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NOBLE ROMANS INC
Form 10-Q
November 08, 2006

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, 2006

Commission file number: 0-11104

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

Indiana
(State or other jurisdiction
of organization)

35-1281154
(I.R.S. Employer
Identification No.)

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

46204
(Zip Code)

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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As of November 6, 2006, there were 16,559,861 shares of Common Stock, no par value, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

The following unaudited condensed consolidated financial statements are included herein:

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| | |
|--|--------|
| Condensed consolidated balance sheets as of December 31, 2005 and September 30, 2006 (unaudited) | Page 3 |
| Condensed consolidated statements of operations for the three months and nine months ended September 30, 2005 and 2006 (unaudited) | Page 4 |
| Condensed consolidated statements of cash flows for the nine months ended September 30, 2005 and 2006 (unaudited) | Page 5 |
| Notes to condensed consolidated financial statements (unaudited) | Page 6 |

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

| | Assets | December 31, 2005 | Sep |
|--|--------|------------------------|----------------|
| | | ---- | |
| Current assets: | | | |
| Cash | | \$ 740,940 | \$ |
| Accounts and notes receivable (net of allowances of \$122,262 as of December 31, 2005 and September 30, 2006) | | 1,299,942 | |
| Inventories | | 221,713 | |
| Assets held for resale | | 461,709 | |
| Prepaid expenses | | 301,661 | |
| Current portion of long-term notes receivable | | 173,498 | |
| Deferred tax asset - current portion | | 1,478,175 | |
| Total current assets | | ----- 4,677,637 | ----- |
| Property and equipment: | | | |
| Equipment | | 1,150,718 | |
| Leasehold improvements | | 105,503 | |
| | | ----- 1,256,221 | ----- |
| Less accumulated depreciation and amortization | | 565,101 | |
| Net property and equipment | | ----- 691,119 | ----- |
| Deferred tax asset (net of current portion) | | 7,782,360 | |
| Other assets | | 2,371,773 | |
| Total assets | | ----- \$ 15,522,890 | ----- ===== |

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| Liabilities and Stockholders' Equity | | | |
|--|----|---------------|-------|
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ | 384,928 | \$ |
| Current portion of long-term notes payable | | 1,500,000 | |
| | | ----- | ----- |
| Total current liabilities | | 1,884,928 | |
| | | ----- | ----- |
| Long-term obligations: | | | |
| Note payable to bank (net of current portion) | | 7,125,000 | |
| | | ----- | ----- |
| Total long-term liabilities | | 7,125,000 | |
| | | ----- | ----- |
| Stockholders' equity: | | | |
| Common stock (25,000,000 shares authorized, 16,322,136 outstanding as of December 31, 2005 and 16,545,861 outstanding as of September 30, 2006) | | 21,021,632 | 2 |
| Preferred stock (5,000,000 shares authorized) | | 1,978,800 | |
| Accumulated deficit | | (16,487,470) | (1) |
| | | ----- | ----- |
| Total stockholders' equity | | 6,512,962 | |
| | | ----- | ----- |
| Total liabilities and stockholders' equity | | \$ 15,522,890 | \$ 1 |
| | | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months | | Nine Months | |
|-------------------------------|---------------------|--------------|-------------------|--------|
| | Ended September 30, | | Ended September 3 | |
| | 2005 | 2006 | 2005 | 2006 |
| | ---- | ---- | ---- | ---- |
| Royalties and fees | \$ 1,841,408 | \$ 2,049,948 | \$ 5,475,220 | \$ 5,8 |
| Administrative fees and other | 15,991 | 14,332 | 52,340 | |
| Restaurant revenue | 247,349 | 307,260 | 789,913 | 1,0 |
| | ----- | ----- | ----- | ----- |
| Total revenue | 2,104,748 | 2,371,540 | 6,317,472 | 6,9 |
| Operating expenses: | | | | |
| Salaries and wages | 282,852 | 325,961 | 833,406 | 9 |
| Trade show expense | 119,816 | 118,064 | 348,356 | 3 |
| Travel expense | 83,333 | 94,862 | 226,136 | 2 |
| Sales commissions | -- | 25,093 | -- | |
| Other operating expenses | 183,424 | 176,546 | 554,327 | 5 |
| Restaurant expenses | 241,021 | 292,442 | 767,581 | 1,0 |
| Depreciation and amortization | 25,301 | 20,857 | 63,197 | |
| General and administrative | 372,762 | 384,437 | 1,121,280 | 1,1 |
| | ----- | ----- | ----- | ----- |
| Operating income | 796,239 | 933,278 | 2,403,187 | 2,6 |
| Interest and other expense | 207,298 | 194,876 | 613,930 | 5 |
| Other income | 2,800,830 | -- | 2,800,830 | |

