GOOD TIMES RESTAURANTS INC
Form 10-Q
May 15, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 0-18590

GOOD TIMES RESTAURANTS, INC.
(Exact Name of Registrant as Specified in Its Charter)

NEVADA	84-1133368
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

141 UNION BLVD, SUITE 400, LAKEWOOD, CO 80228
(Address of Principal Executive Offices, Including Zip Code)
(303) 384-1400
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of May 15, 2015, there were 12,245,549 shares of the Registrant's common stock, par value $0.001 per share, issued and outstanding.

Form 10-Q
Quarter Ended March 31, 2015

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GOOD TIMES RESTAURANTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS	March 31, 2015	September 30, 2014
CURRENT ASSETS:		
Cash and cash equivalents	$11,420,000	$ 9,894,000
Assets held for sale	1,089,000	0
Receivables, net of allowance for doubtful accounts of $0	302,000	150,000
Prepaid expenses and other	70,000	55,000
Inventories	299,000	282,000
Notes receivable	11,000	10,000
Total current assets	13,191,000	10,391,000
PROPERTY, EQUIPMENT AND CAPITAL LEASES		
Land and building	4,737,000	4,736,000
Leasehold improvements	5,597,000	4,710,000
Fixtures and equipment	9,827,000	8,796,000
Total property, equipment and capital leases	20,161,000	18,242,000
Less accumulated depreciation and amortization	(12,969,000)	(12,488,000)
Total net property, equipment and capital leases	7,192,000	5,754,000
OTHER ASSETS:		
Notes receivable	77,000	82,000
Investment in affiliate	516,000	502,000
Goodwill	96,000	96,000
Deposits and other assets	78,000	56,000
Total other assets	767,000	736,000
TOTAL ASSETS	$21,150,000	$ 16,881,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	$197,000	$69,000
Accounts payable	1,301,000	1,085,000
Deferred income	23,000	88,000
Other accrued liabilities	1,593,000	1,308,000
Total current liabilities	3,114,000	2,550,000
LONG-TERM LIABILITIES:		
Capital lease obligations due after one year	27,000	42,000
Long-term debt due after one year	1,178,000	177,000
Deferred and other liabilities	989,000	791,000
Total long-term liabilities	2,194,000	1,010,000
STOCKHOLDERS' EQUITY:		

Good Times Restaurants, Inc. stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued and outstanding as of March 31, 2015 and September 30, 2014	0	0
Common stock, $.001 par value; 50,000,000 shares authorized, 9,461,739 and 8,256,591 shares issued and outstanding as of March 31, 2015 and September 30, 2014, respectively	10,000	8,000
Capital contributed in excess of par value	36,405,000	33,047,000
Accumulated deficit	(20,858,000)	(20,013,000)
Total Good Times Restaurants, Inc. stockholders' equity	15,557,000	13,042,000
Non-controlling interest in partnerships	285,000	279,000
Total stockholders' equity	15,842,000	13,321,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$21,150,000	$16,881,000

See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014
NET REVENUES:				
Restaurant sales	$8,626,000	$6,006,000	$16,392,000	$11,835,000
Franchise royalties	88,000	84,000	177,000	166,000
Total net revenues	8,714,000	6,090,000	16,569,000	12,001,000
RESTAURANT OPERATING COSTS:				
Food and packaging costs	2,874,000	2,036,000	5,623,000	3,975,000
Payroll and other employee benefit costs	3,030,000	2,153,000	5,687,000	4,135,000
Restaurant occupancy and other operating costs	1,455,000	1,089,000	2,793,000	2,116,000
Preopening costs	185,000	221,000	422,000	369,000
Depreciation and amortization	272,000	160,000	493,000	303,000
Total restaurant operating costs	7,816,000	5,659,000	15,018,000	10,898,000
General and administrative costs	770,000	546,000	1,489,000	1,054,000
Advertising costs	278,000	253,000	555,000	487,000
Acquisition costs	197,000	0	197,000	0
Franchise costs	27,000	20,000	53,000	42,000
Gain on restaurant asset sale	(6,000)	(6,000)	(12,000)	(12,000)
Loss From Operations	(368,000)	(382,000)	(731,000)	(468,000)
Other Income (Expenses):				
Interest income (expense), net	(4,000)	1,000	$(1,000)	3,000
Affiliate investment income (expense)	12,000	(41,000)	13,000	(113,000)
Other income (loss)	(1,000)	(3,000)	(3,000)	(6,000)
Total other expenses, net	7,000	(43,000)	9,000	(116,000)
NET LOSS	$(361,000)	$(425,000)	$(722,000)	$(584,000)
(Income) loss attributable to non-controlling interests	(74,000)	(55,000)	(123,000)	(119,000)
NET LOSS ATTRIBUTABLE TO GOOD TIMES RESTAURANTS, INC	$(435,000)	$(480,000)	$(845,000)	$(703,000)
Preferred stock dividends	0	(29,000)	0	(59,000)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(435,000)	$(509,000)	$(845,000)	$(762,000)
BASIC AND DILUTED LOSS PER SHARE:				
Net loss attributable to Common Shareholders	$(.05)	$(.10)	$(.09)	$(.15)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and Diluted	9,452,305	5,153,467	9,134,155	5,038,592

