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NOBLE ROMANS INC
Form 10-Q
November 09, 2007

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 2007

Commission file number: 0-11104

NOBLE ROMAN'S, INC.
(Exact name of registrant as specified in its charter)

Indiana 35-1281154
(State or other jurisdiction (I.R.S. Employer Identification No.)
of organization)

One Virginia Avenue, Suite 800 46204
Indianapolis, Indiana (Address of principal executive offices) (Zip Code)

(317) 634-3377
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of November 4, 2007, there were 18,304,993 shares of Common Stock, no par value, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

The following unaudited condensed consolidated financial statements are included herein:

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Condensed consolidated balance sheets as of December 31, 2006 and September 30, 2007 (unaudited)	Page 3
Condensed consolidated statements of operations for the three months and nine months ended September 30, 2006 and 2007 (unaudited)	Page 4
Condensed consolidated statements of changes in stockholders' equity for the year ended December 31, 2006 and nine months ended September 30, 2007 (unaudited)	Page 5
Condensed consolidated statements of cash flows for the nine months ended September 30, 2006 and 2007 (unaudited)	Page 6
Notes to condensed consolidated financial statements (unaudited)	Page 7

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Noble Roman's, Inc. and Subsidiaries Condensed Consolidated Balance Sheets (Unaudited)

	Assets	December 31, 2006	September 2007
		-----	-----
Current assets:			
Cash		\$ 920,590	\$ 1,531,000
Accounts and notes receivable (net of allowances of \$136,462 as of December 31, 2006 and September 30, 2007)		1,505,444	2,113,000
Inventories		215,557	221,000
Assets held for resale		381,768	390,000
Prepaid expenses		136,167	442,000
Current portion of long-term notes receivable		187,898	182,000
Deferred tax asset - current portion		1,971,875	1,971,000
		-----	-----
Total current assets		5,319,299	6,854,000
		-----	-----
Property and equipment:			
Equipment		1,183,655	1,280,000
Leasehold improvements		105,928	107,000
		-----	-----
		1,289,583	1,388,000
Less accumulated depreciation and amortization		653,336	727,000
		-----	-----
Net property and equipment		636,247	660,000
		-----	-----
Deferred tax asset (net of current portion)		8,300,244	7,850,000
Other assets including long-term portion of notes receivable		1,882,173	1,836,000
		-----	-----
Total assets		\$16,137,963	\$17,201,000
		=====	=====

Liabilities and Stockholders' Equity

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Current liabilities:		
Accounts payable and accrued expenses	\$ 396,046	\$ 346,000
Current portion of long-term note payable	1,500,000	1,500,000
	-----	-----
Total current liabilities	1,896,046	1,846,000
	-----	-----
Long-term obligations:		
Note payable to bank (net of current portion)	5,625,000	4,500,000
	-----	-----
Total long-term liabilities	5,625,000	4,500,000
	-----	-----
Stockholders' equity:		
Common stock - no par value (25,000,000 shares authorized, 16,602,601 issued and outstanding as of December 31, 2006 and 18,284,993 issued and outstanding as of September 30, 2007)	21,393,360	22,820,000
Preferred stock (5,000,000 shares authorized and 51,000 issued and outstanding as of December 31, 2006 and 20,625 issued and outstanding as of September 30, 2007)	1,978,800	800,000
Accumulated deficit	(14,755,243)	(12,765,000)
	-----	-----
Total stockholders' equity	8,616,917	10,855,000
	-----	-----
Total liabilities and stockholders' equity	\$16,137,963	\$17,201,000
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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Noble Roman's, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months
	September 30,		September
	2006	2007	2006
	-----	-----	-----
Royalties and fees	\$2,049,948	2,679,313	\$5,862,207
Administrative fees and other	14,332	18,581	48,510
Restaurant revenue	307,260	261,428	1,072,000
	-----	-----	-----
Total revenue	2,371,540	2,959,322	6,982,717
	-----	-----	-----
Operating expenses:			
Salaries and wages	325,961	422,161	910,814
Trade show expense	118,064	138,197	341,700
Travel expense	94,862	172,328	287,199
Sales commissions	25,093	108,988	25,093
Other operating expenses	176,546	253,909	551,240
Restaurant expenses	292,442	240,311	1,029,460
Depreciation and amortization	20,857	24,359	62,473
General and administrative	384,437	400,735	1,172,883
	-----	-----	-----
Operating income	933,278	1,198,334	2,601,855
	-----	-----	-----
Interest and other expense	194,876	163,237	590,066
	-----	-----	-----
Income before income taxes	738,402	1,035,097	2,011,789

