NOBLE ROMANS INC
Form 10-Q
November 09, 2015

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, 2015

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	Smaller Reporting Company þ
(do not check if smaller reporting company)	

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

As of November 5, 2015, there were 20,742,660 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, 2014	September 30, 2015
Current assets:		
Cash	$200,349	$191,434
Accounts receivable - net	1,687,954	1,853,462
Inventories	381,400	456,705
Prepaid expenses	467,721	786,952
Deferred tax asset - current portion	1,675,000	925,000
Total current assets	4,412,424	4,213,553
Property and equipment:		
Equipment	1,383,380	1,395,223
Leasehold improvements	88,718	88,718
	1,472,098	1,483,941
Less accumulated depreciation and amortization	1,041,951	1,095,789
Net property and equipment	430,147	388,152
Deferred tax asset (net of current portion)	7,899,497	8,142,565
Other assets including long-term portion of receivables - net	5,015,931	5,465,472
Total assets	$17,757,999	$18,209,742
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term notes payable to bank	$1,469,028	$1,449,583
Accounts payable and accrued expenses	676,386	489,448
Total current liabilities	2,145,414	1,939,031
Long-term obligations:		
Notes payable to bank – net of current portion	1,846,736	759,549
Note payable to Kingsway America, Inc.	-	600,000
Total long-term liabilities	1,846,736	1,359,549
Stockholders' equity:		
Common stock – no par value (25,000,000 shares authorized, 20,095,087 issued and outstanding as of December 31, 2014 and 20,742,660 issued and outstanding as of September 30, 2015)	23,970,654	24,304,649
Accumulated deficit	(10,204,805)	(9,393,487)
Total stockholders' equity	13,765,849	14,911,162
Total liabilities and stockholders' equity	$17,757,999	$18,209,742

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,	
	2014	2015	2014	2015
Royalties and fees	$1,987,556	$1,848,207	$5,770,999	$5,647,290
Administrative fees and other	15,689	18,544	57,182	45,178
Restaurant revenue	103,992	103,631	279,712	291,390
Total revenue	2,107,237	1,970,382	6,107,893	5,983,858
Operating expenses:				
Salaries and wages	263,970	287,972	789,529	859,846
Trade show expense	134,423	143,016	400,846	405,601
Travel expense	61,705	57,145	170,801	171,698
Other operating expenses	235,920	202,624	643,938	604,215
Restaurant expenses	105,333	109,460	301,653	327,933
Depreciation and amortization	27,822	26,354	83,464	79,063
General and administrative	421,278	418,784	1,228,924	1,228,611
Total expenses	1,250,451	1,245,355	3,619,155	3,676,967
Operating income	856,786	725,027	2,488,738	2,306,891
Interest and other expense	43,858	50,412	140,865	138,641
Adjust valuation of receivables	-	250,000	-	850,000
Income before income taxes	812,928	424,615	2,347,873	1,318,250
Income tax expense	313,952	163,286	906,747	506,932
Net income	$498,976	$261,329	$1,441,126	$811,318
Earnings per share – basic:				
Net income	$.03	$.01	$.07	$.04
Weighted average number of common shares outstanding	19,866,957	20,722,497	19,813,618	20,436,846
Diluted earnings per share:				
Net income	$.02	$.01	$.07	$.04
Weighted average number of common shares outstanding	21,179,590	22,012,769	21,126,252	21,727,118

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, 2014	20,095,087	$23,970,654	$(10,204,805)	$13,765,849
Net income for nine months ended September 30, 2015			811,318	811,318
Exercise of employee stock options	270,667	201,386		201,386
Cashless exercise of employee stock options	326,906			
Common stock issued in exchange for payables	50,000	95,000		95,000
Amortization of value of employee stock options		37,609		37,609
Balance at September 30, 2015	20,742,660	$24,304,649	$(9,393,487)	$14,911,162

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,	
	2014	2015
OPERATING ACTIVITIES		
Net income	$1,441,126	$811,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,089	91,446
Non-cash expense from allowance on receivables	-	850,000
Deferred income taxes	906,748	506,932
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(836,178)	(565,507)
Inventories	447	(75,305)
Prepaid expenses	(123,577)	(319,231)
Other assets	(849,959)	(899,541)
Increase (decrease) in:		
Accounts payable and accrued expenses	420,225	80,858
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,049,921	480,970
INVESTING ACTIVITIES		
Purchase of property and equipment	(12,165)	(11,843)
NET CASH USED IN INVESTING ACTIVITIES	(12,165)	(11,843)
FINANCING ACTIVITIES		
Payment of principal on outstanding under bank loan	(912,188)	(1,106,632)
Proceeds from loan	-	600,000
Proceeds from the exercise of employee stock options	75,330	201,386
NET CASH USED IN FINANCING ACTIVITIES	(836,858)	(305,246)
DISCONTINUED OPERATIONS		
Payment of obligations from discontinued operations	(151,631)	(172,796)
Increase (decrease) in cash	49,267	(8,915)
Cash at beginning of period	157,787	200,349
Cash at end of period	$207,054	$191,434

