MEDICAL PROPERTIES TRUST INC
Form 10-Q
August 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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 001-32559

Commission file number 333-177186

MEDICAL PROPERTIES TRUST, INC.

MPT OPERATING PARTNERSHIP, L.P.

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	**20-0191742**
DELAWARE	**20-0242069**
(State or other jurisdiction of incorporation or organization)	**(I. R. S. Employer Identification No.)**
1000 URBAN CENTER DRIVE, SUITE 501	
BIRMINGHAM, AL	**35242**
(Address of principal executive offices)	**(Zip Code)**

(205) 969-3755

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x (Medical Properties Trust, Inc. only)	Accelerated filer	¨
Non-accelerated filer	x (MPT Operating Partnership, L.P. only)	Smaller reporting company	¨
	(Do not check if a smaller reporting company)		

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

As of August 1, 2016, Medical Properties Trust, Inc. had 243,138,873 shares of common stock, par value $0.001, outstanding.

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EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the three and six months ended June 30, 2016, of Medical Properties Trust, Inc., a Maryland corporation, and MPT Operating Partnership, L.P., a Delaware limited partnership, through which Medical Properties Trust, Inc. conducts substantially all of its operations. Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our, our company, Medic Properties, MPT, or the company refer to Medical Properties Trust, Inc. together with its consolidated subsidiaries, including MPT Operating Partnership, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to our operating partnership or the operating partnership refer to MPT Operating Partnership, L.P. together with its consolidated subsidiaries.

MEDICAL PROPERTIES TRUST, INC. AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED June 30, 2016

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)	June 30, 2016 (Unaudited)	December 31, 2015 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, intangible lease assets, and other	$ 3,482,199	$ 3,297,705
Real estate held for sale	63,074	
Mortgage loans	549,337	757,581
Net investment in direct financing leases	528,747	626,996
Gross investment in real estate assets	4,623,357	4,682,282
Accumulated depreciation and amortization	(278,590)	(257,928)
Net investment in real estate assets	4,344,767	4,424,354
Cash and cash equivalents	181,561	195,541
Interest and rent receivables	47,699	46,939
Straight-line rent receivables	95,988	82,155
Other loans	259,329	664,822
Other assets	188,589	195,540
Total Assets	**$ 5,117,933**	**$ 5,609,351**
Liabilities and Equity		
Liabilities		
Debt, net	$ 2,758,635	$ 3,322,541
Accounts payable and accrued expenses	148,218	137,356
Deferred revenue	20,997	29,358
Lease deposits and other obligations to tenants	22,845	12,831
Total Liabilities	2,950,695	3,502,086
Equity		
Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding		
Common stock, $0.001 par value. Authorized 500,000 shares; issued and outstanding 240,341 shares at June 30, 2016 and 236,744 shares at December 31, 2015	240	237
Additional paid in capital	2,642,281	2,593,827
Distributions in excess of net income	(414,657)	(418,650)
Accumulated other comprehensive loss	(65,340)	(72,884)

Treasury shares, at cost	(262)	(262)
Total Medical Properties Trust, Inc. Stockholders Equity	2,162,262	2,102,268
Non-controlling interests	4,976	4,997
Total Equity	2,167,238	2,107,265
Total Liabilities and Equity	**$ 5,117,933**	**$ 5,609,351**

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Net Income

(Unaudited)

(In thousands, except per share amounts)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Revenues				
Rent billed	$ 77,960	$ 53,893	$ 152,021	$ 106,994
Straight-line rent	8,551	5,252	16,768	9,980
Income from direct financing leases	13,552	12,808	32,503	25,363
Interest and fee income	26,237	27,848	60,007	53,425
Total revenues	126,300	99,801	261,299	195,762
Expenses				
Real estate depreciation and amortization	22,832	14,956	43,974	29,712
Impairment charges	7,375		7,375	
Property-related	784	530	1,685	881
General and administrative	12,045	10,642	23,516	21,547
Acquisition expenses	4,767	25,809	3,702	32,048
Total operating expenses	47,803	51,937	80,252	84,188
Operating income	78,497	47,864	181,047	111,574
Other income (expense)				
Interest expense	(41,501)	(26,890)	(80,874)	(53,556)
Gain on sale of real estate and other asset dispositions, net	16,638		16,678	
Earnings (loss) from equity and other interests	1,200	1,853	(3,801)	1,956
Other income (expense)	(546)	225	(217)	(571)
Income tax expense	(364)	(563)	(683)	(938)
Net other expense	(24,573)	(25,375)	(68,897)	(53,109)
Income from continuing operations	53,924	22,489	112,150	58,465
Loss from discontinued operations			(1)	
Net income	53,924	22,489	112,149	58,465
Net income attributable to non-controlling interests	(200)	(82)	(498)	(161)
Net income attributable to MPT common stockholders	**$ 53,724**	**$ 22,407**	**$ 111,651**	**$ 58,304**
Earnings per common share basic				
	$ 0.23	$ 0.11	$ 0.47	$ 0.28

Income from continuing operations attributable to MPT common stockholders				
Loss from discontinued operations attributable to MPT common stockholders				
Net income attributable to MPT common stockholders	$ 0.23	$ 0.11	$ 0.47	$ 0.28
Weighted average shares outstanding basic	238,082	208,071	237,796	205,515
Earnings per common share diluted				
Income from continuing operations attributable to MPT common stockholders	$ 0.22	$ 0.11	$ 0.47	$ 0.28
Loss from discontinued operations attributable to MPT common stockholders				
Net income attributable to MPT common stockholders	$ 0.22	$ 0.11	$ 0.47	$ 0.28
Weighted average shares outstanding diluted	239,008	208,640	238,413	206,127
Dividends declared per common share	**$ 0.23**	**$ 0.22**	**$ 0.45**	**$ 0.44**

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Net income	$ 53,924	$ 22,489	$ 112,149	$ 58,465
Other comprehensive income:				
Unrealized gain on interest rate swap	825	730	1,640	1,315
Foreign currency translation gain (loss)	(14,683)	20,307	5,904	(39,286)
Total comprehensive income	40,066	43,526	119,693	20,494
Comprehensive income attributable to non-controlling interests	(200)	(82)	(498)	(161)
Comprehensive income attributable to MPT common stockholders	$ 39,866	$ 43,444	$ 119,195	$ 20,333

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended June 30,	
	2016	**2015**
(In thousands)		
Operating activities		
Net income	$ 112,149	$ 58,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,170	30,564
Straight-line rent revenue	(17,268)	(9,980)
Straight-line rent and other write-off	3,063	
Impairment charges	7,375	
Direct financing lease interest accretion	(4,766)	(3,279)
Share-based compensation	4,152	5,645
Gain from sale of real estate and other asset dispositions, net	(16,678)	
Amortization and write-off of deferred financing costs and debt discount	3,897	2,770
Other adjustments	(6,605)	(2,383)
Changes in:		
Interest and rent receivable	(2,743)	(15,685)
Accounts payable and accrued expenses	9,544	21,327
Net cash provided by operating activities	137,290	87,444
Investing activities		
Cash paid for acquisitions and other related investments	(109,991)	(562,633)
Net proceeds from sale of real estate	89,165	
Principal received on loans receivable	705,501	354,952
Investment in loans receivable	(96,504)	(347,768)
Construction in progress and other	(108,065)	(86,053)
Investment in unsecured senior notes	(50,000)	
Proceeds from sale of unsecured senior notes	50,000	
Net cash provided by (used for) investing activities	480,106	(641,502)
Financing activities		
Revolving credit facilities, net	(1,075,000)	80,586
Proceeds from debt	500,000	
Payments of term debt	(147)	(140)
Distributions paid	(104,788)	(84,487)
Proceeds from sale of common shares, net of offering costs	44,306	479,902
Lease deposits and other obligations to tenants	9,593	(14,453)
Debt issuance costs paid and other financing activities	(8,465)	(662)

Net cash (used for) provided by financing activities	(634,501)	460,746
Increase (decrease) in cash and cash equivalents for period	(17,105)	(93,312)
Effect of exchange rate changes	3,125	(5,325)
Cash and cash equivalents at beginning of period	195,541	144,541
Cash and cash equivalents at end of period	**$ 181,561**	**$ 45,904**
Interest paid	$ 57,118	$ 52,130
Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	$ 55,272	$ 46,026

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands)	June 30, 2016 (Unaudited)	December 31, 2015 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, intangible lease assets, and other	$ 3,482,199	$ 3,297,705
Real estate held for sale	63,074	
Mortgage loans	549,337	757,581
Net investment in direct financing leases	528,747	626,996
Gross investment in real estate assets	4,623,357	4,682,282
Accumulated depreciation and amortization	(278,590)	(257,928)
Net investment in real estate assets	4,344,767	4,424,354
Cash and cash equivalents	181,561	195,541
Interest and rent receivables	47,699	46,939
Straight-line rent receivables	95,988	82,155
Other loans	259,329	664,822
Other assets	188,589	195,540
Total Assets	**$ 5,117,933**	**$ 5,609,351**
Liabilities and Capital		
Liabilities		
Debt, net	$ 2,758,635	$ 3,322,541
Accounts payable and accrued expenses	92,623	84,628
Deferred revenue	20,997	29,358
Lease deposits and other obligations to tenants	22,845	12,831
Payable due to Medical Properties Trust, Inc.	55,205	52,338
Total Liabilities	2,950,305	3,501,696
Capital		
General Partner issued and outstanding 2,400 units at June 30, 2016 and 2,363 units at December 31, 2015	22,299	21,773
Limited Partners:		
Common units issued and outstanding 237,941 units at June 30, 2016 and 234,381 units at December 31, 2015	2,205,693	2,153,769
LTIP units issued and outstanding 292 units at June 30, 2016 and December 31, 2015		
Accumulated other comprehensive loss	(65,340)	(72,884)
Total MPT Operating Partnership, L.P. Capital	2,162,652	2,102,658

