April 6, 1999 (File No. 0-18590) and incorporated herein by reference)

- 4.16 Amendment to Shareholder Rights Plan (previously filed on Form 8-K dated October 14, 1999) and incorporated herein by reference
- 10.1 Form of Promissory Note dated June 1, 1995 by and between Good Times Restaurants Inc. And Boulder Radiologist Inc. Pension Plan FBO Dubach in the amount of \$300,000 due and payable on May 31, 2000 (previously filed as Exhibit 10.28 to the registrant's Form 10-KSB/A for the fiscal year ended September 30, 1995 and incorporated herein by reference)
- 10.3 Form of Promissory Note dated November 3, 1995 by and between AT&T Commercial Finance Corporation, Boise Co-Development Limited Partnership, Good Times Drive Thru Inc. as general partner, and Good Times Restaurants Inc. as guarantor in the amount of \$254,625 (previously filed as Exhibit 10.34 to the registrant's Form 10-KSB/A for the fiscal year ended September 30, 1995 and incorporated herein by reference)
- 10.4 Form of Promissory Note dated November 3, 1995 by and between AT&T Commercial Finance Corporation, Boise Co-Development Limited Partnership, Good Times Drive Thru Inc. as general partner, and Good Times Restaurants as guarantor in the amount of \$104,055 (previously filed as Exhibit 10.35 to the registrant's Form 10-KSB/A for the fiscal year ended September 30, 1995 and incorporated herein by reference)
- 10.7 Registration Rights Agreement dated May 31, 1996 regarding registration rights of the common stock issuable upon conversion of the Series A Convertible Preferred Stock (previously filed as Exhibit 10.15 to the registrant's Form 10-KSB/A for the fiscal year ended September 30, 1995 and incorporated herein by reference)
- 10.8 Employment Agreement dated May 3, 1996 between Registrant and Boyd E. Hoback (previously filed as Exhibit 10.17 on registrant's Form 10-KSB for the fiscal year ended September 30, 1996 and incorporated herein by reference)
- 10.9 Amendment and Agreement regarding Series A Convertible Preferred Stock by and between Good Times Restaurants Inc. And The Bailey Company dated December 3, 1987, effective as of October 31, 1997 (previously filed as Exhibit 10.13 on registrant's Form 10-KSB for the fiscal year ended September 30, 1997 and incorporated herein by reference)
- 10.10 Indemnification by Dr. Kenneth Dubach to Good Times Drive Thru Inc. dated December 10, 1996 with respect to the promissory note of the Boise Co-Development Limited Partnership dated November 3, 1995 in the original amount of \$254,625 and the promissory note dated November 3, 1995 in the original amount of \$104,055 (previously filed as Exhibit 10.14 on registrant's Form 10-KSB for the fiscal year ended September 30, 1997 and incorporated herein by reference)
- 10.12 Office lease (previously filed as Exhibit 10.12 on registrant's Form 10-KSB for the fiscal year ended September 30, 1998 and incorporated herein by reference)
- 10.13 The Bailey Company Guaranty Agreement (previously filed as Exhibit 10.13 on registrant's Form 10-KSB for the fiscal year ended September 30, 1998 and incorporated herein by reference)
- 10.14 Safeco commitment letter (previously filed as Exhibit 10.14 on registrant's Form 10-KSB for the fiscal year ended September 30, 1998 and incorporated herein by reference)
- 10.15 1992 Incentive Stock Option Plan of registrant, as amended (previously filed as Exhibit 4.9 on registrant's Form 10-KSB for the fiscal year ended September 30, 1998 and incorporated herein by reference)
- 10.16 1992 Non-Statutory Stock Option Plan of registrant, as amended (previously filed as Exhibit 4.10 on registrant's Form 10-KSB for the fiscal year ended September 30, 1998 and incorporated herein by reference)
- 10.17 The Bailey Company Private Placement Agreement Letter (previously filed as Exhibit 10.1 on registrant's Form 10-QSB for the quarter ended March 31, 1999 and incorporated herein by reference)
- 10.18 *Merrill Lynch Commitment Letter

- 21.1 Subsidiaries of registrant (previously filed as Exhibit 21.1 on registrant's Form 10-KSB for the fiscal year ended September 30, 1998 and incorporated herein by reference)
- 23.1 *Consent of HEIN + ASSOCIATES LLP
- 27.1 *Financial Data Schedule

(b) Reports on Form 8-K. There were no reports on Form 8-K filed by the registrant during the fourth quarter of the fiscal year ended September 30, 1999.

*Filed herewith.

SIGNATURES

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

GOOD TIMES RESTAURANTS INC.