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| | | | | |
|--|--------------|------------|--------------|--------|
| Net income before income taxes | | | | |
| from continuing operations | 3,389,771 | 738,402 | 4,590,088 | 2,0 |
| Income tax | 1,152,522 | 251,057 | 1,560,630 | 6 |
| Net income from continuing operations | 2,237,249 | 487,345 | 3,029,458 | 1,3 |
| Loss on discontinued operations net of tax benefit of \$167,276 for 3 months ended and \$323,211 for the 9 months ended September 30, 2006 | (324,711) | -- | (627,410) | |
| Net income | 1,912,538 | 487,345 | 2,402,048 | 1,3 |
| Cumulative preferred dividends | -- | 40,688 | -- | 1 |
| Net income available to common shareholders | \$ 1,912,538 | \$ 446,657 | \$ 2,402,048 | \$ 1,2 |
| Earnings per share - basic: | | | | |
| Net income from continuing operations | \$.13 | \$.03 | \$.18 | \$ |
| Net income | \$.11 | \$.03 | \$.14 | \$ |
| Net income available to common stockholders | \$.11 | \$.03 | \$.14 | \$ |
| Weighted average number of common shares outstanding | 16,809,214 | 16,396,303 | 17,026,460 | 16,3 |
| Fully diluted earnings per share: | | | | |
| Net income from continuing operations | \$.13 | \$.03 | \$.17 | \$ |
| Net income | \$.11 | \$.03 | \$.14 | \$ |
| Net income available to common stockholders | \$.11 | \$.02 | \$.14 | \$ |
| Weighted average number of common shares outstanding | 17,411,377 | 19,125,397 | 17,628,623 | 19,0 |

See accompanying notes to condensed consolidated financial statements.

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

| OPERATING ACTIVITIES | Nine Months Ended September 30, | |
|---|------------------------------------|--------------|
| | 2005 ---- | 2006 ---- |
| Net income | \$ 3,029,458 | \$ 1,327,780 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 128,190 | 117,228 |
| Interest accrued not paid | 354,533 | -- |
| Deferred income taxes | 1,560,630 | 684,008 |
| Changes in operating assets and liabilities: (Increase) decrease in: | | |

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| | | |
|--|--------------|-------------|
| Accounts and notes receivable | (287,639) | (177,590) |
| Inventories | 16,798 | 1,124 |
| Assets held for resale | (272,184) | (46,297) |
| Prepaid expenses | (4,447) | (152,706) |
| Other assets | 21,740 | (174,816) |
| Decrease in: | | |
| Accounts payable | (287,401) | (266,937) |
| NET CASH PROVIDED BY OPERATING | 4,259,678 | 1,311,794 |
| ACTIVITIES | | |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (106,485) | (19,624) |
| NET CASH USED BY INVESTING ACTIVITIES | (106,485) | (19,624) |
| FINANCING ACTIVITIES | | |
| Payments received on long-term notes receivable | 193,945 | 128,818 |
| Payment of obligations from discontinued operations | (1,159,850) | (431,519) |
| Principal payments on outstanding debt | -- | (1,125,000) |
| Payment of cumulative preferred dividends | -- | (122,065) |
| Proceeds from the exercise of stock options and warrants | -- | 259,209 |
| Net proceeds from long-term debt | 8,599,852 | -- |
| Purchase of all of SummitBridge's interest in the Company except 2.4 million shares of common stock | (11,143,909) | -- |
| Issuance cost of the new preferred stock | (61,200) | -- |
| NET CASH USED IN FINANCIAL ACTIVITIES | (3,571,161) | (1,290,557) |
| Increase in cash | 582,032 | 1,613 |
| Cash at beginning of period | 456,779 | 740,940 |
| Cash at end of period | \$ 1,038,811 | \$ 742,553 |

