NOBLE ROMANS INC
Form 10-Q
November 06, 2014

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, 2014

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

One Virginia Avenue, Suite 300 Indianapolis, Indiana	46204
(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 þ No o

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 þ No o

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

Large Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer o (do not check if smaller reporting company)	Smaller Reporting Company þ

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

As of November 3, 2014, there were 20,030,087 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:

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

Assets	December 31, 2013	September 30, 2014
Current assets:		
Cash	$157,787	$207,054
Accounts receivable - net	1,268,788	2,104,966
Inventories	337,822	337,374
Prepaid expenses	472,065	595,643
Deferred tax asset - current portion	1,250,000	1,250,000
Total current assets	3,486,462	4,495,037
Property and equipment:		
Equipment	1,361,205	1,373,370
Leasehold improvements	88,718	88,718
	1,449,923	1,462,088
Less accumulated depreciation and amortization	962,502	1,019,098
Net property and equipment	487,421	442,990
Deferred tax asset (net of current portion)	9,332,024	8,425,276
Other assets including long-term portion of receivables - net	3,067,754	3,917,713
Total assets	$16,373,661	$17,281,016
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term notes payable to bank	$1,216,250	$1,216,250
Accounts payable and accrued expenses	818,803	937,096
Total current liabilities	2,035,053	2,153,346
Long-term obligations:		
Notes payable to bank – net of current portion	2,635,208	1,723,021
Total long-term liabilities	2,635,208	1,723,021
Stockholders' equity:		
Common stock – no par value (25,000,000 shares authorized, 19,585,089 issued and outstanding as of December 31, 2013 and 19,971,087 issued and outstanding as of September 30, 2014)	23,498,401	23,758,524
Accumulated deficit	(11,795,001)	(10,353,875)
Total stockholders' equity	11,703,400	13,404,649
Total liabilities and stockholders' equity	$16,373,661	$17,281,016

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Royalties and fees	$1,818,625	$1,987,556	$5,458,434	$5,770,999
Administrative fees and other	5,393	15,689	14,268	57,182
Restaurant revenue	108,789	103,992	338,220	279,712
Total revenue	1,932,807	2,107,237	5,810,922	6,107,893
Operating expenses:				
Salaries and wages	268,530	263,970	780,560	789,529
Trade show expense	130,617	134,423	390,157	400,846
Travel expense	54,030	61,705	153,585	170,801
Other operating expenses	195,430	235,920	559,750	643,938
Restaurant expenses	89,336	105,333	304,186	301,653
Depreciation and amortization	28,346	27,822	85,034	83,464
General and administrative	414,640	421,278	1,235,188	1,228,924
Total expenses	1,180,929	1,250,451	3,508,460	3,619,155
Operating income	751,878	856,786	2,302,462	2,488,738
Interest and other expense	47,206	43,858	150,610	140,865
Income before income taxes	704,672	812,928	2,151,852	2,347,873
Income tax expense	277,556	313,952	850,783	906,747
Net income	427,116	498,976	1,301,069	1,441,126
Cumulative preferred dividends	24,682	-	74,047	-
Net income available to common stockholders	$402,434	$498,976	$1,227,022	$1,441,126
Earnings per share – basic:				
Net income	$.02	$.03	$.07	$.07
Net income available to common stockholders	$.02	$.03	$.06	$.07
Weighted average number of common shares outstanding	19,524,594	19,866,957	19,519,287	19,813,618
Diluted earnings per share:				
Net income	$.02	$.02	$.06	$.07
Net income available to common stockholders	$.02	$.02	$.06	$.07
Weighted average number of common shares outstanding	20,264,150	21,179,590	20,258,842	21,126,252

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Common Stock		Accumulated	
	Shares	Amount	Deficit	Total
Balance at December 31, 2013	19,585,089	$23,498,401	$(11,795,001)	$11,703,400
Cashless exercise of employee stock options	214,998			
Net income for nine months ended September 30, 2014			1,441,126	1,441,126
Exercise of employee stock options	81,000	75,330		75,330
Stock issued in exchange for payables	90,000	150,300		150,300
Amortization of value of employee stock options		34,493		34,493
Balance at September 30, 2014	19,971,087	$23,758,524	$(10,353,875)	$13,404,649