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Income tax expense	251,057	341,442	684,008
Net income	487,345	693,655	1,327,781
Cumulative preferred dividends	40,688	34,864	122,065
Net income available to common stockholders	\$ 446,657	\$ 658,791	\$1,205,716
Earnings per share-basic:			
Net income	\$.03	\$.04	\$.08
Net income available to common stockholders	\$.03	\$.04	\$.07
Weighted average number of common shares outstanding	16,396,303	18,208,358	16,347,130
Diluted earnings per share:			
Net income	\$.03	\$.03	\$.07
Weighted average number of common shares outstanding	19,125,397	21,100,540	19,076,224

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Changes in
Stockholders' Equity
Noble Roman's, Inc. and Subsidiaries
(unaudited)

	Preferred Stock	Common Shares	Common Stock Amount	Accumulated Deficit	To
Balance at December 31, 2006	\$ 1,978,800	16,602,661	\$21,393,360	\$(14,755,243)	\$8,61
Net income for nine months ended September 30, 2007				2,100,166	2,10
Cumulative preferred dividends				(110,481)	(11
Exercise of employee stock options		130,750	143,357		14
Amortization of value of employee stock options			19,973		1
Exercise of warrants		1,011,588	85,156		8
Conversion of preferred stock to common stock	(1,178,550)	539,994	1,178,550		
Balance at September 30, 2007	\$ 800,250	18,284,993	\$22,820,396	\$(12,765,558)	\$10,85

See accompanying notes to condensed consolidated financial statements.

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Noble Roman's, Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows (Unaudited)

OPERATING ACTIVITIES	Nine Months Ended 2006 -----	September 2007 -----
Net income	\$1,327,780	\$2,100,1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	117,228	141,3
Deferred federal income taxes	684,008	1,066,0
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts and notes receivable	(177,590)	(607,4
Inventories	1,124	(6,2
Assets held for resale	(46,297)	(21,4
Prepaid expenses	(152,706)	(306,5
Other assets	(174,816)	(56,0
Decrease in:		
Accounts payable	(266,937)	(49,2
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,311,794	2,260,4
INVESTING ACTIVITIES		
Purchase of property and equipment	(19,624)	(98,8
NET CASH USED BY INVESTING ACTIVITIES	(19,624)	(98,8
FINANCING ACTIVITIES		
Payment of obligations from discontinued operations	(431,519)	(682,6
Payment of cumulative preferred dividends	(122,065)	(110,4
Payment of principal on outstanding debt	(1,125,000)	(1,125,0
Payments received on long-term notes receivable	128,818	139,5
Proceeds from the exercise of stock options and warrants	259,209	227,8
NET CASH USED IN FINANCING ACTIVITIES	(1,290,557)	(1,550,7
Increase in cash	1,613	610,8
Cash at beginning of period	740,940	920,5
Cash at end of period	\$ 742,553	\$1,531,4
Supplemental schedule of non-cash investing and financing activities		
None.		
Cash paid for interest	\$ 551,640	\$ 464,3

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - The interim condensed consolidated financial statements, included

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herein, are unaudited, but reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim periods presented and the financial condition as of the dates indicated, which adjustments are of a normal recurring nature. The results for the nine-month period ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007.

Note 2 - Approximately \$320,000 and \$1,076,000 are included in the three-month period and nine-month period ended September 30, 2007, respectively, and approximately \$266,000 and \$966,000 for the three-month period and nine-month period ended September 30, 2006, respectively, for initial franchise fees. In addition, included in royalties and fees were approximately \$316,000 and \$1,372,000 in the three-month period and nine-month period ended September 30, 2007, respectively, and approximately \$189,000 in both the three-month period and nine-month period ended September 30, 2006, for the sale of Area Development Agreements. Because the Company's growth strategy is to grow its business by franchising non-traditional locations, franchising its dual-branded concept in traditional locations and selling development territories to area developers for growth of its dual-branded concept, and because the number of such locations that are available for targeted growth is large, the Company believes that its initial franchise fee revenue has the potential to increase in the future. Royalty and fee income, less the initial franchise fees and area development fees, were \$2,044,000 and \$5,604,000 for the three-month period and nine-month period ended September 30, 2007, respectively, and \$1,595,000 and \$4,707,000 for the three-month period and nine-month period ended September 30, 2006, respectively. The Company's ongoing royalty income is primarily paid electronically by the Company initiating a draft on the franchisee's account by electronic withdrawal. As such, the Company has no material amount of past due royalties.