Non-controlling interests	4,976	4,997
Total Capital	2,167,628	2,107,655
Total Liabilities and Capital	**$ 5,117,933**	**$ 5,609,351**

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Net Income

(Unaudited)

(In thousands, except per unit amounts)	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Revenues				
Rent billed	$ 77,960	$ 53,893	$ 152,021	$ 106,994
Straight-line rent	8,551	5,252	16,768	9,980
Income from direct financing leases	13,552	12,808	32,503	25,363
Interest and fee income	26,237	27,848	60,007	53,425
Total revenues	126,300	99,801	261,299	195,762
Expenses				
Real estate depreciation and amortization	22,832	14,956	43,974	29,712
Impairment charges	7,375		7,375	
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Gain on sale of real estate and other asset dispositions, net	16,638		16,678	
Earnings (loss) from equity and other interests	1,200	1,853	(3,801)	1,956
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Income from continuing operations	53,924	22,489	112,150	58,465
Loss from discontinued operations			(1)	
Net income	53,924	22,489	112,149	58,465
Net income attributable to non-controlling interests	(200)	(82)	(498)	(161)
Net income attributable to MPT Operating Partnership partners	**$ 53,724**	**$ 22,407**	**$ 111,651**	**$ 58,304**
Earnings per unit basic				

Income from continuing operations attributable to MPT Operating Partnership partners	$	0.23	$	0.11	$	0.47	$	0.28
Loss from discontinued operations attributable to MPT Operating Partnership partners								
Net income attributable to MPT Operating Partnership partners	$	0.23	$	0.11	$	0.47	$	0.28
Weighted average units outstanding basic		238,082		208,071		237,796		205,515
Earnings per unit diluted								
Income from continuing operations attributable to MPT Operating Partnership partners	$	0.22	$	0.11	$	0.47	$	0.28
Loss from discontinued operations attributable to MPT Operating Partnership partners								
Net income attributable to MPT Operating Partnership partners	$	0.22	$	0.11	$	0.47	$	0.28
Weighted average units outstanding diluted		239,008		208,640		238,413		206,127
Dividends declared per unit	**$**	**0.23**	**$**	**0.22**	**$**	**0.45**	**$**	**0.44**

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

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(Unaudited)

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Net income	$ 53,924	$ 22,489	$ 112,149	$ 58,465
Other comprehensive income:				
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(Unaudited)

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(In thousands)		
Operating activities		
Net income	$ 112,149	$ 58,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,170	30,564
Straight-line rent revenue	(17,268)	(9,980)
Straight-line rent and other write-off	3,063	
Impairment charges	7,375	
Direct financing lease interest accretion	(4,766)	(3,279)
Unit-based compensation	4,152	5,645
Gain from sale of real estate and other asset dispositions, net	(16,678)	
Amortization and write-off of deferred financing costs and debt discount	3,897	2,770
Other adjustments	(6,605)	(2,383)
Changes in:		
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Investment in unsecured senior notes	(50,000)	
Proceeds from sale of unsecured senior notes	50,000	
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Financing activities		
Revolving credit facilities, net	(1,075,000)	80,586
Proceeds from debt	500,000	
Payments of term debt	(147)	(140)
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Proceeds from sale of units, net of offering costs	44,306	479,902
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Effect of exchange rate changes		3,125		(5,325)
Cash and cash equivalents at beginning of period		195,541		144,541
Cash and cash equivalents at end of period	**$**	**181,561**	**$**	**45,904**
Interest paid	$	57,118	$	52,130
Supplemental schedule of non-cash financing activities:				
Distributions declared, unpaid	$	55,272	$	46,026

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC., AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Medical Properties Trust, Inc., a Maryland corporation, was formed on August 27, 2003, under the Maryland General Corporation Law for the purpose of engaging in the business of investing in, owning, and leasing commercial real estate. Our operating partnership subsidiary, MPT Operating Partnership, L.P., (the Operating Partnership) through which we conduct all of our operations, was formed in September 2003. Through another wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of the Operating Partnership. At present, we directly own substantially all of the limited partnership interests in the Operating Partnership and have elected to report our required disclosures and that of the Operating Partnership on a combined basis except where material differences exist.

We have operated as a real estate investment trust (REIT) since April 6, 2004, and accordingly, elected REIT status upon the filing in September 2005 of the calendar year 2004 federal income tax return. Accordingly, we will generally not be subject to federal income tax in the United States (U.S.), provided that we continue to qualify as a REIT and our distributions to our stockholders equal or exceed our taxable income. Certain activities we undertake must be conducted by entities which we elected to be treated as taxable REIT subsidiaries (TRSs). Our TRSs are subject to both U.S. federal and state income taxes. For our properties located outside the U.S., we are subject to local taxes; however, we do not expect to incur additional taxes in the U.S. as such income will flow through our REIT.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We also make mortgage and other loans to operators of similar facilities. In addition, we may obtain profits or equity interests in our tenants, from time to time, in order to enhance our overall return. We manage our business as a single business segment. All of our properties are located in the U.S. and Europe.

2. Summary of Significant Accounting Policies

Unaudited Interim Condensed Consolidated Financial Statements: The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information, including rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements.

For information about significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015. During the six months ended June 30, 2016, there were no material changes to these policies.

Recent Accounting Developments:

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. On April 1, 2015, the FASB proposed deferring the effective date of this standard by one year to December 15, 2017, for annual reporting periods beginning after that date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. We are continuing to evaluate this standard; however, we do not expect it to have a significant impact on our financial results, as a substantial portion of our revenue consists of rental income from leasing arrangements, which are specifically excluded from ASU No. 2014-09.

Leases

In February 2016, the FASB issued ASU 2016-02 - *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is not effective for us until January 1, 2019 with early adoption permitted. We are continuing to evaluate this standard and the impact to us from both a lessor and a lessee perspective.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which is intended to improve financial reporting by requiring timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets not recorded at fair value based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU will be required to be implemented through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the amendments are effective. The ASU is not effective for us until January 1, 2019. We do not expect the adoption of the ASU to have a significant impact on our consolidated financial statements.

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Variable Interest Entities

At June 30, 2016, we had loans to and/or equity investments in certain variable interest entities (VIEs), which are also tenants of our facilities, including Ernest Health, Inc. (Ernest). We have determined that we are not the primary beneficiary of these VIEs. The carrying value and classification of the related assets and maximum exposure to loss as a result of our involvement with these VIEs are presented below at June 30, 2016 (in thousands):

VIE Type	Maximum Loss Exposure(1)	Asset Type Classification	Carrying Amount(2)
Loans, net	$ 295,822	Mortgage and other loans	$ 226,101
Equity investments	$ 37,309	Other assets	$ 328

(1) Our maximum loss exposure related to loans with VIEs represents our current aggregate gross carrying value of the loan plus accrued interest and any other related assets (such as rent receivables), less any liabilities. Our maximum loss exposure related to our equity investment in VIEs represents the current carrying values of such investment plus any other related assets (such as rent receivables) less any liabilities.

(2) Carrying amount reflects the net book value of our loan or equity interest only in the VIE.

For the VIE types above, we do not consolidate the VIE because we do not have the ability to control the activities (such as the day-to-day healthcare operations of our borrower or investees) that most significantly impact the VIE s economic performance. As of June 30, 2016, we were not required to provide any material financial support through a liquidity arrangement or otherwise to our unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls).

Typically, our loans are collateralized by assets of the borrower (some assets of which are on the premises of facilities owned by us) and further supported by limited guarantees made by certain principals of the borrower.

See Note 3 and 7 for additional description of the nature, purpose and activities of our more significant VIEs and interests therein.

3. Real Estate and Lending Activities

Acquisitions

We acquired the following assets (in thousands):

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Assets Acquired		
Land and land improvements	$ 9,398	$ 62,434
Building	37,593	390,320
Intangible lease assets subject to amortization (weighted average useful life 25.8 years)		42,262

Mortgage loans		40,000
Net investments in direct financing leases	63,000	10,700
Other loans		16,917
Total assets acquired	$ 109,991	$ 562,633
Loans repaid (1)		(183,826)
Total net assets acquired	$ 109,991	$ 378,807

(1) Loans advanced to MEDIAN in 2014 and repaid in 2015 as a part of the MEDIAN transaction.

The purchase price allocations attributable to the 2016 and certain 2015 acquisitions are preliminary. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be retrospectively adjusted to reflect new information obtained about the facts and circumstances that existed as of the respective acquisition dates that, if known, would have affected the measurement of the amounts recognized as of those dates.