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended September 30, 2013	2014
OPERATING ACTIVITIES		
Net income	$1,301,069	$1,441,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	126,653	91,089
Deferred income taxes	850,783	906,748
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(584,302)	(836,178)
Inventories	(11,773)	447
Prepaid expenses	(222,612)	(123,577)
Other assets	(267,172)	(849,959)
Increase (decrease) in:		
Accounts payable and accrued expenses	(22,831)	420,225
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,169,815	1,049,921
INVESTING ACTIVITIES		
Purchase of property and equipment	(6,712)	(12,165)
NET CASH USED IN INVESTING ACTIVITIES	(6,712)	(12,165)
FINANCING ACTIVITIES		
Payment of cumulative preferred dividends	(74,047)	-
Payment of principal on outstanding under bank loan	(937,500)	(912,188)
Proceeds from the exercise of employee stock options	17,425	75,330
NET CASH USED IN FINANCING ACTIVITIES	(994,122)	(836,858)
DISCONTINUED OPERATIONS		
Payment of obligations from discontinued operations	(191,094)	(151,631)
Increase (decrease) in cash	(22,113)	49,267
Cash at beginning of period	144,354	157,787
Cash at end of period	$122,241	$207,054

Supplemental schedule of non-cash investing and financing activities

In 2014, an option to purchase 20,000 shares at an exercise price of $.83 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 12,454 shares of common stock, options to purchase 215,000 shares at an exercise price of $.36 per share were exercised pursuant to the cashless exercise provision of the options and the holders received 179,817 shares, and an option to purchase 40,000 shares at an exercise price of $.95 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 22,727 shares.

In the third quarter 2014, the Company issued 90,000 shares of common stock in exchange for $150,300 in payables.

	Nine Months Ended September 30,	
	2013	2014
Cash paid for interest	$123,209	$120,048

See accompanying notes to condensed consolidated financial statements (unaudited).

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - The accompanying unaudited interim condensed consolidated financial statements, included herein, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated statements have been prepared in accordance with the Company's accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2013, and should be read in conjunction with the audited consolidated financial statements and the notes thereto included in that report. Unless the context indicates otherwise, references to the "Company" mean Noble Roman's, Inc. and its subsidiaries.

In the opinion of the management of the Company, the information contained herein reflects all adjustments necessary for a fair presentation of the results of operations and cash flows 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, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

Note 2 – Royalties and fees include initial franchise fees of $340,000 and $675,000 for the three-month and nine-month periods ended September 30, 2013, and $132,000 and $262,500 for the three-month and nine-month periods ended September 30, 2014, respectively. Royalties and fees included equipment commissions of $31,000 and $61,000 for the three-month and nine-month periods ended September 30, 2013, and $20,000 and $56,000 for the three-month and nine-month periods ended September 30, 2014, respectively. Royalties and fees, less initial franchise fees and equipment commissions were $1.4 million and $4.7 million for the respective three-month and nine-month periods ended September 30, 2013 and $1.8 million and $5.5 million for the three-month and nine-month periods ended September 30, 2014, respectively. Most of the cost for the services required to be performed by the Company are incurred prior to the franchise fee income being recorded, which is based on a contractual liability of the franchisee. For the most part, the Company's royalty income is paid by the Company initiating a draft on the franchisee's account by electronic withdrawal.

There were 2,029 franchises/licenses in operation on December 31, 2013, and 2,145 franchises/licenses in operation on September 30, 2014. During the nine-month period ended September 30, 2014, there were 151 new outlets opened and 35 outlets closed. In the ordinary course, grocery stores from time to time add our licensed products, remove them and subsequently re-offer them. Therefore, it is unknown how many licensed grocery store units have left the system.

Note 3 - The following table sets forth the calculation of basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2013:

	Three Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$427,116	19,524,594	$.02
Less preferred stock dividends	24,682		
Earnings per share - basic			
Income available to common stockholders	402,434		.02
Effect of dilutive securities			
Options		739,556	
Convertible preferred stock	24,682		
Diluted earnings per share			
Income available to common stockholders and assumed conversions	$427,116	20,264,150	$.02

	Nine Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$1,301,069	19,519,287	$.07
Less preferred stock dividends	74,047		
Earnings per share - basic			
Income available to common stockholders	1,227,022		.06
Effect of dilutive securities			
Options		739,556	
Convertible preferred stock	74,047		
Diluted earnings per share			
Income available to common stockholders and assumed conversions	$1,301,069	20,258,842	$.06