Date: December 17, 1999

By: /s/ Boyd E. Hoback

*Boyd E. Hoback, President
and Chief Executive Officer*

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<i>SIGNATURE</i>	<i>TITLE</i>	<i>DATE</i>
<i>/s/ Geoffrey R. Bailey</i>	<i>Chairman of the Board of Directors</i>	<i>December 15, 1999</i>
<i>/s/ Boyd E. Hoback</i>	<i>President and Chief Executive Officer (principal executive and financial officer) and Director</i>	<i>December 15, 1999</i>
<i>/s/ Susan Knutson</i>	<i>Controller (principal accounting officer)</i>	<i>December 15, 1999</i>
<i>/s/ Dan W. James II</i>	<i>Director</i>	<i>December 15, 1999</i>
<i>/s/ David E. Bailey</i>	<i>Director</i>	<i>December 15, 1999</i>
<i>/s/ Thomas P. McCarty</i>	<i>Director</i>	<i>December 15, 1999</i>
<i>/s/ Alan A. Teran</i>	<i>Director</i>	<i>December 15, 1999</i>
<i>/s/ Richard J. Stark</i>	<i>Director</i>	<i>December 15, 1999</i>

Private Client Group

Merrill Lynch Business
Financial Services Inc.
222 North LaSalle Street
17th Floor
Chicago, Illinois 60601
312-269-4452
FAX: 312-269-1378

August 26, 1999

Mr. Boyd Hoback
President
Good Times Drive Thru Burgers
601 Corporate Circle
Golden, CO 80401

Re: APPROVAL OF WCMA REDUCING REVOLVER LOAN

Dear Mr. Hoback,

On behalf of Merrill Lynch Business Financial Services Inc. ("MLBFS"), I am pleased to inform you that MLBFS has approved the request of Good Times Drive Thru Burgers ("Customer") for the WCMA Reducing Revolver Loan hereafter described.

The following is a summary of what I believe to be the major terms and conditions, which will be included in the final documents evidencing the WCMA Reducing Revolver Loan. It is not, of course, intended to be a complete statement of said terms and conditions thereof.

FACILITY TYPE: WCMA REDUCING REVOLVER LOAN

Description: A WCMA Reducing Revolver Loan (Loan) is similar to a conventional term loan, but is funded out of a line of credit activated in conjunction with a Merrill Lynch WCMA Account (WCMA Line of Credit). Each month after funding:

(i) accrued interest will be charged to the WCMA Line of Credit; (ii) the WCMA Line of Credit will be reduced by the amount that would be payable on account of principal if the Loan were a conventional term loan amortized over the same term and in the same manner as the Loan; and (iii) Customer will be required to make sufficient deposits into the WCMA Account to assure that the unpaid balance of the Loan does not exceed the WCMA Line of Credit, as reduced each month.

Advantages of WCMA Reducing Revolver Loan: Due to its unique structure, the Loan offers the same assured amortization and planned cash flow as a conventional term loan, and at the same time:

- Can be prepaid at any time in whole or in part.
- Allows for re-borrowing on a revolving basis of amounts prepaid.
- Enables use of excess or temporary cash balances to substantially reduce term financing costs without impairing working capital.

Loan Purpose: The proposed facility will be used to refinance a note payable for \$300,000.00 and to provide permanent financing for the development of five (5) Good Times Restaurants locations in the Denver, Colorado area.

Maximum Loan Amount: \$1,850,000.00, or 100% of the amount necessary to fulfill or satisfy the Loan Purpose, whichever is less.

Advances: The Loan may be funded in up to 6 advances of not less than \$150,000.00 each, as requested by Customer during the period ending on September 30, 2000 (the Conversion Date). Prior to each advance, MLBFS shall obtain a first leasehold mortgage on the building and a first lien upon the furniture, fixtures and equipment at the site to be financed by MLBFS and a listing of the costs to construct the new location, including invoices for items in excess of \$25,000.00.

Interest Rate: Variable at a per annum rate equal to the sum of 2.75% plus the 30-day Dealer Commercial Paper Rate (as published in The Wall Street Journal), based upon actual days elapsed over a 360-day year. Interest will normally be charged each month to the WCMA Line of Credit.

Term: 84 months.

Monthly Line of Credit Reduction: Stepped up monthly reduction as follows:

Months	Monthly Reduction (Percentage of Loan Amount)
1-12	.90%
13-24	.98%
25-36	1.07%
37-48	1.17%
49-60	1.28%
61-72	1.40%
73-84	1.53%

At the end of the 84th month of the term, the WCMA Line of Credit will be terminated, and any then outstanding Loan balance will be due as a balloon payment.

Prepayment: The Loan may be prepaid at any time in whole or in part without premium or penalty.

Commitment Fee: \$27,750.00

Collateral: The obligations of Customer shall be secured by all of the following:

MLBFS will obtain a first leasehold mortgage and a first lien upon the furniture, fixtures and equipment at the new locations to be financed with the BFS Proposed.