2016 Activity

On May 2, 2016, we acquired an acute hospital in Newark, New Jersey for an aggregate purchase price of $63 million leased to Prime Healthcare Services, Inc. (Prime) pursuant to a fifth master lease, which has a 15-year term with three five-year extension options, plus consumer price-indexed increases, limited to a 2% floor. Furthermore, we committed to advance an additional $30 million to Prime over a three-year period to be used solely for capital additions to the real estate; any such additions will be added to the basis upon which the lessee will pay us rents.

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On June 22, 2016, we closed on the final Median Kliniken S.à r.l., (MEDIAN) property for a purchase price of 41.6 million. See 2015 Activity for a description of the initial MEDIAN Transaction.

From the respective acquisition dates, the properties acquired in 2016 contributed $1.1 million of revenue and income (excluding related acquisition expenses), for the three and six months ended June 30, 2016. In addition, we incurred $2.4 million of acquisition-related costs on the 2016 acquisitions for both the three and six months ended June 30, 2016.

2015 Activity

MEDIAN Transaction

On April 29, 2015, we entered into a series of definitive agreements with MEDIAN, a German provider of post-acute and acute rehabilitation services, to acquire the real estate assets of 32 hospitals owned by MEDIAN for an aggregate purchase price of approximately 688 million. Upon acquisition, each property became subject to a master lease between us and MEDIAN providing for the leaseback of the property to MEDIAN. The master lease had an initial term of 27 years and provided for an initial GAAP lease rate of 9.3%, with annual escalators at the greater of one percent or 70% of the German consumer price index.

MEDIAN is owned by an affiliate of Waterland Private Equity Fund V C.V. (Waterland), which acquired 94.9% of the outstanding equity interests in MEDIAN, and by a subsidiary of our operating partnership, which acquired the remaining 5.1% of the outstanding equity interests in MEDIAN, each in December 2014. In December 2014, we provided interim acquisition loans to affiliates of Waterland and MEDIAN in connection with Waterland s acquisition of its stake in MEDIAN in an aggregate amount of approximately 425 million. In addition, we made further loans to MEDIAN during the first half of 2015 in an aggregate amount of approximately 240 million, which were used by MEDIAN to repay existing debt on properties we acquired.

Closing of the sale-leaseback transactions began in the second quarter of 2015. At each closing, the purchase price for each facility was reduced and offset against the interim loans made to affiliates of Waterland and MEDIAN as described above and against the amount of any debt assumed or repaid by us in connection with the closing. As of June 30, 2015, we had closed on 17 properties for an aggregate amount of 317 million.

Other Acquisitions

On June 16, 2015, we acquired the real estate of two facilities in Lubbock, Texas, a 60-bed inpatient rehabilitation hospital and a 37-bed long-term acute care hospital, for an aggregate purchase price of $31.5 million. We entered into a 20-year lease with Ernest for the rehabilitation hospital, which provides for three five-year extension options, and separately entered into a lease with Ernest for the long-term acute care hospital that has a final term ending December 31, 2034. In connection with the transaction, we funded an acquisition loan to Ernest of approximately $12.0 million. Ernest is operating the rehabilitation hospital in a joint venture with Covenant Health System, while the long-term acute care hospital continues to be operated by Fundamental Health under a new sublease with Ernest.

On February 27, 2015, we acquired an inpatient rehabilitation hospital in Weslaco, Texas for $10.7 million leased to Ernest pursuant to the 2012 master lease which had an original 20-year fixed term and three five-year extension options. This lease provides for consumer-priced-indexed annual rent increases, subject to a floor and a cap. In addition, we funded an acquisition loan in the amount of $5 million.

On February 13, 2015, we acquired two general acute care hospitals in the Kansas City area for $110 million. Affiliates of Prime is the tenant and operator pursuant to a new master lease that has similar terms and security enhancements as the other master lease agreements entered into in 2013. This master lease has a 10-year initial fixed term with two extension options of five years each. The lease provides for consumer-price-indexed annual rent increases, subject to a specified floor. In addition, we funded a mortgage loan in the amount of $40 million, which has a 10-year term.

From the respective acquisition dates, the properties and other assets acquired in 2015 contributed $4.2 million and $3.5 million of revenue and income (excluding related acquisition expenses), respectively, for the three months ended June 30, 2015. From the respective acquisition dates, the properties and other assets acquired in 2015 contributed $6.2 million and $4.9 million of revenue and income (excluding related acquisition expenses), respectively, for the six months ended June 30, 2015. In addition, we incurred $22.6 million and $26.7 million of acquisition-related costs on the 2015 acquisitions for the three and six months ended June 30, 2015, respectively.

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Pro Forma Information

The following unaudited supplemental pro forma operating data is presented for the three and six months ended June 30, 2015, as if each acquisition (including completed development projects) was completed on January 1, 2015. Supplemental pro forma earnings were adjusted to exclude acquisition-related costs on consummated deals incurred. The unaudited supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods (in thousands, except per share/unit amounts).

	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2015
Total revenues	$ 109	$ 219
Net income	$ 50	$ 100
Net income per share/unit diluted	$ 0.21	$ 0.42

Development Activities

During the first six months of 2016, we completed construction and began recording rental income on the following facilities:

Adeptus Health, Inc. (Adeptus Health) We completed seven acute care facilities for this tenant during 2016. These facilities are leased pursuant to the master leases entered into in both 2014 and 2015 and are cross-defaulted with each other and with the original master lease executed in 2013.

Ernest Toledo This inpatient rehabilitation facility located in Toledo, Ohio opened on April 1, 2016 and is being leased to Ernest pursuant to the original 2012 master lease.

See table below for a status update on our current domestic development projects (in thousands):

Property	Commitment	Costs Incurred as of 06/30/16	Estimated Completion Date
Adeptus Health	$ 62,154	$ 43,763	3Q 2016
Adeptus Health	53,836	15,343	4Q 2016
Adeptus Health	5,730	206	1Q 2017
Adeptus Health	61,997	16,311	2Q 2017
Adeptus Health	71,331		Various

	$ 255,048	**$ 75,623**

On September 9, 2015, we acquired the real estate of a general acute care hospital under development located in Spain, for an aggregate purchase and development price to us of approximately 21.4 million. The acquisition was effected through a joint venture between us and clients of AXA Real Estate, in which we will own a 50% interest. Upon completion, the facility will be leased to a Spanish operator of acute care hospitals, pursuant to a long-term lease. We expect construction to complete on this facility in the second quarter of 2017.

Disposals

Capella Transaction

On March 21, 2016, we entered into definitive agreements with RegionalCare Hospital Partners, Inc. (RegionalCare), an affiliate of certain funds managed by affiliates of Apollo Global Management, LLC (together with its consolidated subsidiaries, Apollo), under which our investment in the operations of Capella Healthcare, Inc. (Capella) would be merged with RegionalCare, forming RCCH Healthcare Partners (RCCH).

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On April 29, 2016, this transaction closed and funded, effective April 30, 2016. As part of the transaction, we received net proceeds of approximately $550 million including approximately $492 million for our equity investment and loans made as part of the Capella transaction that closed on August 31, 2015. In addition, we received $210 million in prepayment of two mortgage loans for hospitals in Russellville, Arkansas, and Lawton, Oklahoma, that we made to subsidiaries of Capella in connection with the Capella transaction on August 31, 2015. We made a new $93.3 million loan for a hospital property in Olympia, Washington. Additionally, we and an Apollo affiliate invested $50 million each in unsecured senior notes issued by RegionalCare, which we sold to a large institution on June 20, 2016 at par. The proceeds from this transaction represented the recoverability of our investment in full, except for transaction costs incurred of $6.3 million.

We maintained our ownership of five Capella hospitals in Hot Springs, Arkansas; Camden, South Carolina; Hartsville, South Carolina; Muskogee, Oklahoma; and McMinnville, Oregon. Pursuant to the transaction described above, the underlying leases, one of which is a master lease covering all but one property, was amended to shorten the initial fixed lease term, increase the security deposit, and eliminate the lessees purchase option provisions. Due to this lease amendment, we reclassified the lease of the properties under the master lease from a direct finance lease (DFL) to an operating lease. This reclassification resulted in a write-off of $2.6 million in unbilled DFL rent in the 2016 second quarter.

On July 22, 2016, we acquired the Olympia, Washington property in exchange for the $93.3 million loan and an additional $7 million, which was contemplated in the original Capella transaction. The terms of the Olympia lease will be similar to the other leases with this tenant.

Post Acute Transaction

On May 23, 2016, we sold five properties (three of which were in Texas and two in Louisiana) that were leased and operated by Post Acute Medical (Post Acute). As part of this transaction, our outstanding loans of $4 million were paid in full, and we recovered our investment in the operations. Total proceeds from this transaction were $71 million resulting in a net gain of approximately $15 million.

Corinth Transaction

On June 17, 2016, we sold the Atrium Medical Center real estate located in Corinth, Texas, which was leased and operated by Corinth Investor Holdings. Total proceeds from the transaction were $28 million resulting in a gain on real estate of approximately $8 million. This gain on real estate was offset by approximately $9 million of non-cash charges that included the write-off of our investment in the operations of the facility, straight-line rent receivables, and a lease intangible.