Note 3 - Royalties are recognized as income monthly and are based on a percentage of monthly sales of franchised restaurants. Administrative fees are recognized as income monthly as earned. Initial franchise fees are recognized as income when the majority of services for the franchised restaurant are completed. Area Development fees, since they are fully earned and non-refundable when received, are recognized as income when received.

There were 981 franchised outlets in operation on September 30, 2006 and 1,033 on September 30, 2007. During that twelve-month period there were 90 new franchised outlets opened and 38 franchised outlets left the system, 22 of which reached the end of their franchise agreement term and 16 of which ceased operation for other reasons.

Note 4 - The following table sets forth the calculation of basic and diluted earnings per share for the three-month period and nine-month period ended September 30, 2007:

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Three-month period ended September 30, 2007

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
	-----	-----	-----
Net income	\$ 693,655		
Less preferred stock dividends	(34,864)		

Earnings per share-basic			
Income available to common	658,791	18,208,358	\$.04

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Effect of dilutive securities			
Warrants	--	2,369,231	
Options	--	156,285	
Convertible preferred stock	34,864	366,666	
	-----	-----	
Diluted earnings per share			
Income available to common stockholders and assumed conversions	\$ 693,655	20,100,540	\$.03

Nine-month period ended September 30, 2007

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
	-----	-----	-----
Net income	\$ 2,100,166		
Less preferred stock dividends	(110,481)		

Earnings per share-basic			
Income available to common	1,989,685	17,301,043	\$.12
Effect of dilutive securities			
Warrants	--	2,369,231	
Options	--	156,285	
Convertible preferred stock	110,481	366,666	
	-----	-----	
Diluted earnings per share			
Income available to common stockholders and assumed conversions	\$ 2,100,166	20,193,225	\$.10

Note 5 - The Company adopted SFAS No. 123R using the modified prospective method of adoption, which does not require restatement of prior periods. Under the modified prospective method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption, net of an estimate of expected forfeitures. Under SFAS No. 123R, compensation expense is based on the estimated fair values of stock options determined on the date of grant and is recognized over the related vesting period, net of an estimate of expected forfeitures.

The Company estimates the fair value of its option awards on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on external data while all

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other assumptions are determined based on the Company's historical experience with stock options. No options have been granted thus far in 2007. The following assumptions were used for grants in 2006:

Expected volatility	50%
Expected dividend yield	None
Expected term (in years)	5
Risk-free interest rate	4.66%

The following table sets forth the number of options outstanding as of December 31, 2005 and 2006 and as of September 30, 2007 and the number of options

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granted, exercised or forfeited during the year ended December 31, 2006 and the nine-month period ended September 30, 2007:

Balance of employee stock options outstanding as of 12/31/2005	303,750
Stock options granted during the year ended 12/31/2006	99,000
Stock options exercised during the year ended 12/31/2006	(46,250)
Stock options forfeited during the year ended 12/31/2006	(5,000)
Balance of employee stock options outstanding as of 12/31/2006	351,500
Stock options granted during the nine-month period ended 9/30/07	0
Stock options exercised during the nine-month period ended 9/30/07	(130,750)
Stock options forfeited during the nine-month period ended 9/30/07	(15,500)
Balance of employee stock options outstanding as of 9/30/07	205,250

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The Company sells and services franchises for non-traditional, co-branded and stand-alone foodservice operations under the trade names "Noble Roman's Pizza" and "Tuscano's Italian Style Subs." Both concepts' hallmarks include high quality products, simple operating systems, labor minimizing operations, attractive food costs and overall affordability.