The following table sets forth the calculation of basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2014:

	Three Months Ended September 30, 2014		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$498,976	19,866,957	$.03
Effect of dilutive securities			
Options	-	1,312,633	
Diluted earnings per share			
Net income	$498,976	21,179,590	$.02

	Nine Months Ended September 30, 2014		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$1,441,126	19,813,618	$.07
Effect of dilutive securities			
Options	-	1,312,633	
Diluted earnings per share			
Net income	$1,441,126	21,126,252	$.07

Note 4 – Subsequent Events – The Company evaluated subsequent events through the date the financial statements were issued and filed with S.E.C. On October 15, 2014, the Company entered into a Second Amendment to its Credit Agreement (the “Second Amendment”) with BMO Harris Bank, N.A. (“the Bank”). Pursuant to the Second Amendment, the Company borrowed $700,000 in the form of a term loan repayable in 36 equal monthly installments of principal plus interest on the unpaid balance of LIBOR + 6% per annum. The terms and conditions of the Credit Agreement were otherwise unchanged. The Company used the proceeds from the loan to purchase 26 open-air upright coolers and for additional working capital, both as a result of the recent growth in the grocery store take-n-bake segment.

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

General Information

Noble Roman’s, Inc., an Indiana corporation incorporated in 1972 with two wholly-owned subsidiaries, Pizzaco, Inc. and N.R. Realty, Inc., sells and services franchises and licenses for non-traditional foodservice operations under the trade names “Noble Roman’s Pizza”, “Noble Roman’s Take-N-Bake” and “Tuscano’s Italian Style Subs”. The concepts’ hallmarks include high quality pizza and sub sandwiches, along with other related menu items, simple operating systems, fast service times, labor-minimizing operations, attractive food costs and overall affordability. Since 1997, the Company has focused its efforts and resources primarily on franchising and licensing for non-traditional locations and has awarded franchise and/or license agreements in all 50 states plus Washington, D.C., Puerto Rico, the Bahamas, Italy, the Dominican Republic and Canada. Although from 2005 to 2007, the Company sold some franchises for its concepts in traditional restaurant locations, the Company currently focuses all of its sales efforts on (1) franchises for non-traditional locations primarily in convenience stores and entertainment facilities, (2) franchises for stand-alone Noble Roman’s Take-N-Bake Pizza retail outlets and (3) license agreements for grocery stores to sell the Noble Roman’s Take-N-Bake Pizza and related products. Pizzaco, Inc. owns and operates the two Company locations used for testing and demonstration purposes. The Company has no plans to operate any other locations. References in this report to the “Company” are to Noble Roman’s, Inc. and its subsidiaries, unless the context requires otherwise.

Products & Systems

The Company’s non-traditional franchises provide high-quality products, simple operating systems, labor minimizing operations and attractive food costs.

Noble Roman’s Pizza

The hallmark of Noble Roman’s Pizza is “Superior quality that our customers can taste.” Every ingredient and process has been designed with a view to produce superior results.

Crust made with only specially milled flour with above average protein and yeast.
Fresh packed, uncondensed sauce made with secret spices, parmesan cheese and vine-ripened tomatoes.
100% real cheese blended from mozzarella and muenster, with no soy additives or extenders.
100% real meat toppings, with no additives or extenders – a distinction compared to many pizza concepts.
Vegetable and mushroom toppings that are sliced and delivered fresh, never canned.
An extended product line that includes breadsticks and cheesy stix with dip, pasta, baked sandwiches, salads, wings and a line of breakfast products.
A fully-prepared pizza crust that captures the made-from-scratch pizzeria flavor which is delivered to the franchise location shelf-stable so that dough handling is no longer an impediment to a consistent product.

Noble Roman’s Take-N-Bake

The Company developed a take-n-bake version of its pizza as an addition to its menu offerings. The take-n-bake pizza is designed as an add-on component for new and existing convenience stores, as a stand-alone offering for grocery stores and as the centerpiece of the Company’s stand-alone take-n-bake retail outlet concept. The Company offers the take-n-bake program in grocery stores as a license agreement rather than a franchise agreement. The stand-alone take-n-bake pizza and take-n-bake in convenience stores are offered under a franchise agreement. Take-n-bake is also an available menu offering under currently existing franchise/license agreements in convenience stores. The Company uses the same high quality pizza ingredients for its take-n-bake pizza as with its standard pizza, with slight modifications to portioning for enhanced home baking performance.