Supplemental schedule of non-cash investing and financing activities

None.

| | | |
|------------------------|------------|------------|
| Cash paid for interest | \$ 240,740 | \$ 551,640 |
|------------------------|------------|------------|

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - The interim condensed consolidated financial statements, included herein, are unaudited, but reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim periods presented and the financial condition as of the dates indicated, which adjustments are of a normal recurring nature. The results for the nine-month period ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

Note 2 - Approximately \$266 thousand and \$954 thousand are included in the

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three-month period and nine-month period ended September 30, 2006, respectively, and approximately \$241 thousand and \$605 thousand for the three-month period and nine-month period ended September 30, 2005, respectively, for initial franchise fees. In past years the Company's growth strategy was to expand primarily through franchising in non-traditional locations. Beginning in the current year, the Company is continuing its focus on franchising in non-traditional locations but also has targeted growth by franchising in traditional, dual-branded locations. Because of the growth opportunity in franchising both in non-traditional locations and in traditional dual-branded locations, the Company believes that franchise fee revenue will be greater in the future. Most of the cost for the services required to be performed by the Company are incurred prior to the franchise fee income being recorded. For the most part, the Company's ongoing royalty income is paid electronically by the Company initiating a draft on the franchisee's account by electronic withdrawal. As such, the Company has no material amount of past due royalties.

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

Noble Roman's, Inc. and Subsidiaries

Results of Operations - Three-month and nine-month periods ended September 30, 2005 and 2006

Introduction

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

Noble Roman's Pizza

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

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

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- o Vegetable and mushroom toppings that are sliced and delivered fresh, never canned.
- o An extended product line that includes breadsticks with dip, pasta, baked sandwiches, salads, wings and a line of breakfast products.
- o A recently introduced 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.

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

Tuscano's Italian Style Subs -----

During 2004, the Company improved its cold sub sandwich menu items and expanded the offerings into a separate concept called Tuscano's Italian Style Subs. 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. For the most part, the Company expects to award Tuscano's franchises for the same facilities as Noble Roman's Pizza franchises, although Tuscano's franchises are also available for locations that do not have a Noble Roman's Pizza franchise.

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

Franchise Development -----

Noble Roman's has sold franchises in 45 states from coast-to-coast within the United States plus Guam. In addition, it has sold franchises for military bases in Puerto Rico, Guam and Italy, and for entertainment facilities and convenience stores in Canada.

The Company plans to continue its focus on awarding franchise agreements for both Noble Roman's Pizza and Tuscano's Italian Style Subs in non-traditional venues such as hospitals, military bases, universities, convenience stores, attractions, entertainment facilities, casinos, airports, travel plazas, office complexes and hotels which it has been doing the past several years. In addition, the Company recently began offering the dual-branded concept of Noble Roman's/Tuscano's for stand-alone traditional locations. From January 1, 2006 through October 31, 2006, the Company awarded 85 franchise agreements for non-traditional locations and 26 dual-branded agreements for traditional locations. This compares to 72 franchise agreements for non-traditional locations and three dual-branded agreements for traditional locations during the corresponding period in 2005.

The Company recently initiated a strategy to sell development territories to Area Developers for additional growth of its traditional dual-branded concept. Area Developers have the exclusive right to develop the dual-branded traditional concept in their area. The Area Developers pay a development fee of \$.05 per capita in their development area and receive 30% of the initial franchise fee and 2/7ths

of the royalty from the locations developed pursuant to those agreements. The

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Company retains all training and supervision responsibilities and must approve all franchisees and all locations. In order to maintain the rights to develop the territory, each Area Developer has to meet the minimum development schedule stipulated in the applicable Area Development Agreement. The Company has sold three such territories to Area Developers and is in discussions with several other potential Area Developers. The three territories that have been sold are a 20-unit Development Agreement for a three county area in Ohio near Cincinnati, a 49-unit Development Agreement for 14 counties in North Carolina and one county in Virginia, and a 25-unit Development Agreement for Sacramento County in California.