Noble Roman's Pizza

Superior quality that our customers can taste - that is the hallmark of Noble Roman's Pizza. Every ingredient and process has been designed with a view to produce superior results. Here are a few of the differences that we believe make our product unique:

- o Crust made with only specially milled flour with above average protein and yeast.
- o Fresh packed, uncondensed sauce made with secret spices, parmesan cheese and vine-ripened tomatoes.
- o 100% real cheese blended from mozzarella and muenster, with no soy additives or extenders.
- o 100% real meat toppings, again with no additives or extenders - a real departure from many pizza concepts.

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- o Vegetable and mushroom toppings that are sliced and delivered fresh, never canned.
- o An extended product line that includes breadsticks with dip, pasta, baked sandwiches, salads, wings and a line of breakfast products for non-traditional locations.
- o A fully-prepared pizza crust that captures the made-from-scratch pizzeria flavor which gets delivered to the franchise location shelf-stable so that dough handling is no longer an impediment to a consistent product.

The Company carefully developed all of its menu items to be delivered in a

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ready-to-use form requiring only on-site assembly and baking. These menu items are manufactured by third party vendors and distributed by unrelated distributors who deliver throughout all 48 contiguous states. This process results in products that are great tasting, quality consistent, easy to assemble, relatively low in food cost and require very low amounts of labor.

Tuscano's Italian Style Subs

Tuscano's Italian Style Subs is a separate restaurant concept with an Italian-themed menu that focuses on sub sandwich menu items. Tuscano's was designed to be comfortably familiar from a customer's perspective but with many distinctive features. The franchise fee and ongoing royalty for a Tuscano's is identical to that charged for a Noble Roman's Pizza franchise. For the most part, the Company awards Tuscano's franchises for the same facilities as Noble Roman's Pizza franchises, although Tuscano's franchises are also available for non-traditional locations that do not have a Noble Roman's Pizza franchise. However, in the traditional stand-alone locations we only sell franchises for Noble Roman's Pizza/Tuscano's Subs together as a dual-branded concept.

With its Italian theme, Tuscano's offers a distinctive yet recognizable format. Like most other brand name sub concepts, customers select menu items at the start of the counter line then choose toppings and sauces according to their preference until they reach the check out point. Tuscano's, however, has many unique competitive features, including its Tuscan theme, the extra rich yeast content of its fresh baked bread, the thematic menu selections and serving options, high quality meats, and generous yet cost-effective quality sauces and spreads. Tuscano's was designed to be premium quality, simple to operate and cost-effective.

Business Strategy

The Company's business strategy can be summarized as follows:

Continue Focus on Sales of Non-Traditional Franchises. The Company plans to continue its focus on awarding franchise agreements for both Noble Roman's Pizza and Tuscano's Italian Style Subs in non-traditional venues such as hospitals, military bases, universities, convenience stores, attractions, entertainment facilities, casinos, airports, travel plazas, office complexes and hotels. The Company has pursued this focus for the past several years and has recently increased its sales staff to support planned increases in the growth of non-traditional locations.

Growth of our Traditional Dual-Branded Concept. In order to seek more rapid growth, the Company initiated a strategy to sell dual-branded franchises and to sell development territories to Area Developers for additional growth of its dual-branded concept of Noble Roman's Pizza/Tuscano's Subs for stand-alone traditional locations. Area Developers have the exclusive right to develop the dual-branded traditional concept in their areas. Area Developers generally pay a development fee of \$.05 per capita in their development area and will receive 30% of the initial franchise fee and 2/7ths of the royalty from the franchise locations developed pursuant to those Development Agreements. The

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Company retains all training and supervision responsibilities and must approve all franchisees and all locations. In order to maintain the rights to develop the territories, each Developer has to meet the minimum development schedule stipulated in the Area Development Agreement. As of November 7, 2007, the Company has entered into 24 Area Development Agreements requiring the development of 868 franchise locations over the next five to eight years. In addition, as of November 7, 2007, the Company has entered into 98 dual-branded

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franchise agreements for traditional locations, 46 of which were sold through Area Developers.

Maintain Superior Product Quality. The Company believes that the quality of its products will contribute to the growth of both its non-traditional and traditional dual-branded concept. Every ingredient and process was designed with a view to producing superior results. All of its menu items were carefully developed to be delivered in a ready-to-use form requiring only on-site assembly and baking. The Company believes this process results in products that are great tasting, quality consistent, easy to assemble, relatively low in food cost and require very low amounts of labor and allows for a significant competitive advantage due to the speed at which its products can be prepared, baked and served to customers.