See accompanying notes to condensed consolidated financial statements

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GOOD TIMES RESTAURANTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(722,000)	$(584,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	493,000	303,000
Accretion of deferred rent	43,000	14,000
Stock based compensation expense	153,000	64,000
Affiliate investment loss (income)	(13,000)	113,000
Recognition of deferred gain on sale of restaurant building	(12,000)	(12,000)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables and other	(153,000)	127,000
Inventories	(17,000)	(26,000)
Deposits and other	(40,000)	(15,000)
(Decrease) increase in:		
Accounts payable	216,000	2,000
Accrued liabilities and deferred income	387,000	160,000
Net cash provided by operating activities	335,000	146,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in affiliate	0	(375,000)
Payments for the purchase of property and equipment	(2,977,000)	(1,126,000)
Payments received from franchisees and others	4,000	15,000
Net cash used in investing activities	(2,973,000)	(1,486,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Expenses related to stock sale	(59,000)	(31,000)
Proceeds from warrant exercises, net	3,221,000	979,000
Proceeds from stock option exercises	45,000	0
Principal payments on notes payable and long-term debt	(44,000)	(21,000)
Borrowings on notes payable and long-term debt	1,118,000	0
Preferred dividends paid	0	(60,000)
Net distributions paid to non-controlling interests	(117,000)	(76,000)
Net cash provided by financing activities	4,164,000	791,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,526,000	(549,000)
CASH AND CASH EQUIVALENTS, beginning of period	$9,894,000	$6,143,000
CASH AND CASH EQUIVALENTS, end of period	$11,420,000	$5,594,000

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$16,000	$4,000
Non-cash Purchase of property and equipment	$40,000	$0
Preferred dividends declared	$0	$59,000

See accompanying notes to condensed consolidated financial statements

GOOD TIMES RESTAURANTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of March 31, 2015 and the results of its operations and its cash flows for the three and six month periods ended March 31, 2015. Operating results for the three and six month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015. The condensed consolidated balance sheet as of September 30, 2014 is derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles. As a result, these condensed consolidated financial statements should be read in conjunction with the Company's Form 10-K/A for the fiscal year ended September 30, 2014.

The accompanying unaudited condensed consolidated financial statements include the accounts of Good Times Restaurants Inc and its wholly-owned subsidiaries, Good Times Drive Thru, Inc. ("Drive Thru") and BD of Colorado, LLC ("BD of Colo"), as of March 31, 2015. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Reclassification – Certain prior year balances have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the net income or loss.

Note 2. Recent Developments

As previously disclosed in the Company's current report on Form 8-K filed April 28, 2015 Good Times Restaurants Inc. (the "Company") entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") to purchase from five sellers all of the membership interests in Bad Daddy's International, LLC, a North Carolina limited liability company ("BDI"). As previously disclosed in the Company's current report on Form 8-K filed May 7, 2015, the Company closed on the purchase of BDI and BDI will become a wholly-owned subsidiary of the Company. BDI owns all of the member interests in four limited liability companies, each of which owns and operates a Bad Daddy's Burger Bar restaurant in North Carolina. In addition, BDI owns a portion of the member interests in three other limited liability companies, each of which also owns a Bad Daddy's Burger Bar restaurant in North Carolina. BDI also owns the intellectual property associated with the Bad Daddy's Burger Bar concept and owns 52 percent of the member interests in Bad Daddy's Franchise Development, LLC ("BDFD"), which has granted franchises for the ownership and operation of Bad Daddy's Burger Bar restaurants in South Carolina and Tennessee. BDI has also granted a license for the operation of a Bad Daddy's Burger Bar at the Charlotte airport. As a result of the purchase of BDI, the Company has acquired all of the foregoing interests and assets.