Tuscano's Italian Style Subs

Tuscano's Italian Style Subs is a separate non-traditional location concept 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 that include an Italian-themed menu. The franchise fee and ongoing royalty for a Tuscano's is identical to that charged for a Noble Roman's Pizza franchise. The Company awards Tuscano's franchises in the same facilities as Noble Roman's Pizza franchises. Noble Roman's has developed a grab-n-go service system for a selected portion of the Tuscano's menu. The grab-n-go system is designed to add sales opportunities at existing non-traditional Noble Roman's Pizza locations.

Business Strategy

The Company's business strategy includes the following principal elements:

1. Focus on revenue expansion through three primary growth vehicles:

Sales of Non-Traditional Franchises and Licenses. The Company believes it has an opportunity for increasing unit growth and revenue within its non-traditional venues, particularly with convenience stores, travel plazas and entertainment facilities. The Company's franchises/licenses in non-traditional locations are foodservice providers within a host business, and usually require a substantially lower investment compared to a stand-alone traditional location. Non-traditional franchises/licenses are most often sold into pre-existing facilities as a service and/or revenue enhancer for the underlying business. In 2014 through September 30, 2014, the Company has signed franchise/license agreements for 38 additional locations for its non-traditional venue other than grocery stores.

As a result of the Company's major focus on non-traditional franchising/licensing, franchising stand-alone take-n-bake retail outlets and licensing take-n-bake pizzas for grocery stores, its requirements for overhead and operating costs are significantly less than if it were focusing on traditional franchising. In addition, the Company does not operate restaurants except for two restaurants it uses for product testing, demonstration and training purposes. This allows for a more complete focus on selling and servicing franchises and licenses to pursue increased unit growth.

Licensing the Company's Take-N-Bake Program. The take-n-bake pizza is designed as a stand-alone offering for grocery stores, an add-on component for new or existing convenience store franchisees/licensees and stand-alone franchise locations. Since the Company started offering take-n-bake pizza to grocery store chains in late 2009, through November 3, 2014 the Company has signed agreements for nearly 2,300 grocery store locations to operate the take-n-bake pizza program, approximately 465 (161 of which were signed in October, 2014) of which have been signed in 2014, and has opened the take-n-bake pizza program in approximately 1,500 of those locations. The Company is currently in discussions with grocery store chains that operate over 7,000 additional locations and with two large grocery store distributors and, if signed, will add several thousand more grocery store locations for possible addition to the Company's license take-n-bake in grocery stores. Recently, the Company re-designed its packaging for take-n-bake pizza in grocery stores, which is a treated bottom aluminum baking pan with a clear plastic top, added new mega-topped 14" pizzas (designed as value appeal to the customers) and added new gluten-free pizzas. The Company's strategy with these new products is to secure more shelf space in existing locations, to add appeal of the program in order to attract new locations, and to generally increase sales of the Company's products to new and existing customers.

Franchising Stand-Alone Take-N-Bake Pizza Locations. In 2012, the Company developed a stand-alone take-n-bake pizza prototype and has entered into agreements for 68 locations as of November 3, 2014, of which agreements for 12 locations have been signed in 2014. The Company's stand-alone take-n-bake program features the chain's popular traditional Hand-Tossed Style pizza, Deep-Dish Sicilian pizza, SuperThin pizza, the new gluten-free pizza and Noble Roman's famous breadsticks with spicy cheese sauce, all in a convenient cook-at-home format. Additional menu items include fresh salads, cookie dough, cinnamon rounds, bake-able pasta and more. The Company is currently in discussions with several prospects for its stand-alone program and is advertising for additional franchisees through various web-based franchise referral systems and through direct Internet advertising. The Company is now targeting areas where locations already exist for signing new agreements in an attempt to develop clusters of locations where advertising dollars can be leveraged in an attempt to increase sales in all locations.

The stand-alone take-n-bake development is relatively new and the Company is continuing to look at further enhancements to improve sales and make the operation even more appealing.

2. Leverage the results of research and development advances.

The Company has invested significant time and effort to create what it considers to be competitive advantages in its products and systems for non-traditional and take-n-bake locations. The Company will continue to make these investments the focal point in its marketing process. The Company believes that the quality of its products, their cost-effectiveness, relatively simple production and service systems, and its diverse, modularized menu offerings all contribute to the Company's strategic attributes and growth potential. Every ingredient and process was designed with a view to producing superior results. The menu items were developed to be delivered in a ready-to-use form requiring only on-site assembly and baking except for take-n-bake pizza, which is primarily sold to bake at home, and certain other menu items which require no assembly. 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, thus allowing for a significant competitive advantage due to the speed at which the products can be prepared, baked and served to customers.