Financial Summary

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates. The Company periodically evaluates the carrying values of its assets, including property, equipment and related costs, accounts receivable and deferred tax asset, to assess whether any impairment indications are present due to (among other factors) recurring operating losses, significant adverse legal developments, competition, changes in demands for the Company's products or changes in the business climate that affect the recovery of recorded value. If any impairment of an individual asset is evident, a charge will be provided to reduce the carrying value to its estimated fair value.

The following table sets forth the percentage relationship to total revenue of the listed items included in Noble Roman's consolidated statements of operations for the three-month and nine-month periods ended September 30, 2006 and 2007, respectively.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Royalties and fees	86.4 %	90.6 %	84.0 %	90.0 %
Administrative fees and other	.6	.6	.7	.6
Restaurant revenue	13.0	8.8	15.3	8.4
	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Salaries and wages	13.7	14.3	13.0	13.0
Trade show expense	5.0	4.7	4.9	4.9
Travel expense	4.0	5.8	4.1	4.0
Sales commissions	1.1	3.7	.4	5.0
Other operating expense	7.4	8.6	7.9	7.0
Restaurant expenses	12.3	8.1	14.7	8.0
Depreciation and amortization	1.0	.8	.9	.8
General and administrative	16.2	13.5	16.8	14.0
	39.3 %	40.5 %	37.3 %	41.0 %
Operating income				
Interest and other expense	8.2	5.5	8.5	5.0

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	-----	-----	-----	-----
Income before income taxes	31.1	35.0	28.8	35.
Income tax expense	10.6	11.5	9.8	12.
	-----	-----	-----	-----
Net income	20.5 %	23.5 %	19.0 %	23.
	=====	=====	=====	=====

Results of Operations

Noble Roman's, Inc. and Subsidiaries

Results of Operations - Three-Month and Nine-Month Periods Ended September 30, 2006 and 2007

Total revenue increased from \$2.4 million to \$3.0 million and from \$7.0 million to \$8.9 million for the three-month and nine-month periods ended September 30, 2007 compared to the corresponding periods in 2006. These increases were primarily the result of increases in royalties and fees from the addition of new franchises and Area Development Agreements, partially offset by a decrease in restaurant revenue. Royalties and fees increased from approximately \$2.0 million to \$2.7 million and from \$5.9 million to \$8.1 million for the three-month and nine-month periods ended September 30, 2007 compared to the corresponding periods in 2006. Included in royalties and fees were initial franchise fees of approximately \$320,000 and \$1,076,000 in the three-month period and nine-month period ended September 30, 2007, respectively, and approximately \$266,000 and \$966,000 for the three-month period and nine-month period ended September 30, 2006, respectively. In addition, included in royalties and fees were fees from the sale of Area Development Agreements of approximately \$316,000 and \$1,372,000 in the three-month period and nine-month period ended September 30, 2007, respectively. There were \$189,000 in Area Developer Agreement fees in both the three-month period and nine-month period ended September 30, 2006. Royalty and fee income, less the initial franchise fees and area development fees, were \$2,044,000 and \$5,604,000 for the three-month period and nine-month period ended September 30, 2007, respectively, and \$1,595,000 and \$4,707,000 for the three month period and nine month period ended September 30, 2006, respectively.

The Company has sold 24 territories to Area Developers with development agreements calling for the development of 868 new franchises over the next three to eight years and is in discussions regarding

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additional agreements with several other potential Area Developers. Because of the identified growth opportunities in franchising in non-traditional locations, in traditional dual-branded locations and the units committed by the Area Development Agreements, the Company believes that franchise fee revenue will increase in the future. If an Area Developer does not meet the required development schedule, the Developer loses its rights to the development area and its share of the royalty fee income on any units that are developed. There can be no assurance that all of the Area Developers will meet their required schedules.