The aggregate price paid by the Company for the purchase of BDI was $21,000,000, comprised of $18,500,000 payable in cash and a one-year secured promissory note bearing interest at 3.25 percent in the amount of $2,500,000. Pursuant to a Pledge Agreement (the "Pledge Agreement"), the promissory note is secured by a pledge of the ownership of the two entities which own two of the acquired restaurants. Upon the reduction of the principal of the promissory note by at least 50% the sellers are to select one of the entities for release from the pledge.

We have incurred non-recurring costs of $197,000 related to the BDI acquisition which are included in the condensed consolidated statements of operations for the three and six months ended March 31, 2015. We anticipate incurring additional non-recurring costs related to the acquisition in the quarter ending June 30, 2015.

On January 26, 2015, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") which was declared effective by the SEC on March 25, 2105. The registration statement allows the Company to issue common stock from time to time up to an aggregate amount of $75 million.

On May 7, 2015, the Company announced the closing of a public offering of 2,783,810 shares of its common stock, which included the full exercise of the underwriters' over-allotment option, at $8.15 per share for net proceeds, after deducting underwriting discounts and commissions and offering expenses, of approximately $20.7 million.

On January 29, 2015, the Company filed an Amendment No. 1 to the Initial Registration Statement on Form S-1 which registered for sale 2,094,236 shares of the Company's common stock by certain selling Stockholders as further described in in our Annual Report on Form 10-K/A for the fiscal year ended September 30, 2014. The Amendment No. 1 was filed to update the financial information and other disclosures, among other things, including the Company's audited financial statements for the fiscal year ended September 30, 2014.

At March 31, 2015 we classified $1,089,000 of assets as held for sale in the accompanying consolidated balance sheet. The costs are related to a Good Times site in Aurora, Colorado which opened on May 7, 2015. On May 4, 2015 we completed a sale lease-back transaction on the property with net proceeds of $1,521,000.

During fiscal 2014, BD of Colo opened two Bad Daddy's restaurants in the Denver metropolitan area and a third opened in early January 2015. We are negotiating additional Bad Daddy's leases for development in 2015 and 2016.

In November, 2014 Drive Thru opened a new Good Times restaurant in Highlands Ranch, Colorado and on May 7, 2015 opened a new Good Times restaurant in Centennial, Colorado.

During fiscal 2014 and 2015, our liquidity and equity significantly increased from the exercise of approximately 97% of the Series B warrants and approximately 97% of the Series A warrants. As of March 31, 2015 a total of 2,450,100 Series A Warrants, representing 97% of the outstanding Series A Warrants and 100% of the 154,000 Underwriter Warrants, were exercised by the holders. Total proceeds from all warrants exercised, net of expenses related to the exercise of the warrants, were $9,783,000, including $3,221,000 during the six month period ending March 31, 2015. In connection with the exercise of all warrants we issued a total of 3,791,749 shares of our common stock.

In October, 2014 the Company mailed a notice of redemption to all holders of the Company's A Warrants. Each A Warrant was exercisable for one share of common stock at $2.75 per share until 5:00 p.m. Colorado Time on Friday, November 14, 2014. Holders of the A Warrants are no longer entitled to exercise their warrants for common stock and have no rights, except to receive the redemption price of $.01 per A Warrant, upon surrender of their Series A Warrants. No other warrants remain outstanding.

As reported on form 8-K, on July 30, 2014 Drive Thru entered into a Development Line Loan and Security Agreement with United Capital Business Lending ("Lender"), pursuant to which Lender agreed to loan Drive Thru up to $2,100,000 (the "Loan") and entered into a Collateral Assignment of Franchise Agreements, Management Agreement and Partnership Interests with Lender. As of March 31, 2015, Drive Thru had borrowed approximately $1,314,000 under the Loan Agreement, of which $1,118,000 was borrowed during the six month period ended March 31, 2015. In addition, on July 30, 2014, the Company entered into a Guaranty Agreement (the "Guaranty Agreement") with Lender, pursuant to which the Company guaranteed the repayment of the Loan. The Loan Agreement, Collateral Assignment, Notes (as defined below) and Guaranty Agreement are referred to herein as the "Loan Documents."