HealthSouth Transaction

On May 20, 2016, we reached a firm commitment to sell three inpatient rehabilitation hospitals located in Texas and operated by HealthSouth Corporation (HealthSouth) for $111.5 million. At June 30, 2016, these facilities and related net assets were designated as held for sale and included the following (in thousands):

Real estate held for sale	$ 63,074
Straight-line rent receivables	2,441
Other, net	(625)

$ 64,890

On July 20, 2016, we completed this sale resulting in a net gain of approximately $45 million.

Summary of Operations for Disposed Assets

The properties which sold during the quarter and the assets held for sale at June 30, 2016, do not meet the definition of discontinued operations. However, the following represents the operating results (excluding gain on sale, transaction costs, and impairment or other non-cash charges) from these properties (excluding loans repaid in the Capella Transaction) for the periods presented (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$ 3,092	$ 4,525	$ 7,607	$ 9,075
Real estate depreciation and amortization	(805)	(949)	(1,754)	(1,897)
Property-related expenses	(72)	(12)	(113)	(72)
Other income (expense)	(9)	228	(68)	557
Income from real estate dispositions, net	$ 2,206	$ 3,792	$ 5,672	$ 7,663

Leasing Operations

All of our leases are currently accounted for as operating leases except for the master lease of 15 Ernest facilities and six Prime facilities which are accounted for as DFLs. The components of our net investment in DFLs (which includes the Capella properties for 2015 only) consisted of the following (in thousands):

	As of June 30, 2016	As of December 31, 2015
Minimum lease payments receivable	$ 1,875,751	$ 2,587,912
Estimated residual values	292,646	393,097
Less: Unearned income	(1,639,650)	(2,354,013)
Net investment in direct financing leases	$ 528,747	$ 626,996

Twelve Oaks Facility

In the third quarter of 2015, we sent notice of termination of the lease to the tenant at our Twelve Oaks facility. This former tenant continues to occupy the facility. We called their letter of credit for approximately $0.5 million in the 2016 first quarter. At June 30, 2016, all past due receivables are fully reserved. Although no assurances can be made that we will not have any impairment charges in the future, we believe our real estate investment in Twelve Oaks at June 30, 2016 is fully recoverable.

Subsequent to June 30, 2016, we received approximately $2.5 million representing substantially all of amounts owed to us and agreed to general terms of a new lease, which we expect to execute during the 2016 third quarter.

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Loans

The following is a summary of our loans (in thousands):

	As of June 30, 2016	As of December 31, 2015
Mortgage loans	$ 549,337	$ 757,581
Acquisition loans	216,100	610,469
Working capital and other loans	43,229	54,353
	$ 808,666	$ 1,422,403

The decrease in our mortgage and acquisition loans are related to the Capella Transaction as discussed previously.

Our non-mortgage loans typically consist of loans to our tenants for acquisitions and working capital purposes. At June 30, 2016, acquisition loans includes our original $93.2 million loan to Ernest and the $93.3 million loan to RCCH, which was repaid in July as discussed above.

On March 1, 2012, pursuant to our convertible note agreement, we converted $1.7 million of our $5.0 million convertible note into a 9.9% equity interest in the operator of our Hoboken University Medical Center facility. At June 30, 2016, $3.3 million remains outstanding on the convertible note, and we retain the option, subject to regulatory approvals, to convert this remainder into 15.1% of equity interest in the operator.

Concentrations of Credit Risk

Our revenue concentration for the six months ended June 30, 2016 as compared to the prior year is as follows (dollars in thousands):

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Revenue by Operator

	For the Six Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Operators	Total Revenue	Percentage of Total Revenue	Total Revenue	Percentage of Total Revenue
Prime	$ 58,859	22.5%	$ 49,869	25.5%
MEDIAN	47,745	18.3%	32,212	16.5%
Ernest	33,322	12.8%	29,695	15.2%
RCCH	32,909	12.6%		
Adeptus Health	16,205	6.2%	7,425	3.8%

Revenue by U.S. State and Country

	For the Six Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
U.S. States and Other Countries	Total Revenue	Percentage of Total Revenue	Total Revenue	Percentage of Total Revenue
Texas	$ 48,256	18.5%	$ 42,689	21.8%
California	33,187	12.7%	33,065	16.9%
All other states	129,896	49.7%	85,620	43.7%
Total U.S.	$ 211,339	80.9%	$ 161,374	82.4%
Germany	$ 47,745	18.3%	$ 32,212	16.5%
United Kingdom, Italy, and Spain	2,215	0.8%	2,176	1.1%
Total International	$ 49,960	19.1%	$ 34,388	17.6%
Grand Total	$ 261,299	100.0%	$ 195,762	100.0%

From an asset basis, our concentration as of June 30, 2016 as compared to December 31, 2015 is as follows (dollars in thousands):

Gross Assets by Operator

	As of June 30, 2016		As of December 31, 2015	
Operators	Total Gross Assets (A)	Percentage of Total Gross Assets (B)	Total Gross Assets (A)	Percentage of Total Gross Assets (B)
Prime	$ 1,126,654	20.8%	$ 1,032,353	17.1%
MEDIAN	1,054,368	19.4%	1,031,039	17.1%
Ernest	584,411	10.8%	579,182	9.6%
Adeptus Health	500,000	9.2%	500,000	8.3%

RCCH	458,659	8.5%	1,059,989	17.6%

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Gross Assets by U.S. State and Country

tes and Other Countries	As of June 30, 2016 Total Gross Assets (A)	Percentage of Total Gross Assets (B)	As of December 2015 Total Gross Assets (A)
	$ 920,959	17.0%	$ 1,060,990
a	547,079	10.1%	547,085
r states	2,530,018	46.6%	3,047,204
mestic assets	189,358	3.5%	177,317
S.	$ 4,187,414	77.2%	$ 4,832,596
y	$ 1,054,368	19.4%	$ 1,031,039
Kingdom, Italy, and Spain	156,630	3.0%	161,317
ernational assets	23,983	0.4%	10,970
ernational	$ 1,234,981	22.8%	

	Shares	Grant Date Fair Value Per Share
Non-vested shares at beg of year	148,426	$3.23 to $8.60
Granted	44,755	$4.18
Forfeited	(8,721)	
Vested	0	
Non-vested shares at March 31, 2016	184,460	

As of March 31, 2016, there was $431,000 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 2.6 years.

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Note 6. Notes Payable and Long-Term Debt

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. 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." As of March 31, 2016, 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 and $0 borrowed in the six month period ended March 31, 2016. As of March 31, 2016 the outstanding balance on the note was $1,147,000. As of July 1, 2015 Drive Thru could no longer request additional draw downs.

In connection with each disbursement under the Loan Agreement, Drive Thru executed 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 associated with the Development Line Loan 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.

In May 2015, in connection with the BDI purchase, the Company entered into a one-year secured promissory note bearing interest at 3.25 percent in the amount of $2,414,000. The entire note and all accrued interest were paid off subsequent to the quarter end on May 6, 2016.

Note 7. 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 was 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 were to expire on August 16, 2016.

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. No other warrants remain outstanding.

As of September 30, 2015 we had received proceeds, net of expenses related to the exercise of the warrants, of $9,782,000. As of March 31, 2016 there are no outstanding warrants.

Note 8. Net Income (Loss) per Common Share

Our basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive securities for this calculation consist of in-the-money outstanding stock options, restricted stock grants and warrants (which were assumed to have been exercised at the average market price of the common shares during the reporting period). The treasury stock method is used to measure the dilutive impact of in-the-money stock options. Options and restricted stock grants for 328,080 and 345,337 shares of common stock were not included in computing diluted EPS for the six months ended March 31, 2016 and 2015, respectively, because their effects were anti-dilutive.

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Note 9. Contingent Liabilities and Liquidity

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

Note 10. 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. 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 $0 and $15,000 for the six month periods ended March 31, 2016 and 2015, respectively.

In April 2013 the Company entered into a management services agreement with BDFD pursuant to which the Company provided general management services as well as accounting and administrative services. Income received from the agreement by the Company was 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 $0 and $12,000 for the six month periods ended March 31, 2016 and 2015, respectively.

In conjunction with the purchase of BDI in May 2015 the Company now owns 100% of BDFD and has fully consolidated their accounts in the accompanying condensed consolidated financial statements.

Note 11. 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, 2016 there are no restaurants which are impaired.

Trademarks. Trademarks have been determined to have an indefinite life. We evaluate our trademarks for impairment annually and on an interim basis as events and circumstances warrant by comparing the fair value of the trademarks with their carrying amount. There was no impairment required to the acquired trademarks as of March 31, 2016 and 2015.

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, 2016, the Company had $96,000 of goodwill related to the purchase of a Good Times franchise operation on December 31, 2012 and $14,980,000 of goodwill related to the acquisition of BDI on May 7, 2015. There was no impairment required to the goodwill as of March 31, 2016.