Restaurant revenues decreased from approximately \$307,260 to \$261,428 and from \$1,072,000 to \$787,288, respectively for the three-month and nine-month periods ended September 30, 2007 compared to the corresponding periods in 2006. The Company only intends to operate two restaurants to be used for testing and demonstration purposes, but from time to time temporarily operates others until a suitable franchisee is located. Restaurant revenue decreased because the Company was operating fewer restaurants in the three-month and nine-month

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periods ended September 30, 2007 than in the corresponding periods in 2006.

Salaries and wages increased from 13.7% of total revenue to 14.3% of total revenue and from 13.0% of total revenue to 13.7% of total revenue, respectively, for the three-month and nine-month periods ended September 30, 2007 compared to the corresponding periods in 2006. These increases during the periods in 2007 compared to 2006 were the result of adding experienced staff for the growth of franchising in traditional locations in mid-year 2006 and adding additional franchise managers for anticipated openings during future quarters. Salaries and wages, as a percentage of total revenue, are expected to gradually decline in the future as the revenue continues to grow from opening more traditional franchises.

Trade show expenses decreased from 5.0% of total revenue to 4.7% of total revenue and from 4.9% of total revenue to 4.6% of total revenue, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. The amount of trade show expenses increased slightly for both the three-month and nine-month periods as a result of adding a few additional trade shows for traditional franchising and, at the same time, dropping a couple of the non-traditional shows that did not get significant responses in the past. The Company anticipates the dollar amount of trade show expense to remain approximately the same for the balance of 2007.

Travel expenses increased from 4.0% of total revenue to 5.8% of total revenue and from 4.1% of total revenue to 4.2% of total revenue, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. The amount of travel expenses increased for both the three-month and nine-month periods as a result of increases in the number of franchise managers on the road to support increases in the number of franchise locations and increases in the average amount of time franchise managers stay at franchise locations due to the additional time necessary to support traditional locations as compared to non-traditional locations.

Sales commissions increased from 1.1% to 3.7% of total revenue and 0.4% to 5.2% of total revenue, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. The sales commissions are the result of commissions earned by the Area Developers and internal sales staff designed to increase the Company's revenue growth by expanding franchising activity for traditional locations.

Other operating expenses increased as a percentage of total revenue from 7.4% to 8.6% and was 7.9% and 7.9%, respectively, for the three-month and nine-month periods ended September 30, 2007 compared to the corresponding periods in 2006. The increase in the actual dollar amount was

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primarily the result of an increase in payroll taxes, auto expenses and advertising. The Company anticipates that other operating expenses, as a percentage of revenue, will decline as a result of anticipated additional growth in 2007 and 2008 while maintaining operating expenses at approximately the same level.

Restaurant expenses decreased as a percentage of total revenue from 12.3% to 8.1% and from 14.7% to 8.3%, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. These decreases were the result of the decrease in number of restaurants operated by the Company while the revenues increased as a result of the growth in the number of franchises and the sale of Area Development Agreements for traditional locations. The Company only intends to operate two restaurants to be used for testing and demonstration purposes, but from time to

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time temporarily operates others until a suitable franchisee is located.

General and administrative expenses decreased as a percentage of total revenue from 16.2% to 13.5% and 16.8% to 14.0%, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. These decreases were the result of only a slight increase in the amount of administrative expense, which was more than offset by the growth in revenue due to the growth in the number of franchises and the sale of Area Development Agreements for traditional locations. The Company anticipates that general and administrative expenses, as a percentage of revenue, will continue to decline as a result of expected growth in revenue as the administrative structure is currently in place to handle considerable growth in the future.

Operating income increased as a percentage of total revenue from 39.3% to 40.5% and from 37.3% to 41.3%, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. The primary reason for these increases in operating income percentages were the growth in royalties and fees due to the growth in the number of franchises and the sale of Area Development Agreements for traditional locations, which more than offset the growth in operating expenses.

Interest expense decreased as a percentage of total revenue from 8.2% to 5.5% and 8.5% to 5.7%, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. These decreases were the result of a decrease in the dollar amount of interest as a result of the reduction in the amount of debt outstanding and the increase in revenue due to the growth in the number of franchises and the sale of Area Development Agreements for traditional locations. Interest expense is expected to decline in the future as the Company continues to reduce its debt.