Under the terms of the Loan Agreement, Drive Thru may use up to $750,000 of the Loan to purchase a Point of Sale System and up to $1,350,000 of the Loan for the development of three new Good Times restaurants. Drive Thru may request disbursements under the Loan Agreement for development costs of Good Times restaurants on or before July 1, 2015. In connection with each disbursement under the Loan Agreement, Drive Thru shall execute a Promissory Note (the "Notes") in the full amount of each disbursement request. The Notes incur interest at a rate of 6.69% per annum, are repayable in monthly installments of principal and interest over 84 months, and contain other customary terms and conditions. The Notes are subject to certain prepayment fees ranging between 1% and 3% of the unpaid balance at such time if Drive Thru repays a Note in certain circumstances prior to the thirty seventh monthly installment under such Note.

The Loan Agreement and Notes contain customary representations, warranties and affirmative and negative covenants, including without limitation, annual covenants to maintain certain insurance coverage and to maintain a certain debt service coverage ratio, leverage ratio, and quick ratio.

Note 3. Stock-Based Compensation

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

Our net loss for the six month periods ended March 31, 2015 and March 31, 2014 includes $153,000 and $64,000, respectively, of compensation costs related to our stock-based compensation arrangements.

Stock Option awards

The Company measures the compensation cost associated with stock option awards by estimating the fair value of the award as of the grant date using the Black-Scholes pricing model. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company's stock options and stock awards granted during fiscal 2014 and 2015. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive equity awards.

During the six months ended March 31, 2015, the Company granted a total of 80,871 non-statutory stock options and a total of 103,955 incentive stock options all with an exercise price of $7.79 and per-share weighted average fair value of $5.85.

During the six months ended March 31, 2014 the Company granted 89,500 incentive stock options from available shares under its 2008 Plan, as amended, with an exercise price of $2.48 and a per-share weighted average fair value of $2.12.

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

	Fiscal 2015 Incentive Stock Options	Fiscal 2015 Non-Statutory Stock Options	Fiscal 2014 Incentive Stock Options
Expected term (years)	6.5	6.5	6.5
Expected volatility	87.40%	87.40%	112.11%
Risk-free interest rate	1.85%	1.85%	1.94%
Expected dividends	0	0	0

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

The following table summarizes stock option activity for the six month period ended March 31, 2015 under all plans:

	Shares	Weighted Average Exercise Price	Weighted Avg. Remaining Contractual Life (Yrs.)
Outstanding-beg of year	396,910	$3.87	
Options granted	184,826	$7.79	
Options exercised	(22,550)	$2.01	
Forfeited	0		
Expired	(11,853)	$9.33	
Outstanding Mar 31, 2015	547,333	$5.15	7.8
Exercisable Mar 31, 2015	162,586	$5.56	5.0

As of March 31, 2015, the aggregate intrinsic value of the outstanding and exercisable options was $1,584,000 and $623,000, respectively. Only options whose exercise price is below the current market price of the underlying stock are included in the intrinsic value calculation.

As of March 31, 2015, the total remaining unrecognized compensation cost related to non-vested stock options was $1,224,000 and is expected to be recognized over a weighted average period of approximately 2.95 years.

There were 22,548 stock options exercised during the six months ended March 31, 2015 with proceeds of $45,000.

Restricted Stock Grants

During the fiscal year 2014, the Company issued 123,840 shares of restricted stock to certain employees and executive officers from available shares under its 2008 Plan, as amended. The shares were issued with a grant date fair market value of $3.23 which is equal to the closing price of the stock on the date of the grants. The restricted stock grant vests three years following the grant date.

A summary of the status of non-vested restricted stock as of March 31, 2015 is presented below.

	Shares	Weighted Average Grant Date Fair Value Per Share
Non-vested shares at beg of year	123,840	$3.23
Granted	0	
Vested	0	
Non-vested shares at Mar 31, 2015	123,840	$3.23

As of March 31, 2015, there was $304,000 of total unrecognized compensation cost related to non-vested restricted stock. This cost is expected to be recognized over a weighted average period of approximately 2.31 years.