Real Property Collateral Requirements. Customer will be required, at its sole cost and expense, to provide the following inform and substance reasonably satisfactory to MLBFS:

(i) a policy or commitment for a policy of ALTA mortgagee's title leasehold insurance insuring MLBFS' lien upon the Real Properties for the full amount of Customer's indebtedness, and issued by Chicago Title Insurance Company, Lawyers Title Insurance Company or one of their respective agents, or another title insurance company selected by MLBFS, in form and subject only to exceptions reasonably satisfactory to MLBFS;

(ii) a Phase 1 Environmental Audit Report on the Real Properties prepared by an environmental specialist selected by MLBFS indicating that the Real Properties does not contain any hazardous materials above EPA approved action levels and complies with all applicable laws with respect to hazardous materials, and that the condition, use and location of the Real Properties do not indicate that the Real Properties has environmental problems or is likely to have environmental problems in the future;

(iii) a current as-built ALTA survey of the Real Properties, prepared by a surveyor selected by MLBFS, certified in favor of MLBFS and the title insurance company; and

(vi) such other agreements, documents and instruments in connection with the Real Properties or MLBFS' lien thereon as MLBFS or the title insurance company may reasonably require.

Real Estate Expense Deposit. On or before the date of acceptance hereof by Customer, Customer shall furnish MLBFS with a Real Estate Expense Deposit in the amount of \$4,000.00. Said shall be applied by MLBFS on account of the out-of-pocket expenses to third parties incurred in fulfilling the Real Estate Collateral Requirements set forth above, with any unused portion refunded to Customer.

Guarantors: Good Times Restaurants Inc.

Covenants: The Loan Documents evidencing the WCMA Reducing Revolver Loan will contain the following covenants, as well as others of the type

customarily required by lenders for similar facilities:

No Purchase of Securities. The proceeds of the WCMA Reducing Revolver Loan may not be used to purchase or carry securities.

Continuity. Customer and Good Times Restaurants, Inc. ("GTR") will continue and maintain its business, existence, ownership and good standing.

Minimum Tangible Net Worth. Customer's and GTR's consolidated "tangible net worth" shall at all times exceed \$2,750,000.00. For the purposes hereof, the term "tangible net worth" shall mean Customer's net worth as shown on Customer's and GTR's consolidated financial statements prepared in a manner consistent with the terms hereof, but excluding an amount equal to (i) any assets which are ordinarily classified as "intangible" in accordance with generally accepted accounting principles, and (ii) any amounts now or hereafter directly or indirectly owing to Customer or GTR by officers, shareholders or affiliates of Customer and GTR.

Minimum Net Cash Flow. The consolidated "Net Cash Flow" of Customer and GTR as of the end of each of its fiscal years shall not be less than \$100,000.00. As used herein, Net Cash Flow shall mean the excess of (i) the sum of Customer's and GTR's annual net after-tax income and depreciation and similar non-cash charges, over (ii) the sum of the current portion of Customer's and GTR's long term debt and any dividends or other distributions (other than stock dividends that do not impact the consolidated cash flow); all as set forth on Customer's and GTR's consolidated annual financial statements prepared in a manner consistent with the terms hereof. Customer and GTR will be allowed to pay stock dividends to shareholders, provided such dividends do not cause other defaults under the BFS loan facility.

Debt Service Coverage Covenant. On a consolidated basis, Customer and GTR must maintain a ratio of Cash Flow to current portion of long-term debt not less than 1.4:1. Cash flow is defined as net profit plus depreciation and amortization plus any non-recurring expenses less cash dividends and non-recurring income to be monitored annually.

The Bailey Company Guaranty. With the exception of the guaranty of the Safeco and FFCA debt of \$6,000,000.00, (which The Bailey Company has agreed to guaranty up to 50%). The Bailey Company and each of its affiliates shall agree that if one or any of them shall guaranty any debt of GTDTB or GTR, they shall provide MLBFS with a comparable guaranty. This exception shall only be valid if Customer is able to provide MLBFS with valid, executed commitment letters from SafeCo and/or FFCA dated prior to June 2, 1999. This exception shall expire upon the sooner of a) the date upon which the SafeCo and FFCA loan commitment expire; or b) December 31, 2000.

No Dividends/Distributions: Customer and GTR shall not make any cash dividends, or any other dividends that will require future cash dividends.