Net income increased from \$487,345 to \$693,656 and from \$1,327,780 to \$2,100,165 for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006. The 42.3% and the 58.2% increases in net income, respectively, for the three-month period and nine-month period ended September 30, 2007 compared to the corresponding periods in 2006, were the result of the growth in royalty and fee income as a result of the sale of additional Area Development Agreements and the growth in the number of franchises for traditional locations, only partially offset by increased operating expenses.

Liquidity and Capital Resources

The Company's strategy is to grow its business by continuing to focus on franchising non-traditional locations and by franchising in traditional locations partially through the use of Area Developers. This strategy does not require significant capital.

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As a result of the Company's strategy, cash flow generated from operations, the Company's current rate of entering into new franchises and the anticipated growth in Franchise Agreements and Area Development Agreements in the future, the Company believes it will have sufficient cash flow to meet its obligations and to carry out its current business plan.

The Company's cash increased from \$921 thousand at December 31, 2006 to \$1.5 million at September 30, 2007. This increase was primarily the result of an increase in net cash provided by operating activities from \$1.3 million to \$2.3 million for the nine-month period ended September 30, 2007 compared to the corresponding period in 2006, which was partially offset by an increase in net cash used by investing activities from \$19,624 to \$98,851 and an increase in net

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cash used in financing activities from \$1.3 million to \$1.6 million during the same period.

On August 25, 2005, the Company consummated a Settlement Agreement with SummitBridge National Investments, LLC and related entities. As of a result of the Settlement Agreement, the Company acquired all of SummitBridge's debt and equity interests in the Company, except for 2,400,000 shares of common stock, all of which SummitBridge subsequently sold to various other investors, for a purchase price of \$8.3 million. These interests consisted of a senior secured promissory note in the principal amount of \$7.7 million, interest accrued on the note of \$927,756, 3,214,748 shares of the Company's common stock, \$4.9 million stated amount of the Company's no-yield preferred stock which was convertible into 1,643,092 shares of common stock, and a warrant to purchase 385,000 shares of the Company's common stock with an exercise price of \$.01 per share.

In order to fund its obligations under the Settlement Agreement, the Company obtained a new six-year term loan in the principal amount of \$9.0 million. As of September 30, 2007 this balance has been reduced to \$6.0 million. The note calls for monthly principal payments of \$125,000 plus interest at the rate of LIBOR plus 4% per annum adjusted on a monthly basis. The Company's obligations under the loan are secured by the grant of a security interest in its personal property. The Company elected to purchase a swap contract fixing the rate on 50% of the principal balance for the first two years and then \$3 million of the principal amount for the following two years at an annual interest rate of 8.83% per annum.

In September 2003 the Company completed a private placement of \$2.0 million principal amount of subordinated notes to certain individual investors. At the request of the lender under the six-year term loan, the Company negotiated with these investors to exchange the subordinated notes for equity in the Company. As a result of these negotiations, the Company issued convertible preferred stock with a conversion price of \$2.25 per share to these investors in exchange for the outstanding subordinated notes. This transaction was a dollar-for-dollar exchange of the principal amount of the notes for a like amount of the stated value (i.e. liquidation preference) of the preferred stock. The convertible feature provided that each individual investor could convert his or her preferred stock into common stock at the \$2.25 per share conversion rate at any time, at their option, after December 31, 2006. Holders of the preferred stock have no right to cause the Company to redeem such shares, however, the Company has the right, at its option, to redeem any outstanding preferred stock, at any time after December 31, 2008 for its liquidation value. During the nine-month period ended September 30, 2007, conversions of shares of the Company's preferred stock, representing \$1.2 million of the stated value, resulted in the issuance of 539,994 shares of the Company's common stock.

The Company does not anticipate that any of the recently issued Statement of Financial Accounting Standards will have a material impact on its Statement of Operations or its Balance Sheet.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to interest rate risk relates primarily to its variable-rate debt. As of September 30, 2007, the Company had outstanding interest-bearing debt in the aggregate principal amount of \$6.0 million. The Company's current borrowings are at a monthly variable rate tied to the London Interbank Offered Rate ("LIBOR") plus 4% per annum adjusted on a monthly basis. To mitigate interest rate risk, the Company purchased a swap contract fixing the rate on 50% of the principal balance for the two-year period ending in August

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2007, and to \$3.0 million of the principal amount for the following two years at an annual interest rate of 8.83% per annum. Based upon the principal balance outstanding at September 30, 2007, for each 1.0% increase in LIBOR, the Company would incur increased interest expense of approximately \$22,500 over the succeeding twelve-month period.