The Company believes it maintains a competitive advantage in product cost by using carefully selected, independent third-party manufacturers and independent third-party distributors. This allows the Company to contract for production of proprietary products and services with highly efficient suppliers that have the potential to keep costs low compared to many competing systems whereby the franchisor owns and operates production and distribution systems much less efficiently.

3. Aggressively communicate the Company's competitive advantages to its target market of potential franchisees and licensees.

The Company utilizes the following methods of reaching potential franchisees and licensees and to communicate its product and system advantages: (1) calling from both acquired and in-house prospect lists; (2) frequent direct mail campaigns to targeted prospects; (3) web-based lead capturing; (4) live demonstrations at trade and food shows; and (5) in the case of prospects for the stand-alone take-n-bake outlets, requiring visits to the Company headquarters to meet management and to sample the products. In particular, the Company has found that conducting live demonstrations of its systems and products at selected trade and food shows across the country allows it to demonstrate advantages that can otherwise be difficult for a potential prospect to visualize. There is no substitute for actually tasting the difference in a product's quality to demonstrate the advantages of the Company's products. The Company carefully selects the national and regional trade and food shows where it either has an existing relationship or considerable previous experience to expect that such shows offer opportunities for fruitful lead generation.

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Business Operations

Distribution

The substantial majority of the Company's products are manufactured pursuant to the Company's recipes and formulas by third-party manufacturers under contracts between the Company and such manufacturers. These contracts require the manufacturers to produce products meeting the Company's specifications and to sell them to Company-approved distributors at a price negotiated between the Company and the manufacturer.

At present, the Company has distribution agreements with 10 primary distributors strategically located throughout the United States. The distribution agreements require the primary distributors to maintain adequate inventories of all products necessary to meet the needs of the Company's franchisees and licensees in their distribution area for weekly deliveries to the franchisee/licensee locations plus the grocery store distributors in their respective territories. Each of the primary distributors purchases the products from the manufacturer, under payment terms agreed upon by the manufacturer and the distributor, and distributes the products to the franchisee/licensee at a price fixed by the distribution agreement, which is landed cost plus a contracted mark-up for distribution. Payment terms to the distributor are agreed upon between each franchisee/licensee and the respective distributor. In addition, the Company has agreements with several grocery store distributors located in various parts of the country which agree to buy their products from one of the primary distributors and to distribute take-n-bake products to their grocery store customers.

Franchising

The Company sells franchises into various non-traditional and traditional venues.

The initial franchise fees are as follows:

Franchise	Non-Traditional, except Hospitals	Hospitals	Traditional Stand-Alone
Noble Roman's Pizza	$ 6,000	$ 10,000	$ 15,000
Tuscano's Subs	$ 6,000	$ 10,000	$ 15,000
Noble Roman's & Tuscano's	$ 10,000	$ 18,000	$ 18,000
Noble Roman's Stand-Alone Take-N-Bake	-	-	$ 15,000

The franchise fees are paid upon signing the franchise agreement and, when paid, are deemed fully earned and non-refundable in consideration of the administration and other expenses incurred by the Company in granting the franchises and for the lost and/or deferred opportunities to grant such franchises to any other party.

Licensing

Noble Roman's Take-n-Bake Pizza licenses for grocery stores are governed by a supply agreement. The supply agreement generally requires the licensee to: (1) purchase proprietary ingredients from a Company-approved distributor; (2) assemble the products using only Company approved ingredients and recipes; and (3) display products in a manner approved by the Company using the Company's point-of-sale marketing materials. Pursuant to the distribution agreements, the distributors place an additional mark-up, as determined by the Company, above their normal selling price on the key ingredients as a fee to the Company in lieu of royalty. The distributors agree to segregate this additional mark-up upon invoicing the licensee, to hold the amount in trust for the Company and to remit such fees to the Company within ten days after the end of each month.