Note 12. Income Taxes

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

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The Company has significant net operating loss carry-forwards from prior years and incurred additional net operating losses during the six month periods ended March 31, 2016 and 2015. These losses resulted in an increase in the related deferred tax assets; however, valuation allowances were provided which reduced these deferred tax assets to zero; therefore, no income tax provision or benefit was recognized for the six month periods ended March 31, 2016 and 2015 resulting in an effective income tax rate of 0% for both periods.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities for the years 2012 through 2015. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. No accrual for interest and penalties was considered necessary as of March 31, 2016.

Note 13. Non-controlling Interests

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

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

The following table summarizes the activity in non-controlling interests during the six months ended March 31, 2016 (in thousands):

	Good Times	Bad Daddy's	Total

Balance at September 30, 2015	$ 320	$ 1,295	$ 1,615
Income	195	174	369
Distributions	(211)	(223)	(434)
Balance at March 31, 2016	$ 304	$ 1,246	$ 1,550

Prior to the acquisition of BDI our non-controlling interest consisted of one joint venture partnership involving Good Times restaurants, as part of the acquisition of BDI additional non-controlling interests were acquired in three joint venture entities.

Note 14. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, Leases (Topic 842), (ASU 2016-02), which replaces the existing guidance in Accounting Standard Codification 840, Leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. The Company is currently assessing the impact that adoption of ASU 2016-02 will have on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The areas for simplification include income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016 and early adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the effects of ASU 2016-09 on its financial statements and disclosures.

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Note 15. Segment Reporting

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Revenues				
Good Times	$ 6,788	$ 6,705	$ 13,825	$ 13,309
Bad Daddy's	8,530	2,009	15,331	3,260
	$ 15,318	$ 8,714	$ 29,156	$ 16,569
Income (Loss) from operations				
Good Times	$ 20	$ (29)	$ (47)	$ (125)
Bad Daddy's	(307)	(142)	(1,027)	(409)
Corporate	(144)	(197)	(288)	(197)
	$ (431)	$ (368)	$ (1,362)	$ (731)
Capital Expenditures				
Good Times	$ 234	$ 882	$ 692	$ 1,921
Bad Daddy's	1,937	342	5,421	1,034
Corporate	67	2	80	22
	$ 2,238	$ 1,226	$ 6,193	$ 2,977

	March 31, 2016	September 30, 2015
Property & Equipment, net		
Good Times	$ 5,549	$ 5,267
Bad Daddy's	13,008	8,837
Corporate	173	118
	$ 18,730	$ 14,222

Note 16. Subsequent Events

On May 6, 2016 we paid off the BDI promissory note balance and accrued interest. The total payment made was $2,492,527.

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

This Form 10-Q contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and the disclosure of risk factors in the Company's form 10-K for the fiscal year ended September 30, 2015. Also, documents subsequently filed by us with the SEC and incorporated herein by reference may contain forward-looking statements. We caution investors that any forward-looking statements made by us are not guarantees of future performance and actual results could differ materially from those in the forward-looking statements as a result of various factors, including but not limited to the following:

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

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

We may also be negatively impacted by other factors common to the restaurant industry such as: changes in consumer tastes away from red meat and fried foods; increases in the cost of food, paper, labor, health care, workers' compensation or energy; inadequate number of hourly paid employees; and/or decreases in the availability of affordable capital resources. We caution the reader that such risk factors are not exhaustive, particularly with respect to future filings. For further discussion of our exposure to market risk, refer to Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Overview.

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

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

Growth Strategies and Outlook.

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

- Pursue disciplined growth of company-owned Bad Daddy's restaurants
- Develop joint venture and/or franchised Bad Daddy's
- Remodel/refresh our Good Times restaurants
- Expand the number of Good Times locations
- Increase same-store sales in both brands
- Leverage our infrastructure

Acquisition of Bad Daddy's International, LLC.

In May 2015, we completed our acquisition of all of the membership interests in Bad Daddy's International, LLC from five sellers. As of the date of the acquisition, BDI owned all of the member interests in four limited liability companies, each of which owned and operated a Bad Daddy's Burger Bar restaurant in North Carolina. In addition, BDI owned a portion of the member interests in three other limited liability companies, each of which also owned a Bad Daddy's Burger Bar restaurant in North Carolina. BDI owns the intellectual property associated with the Bad Daddy's Burger Bar concept and owns 52% 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. Prior to the acquisition, the Company owned the other 48% of BDFD.

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The aggregate price paid by the Company for the purchase of BDI was $21,402,000, comprised of $18,988,000 payable in cash and a one-year secured promissory note bearing interest at 3.25% in the amount of $2,414,000. To finance the acquisition in May 2015, we issued an additional 2,783,810 shares of our common stock at a price to the public of $8.15 per shares.

Restaurant locations.

As of March 31, 2016 we operate or franchise a total of thirty-seven Good Times restaurants, of which thirty-five are in Colorado. Two of the restaurants are in Wyoming and are "dual brand" concept restaurants operated by a franchisee of both Good Times and Taco John's. In February 2016 one Good Times franchisee in Denver, Colorado closed its operations due to the expiration of its lease. Additionally, we operate or franchise a total of seventeen Bad Daddy's Burger Bar locations, of which seven are in Colorado, eight are in North Carolina, one is in South Carolina and one is in Tennessee. One of the North Carolina locations, at the Charlotte Douglas International Airport, is operated pursuant to a License Agreement. Subsequent to March 31, 2016 we opened one new Bad Daddy's in Colorado.

	Company-Owned/Co-Developed/Joint Venture					
State	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	2016	2015	2016	2015	2016	2015
Colorado	27	26	7	3	34	29
North Carolina	0	0	7	0	7	0
Total:	27	26	14	3	41	29

	Franchise/License					
State	Good Times Burgers & Frozen Custard		Bad Daddy's Burger Bar		Total	
	2016	2015	2016	2015	2016	2015
Colorado	8	9	0	0	8	9
North Carolina	0	0	1	0	1	0
South Carolina	0	0	1	0	1	0
Tennessee	0	0	1	0	1	0
Wyoming	2	2	0	0	2	2
Total:	10	11	3	0	13	11

In May 2015 we opened a company-owned Good Times restaurant in Centennial, Colorado. We opened company-owned Bad Daddy's restaurants in Aurora, Colorado (January 2015), Greenwood Village, Colorado (October 2015), Centennial, Colorado (December 2015), Littleton, Colorado (January 2016), Longmont, Colorado (February 2016) and Colorado Springs, Colorado (April 2016). In addition, we acquired interests in seven Bad Daddy's restaurants from BDI in May 2015.

Results of Operations

The following presents certain historical financial information of our operations. This financial information includes results for the three month and six month periods ending March 31, 2016 and 2015.

Net Revenues. Net revenues for the three months ended March 31, 2016 increased $6,604,000 or 75.8% to $15,318,000 from $8,714,000 for the three months ended March 31, 2015. $82,000 of the increase was attributable to the Good Times concept, $1,955,000 was attributable to the Colorado Bad Daddy's restaurants and $4,566,000 was attributable to the acquired North Carolina Bad Daddy's restaurants.

Good Times same store restaurant sales increased 0.5% during the three months ended March 31, 2016 for the restaurants that were open for the full three month periods ending March 31, 2016 and March 31, 2015. Restaurants are included in same store sales after they have been open a full fifteen months. One restaurant was excluded from same store sales for a portion of the period as they were partially closed for remodeling. Sales were negatively impacted in March 2016 by a severe blizzard in Denver, Colorado which resulted in the closure of all restaurants for one day.

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Good Times franchise revenues for both three month periods ended March 31, 2016 and 2015 were $88,000. Good Times franchise same store restaurant sales decreased 1.8% during the three months ended March 31, 2016 for the franchise restaurants that were open for the full periods ending March 31, 2016 and March 31, 2015. Dual branded franchise same store restaurant sales decreased 5.8% during the three months ended March 31, 2016, compared to the same prior year period. One franchisee in Denver, Colorado closed its operations at the end of January 2016 due to the termination of its lease.

Bad Daddy's restaurant sales for the three months ended March 31, 2016 increased $6,432,000 to $8,441,000 from $2,009,000 for the three-month period ended March 31, 2015. The three-month period ended March 31, 2016 includes sales of $4,477,000 for the acquired North Carolina restaurants. Colorado restaurant sales increased $1,955,000 from the same prior year period. Bad Daddy's same store restaurant sales increased 1.9% during the three months ended March 31, 2016 compared to the comparable period in the prior year. This includes the sales of six of the seven acquired North Carolina restaurants even though these sales are not included in the consolidated statements of operations for the prior year and includes two of our Colorado locations. Bad Daddy's restaurants are included in same store sales after they have been open a full eighteen months.

Bad Daddy's franchise revenues were $89,000 for the three-month period ended March 31, 2016 compared to $0 in the same prior year period, all of which are attributable to the BDI acquisition.

Net revenues for the six months ended March 31, 2016 increased $12,587,000 or 76.0% to $29,156,000 from $16,569,000 for the six months ended March 31, 2015. $515,000 of the increase was attributable to the Good Times concept, $3,043,000 was attributable to the Colorado Bad Daddy's restaurants and $9,029,000 was attributable to the acquired North Carolina Bad Daddy's restaurants.