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 evaluates the carrying values of its assets, including property, equipment and related costs, accounts receivable and deferred tax asset, periodically to assess whether any impairment indications are present due to (among other factors) recurring operating losses, significant adverse legal developments, competition, changes in demands for the Company's products or changes in the business climate that affect the recovery of recorded value. If any impairment of an individual asset is evident, a charge will be provided to reduce the carrying value to its estimated fair value.

The following table sets forth the percentage relationship to total revenue of the listed items included in Noble Roman's consolidated statements of operations for the three-month and six-month periods ended September 30, 2005 and 2006, respectively.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2005 | 2006 | 2005 | 2006 |
| | ---- | ---- | ---- | ---- |
| Royalties and fees | 87.5% | 86.4% | 86.7% | 84.0% |
| Administrative fees and other | .8 | .6 | .8 | .7 |
| Restaurant revenue | 11.8 | 13.0 | 12.5 | 15.3 |
| | ----- | ----- | ----- | ----- |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating expenses: | | | | |
| Salaries and wages | 13.4% | 13.7% | 13.2% | 13.0% |
| Trade show expense | 5.7 | 5.0 | 5.5 | 4.9 |
| Travel expense | 4.0 | 4.0 | 3.6 | 4.1 |
| Sales commissions | -- | 1.1 | -- | .4 |
| Other operating expense | 8.7 | 7.4 | 8.8 | 7.9 |
| Restaurant expenses | 11.5 | 12.3 | 12.2 | 14.7 |
| Depreciation | 1.2 | 1.0 | 1.0 | .9 |
| General and administrative | 17.7 | 16.2 | 17.7 | 16.8 |
| | ----- | ----- | ----- | ----- |
| Operating income | 37.8% | 39.3% | 38.0% | 37.3% |
| Interest and other expense | 9.8 | 8.2 | 9.7 | 8.5 |
| Other income | 133.1 | -- | 44.3 | -- |
| | ----- | ----- | ----- | ----- |
| Income before income taxes from continuing operations | 161.1 | 31.1 | 72.7 | 28.8 |
| Income taxes | 54.8 | 10.6 | 24.7 | 9.8 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|------------|--------|-------|-------|-------|
| Net income | 106.3% | 20.5% | 48.0% | 19.0% |
| | ===== | ===== | ===== | ===== |

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Results of Operations

Total revenue increased from \$2,104,748 to \$2,371,540 and from \$6,317,472 to \$6,982,717 for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding periods in 2005. These increases were primarily the result of an increase in royalties and fees from the addition of new franchises. Royalties and fees increased from approximately \$1,841,408 to \$2,049,948 and from \$5,475,220 to \$5,862,207 for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding periods in 2005. Included in royalties and fees were approximately \$266,000 and \$954,000 for initial franchise fees for the three-month and nine-month periods ended September 30, 2006, respectively, and approximately \$241,000 and \$605,000 for initial franchise fees for the three-month and nine-month periods ended September 30, 2005, respectively. In past years the Company's growth strategy was to expand primarily through franchising in non-traditional locations. Beginning in the current year, the Company is continuing to focus on franchising in non-traditional locations but also has targeted additional growth by franchising in traditional dual-branded locations. The Company recently initiated a strategy to sell development territories to Area Developers for additional growth of its traditional dual-branded concept. The Company has sold three such territories to Area Developers and is in discussions with several other potential Area Developers. The three territories that have been sold are a 20-unit Development Agreement for a three county area in Ohio near Cincinnati, a 49-unit Development Agreement for 14 counties in North Carolina and one county in Virginia, and a 25-unit Development Agreement for Sacramento County in California. Because of the identified growth opportunities in franchising both in non-traditional locations and in traditional dual-branded locations, the Company believes that franchise fee revenue will be greater in the future.