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 assets, to assess whether any impairment indications are present due to (among other factors) recurring operating losses, significant adverse legal developments, competition, changes in demand for the Company's products or changes in the business climate which 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, 2013 and 2014, respectively.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2014		2013		2014	
Royalties and fees	94.1	%	94.3	%	93.9	%	94.5	%
Administrative fees and other	.3		.7		.2		.9	
Restaurant revenue	5.6		5.0		5.9		4.6	
Total revenue	100.0		100.0		100.0		100.0	
Operating expenses:								
Salaries and wages	13.9		12.5		13.4		12.9	
Trade show expense	6.7		6.4		6.7		6.6	
Travel expense	2.8		2.9		2.6		2.8	
Other operating expense	10.0		11.2		9.6		10.5	
Restaurant expenses	4.6		5.0		5.2		4.9	
Depreciation and amortization	1.5		1.3		1.6		1.4	
General and administrative	21.5		20.0		21.3		20.2	
Total expenses	61.0		59.3		60.4		59.3	
Operating income	39.0		40.7		39.6		40.7	
Interest and other expense	2.5		2.1		2.6		2.3	
Income before income taxes	36.5		38.6		37.0		38.4	
Income tax expense	14.4		14.9		14.6		14.8	
Net income	22.1	%	23.7	%	22.4	%	23.6	%

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During the third quarter, Paul W. Mobley, the Company's Chairman of the Board, Chief Executive Officer and Chief Financial Officer, underwent medical treatment to address a certain condition. Mr. Mobley's treatment was successful. The Company expects Mr. Mobley will continue to serve as Chairman of the Board for the foreseeable future.

Results of Operations

Total revenue increased to $2.1 million from $1.9 million and to $6.1 million from $5.8 million for the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013, representing increases of 9.0% and 5.1% for the respective three-month and nine-month periods. Franchise fees and equipment commissions ("upfront fees") decreased to $152,000 and $318,000 from $371,000 and $736,000 during the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. Royalties and fees, less upfront fees, increased to $1.84 million and $5.45 million from $1.45 million and $4.72 million or an increase of 26.8% and 15.5%, for the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. The breakdown of royalties and fees less upfront fees, for the respective three-month and nine-month periods ended September 30, 2014 and the corresponding periods in 2013 were: royalties and fees from non-traditional franchises other than grocery stores were $1.13 million and $3.49 million and $1.00 million and $3.27 million, or an increase of 13.1% and 6.7% for the three-month and nine-month periods; royalties and fees from the grocery store take-n-bake were $415,000 and $1.13 million and $276,000 and $1.05 million, or an increase of 50.5% and 8.2% for the three-month and nine-month periods; royalties and fees from stand-alone take-n-bake franchises were $215,000 and $614,000 and $87,000 and $164,000, or an increase of 146.1% and 274.0% for the three-month and nine-month periods; royalties and fees from traditional locations were $70,000 and $216,000 and $81,000 and $239,000, or a decrease of 13.2% and 9.9% for the three-month and nine-month periods.

During 2014, the Company began auditing the reporting of sales for computing royalties by each non-traditional franchisee and plans to continue to do so on an ongoing basis, the effect of which is unknown. The Company estimates franchise sales based on product purchases as reflected on distributor reports and, where under-reporting is identified, the Company invoiced the franchisees for royalties on the unreported amount. The Company estimates show that some of the non-traditional franchisees were under-reporting their sales in the past.

Restaurant revenue was $104,000 and $280,000 for the three-month and nine-month periods ended September 30, 2014, compared to $109,000 and $338,000 for the three-month and nine-month periods ended September 30, 2013. The decreases were the result of same store sales decreases. The Company only operates two locations used primarily for testing and demonstration purposes.

As a percentage of total revenue, salaries and wages decreased to 12.5% from 13.9% for the three-month period ended September 30, 2014, compared to the corresponding period in 2013 and decreased to 12.9% from 13.4% for the nine-month periods ended September 30, 2014, compared to 2013. Salaries and wages decreased to $264,000 from $269,000 for the three-month period and increased to $790,000 from $781,000 for the nine-month period ended September 30, 2014, compared to the corresponding period in 2013.

As a percentage of total revenue, trade show expenses decreased to 6.4% and 6.6% from 6.7% and 6.7%, respectively, for the three-month and nine-month periods ended September 2014, compared to the corresponding periods in 2013. Trade show expenses were $134,000 and $401,000 and $131,000 and $390,000, respectively, for the three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013.