Supplemental schedule of non-cash investing and financing activities

In the first nine months of 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 first nine months of 2015, an option to purchase 100,000 shares at an exercise price of $.95 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 58,696 shares of common stock, options to purchase 300,000 shares at an exercise price of $1.05 per share were exercised pursuant to the cashless exercise provision of the options and the holders received 163,043 shares, an option to purchase 66,666 shares at an exercise price of $.58 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 49,855 shares, options to purchase 30,000 shares at an exercise price of $.90 per share were exercised pursuant to the cashless exercise provision of the options and the holders received 18,412 shares, and an option to purchase 45,000 shares at an exercise price of $.36 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 36,900 shares. In the first nine months of 2015 the Company issued 50,000 shares of common stock in exchange for $95,000 in payables.

Cash paid for interest	$120,048	$117,666

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 Company's Annual Report on Form 10-K for the year ended December 31, 2014 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, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

Note 2 – Royalties and fees include initial franchise fees of $132,000 and $262,500 for the three-month and nine-month periods ended September 30, 2014, and $87,000 and $153,000 for the three-month and nine-month periods ended September 30, 2015, respectively. Royalties and fees included equipment commissions of $20,000 and $56,000 for the three-month and nine-month periods ended September 30, 2014, and $23,000 and $60,000 for the three-month and nine-month periods ended September 30, 2015, respectively. Royalties and fees, less initial franchise fees and equipment commissions were $1.8 million and $5.5 million for the respective three-month and nine-month periods ended September 30, 2014 and $1.7 million and $5.4 million for the three-month and nine-month periods ended September 30, 2015, 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.

There were 2,215 franchises/licenses in operation on December 31, 2014 and 2,422 franchises/licenses in operation on September 30, 2015. During the nine-month period ended September 30, 2015, there were 252 new outlets opened and 45 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, 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

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, 2015:

	Three Months Ended September 30, 2015		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$261,329	20,722,497	$.01
Effect of dilutive securities			
Options	-	1,290,272	
Diluted earnings per share			
Net Income	$261,329	22,012,769	$.01

	Nine Months Ended September 30, 2015		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$811,318	20,436,846	$.04
Effect of dilutive securities			
Options	-	1,290,272	
Diluted earnings per share			
Net Income	$811,318	21,727,118	$.04

Note 4 - Note Payable - On July 1, 2015, the Company borrowed $600,000 which was evidenced by a promissory note which matures on July 1, 2017. Interest on the note is payable at the rate of 8% per annum quarterly in arrears and this loan is subordinate to borrowings under the Company's bank loan. In connection with the loan, the Company issued, to the holder of the promissory note, a warrant entitling the holder to purchase up to 300,000 shares of the Company's common stock at a price per share of $2.00. The warrant expires July 1, 2020. Proceeds were used to increase working capital in anticipation of expected growth including due to the Company hiring two new salespeople, a Vice President of Supermarket Development, and entering into an agreement with a franchise broker.

Note 5 - The Company evaluated subsequent events through the date the financial statements were issued and filed with the SEC. There were no subsequent events that required recognition or disclosure beyond what is disclosed in this report.

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 and stand-alone take-n-bake locations 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 concentrated its efforts and resources primarily on franchising and licensing for non-traditional locations and now has awarded franchise and/or license agreements in 50 states plus Washington, D.C., Puerto Rico, the Bahamas, Italy, the Dominican Republic and Canada. The Company currently focuses all of its sales efforts on (1) franchises/licenses 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. Pizzaco, Inc. owns and operates 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 indicates 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 (except for its gluten-free crust) with above average protein and yeast.

Fresh packed, uncondensed and never cooked 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 gets 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 under a license agreement rather than a franchise agreement. The stand-alone take-n-bake pizza is offered under a franchise agreement. In convenience stores, take-n-bake is an available menu offering under the existing franchise/license agreement. 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 franchise 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. The Company 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 October 2015, the Company introduced a new modernized design for its non-traditional kiosk. The new convenience store kiosk is an improvement over the previous approach in that it has a much more modern appearance, stands out more visibly within the clutter, carves out a specific food merchandising area rather than just a grab-n-go center, and it promotes the sale of large pizzas in a much more effective way.