Good Times same store restaurant sales increased 2.6% during the six months ended March 31, 2016 for the restaurants that were open for the full six month periods ending March 31, 2016 and March 31, 2015. Restaurants are included in same store sales after they have been open a full fifteen months. Three restaurants were excluded from same store sales for a portion of the period as they were either partially closed for remodeling or had major road construction and as a result restaurant sales declined approximately $65,000 during the six months ended March 31, 2016.

Good Times franchise revenues for the six months ended March 31, 2016 increased $1,000 to $178,000 from $177,000 for the six months ended March 31, 2015 due to an increase in franchise fees offset by a decrease in franchise royalties. Good Times franchise same store restaurant sales increased 0.3% during the six months ended March 31, 2016 for the franchise restaurants that were open for the full periods ending March 31, 2016 and March 31, 2015. Dual branded franchise same store restaurant sales decreased 7.1% during the six months ended March 31, 2016, compared to the same prior year period.

Bad Daddy's restaurant sales for the six months ended March 31, 2016 increased $11,890,000 to $15,150,000 from $3,260,000 for the six-month period ended March 31, 2015. The six-month period ended March 31, 2016 includes sales of $8,847,000 for the acquired North Carolina restaurants. Colorado restaurant sales increased $3,043,000 from the same prior year period. Bad Daddy's same store restaurant sales increased 4.0% during the six months ended March 31, 2016 compared to the comparable period in the prior year. This includes the sales of six of the seven acquired North Carolina restaurants even though these sales are not included in the consolidated statements of operations for the prior year and includes one of our Colorado locations. Bad Daddy's restaurants are included in same store sales after they have been open a full eighteen months.

Bad Daddy's franchise revenues were $181,000 for the six-month period ended March 31, 2016 compared to $0 in the same prior year period, all of which are attributable to the BDI acquisition.

Restaurant Operating Costs

Food and Packaging Costs. For the three months ended March 31, 2016, food and packaging costs increased $1,911,000 from $2,874,000 (33.3% of restaurant sales) in the three months ended March 31, 2015 to $4,785,000 (31.6% of restaurant sales).

Good Times food and packaging costs were $2,123,000 (31.7% of restaurant sales) in the three months ended March 31, 2016, down from $2,240,000 (33.9% of restaurant sales) in the three months ended March 31, 2015. The decrease of 2.2% in costs as a percentage of restaurant sales was attributable to a 3.0% weighted average menu price increase over last year which lowered cost of sales (as a percentage of restaurant sales) by 1.0%, and the remaining decrease was due to a net decrease in average commodity costs versus last year especially beef cost which declined 30%.

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Bad Daddy's food and packaging costs were $2,661,000 (31.5% of restaurant sales) in the three months ended March 31, 2016, up from $634,000 (31.6% of restaurant sales) in the three months ended March 31, 2015. $1,444,000 of the $2,027,000 increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $583,000 was attributable to the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

For the six months ended March 31, 2016, food and packaging costs increased $3,667,000 from $5,623,000 (34.3% of restaurant sales) in the six months ended March 31, 2015 to $9,290,000 (32.3% of restaurant sales).

Good Times food and packaging costs were $4,437,000 (32.5% of restaurant sales) in the six months ended March 31, 2016, down from $4,580,000 (34.9% of restaurant sales) in the six months ended March 31, 2015. The decrease of 2.4% in costs as a percentage of restaurant sales was attributable to a 3.6% weighted average menu price increase over last year which lowered cost of sales (as a percentage of restaurant sales) by 1.2%, and the remaining decrease was due to a net decrease in average commodity costs versus last year especially beef cost which declined 28%.

Bad Daddy's food and packaging costs were $4,853,000 (32.0% of restaurant sales) in the six months ended March 31, 2016, up from $1,043,000 (32.0% of restaurant sales) in the six months ended March 31, 2015. $2,902,000 of the $3,810,000 increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $908,000 was attributable to the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

Payroll and Other Employee Benefit Costs. For the three months ended March 31, 2016, payroll and other employee benefit costs increased $2,480,000 from $2,914,000 (33.8% of restaurant sales) in the three months ended March 31, 2015 to $5,394,000 (35.6% of restaurant sales).

Good Times payroll and other employee benefit costs were $2,283,000 (34.1% of restaurant sales) in the three months ended March 31, 2016, up from $2,138,000 (32.3% of restaurant sales) in the three months ended March 31, 2015. The $145,000 increase in payroll and other employee benefit expenses is primarily due to an increase in the average wage paid to our employees, which increased approximately 5% in the three months ended March 31, 2016 compared to the same prior year period. The 5% increase is attributable to a very competitive labor market in Colorado. Payroll and other employee benefits increased approximately $67,000 in the three months ended March 31, 2016 due to one new restaurant that opened in May 2015.

Bad Daddy's payroll and other employee benefit costs were $3,111,000 (36.9% of restaurant sales) for the three months ended March 31, 2016 up from $776,000 (38.6% of restaurant sales) in the three months ended March 31, 2015. $1,538,000 of the $2,335,000 increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $797,000 was attributable to the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

For the six months ended March 31, 2016, payroll and other employee benefit costs increased $4,720,000 from $5,446,000 (33.2% of restaurant sales) in the six months ended March 31, 2015 to $10,166,000 (35.3% of restaurant sales).

Good Times payroll and other employee benefit costs were $4,582,000 (33.6% of restaurant sales) in the six months ended March 31, 2016, up from $4,173,000 (31.8% of restaurant sales) in the six months ended March 31, 2015. The $409,000 increase in payroll and other employee benefit expenses is primarily due to an increase in the average wage paid to our employees, which increased approximately 6% in the six months ended March 31, 2016 compared to the same prior year period. The 6% increase is attributable to a very competitive labor market in Colorado. Payroll and other employee benefits increased approximately $134,000 in the six months ended March 31, 2016 due to one new restaurant that opened in May 2015.

Bad Daddy's payroll and other employee benefit costs were $5,584,000 (36.9% of restaurant sales) for the six months ended March 31, 2016 up from $1,273,000 (39.0% of restaurant sales) in the six months ended March 31, 2015. $3,086,000 of the $4,311,000 increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $1,225,000 was attributable to the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

Occupancy and Other Operating Costs. For the three months ended March 31, 2016, occupancy and other operating costs increased $1,107,000 from $1,456,000 (16.9% of restaurant sales) in the three months ended March 31, 2015 to $2,563,000 (16.9% of restaurant sales).

Good Times occupancy and other operating costs were $1,230,000 (18.4% of restaurant sales) in the three months ended March 31, 2016, up from $1,119,000 (16.9% of restaurant sales) in the three months ended March 31, 2015. The $111,000 increase in occupancy and other costs is primarily attributable to:

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- Increase of $42,000 in occupancy and other restaurant operating costs due to the one new restaurant that opened in May 2015.
- Increases in various other restaurant operating costs of $69,000 at existing restaurants comprised primarily of property taxes, repairs and maintenance, restaurant supplies and bank fees.

Occupancy costs may increase as a percent of sales as new company-owned restaurants are developed due to higher rent associated with sale-leaseback operating leases, as well as increased property taxes on those locations.

Bad Daddy's occupancy and other operating costs were $1,333,000 (15.8% of restaurant sales) for the three months ended March 31, 2016 up from $338,000 (16.8% of restaurant sales) in the three months ended March 31, 2015. $696,000 of the $995,000 increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $299,000 was attributable the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

For the six months ended March 31, 2016, occupancy and other operating costs increased $2,083,000 from $2,794,000 (17% of restaurant sales) in the six months ended March 31, 2015 to $4,877,000 (16.9% of restaurant sales).

Good Times occupancy and other operating costs were $2,475,000 (18.1% of restaurant sales) in the six months ended March 31, 2016, up from $2,229,000 (17.0% of restaurant sales) in the six months ended March 31, 2015. The $246,000 increase in occupancy and other costs is primarily attributable to:

- Increase of $118,000 in occupancy and other restaurant operating costs due to the two new restaurants opened in the prior fiscal year, one in November 2014 and one in May 2015.
- Increases in various other restaurant operating costs of $128,000 at existing restaurants comprised primarily of property taxes, repairs and maintenance, restaurant supplies and bank fees.

Occupancy costs may increase as a percent of sales as new company-owned restaurants are developed due to higher rent associated with sale-leaseback operating leases, as well as increased property taxes on those locations.

Bad Daddy's occupancy and other operating costs were $2,402,000 (15.9% of restaurant sales) for the six months ended March 31, 2016 up from $565,000 (17.3% of restaurant sales) in the six months ended March 31, 2015. $1,375,000 of the $1,837,000 increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $462,000 was attributable the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

New Store Preopening Costs. In the three months ended March 31, 2016, we incurred $576,000 of preopening costs compared to $185,000 in the three months ended March 31, 2015.

Good Times preopening costs were $0 for the three months ended March 31, 2016 compared to $34,000 in the three months ended March 31, 2015. The prior year costs were related to the new restaurant that opened in May 2015.

Bad Daddy's preopening costs were $576,000 for the three months ended March 31, 2016 compared to $151,000 in the three months ended March 31, 2015. All of the preopening costs in the current and prior year periods are related to the newly-developed Bad Daddy's restaurants in Colorado.