Reporting Requirements: The reporting requirements for this transaction will be the following: quarterly consolidated interims from the Customer and the Business Guarantor and Annual audited financial statements from the Business Guarantor. MLBFS will continue to require quarterly financial statements from The Bailey Company. Customer will be required to provide MLBFS with a copy of each of the following:

Annual Financial Statements. The annual Audited financial statements of each Business Guarantor;

Interim Financial Statements. The quarterly consolidated interim financial statements of Customer, each Business Guarantor, and The Bailey Company;

Paid Tax Bills. Each real estate tax bill on or issued in connection with the Real Properties, together with evidence of payment of such tax bill; and

Other Information. Such other information as MLBFS may from time to time reasonably request relating to Customer, any Guarantor or the Collateral.

This Approval and MLBFS' obligations to fund the WCMA Reducing Revolver Loan are further subject to its customary funding conditions, including, without limitation, the following:

- (i) Customer and each Guarantor shall have executed and delivered or caused the execution and delivery of all agreements, instruments and documents required by MLBFS, all of which shall be in form and substance satisfactory to MLBFS.
- (ii) There shall not have occurred any material adverse change in the business and financial condition of Customer or any Guarantor, or other event which would lead MLBFS in good faith and with reasonable cause MLBFS to deem itself insecure.
- (iii) No event shall occur and be continuing which by itself or with notice and/or the passage of time would constitute an Event of default under any of the Loan Documents or any other documents required by MLBFS.
- (iv) MLBFS shall have received and is satisfied with evidence of the perfection and priority of its liens on the Collateral.
- (v) This Approval shall not have expired.

In addition to the foregoing, this Approval and such funding are subject to the receipt (where applicable) and satisfaction by MLBFS with the following:

- (1) MLBFS receipt of a satisfactory reference from a lending institution.
- (2) MLBFS receipt of copies of valid, accepted Commitment Letters from Safeco and FFCA pertaining to the loans they have approved for GTR and GTDTB that include a 50% guaranty from The Bailey Company. The Commitment Letters and/or any extensions to said commitment must be dated prior to June 2, 1999.
- (3) Our satisfaction with GTR's 06/30/99 financial statements.

(4) This approval expires on 8/27/99. No further extensions will be granted. Customer shall keep the contents of this letter confidential, and shall not, without the prior written consent of MLBFS, directly or indirectly include the name, logo or any trademark of MLBFS or any of its affiliates in any press or promotional publication. In no event shall Customer use this letter or its contents as a representation of Customer's creditworthiness or shall any third party rely upon the contents of this letter in extending credit to Customer.

In order for this Approval to become effective, Customer must indicate its acceptance on a copy of this letter in the space set forth below, and return said copy to the undersigned on or before August 27, 1999 with a check in the amount of \$17,750.00 for the unpaid balance of the commitment fee set forth above (which fees shall be deemed fully earned by MLBFS upon Customer's acceptance hereof, and shall not be refundable under any circumstances, including, without limitation, any subsequent voiding of this Approval, as hereafter provided), together with an additional check in the amount of \$20,000.00 for the Real Estate Expense Deposit required hereby. Thereafter, this Approval will remain in effect subject to the above conditions until September 30, 1999, after which it will at MLBFS' option be void unless on or before such date all of the transactions contemplated hereby are closed.

If you have any questions about this letter or the Approval, please call Daniel Lykken at (303) 446-5525.

Very truly yours,

MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC.

By: /s/ Brian P. Sparks, Credit Manager

ACCEPTED:

GOOD TIMES DRIVE THRU BURGERS

By: /s/ Boyd Hoback, President

cc: Daniel Lykken

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference of our report dated November 5, 1999 accompanying the financial statements of Good Times Restaurants Inc. Also incorporated by reference in the Form S-8 Registration Statement of Good Times Restaurants Inc. And to the use of our name and the statements with respect to us, as appearing under the heading "Experts" in the Registration Statement.

HEIN+ ASSOCIATES LLP

Denver, Colorado

December 13, 1999

ARTICLE 5

PERIOD TYPE	YEAR
FISCAL YEAR END	SEP 30 1999
PERIOD END	SEP 30 1999
CASH	1,748,000
SECURITIES	0
RECEIVABLES	299,000
ALLOWANCES	0
INVENTORY	55,000
CURRENT ASSETS	2,379,000
PP&E	8,728,000
DEPRECIATION	(3,080,000)
TOTAL ASSETS	8,537,000
CURRENT LIABILITIES	1,815,000
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	2,000
OTHER SE	4,090,000
TOTAL LIABILITY AND EQUITY	8,537,000
SALES	13,258,000
TOTAL REVENUES	13,608,000
CGS	4,706,000
TOTAL COSTS	10,908,000
OTHER EXPENSES	2,642,000
LOSS PROVISION	0
INTEREST EXPENSE	(72,000)
INCOME PRETAX	58,000
INCOME TAX	0
INCOME CONTINUING	58,000
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	58,000
EPS BASIC	.03
EPS DILUTED	.03

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