Licensing and Franchising the Company's Take-N-Bake Program. The take-n-bake pizza is designed as a unique product offering for grocery stores, an add-on component for new or existing convenience store franchisees/licensees and stand-alone franchise locations. During the period June 1, 2015 through October 31, 2015, the Company stocked, with inventory, 17 more grocery store distribution centers bringing the total to 28 grocery store distribution centers. The 28 grocery store distribution centers represents approximately 8,500 grocery store locations of which the Company estimates that approximately 65% are viable prospects for growth over the next three years. In early 2014, the Company completed a re-design of 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 larger pizzas (designed as value appeal to the customers) and added a new gluten-free crust. 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 the Company's Take-N-Bake Program for Stand-Alone Locations. In 2012, the Company developed a stand-alone take-n-bake pizza prototype. The first stand-alone take-n-bake pizza location opened in October 2012 and, as of October 31, 2015, there are 17 locations open. 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 advertising for additional franchisees through various web-based franchise referral systems and the recent engagement of a national franchise broker to recruit and screen prospective franchisees. The Company continues to develop and test several possible enhancements to the stand-alone take-n-bake concept, with a view to adding revenue to each location and reducing costs. As a result of testing, all future locations will be opened as a "We Bake or You Bake" whereby customers can buy the pizza to bake at home or they may have the pizza baked for them.

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.

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 format requiring only on-site assembly and baking except for take-n-bake pizza, which is 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 minimal labor, which allows 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 efficient suppliers that have the potential of keeping 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. The Company recently hired two experienced salespeople, a Vice President of Supermarket Development and engaged a franchise broker.

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 its various 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 nine primary distributors, plus several grocery store 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 and to its grocery store distributors in their respective territories. Each of the primary distributors purchases the products from the manufacturer at a price negotiated between the Company and the manufacturers, but 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 the Company’s products from one of its primary distributors and to distribute take-n-bake products to their grocery store customers who have signed license agreements with the Company.

Franchising

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

The Company recently increased its franchise and license fees to be as follows:

For a traditional Noble Roman's Pizza location, the franchise fee is $25,000 for the first unit owned by a franchisee, $20,000 for the second location owned by a franchisee and $15,000 for each additional franchise.

For non-traditional Noble Roman's Pizza locations, except for hospitals, the franchise fee is $7,500 for each location and $12,000 for a combined Noble Roman's Pizza and Tuscano's Subs in the same location. For non-traditional Noble Roman's Pizza locations in hospitals, the franchise fee is $15,000 and $21,000 for a combined Noble Roman's Pizza and Tuscano's Subs in the same hospital location.

For non-traditional licensed locations, the license fee is $6,000.

The franchise fee and ongoing royalty for a Tuscano's Subs franchise is identical to that charged for a Noble Roman's Pizza franchise.

The franchise/license fees are paid upon signing the franchise/license agreement or development 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/licenses 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 its 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 a 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, 2014 and 2015, respectively.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2015		2014		2015	
Royalties and fees	94.3	%	93.8	%	94.5	%	94.4	%
Administrative fees and other	.7		.9		.9		.8	
Restaurant revenue	5.0		5.3		4.6		4.8	
Total revenue	100.0		100.0		100.0		100.0	
Operating expenses:								
Salaries and wages	12.5		14.6		12.9		14.4	
Trade show expense	6.4		7.3		6.6		6.8	
Travel expense	2.9		2.9		2.8		2.9	
Other operating expense	11.2		10.3		10.5		10.1	
Restaurant expenses	5.0		5.6		4.9		5.5	
Depreciation and amortization	1.3		1.3		1.4		1.3	
General and administrative	20.0		21.2		20.2		20.4	
Total expenses	59.3		63.2		59.3		61.4	
Operating income	40.7		36.8		40.7		38.6	
Interest and other expense	2.1		2.6		2.3		2.3	
Adjust valuation of receivables	-		12.7		-		14.2	
Income before income taxes	38.6		21.5		38.4		22.1	
Income tax expense	14.9		8.2		14.8		8.5	
Net income	23.7	%	13.3	%	23.6	%	13.6	%