Note 4. Warrants

In connection with the public offering in August 2013 we issued 2,200,000 warrants to purchase 2,200,000 shares of our common stock (“A Warrants”) and an additional 2,200,000 warrants to purchase 1,100,000 shares of our common stock (“B Warrants”). Additionally we issued 330,000 A warrants to purchase 330,000 shares of common stock and 330,000 B warrants to purchase 165,000 of common stock to the underwriters in connection with the public offering. Each A Warrant is exercisable on or before August 16, 2018 for one share of common stock at an exercise price of $2.75 per share and two B Warrants were exercisable on or before May 16, 2014 for one share of common stock at an exercise price of $2.50 per share. Also, in connection with the public offering we issued 154,000 representative warrants to purchase 154,000 shares of common stock at an exercise price of $3.125 to the underwriters. The representative warrants were exercisable beginning May 16, 2014 and expire on August 16, 2016.

As of March 31, 2015 we had received proceeds, net of expenses related to the exercise of the warrants, of $9,783,000, including $3,221,000 during the six month period ending March 31, 2015. A summary of warrant activity for the six months ended March 31, 2015 is presented in the following table:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at October 1, 2014	1,262,500	$2.75
Expired	(79,900)	$2.75
Exercised	(1,182,600)	$2.75
Outstanding at March 31, 2015	0	

Note 5. Preferred Stock

On March 28, 2014, Small Island Investments Limited converted all 355,451 shares of the Company’s Series C Convertible Preferred Stock, par value $0.01 per share, into 710,902 shares of the Company’s Common Stock, par value $0.001 per share. The effects of the conversion are to eliminate the Company’s payment of dividends on the Series C Convertible Preferred Stock and to eliminate the possible need for the Company to redeem the Series C Convertible Preferred Stock for a cash payment.

Note 6. Net Income (Loss) per Common Share

Our basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive securities for this calculation consist of in-the-money outstanding stock options and warrants (which were assumed to have been exercised at the average market price of the common shares during the reporting period). The treasury stock method is used to measure the dilutive impact of in-the-money stock options. Options for 547,333 and 407,237 shares of common stock, and warrants for 0 and 3,553,600 shares of common stock, were not included in computing diluted EPS for the three months ended March 31, 2015 and 2014, respectively, because their effects were anti-dilutive.

Note 7. Contingent Liabilities and Liquidity

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

Note 8. Related Party Transactions

In April, 2012 the Company entered into a financial advisory services agreement with Heathcote Capital LLC (Heathcote) pursuant to which they were to provide the Company with exclusive financial advisory services in connection with a possible strategic transaction. Gary J. Heller, a member of the Company's Board of Directors, is the principal of Heathcote. Accordingly, the agreement constitutes a related party transaction and was reviewed and approved by the Audit Committee of the Company's Board of Directors. On March 25, 2013, the Company and Heathcote modified this agreement to exclude any transactions involving the Maxim Group LLC and for Heathcote to continue to provide non-exclusive financial advisory services to the Company. On September 27, 2013, the Company and Heathcote further modified this agreement to provide for investor relations activities specifically related to the exercise of the outstanding warrants and the trading volume in the Company's stock and other corporate finance projects as determined by the CEO of the company. On November 5, 2014, the Company and Heathcote further modified this agreement to provide for investor relations activities and corporate finance projects as determined by the CEO of the company. The modifications were approved by the Audit Committee of the Company's Board of Directors. Total amounts paid to Heathcote were $15,000 and $52,500 for the six month periods ended March 31, 2015 and 2014, respectively.

In April 2013 the Company entered into a management services agreement with BDFD pursuant to which the Company will provide general management services as well as accounting and administrative services. Income received from the agreement by the Company is fully recognized in income and then proportionately offset by the 48% equity investment in BDFD. Total amounts received from BDFD per the management services agreement were $12,000 in each of the six month periods ended March 31, 2015 and 2014. In addition to the management services the Company performed scope of work services and total amounts received from BDFD for these services were $0 and $30,000 for the six month periods ended March 31, 2015 and 2014, respectively.

Note 9. Impairment of Long-Lived Assets and Goodwill

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

Given the results of our impairment analysis at March 31, 2015 there are no restaurants which are impaired.

Goodwill. The Company is required to test goodwill for impairment on an annual basis or whenever indications of impairment arise including, but not limited to, a significant decline in cash flows from store operations. Such tests could result in impairment charges. As of March 31, 2015, the Company had $96,000 of goodwill related to the purchase of a franchise operation on December 31, 2012. There was no impairment required to the acquired goodwill as of March 31, 2015.

Note 10. Income Taxes

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