ITEM 4. Controls and Procedures

Based on his evaluation as of the end of the period covered by this report, Paul W. Mobley, the Company's Chief Executive Officer and Chief Financial Officer, has concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective. There have been no changes in internal controls over financial reporting during the period covered by this report 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, from time to time, is involved in various litigation relating to claims arising out of its normal business operations.

The Company is not involved in any litigation currently, nor is any litigation currently threatened, which would have a material effect upon the Company.

ITEM 6. Exhibits.

(a) Exhibits: See Exhibit Index appearing on page 18.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NOBLE ROMAN'S, INC.

Date: November 8, 2007

By: /s/ Paul W. Mobley

Paul W. Mobley, Chairman of the Board and
Chief Financial Officer
(Authorized Officer and Principal Financial
Officer)

Index to Exhibits

Exhibit

- 3.1 Amended Articles of Incorporation of the Registrant, filed as an exhibit to the Registrant's Amendment No. 1 to the Post Effective Amendment No. 2 to Registration Statement on Form S-1 filed July 1, 1985 (SEC File No.2-84150), is incorporated herein by reference.
- 3.2 Amended and Restated By-Laws of the Registrant, as currently in effect, filed as an exhibit to the Registrant's Registration Statement on Form S-18 filed October 22, 1982 and ordered effective on December 14, 1982 (SEC File No. 2-79963C), is incorporated herein by reference.
- 3.3 Articles of Amendment of the Articles of Incorporation of the Registrant effective February 18, 1992 filed as an exhibit to the Registrant's Registration Statement on Form SB-2 (SEC File No. 33-66850), ordered effective on October 26, 1993, is incorporated herein by reference.
- 3.4 Articles of Amendment of the Articles of Incorporation of the Registrant effective May 11, 2000, filed as Annex A and Annex B to the Registrant's Proxy Statement on Schedule 14A filed March 28, 2000, is incorporated herein by reference.
- 3.5 Articles of Amendment of the Articles of Incorporation of the Registrant effective April 16, 2001 filed as Exhibit 3.4 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
- 3.6 Articles of Amendment of the Articles of Incorporation of the Registrant effective August 23, 2005, filed as Exhibit 3.1 to the Registrant's current report on Form 8-K filed August 29, 2005, is incorporated herein by reference.
- 4.1 Specimen Common Stock Certificates filed as an exhibit to the Registrant's Registration Statement on Form S-18 filed October 22, 1982 and ordered effective on December 14, 1982 (SEC File No. 2-79963C), is incorporated herein by reference.
- 4.2 Form of Warrant Agreement filed as Exhibit 4.1 to the Registrant's current report on Form 8-K filed August 29, 2005, is incorporated herein by reference.
- 10.1 Employment Agreement with Paul W. Mobley dated November 15, 1994 filed as Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.

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- 10.2 Employment Agreement with A. Scott Mobley dated November 15, 1994 filed as Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
- 10.3 1984 Stock Option Plan filed with the Registrant's Form S-8 filed November 29, 1994 (SEC File No. 33-86804), is incorporated herein by reference.

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- 10.4 Noble Roman's, Inc. Form of Stock Option Agreement filed with the Registrant's Form S-8 filed November 29, 1994 (SEC File No. 33-86804), is incorporated herein by reference.
- 10.5 Settlement Agreement with SummitBridge dated August 1, 2005, filed as Exhibit 99.2 to the Registrant's current report on Form 8-K filed August 5, 2005, is incorporated herein by reference.
- 10.6 Loan Agreement with Wells Fargo Bank, N.A. dated August 25, 2005 filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed August 29, 2005, is incorporated herein by reference.
- 10.7 Registration Rights Agreement dated August 1, 2005 between the Company and SummitBridge National Investments filed as Exhibit 10.7 to the Registrant's Registration Statement on Form S-1 (SEC file No. 333-133382) filed April 19, 2006, is incorporated herein by reference.
- 21.1 Subsidiaries of the Registrant filed in the Registrant's Registration Statement on Form SB-2 (SEC File No. 33-66850) ordered effective on October 26, 1993, is incorporated herein by reference.
- 31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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