Results of Operations

Total revenue decreased to $2.0 million from $2.1 million and to $6.0 million from $6.1 million for the respective three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014. Franchise fees and equipment commissions ("upfront fees") decreased to $110,000 and $213,000 from $152,000 and $318,000 during the respective three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014. Royalties and fees, less upfront fees, decreased to $1.74 million from $1.84 million for the three month period ended September 30, 2015, and royalties and fees, less upfront fees, remained approximately the same at $5.4 million for the nine-month period ended September 30, 2015 compared to the corresponding periods in 2014. The breakdown of royalties and fees less upfront fees, for the respective three-month and nine-month periods ended September 30, 2015 and the corresponding periods in 2014 were: royalties and fees from non-traditional franchises other than grocery stores were $1.1 million and $3.3 million and $1.13 million and $3.49 million; royalties and fees from the grocery store take-n-bake were $486,000 and $1.37 million and $415,000 and $1.13 million; royalties and fees from stand-alone take-n-bake franchises were $131,000 and $556,000 and $215,000 and $614,000; royalties and fees from traditional locations were $67,000 and $201,000 and $70,000 and $216,000.

During 2014 and early 2015, 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.

Restaurant revenue was $104,000 and $291,000 for the three-month and nine-month periods ended September 30, 2015, respectively, compared to $104,000 and $280,000 for the three-month and nine-month periods ended September 30, 2014. The Company only operates two locations used primarily for testing and demonstration purposes.

As a percentage of total revenue, salaries and wages increased to 14.6% from 12.5% for the three-month period ended September 30, 2015, compared to the corresponding period in 2014 and increased to 14.4% from 12.9% for the nine-month period ended September 30, 2015, compared to 2014. Salaries and wages increased to $288,000 from $264,000 for the three-month period ended September 30, 2015 and increased to $860,000 from $790,000 for the nine-month period ended September 30, 2015, compared to the corresponding period in 2014.

As a percentage of total revenue, trade show expenses increased to 7.3% and 6.8% from 6.4% and 6.6%, respectively, for the three-month and nine-month periods ended September 2015, compared to the corresponding periods in 2014. Trade show expenses were $143,000 and $406,000, and $134,000 and $401,000, respectively, for the three-month and nine-month periods ended September 30, 2015, compared to the corresponding period in 2014.

As a percentage of total revenue, travel expenses remained the same at 2.9% for the three-month periods ended September 30, 2015 and 2014, and increased to 2.9% from 2.8%, respectively, for the nine-month period ended September 30, 2015, compared to the corresponding period in 2014. Travel expense decreased to $57,000 from $62,000 and increased to $172,000 from $171,000, respectively, for the three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014.

As a percentage of total revenue, other operating expenses were 10.3% and 10.1%, and 11.2% and 10.5%, respectively, for the three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014. Other operating expenses were $203,000 and $604,000, and $236,000 and $644,000 for the three-month and nine-month periods ended September 30, 2015 compared to the corresponding periods in 2014.

As a percentage of total revenue, restaurant expenses increased from 5.0% to 5.6%, and from 4.9% to 5.5% for the respective three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014. 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 increased from 20.0% to 21.2% and from 20.2% to 20.4% for the three-month and nine-month periods ended September 30, 2015, respectively, compared to the corresponding periods in 2014. General and administrative expenses decreased from $421,000 to $419,000, and remained the same at $1.23 million for the three-month and nine-month periods ended September 30, 2015, respectively, compared to the corresponding periods in 2014.

As a percentage of total revenue, total expenses increased from 59.3% to 63.2%, and 59.3% to 61.4% for the three-month and nine-month periods ended September 30, 2015, compared to the corresponding period in 2014. Total expenses remained approximately the same for the three-month period ended September 30, 2015 compared to the corresponding period in 2014, and increased to $3.68 million from $3.62 million for the nine-month period ended September 30, 2015 compared the corresponding period in 2014.

As a percentage of total revenue, operating income decreased to 36.8% from 40.7%, and to 38.6% from 40.7% for the three-month and nine-month periods ended September 30, 2015 compared to the corresponding periods in 2014.

Interest expense, as a percentage of total revenue, increased to 2.6% from 2.1% and remained the same at 2.3% for the respective three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014. Actual interest expense increased from $44,000 to $50,000 and decreased from $141,000 to $139,000 for the respective three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014.

Net income before income taxes decreased from $813,000 to $425,000 and from $2.35 million to $1.32 million for the respective three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014. During the three-month and nine-month periods ended in 2015, the Company made an adjustment to valuation of receivables of $250,000 and $850,000, respectively, and none in the corresponding periods in 2014. The adjustment for valuation of receivables was made because of the age of certain recievables. 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 $21 million in net income before income taxes due to its net operating loss carry-forwards.