In the six months ended March 31, 2016, we incurred $1,301,000 of preopening costs compared to $422,000 in the six months ended March 31, 2015.

Good Times preopening costs were $0 for the six months ended March 31, 2016 compared to $98,000 in the six months ended March 31, 2015. The prior year costs were related to the new restaurants that opened in November 2014 and May 2015.

Bad Daddy's preopening costs were $1,301,000 for the six months ended March 31, 2016 compared to $324,000 in the six months ended March 31, 2015. All of the preopening costs in the current and prior year periods are related to the newly-developed Bad Daddy's restaurants in Colorado.

Depreciation and Amortization Costs. For the three months ended March 31, 2016, depreciation and amortization costs increased $293,000 from $256,000 in the three months ended March 31, 2015 to $549,000.

Good Times depreciation costs increased $18,000 from $170,000 in the three months ended March 31, 2015 to $188,000 in the three months ended March 31, 2016, primarily due to the new restaurant opened in the prior fiscal year in May 2015.

Bad Daddy's depreciation costs increased $275,000 from $86,000 in the three months ended March 31, 2015 to $361,000 in the three months ended March 31, 2016. $152,000 of the increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $123,000 was attributable the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

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For the six months ended March 31, 2016, depreciation and amortization costs increased $546,000 from $462,000 in the six months ended March 31, 2015 to $1,008,000.

Good Times depreciation costs increased $57,000 from $314,000 in the six months ended March 31, 2015 to $371,000 in the six months ended March 31, 2016, primarily due to the two new restaurants opened in the prior fiscal year, one in November 2014 and one in May 2015.

Bad Daddy's depreciation costs increased $489,000 from $148,000 in the six months ended March 31, 2015 to $637,000 in the six months ended March 31, 2016. $303,000 of the increase was attributable to the North Carolina BDI restaurants acquired in May 2015. The remaining increase of $186,000 was attributable the five additional Bad Daddy's restaurants opened in Colorado in fiscal 2015 and the first six months of fiscal 2016.

General and Administrative Costs. For the three months ended March 31, 2016, general and administrative costs increased $591,000 from $919,000 (10.5% of total revenues) in the three months ended March 31, 2015 to $1,510,000 (9.9% of total revenue).

The $591,000 increase in general and administrative expenses in the three months ended March 31, 2016 is primarily attributable to:

- Increase in payroll and employee benefit costs of $267,000
- Increase in incentive stock compensation cost of $92,000
- Increase in training and human resources costs of $124,000
- Increase in professional services of $18,000
- Net increases in all other expenses of $90,000

For the six months ended March 31, 2016, general and administrative costs increased $1,322,000 from $1,794,000 (10.8% of total revenues) in the six months ended March 31, 2015 to $3,116,000 (10.7% of total revenue).

The $1,322,000 increase in general and administrative expenses in the six months ended March 31, 2016 is primarily attributable to:

- Increase in payroll and employee benefit costs of $604,000
- Increase in incentive stock compensation cost of $202,000
- Increase in training and human resources costs of $255,000
- Increase in professional services of $108,000
- Net increases in all other expenses of $153,000

General and administrative costs will continue to increase as we build up our infrastructure to support the growth of both of our brands.

Advertising Costs. For the three months ended March 31, 2016, advertising costs increased $91,000 from $261,000 (3.0% of restaurant sales) in the three months ended March 31, 2015 to $352,000 (2.3% of restaurant sales).

Good Times advertising costs increased $47,000 from $249,000 (3.8% of restaurant sales) in the three months ended March 31, 2015 to $296,000 (4.4% of restaurant sales) in the three months ended March 31, 2016. Good Times advertising costs consists primarily of contributions made to the advertising materials fund and a regional advertising cooperative based on a percentage of restaurant sales.

We anticipate that in fiscal 2016 Good Times advertising costs will be slightly higher than fiscal 2015 as a percentage of restaurant sales and will consist primarily of cable television advertising, social media and on-site and point-of-purchase merchandising totaling approximately 4.4% of restaurant sales.

Bad Daddy's advertising costs were $56,000 (0.7% of restaurant sales) in the three months ended March 31, 2016 compared to $12,000 (.6% of restaurant sales) in the three months ended March 31, 2015. The North Carolina BDI restaurants acquired in May 2015 accounted for $29,000 of the increase. Bad Daddy's advertising costs consist primarily of menu development, printing costs and local store marketing.

Beginning in October 2015 all Bad Daddy's restaurants began making contributions to an advertising materials fund based on a percentage of sales.

For the six months ended March 31, 2016, advertising costs increased $197,000 from $521,000 (3.2% of restaurant sales) in the six months ended March 31, 2015 to $718,000 (2.5% of restaurant sales).

Good Times advertising costs increased $114,000 from $495,000 (3.8% of restaurant sales) in the six months ended March 31, 2015 to $609,000 (4.5% of restaurant sales) in the six months ended March 31, 2016. Good Times advertising costs consists primarily of contributions made to the advertising materials fund and a regional advertising cooperative based on a percentage of restaurant sales.

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Bad Daddy’s advertising costs were $109,000 (0.7% of restaurant sales) in the six months ended March 31, 2016 compared to $26,000 (0.8% of restaurant sales) in the six months ended March 31, 2015. The North Carolina BDI restaurants acquired in May 2015 accounted for $62,000 of the increase. Bad Daddy’s advertising costs consist primarily of menu development, printing costs and local store marketing.

Acquisition Costs. For the three and six month periods ended March 31, 2016 acquisitions costs were $0 compared to $197,000 in the same prior year periods. All acquisition costs are related to the acquisition of BDI in May 2015 and include legal, accounting and other professional services related to the transaction.

Franchise Costs. For the three months ended March 31, 2016, franchise costs of $27,000 remained the same is in the prior three months ended March 31, 2015.

For the six months ended March 31, 2016, franchise costs increased $1,000 from $53,000 in the six months ended March 31, 2015 to $54,000.

The costs are primarily related to the Good Times franchised restaurants.

Gain or Loss on Restaurant Asset Disposals. For the three and six month periods ended March 31, 2016 the gain on restaurant asset disposals was $7,000 and $12,000, respectively, compared to a gain of $6,000 and $12,000, respectively, in the three and six month periods ended March 31, 2015.

The gain in all periods is primarily related a deferred gain on a previous sale lease-back transaction on a Good Times restaurant.

Loss from Operations. The loss from operations was $431,000 in the three months ended March 31, 2016 compared to a loss from operations of $368,000 in the three months ended March 31, 2015.

The loss from operations was $1,362,000 in the six months ended March 31, 2016 compared to a loss from operations of $731,000 in the six months ended March 31, 2015.

The increase in loss from operations for the three and six month periods ended March 31, 2016 is due primarily to matters discussed in the "Restaurant Operating Costs", "General and Administrative Costs" and “Acquisition Costs” sections above.

Net Loss. The net loss was $467,000 for the three months ended March 31, 2016 compared to a net loss of $361,000 in the three months ended March 31, 2015.

The net loss was $1,428,000 for the six months ended March 31, 2016 compared to a net loss of $722,000 in the six months ended March 31, 2015.

The change from the three and six month periods ended March 31, 2015 to the three and six month periods ended March 31, 2016 was primarily attributable to the matters discussed in the "Net Revenues", "Restaurant Operating Costs", "General and Administrative Costs" and "Acquisition Costs" sections above, as well as an increase in net interest expense of $32,000 and $65,000, respectively, compared to the same prior year periods.

Income Attributable to Non-Controlling Interests. For the three months ended March 31, 2016, the income attributable to non-controlling interests was $206,000 compared to $74,000 in the three months ended March 31, 2015. The non-controlling interest represents the limited partners’ or members’ share of income in the Good Times and Bad Daddy’s joint venture restaurants. $94,000 of the current year income is attributable to the Good Times joint venture restaurants and $112,000 of the current year income is attributable to the acquisition of the BDI joint venture restaurants in May 2015. The prior year income is all attributable to the Good Times joint venture restaurants.

For the six months ended March 31, 2016, the income attributable to non-controlling interests was $369,000 compared to $123,000 in the six months ended March 31, 2015. The non-controlling interest represents the limited partners’ or members’ share of income in the Good Times and Bad Daddy’s joint venture restaurants. $195,000 of the current year income is attributable to the Good Times joint venture restaurants and $174,000 of the current year income is attributable to the acquisition of the BDI joint venture restaurants in May 2015. The prior year income is all attributable to the Good Times joint venture restaurants.

Adjusted EBITDA

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

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

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

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

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- stock based compensation expense is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing

performance for a particular period;

- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Adjusted EBITDA:				
Net loss, as reported	$ (673)	$ (435)	$ (1,797)	$ (845)
Depreciation and amortization	520	272	947	494
Interest expense, net	36	4	66	1
EBITDA	(117)	(159)	(784)	(350)
Preopening expense (1)	576	185	1,301	422
Non-cash stock based compensation (2)	177	85	355	152
Non-recurring acquisition costs (3)	-	197	-	197
GAAP rent in excess of cash rent (4)	10	30	24	43
Non-cash disposal of asset (5)	(7)	(6)	(12)	(12)
Adjusted EBITDA	$ 639	$ 332	$ 884	$ 452

(1) Represents expenses directly associated with the opening of new restaurants, including preopening rent.