As a percentage of total revenue, travel expenses increased to 2.9% from 2.8% and to 2.8% from 2.6%, respectively, for the three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. Travel expense increased to $62,000 from $54,000 and $171,000 from $154,000, respectively, for the three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013.

As a percentage of total revenue, other operating expenses were 11.2% and 10.5% and 10.0% and 9.6%, respectively, for the three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. The primary reasons for the increased other operating expenses were an increase in group insurance, general insurance and advertising costs while all other operating expenses were less.

As a percentage of total revenue, restaurant expenses increased from 4.6% to 5.0% and decreased from 5.2% to 4.9% for the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. The Company only operates two restaurants which it uses for demonstration, training and testing purposes.

As a percentage of total revenue, general and administrative expenses decreased from 21.5% to 20.0% and from 21.3% to 20.2% for the three-month and nine-month periods ended September 30, 2014, respectively, compared to the corresponding periods in 2013. The decrease in general and administrative expenses, as a percentage of total revenue, was the result of revenue increases.

As a percentage of total revenue, total expenses decreased from 61.0% to 59.3% for the three-month period ended September 30, 2014, compared to the corresponding period in 2013, and total expenses decreased from 60.4% to 59.3% for the nine-month period ended September 30, 2014, compared to the corresponding period in 2013. These decreases were the result of revenue increases partially offset by a small increase in actual expenses.

As a percentage of total revenue, operating income increased to 40.7% from 39.0% for the three- month period ended September 30, 2014, compared to the corresponding period in 2013, and increased to 40.7% from 39.6% for the nine-month period ended September 30, 2014, compared to the corresponding period in 2013. This was a result of the Company’s strategy to increase revenue while maintaining relatively stable operating expenses.

Interest expense, as a percentage of total revenue, decreased to 2.1% and 2.3% from 2.5% and 2.6% for the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. Actual interest expense decreased from $47,000 and $151,000 to $44,000 and $141,000 for the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. The primary reason for the decrease in interest expense was the continued amortization of the principal balance of notes payable.

Net income before income taxes increased from $705,000 to $813,000 and from $2.15 million to $2.35 million, or 15.4% and 9.1%, for the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. Although income tax expense is reflected on the Condensed Consolidated Statement of Operations, the Company will not pay any income tax on approximately the next $24 million in net income before income taxes due to its net operating loss carry-forwards.

Net income increased to $499,000 and $1.44 million from $427,000 and $1.30 million for the respective three-month and nine-month periods ended September 30, 2014, compared to the corresponding periods in 2013. The increases in net income were a result of the Company's strategy to increase revenue while maintaining total expenses relatively stable.

Liquidity and Capital Resources

The Company's current strategy is to grow its business by concentrating on franchising/licensing new non-traditional locations, licensing grocery stores to sell take-n-bake pizza and other retail products, and franchising stand-alone take-n-bake locations. This strategy is intended to not require any significant increase in expenses. The Company does not operate, and does not intend to operate in the future, any restaurants except for two locations for testing and demonstration purposes. This strategy requires limited overhead and operating expense and does not require significant capital investment.

The Company's current ratio was 2.1-to-1 as of September 30, 2014, compared to 1.7-to-1 as of December 31, 2013. This improvement was the result of net income.

On May 15, 2012, the Company entered into a Credit Agreement with BMO Harris Bank, N.A. (the "Bank") for a term loan in the amount of $5.0 million which was repayable in 48 equal monthly principal installments of approximately $104,000 plus interest with a final payment due on May 15, 2016. Interest on the unpaid principal balance is payable at a rate per annum of LIBOR plus 4%. On October 31, 2013, the Company entered into a First Amendment to the Credit Agreement (the "First Amendment") with the Bank. The First Amendment maintained the terms of the term loan, as described above, except for reducing the monthly principal payments from $104,000 to approximately $80,700 and extending the loan's maturity to February 15, 2017. All other terms and conditions of the term loan remained the same including interest on the unpaid principal at a rate per annum of LIBOR plus 4%. The First Amendment also provided for a new term loan II in the original amount of $825,000 requiring monthly principal payments of approximately $20,600 per month commencing on November 15, 2013 and continuing thereafter until the final payment on February 15, 2017. The term loan II provides for interest on the unpaid principal balance to be paid monthly at a rate per annum of LIBOR plus 6.08%. Proceeds from term loan II were used to redeem the Series B Preferred Stock.