Net income decreased to $261,000 from $499,000 and to $811,000 from $1.44 million for the respective three-month and nine-month periods ended September 30, 2015, compared to the corresponding periods in 2014. During the three-month and nine-month periods ended September 30, 2015, the Company made an adjustment to valuation of receivables of $250,000 and $850,000, respectively, and none in the corresponding periods in 2014.

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 2.2-to-1 as of September 30, 2015 compared to 2.1-to-1 as of December 31, 2014.

In 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 in 2016. Interest on the unpaid principal balance is payable at a rate per annum of the London Interbank Offered Rate ("LIBOR") plus 4%. The proceeds from the term loan, net of certain fees and expenses associated with obtaining the term loan, were used to repay then-existing Bank indebtedness and borrowings from an officer of the Company, the balance of this term loan, as of September 30, 2015, was $1.4 million. In October 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 commencing in November 2013 and continuing thereafter until the final payment in 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. The balance on this term loan II, as of September 30, 2015, was $351,000.

In October 2014, the Company entered into a Second Amendment to its Credit Agreement (the "Second Amendment") with 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 at the rate of LIBOR plus 6% per annum. The terms and conditions of the Credit Agreement were otherwise unchanged. The Company used the proceeds from the loan for additional working capital, to support recent growth in the grocery store take-n-bake venue. The balance of this term loan, as of September 30, 2015, was $486,000.

On July 1, 2015, the Company borrowed $600,000 which was evidenced by a promissory note which matures on July 1, 2017. Interest on the note is payable at the rate of 8% per annum quarterly in arrears and this note is subordinate to borrowings under the Company's bank loan. In connection with the loan, the Company issued, to the holder of the promissory note, a warrant entitling the holder to purchase up to 300,000 shares of the Company's common stock at a price per share of $2.00. The warrant expires July 1, 2020. Proceeds were used to increase working capital in anticipation of expected growth including due to the Company hiring two new salespeople, a Vice President of Supermarket Development, and entering into an arrangement with a franchise broker.

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's cash flow projections are based on the Company's strategy of focusing on growth in non-traditional venues, growth in the number of grocery store locations licensed to sell the take-n-bake pizza and the anticipated growth from franchising stand-alone take-n-bake locations.

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 2018. 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 to the dependence on the involvement of current management, the performance of recently added sales staff and a franchise broker, 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, 2014. 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, 2015, the Company had outstanding variable interest-bearing debt in the aggregate principal amount of $2.2 million. The Company’s current borrowings are at a variable rate tied to LIBOR plus 4% per annum on $1.4 million, LIBOR plus 6.08% on $351,000 and LIBOR plus 6.0% on $486,000 adjusted on a monthly basis. Based on its current debt structure, for each 1% increase in LIBOR the Company’s interest expense could increase by approximately $15,688 over the succeeding 12-month period.

ITEM 4. Controls and Procedures

Based on their evaluation as of the end of the period covered by this report, A. Scott Mobley, the Company’s President and Chief Executive Officer, and Paul W. Mobley, the Company’s Executive Chairman and Chief Financial Officer, have 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 is not involved in material litigation against it.

ITEM 6. Exhibits.

(a) Exhibits: See the accompanying Exhibit Index.

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: Novmber 9, 2015	By:	/s/ Paul W. Mobley Paul W. Mobley Executive Chairman, 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.
10.7	Second Amendment to Credit Agreement with BMO Harris Bank, N.A. dated October 15, 2014, filed as Exhibit 10.7 to the Registrant's annual report on Form 10-K filed on March 12, 2015, is incorporated herein by reference.
10.8	Promissory Note with BMO Harris Bank, N.A. dated October 15, 2014, filed as Exhibit 10.8 to the Registrant's annual report on Form 10-K filed on March 12, 2015, is incorporated herein by reference.
10.9	Agreement dated April 8, 2015, by and among Noble Roman's, Inc. and the Shareholder Parties, filed as Exhibit 10.1 to Registrant's Form 8-K filed on April 8, 2015, is incorporated herein by reference.
10.1	Promissory Note dated July 1, 2015 filed as Exhibit 10.10 to the Registrants Form 10-Q filed on August 11, 2015, is incorporated herein by reference.
10.11	Warrant to purchase common stock dated July 1, 2015 filed as Exhibit 10.11 to the Registrants Form 10-Q filed on August 11, 2015, 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. Certification under Rule 13a-14(a)/15d-14(a)
31.2	C.F.O. Certification under Rule 13a-14(a)/15d-14(a)
32.1	C.E.O. Certification under 18 U.S.C. Section 1350
32.2	C.F.O. Certification under 18 U.S.C. Section 1350
101	Interactive Financial Data