(2) Represents non-cash stock based compensation as described in Note 6 to the financial statements.

(3) Represents the costs related to the acquisition of BDI and includes legal, accounting and other professional services related to the transaction.

(4) Represents the excess of GAAP rent recorded in the financial statements over the amount of cash rent incurred

(5) Primarily related to a deferred gain on a previous sale lease-back transaction on a Good Times restaurant.

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Liquidity and Capital Resources

Cash and Working Capital: As of March 31, 2016, we had a working capital excess of $3,399,000. 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. We anticipate that decreases in our working capital may occur in the future if and when new Good Times or Bad Daddy's restaurants are opened. We are in the process of securing a senior debt facility which we believe will provide sufficient capital to meet our development, working capital, long term debt obligations and recurring capital expenditure needs in fiscal 2016 and 2017.

Financing:

Public Offering: On May 4, 2015 we completed a public offering of 2,783,810 shares of common stock, par value $0.001 per share. The price to the public was $8.15 per share with an underwriter's agreement at a price of $7.58 per share. The public offering resulted in net proceeds of approximately $20.6 million that we primarily used for the acquisition of Bad Daddy's International and development of additional Bad Daddy's Burger Bar restaurants.

We intend to use the remaining net proceeds from the offering after the acquisition of BDI for the remodeling and reimaging of existing Good Times Burgers & Frozen Custard restaurants, for the development of new Bad Daddy's and Good Times restaurants, as working capital reserves and for future investment at the discretion of our Board of Directors.

Bad Daddy's International Note Payable: In May 2015, in connection with the BDI purchase, the Company entered into a one-year secured promissory note bearing interest at 3.25% in the amount of $2,414,000. Subsequent to the quarter ending March 31, 2016 the outstanding promissory note, along with all accrued interest, was paid in full on May 6, 2016.

United Capital Loan: 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. 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." As of March 31, 2016 the outstanding balance of the notes payable totaled $1,147,000. As of

July 1, 2015 Drive Thru could no longer request additional draw downs.

In connection with each disbursement under the Loan Agreement, Drive Thru executed 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. At March 31, 2016 the company was in compliance with all the required covenants.

Capital Expenditures. Planned capital expenditures for the balance of fiscal 2016 include normal recurring capital expenditures for existing Good Times and Bad Daddy's restaurants, new Bad Daddy's and Good Times restaurants and reimage and remodel costs for Good Times restaurants.

Cash Flows. Net cash provided by operating activities was $1,931,000 for the six months ended March 31, 2016. The net cash provided by operating activities for the six months ended March 31, 2016 was the result of a net loss of $1,428,000 as well as cash and non-cash reconciling items totaling $3,359,000 (comprised of depreciation and amortization of $1,055,000, stock-based compensation expense of $355,000, an increase in accounts receivable of $609,000, an increase in deferred liabilities, related to tenant allowances, of $1,979,000, an increase in accrued liabilities of $807,000 and a net increase in other operating assets and liabilities of $228,000).

Net cash provided by operating activities was $335,000 for the six months ended March 31, 2015. The net cash provided by operating activities for the six months ended March 31, 2015 was the result of a net loss of $722,000 as well as cash and non-cash reconciling items totaling $1,057,000 (comprised of depreciation and amortization of $493,000, stock-based compensation expense of $153,000, an increase in accounts payable and accrued liabilities of $603,000, an increase in receivables of $153,000 and a net increase in other operating assets and liabilities of $39,000).

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Net cash used in investing activities for the six months ended March 31, 2016 was $6,180,000 which primarily reflects the purchases of property and equipment of $6,193,000. Purchases of property and equipment comprised of the following:

- $5,284,000 in costs for the development of Bad Daddy's locations in Colorado
- $136,000 for miscellaneous capital expenditures related to our Bad Daddy's restaurants
- $524,000 in costs related to our existing Good Times locations, for reimaging and remodeling
- $66,000 for the development of one new Good Times location, expected to be open in late fiscal 2016
- $103,000 for miscellaneous capital expenditures related to our Good Times restaurants
- $80,000 for miscellaneous capital expenditures related to our corporate office

Net cash used in investing activities for the six months ended March 31, 2015 was $2,973,000, which primarily reflects the purchases of property and equipment. Purchases of property and equipment were $2,977,000, details are as follows:

- $972,000 in costs for the development of Bad Daddy's locations in Colorado
- $61,000 for miscellaneous capital expenditures related to our Bad Daddy's restaurants
- $95,000 in costs related to our existing Good Times locations, for reimaging and remodeling
- $1,652,000 for the development of two Good Times locations, including the purchase of land for a new location that opened on May 5, 2015
- $175,000 for miscellaneous capital expenditures related to our Good Times restaurants
- $22,000 for miscellaneous capital expenditures related to our corporate office

Net cash used in financing activities for the six months ended March 31, 2016 was $520,000, which includes principal payments on notes payable, long term debt and capital leases of $101,000, proceeds from the sale of stock options of $15,000 and distributions to non-controlling interests of $434,000.

Net cash provided by financing activities for the six months ended March 31, 2015 was $4,164,000, which includes principal payments on notes payable, long term debt and capital leases of $44,000, borrowings on notes payable and long-term debt of $1,118,000, distributions to non-controlling interests of $117,000 and net proceeds from the exercise of warrants and stock options of

$3,207,000.

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

Impact of Inflation

The total menu price increases taken at our Good Times Concept during fiscal 2015 were 3.4%, and we have taken an additional 2.9% increase in fiscal 2016. Commodity costs have generally declined in the first two quarters of fiscal 2016 compared to the same prior year periods. When combined with our menu price increases, we expect Good Times' food and packaging costs to remain consistent with the current quarter as a percentage of sales during of the remainder of fiscal 2016. However, if we experience cost pressure on our core commodities, including beef and bacon, our food and packaging costs as a percentage of sales could be higher in fiscal 2016 than in fiscal 2015.

Seasonality

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4T. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As previously reported in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, we concluded that, as of September 30, 2015, our controls were not adequate to ensure that all liabilities related to development costs for restaurants that were currently under construction but not yet open were recorded in the proper period. Subsequent to September 30, 2015, we implemented a process of analyzing each new restaurant on a project by project basis to ensure that all development costs and the related liabilities are recorded as of the end of each reporting period. This process involves using estimates to record costs incurred but not yet billed for the reporting period.

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

Changes in Internal Control over Financial Reporting

Other than as set forth above, there have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

We may be unable to integrate the BDI business successfully and realize the anticipated benefits of the acquisition.

On May 7, 2015 we completed our acquisition of BDI. The acquisition of BDI involves the combination of two companies that, up until the time of our acquisition of BDI, operated as independent companies. We will be required to devote significant management attention and resources to integrating business practices, cultures and operations of each business. Potential difficulties we may encounter as part of the integration process include the following:

- the inability to successfully combine our business with that of BDI in a manner that permits us to achieve the synergies and other benefits anticipated to result from the acquisition;

- the challenge of integrating complex systems, operating procedures, regulatory compliance programs, technology, networks and other assets of BDI in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;

- potential unknown liabilities, liabilities that are significantly larger than we currently anticipate and unforeseen increased expenses associated with the acquisition, including cash costs to integrate the two businesses that may exceed the cash costs that we currently anticipate;

- challenges coordinating geographically separate organizations; and

Accordingly, the contemplated benefits of the BDI acquisition may not be realized fully, or at all, or may take longer to realize than expected.

BDI has historically operated in a different geographic region from us and with which we have little familiarity.

Bad Daddy's Burger Bar restaurants have historically been concentrated in and around the mid-Atlantic region of the United States, whereas, through the date that we acquired BDI, all of our Company-operated restaurants were located in Colorado. The mid-Atlantic region is a new market for us, and our unfamiliarity with the laws, regulatory environment, and employment conditions of a different geographic region may result in our having to devote significant expense as well as time and focus from our management team to effectively operate restaurants there.

We do not have a proven track record of operating in the "small box" better burger casual dining segment.

We have historically operated in the quick service restaurant segment, while Bad Daddy's Burger Bars operate in the "small box" better burger casual dining segment. We have operated a limited number of Bad Daddy's Burger Bar restaurants since February 2014 and thus do not have a proven track record of operating in the "small box" better burger casual dining. Realizing the contemplated benefits from expanding into a new segment of casual dining may take significant time and resources and may depend upon our ability to successfully develop familiarity in the "small box" better burger casual dining segment.

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In addition to the other information set forth in this report and the risk factors set forth above, you should carefully consider the risk factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2015, which could materially affect our business, financial condition or future results. The risks described above and in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
*31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
*31.2	Certification of Controller pursuant to 18 U.S.C. Section 1350
*32.1	Certification of Chief Executive Officer and Controller pursuant to Section 906
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*filed herewith

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SIGNATURES

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

GOOD TIMES RESTAURANTS INC.

DATE: May 16, 2016

Boyd E. Hoback
President and Chief Executive Officer

James K. Zielke
Chief Financial Officer

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