On October 15, 2014, the Company into a Second Amendment to its Credit Agreement (the "Second Amendment") with the Bank. Pursuant to the Second Amendment, the the Company borrowed $700,000 in the form of a term loan repayable in 36 equal monthly installments of principal plus interest on the unpaid balance of LIBOR + 6% per annum. The Company used the proceeds from the loan to purchase 26 open-air upright coolers and for additional working capital, both as a result of the recent growth in the grocery store take-n-bake segment.

As a result of the financial arrangements described above and the Company's cash flow projections, the Company believes it will have sufficient cash flow to meet its obligations and to carry out its current business plan for the foreseeable future.

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 except that in May 2014 the FASB issued Accounting Standards Update 2014-09 regarding Revenue From Contracts With Customers. These new standards become effective in January 2017. The Company is currently evaluating the impact, if any, of this Accounting Standards Update.

Forward Looking Statements

The statements contained in this report concerning the Company's future revenues, profitability, financial resources, market demand and product development are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) relating to the Company that are based on the beliefs of the management of the Company, as well as assumptions and estimates made by and information currently available to the Company's management. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company’s operations and business environment, including, but not limited dependent of involvement of current managerment, competitive factors and pricing pressures, non-renewal of franchise agreements, shifts in market demand, the success of new franchise programs with limited operating history including the stand-alone take-n-bake locations, general economic conditions, changes in demand for the Company's products or franchises, the success or failure of individual franchisees and changes in prices or supplies of food ingredients and labor as well as the factors discussed under “Risk Factors” as contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

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, 2014, the Company had outstanding variable interest-bearing debt in the aggregate principal amount of $2.9 million. The Company’s current borrowings are at a variable rate tied to the London Interbank Offered Rate (“LIBOR”) plus 4% per annum on $2.34 million and LIBOR plus 6.08% on $598,000 adjusted on a monthly basis. Based on its current debt structure, for each 1% increase in LIBOR the Company would incur increased interest expense of approximately $25,000 over the succeeding 12-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) and internal controls over financial reporting 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.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") released an updated version of its Internal Control - Integrated Framework ("2013 Framework"). Initially issued in 1992, the original framework ("1992 Framework") provided guidance to organizations to design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 2013 Framework is intended to improve upon systems of internal control over external financial reporting by formalizing the principles embedded in the 1992 Framework, incorporating business and operating environment changes and increasing the framework’s ease of use and application. The 1992 Framework will remain available until December 15, 2014, after which it will be superseded by the 2013 Framework. As of September 30, 2014, the Company continues to utilize the 1992 Framework and will transition to the 2013 Framework by the end of 2014. The Company does not expect significant changes to its internal control over financial reporting to result from the transition to the 2013 Framework.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Company is not involved in material litigation against it.

ITEM 6. Exhibits.

(a) Exhibits: See Exhibit Index appearing on page 20.

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 6, 2014	By:	/s/ Paul W. Mobley Paul W. Mobley, Chairman, Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer (Authorized Officer and Principal Financial Officer)

Index to Exhibits

Exhibit Number	Description
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 Form 8-K filed December 23, 2009, 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.
10.1	Employment Agreement with Paul W. Mobley dated January 2, 1999 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.
10.2	Employment Agreement with A. Scott Mobley dated January 2, 1999 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	Credit Agreement with BMO Harris Bank, N.A., dated May 25, 2012, filed as Exhibit 10.17 to the Registrant's quarterly report on Form 10-Q filed on August 13, 2012, is incorporated herein by reference.
10.4	First Amendment to Credit Agreement with BMO Harris Bank, N.A. dated October 31, 2013, filed as Exhibit 10.4 to the Registrant's annual report on Form 10-K filed on March 12, 2014, is incorporated herein by reference.
10.5	Promissory Note (Term Loan) with BMO Harris Bank, N.A. dated October 31, 2013, filed as Exhibit 10.5 to the Registrant's annual report on Form 10-K filed on March 12, 2014, is incorporated herein by reference.

10.6	Promissory Note (Term Loan II) with BMO Harris Bank, N.A. dated October 31, 2013, filed as Exhibit 10.6 to the Registrant's annual report on Form 10-K filed on March 12, 2014, 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	C.E.O. and C.F.O. Certification under Rule 13a-14(a)/15d-14(a)
32.1	C.E.O. and C.F.O. Certification under Section 1350
101	Interactive Financial Data