Restaurant revenues increased from approximately \$247,349 and \$789,913 to \$307,260 and \$1,072,000, respectively, for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding period in 2005. The Company only intends to operate two restaurants to be used for testing and demonstration purposes but from time to time temporarily operates others until a suitable franchisee is located. During the second quarter 2006, the Company franchised one of the five restaurants it was operating on a temporary basis.

Salaries and wages increased from 13.4% of total revenue to 13.7% of total revenue for the three-month period ended September 30, 2006 compared to the corresponding period in 2005. Salaries and wages decreased from 13.2% to 13.0% of total revenue for the nine-month period ended September 30, 2006 compared to the corresponding period in 2005. The increase during the third quarter was primarily the result of adding three additional industry-experienced executives to launch the initiative to franchise traditional locations. The decrease in the nine-month period was primarily the result of the growth in revenue for 2006 compared to 2005, offsetting the cost of the additional staff.

Trade show expenses decreased from 5.7% of total revenue to 5.0% of total revenue for the three-month period ended September 30, 2006 compared to the corresponding period in 2005. Trade show expenses decreased from 5.5% of total revenue to 4.9% of total revenue for the nine-month period ended September 30, 2006 compared to the corresponding period in 2005. These decreases were primarily the result of actual trade show expenses remaining approximately the same while the revenue increased. The Company anticipates the actual dollar

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trade show expense to remain approximately the same for the balance of 2006 compared to the corresponding period in 2005, which is expected to result in a lower trade show expense as a percent of total revenue.

Travel expenses remained constant at 4.0% of total revenue for the three-month period ended September 30, 2006 compared to the same period in 2005 and increased from to 3.6% and 4.1% of

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total revenue for the nine-month period ended September 30, 2006 compared to the corresponding period in 2005. The increase was primarily the result of opening more locations farther away from the home office, which was offset by increased revenue in the third quarter and only partially offset in the nine-month period ended September 30, 2006.

Sales commissions were 1.1% and .4%, respectively, of total revenue for the three-month and nine-month periods ended September 30, 2006. There were no sales commissions in the corresponding periods in 2005. This expense is anticipated to continue in future periods as the Company pays a sales commission to the executive hired for selling franchises for traditional locations and pays a commission to Area Developers as they sell franchises in their development territories.

Other operating expenses decreased from 8.7% and 8.8% to 7.4% and 7.9%, respectively, of total revenue for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding periods in 2005. These decreases were primarily the result of maintaining operating expenses at approximately the same dollar amount while the revenue increased. The Company anticipates that other operating expenses, as a percentage of revenue, will continue to decline as a result of anticipated additional growth in 2006 while maintaining operating expenses at approximately the same dollar amount.

Restaurant expenses increased from 11.5% and 12.2% to 12.3% and 14.7%, respectively, of total revenue for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding periods in 2005. These increases were the result of operating higher volume restaurants. The Company only intends to operate two restaurants to be used for testing and demonstration purposes but from time to time temporarily operates others until a suitable franchisee is located. During the second quarter 2006, the Company franchised one of the five restaurants it was operating on a temporary basis.

General and administrative expenses decreased from 17.7% and 17.7% to 16.2% and 16.8%, respectively, of total revenue for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding periods in 2005. These decreases were primarily the result of only a small growth in administrative expense which was more than offset by the growth in revenue. The Company anticipates that general and administrative expenses, as a percentage of revenue, will continue to decline as a result of anticipated additional growth in revenue while only incurring a small growth in general and administrative expenses.

Operating income increased from 37.8% to 39.3% of total revenue for the three-month period ended September 30, 2006 compared to the corresponding period in 2005. Operating income decreased from 38% to 37.3% of total revenue for the nine-month period ended September 30, 2006 compared to the corresponding period in 2005. The primary reason for the increase in the three-month period was the growth in royalties and fees which more than offset the small growth in operating expenses. The primary reason for the slight decrease in operating income as a percent of total revenue for the nine-month period was primarily the growth in restaurant expenses resulting from operating higher volume

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restaurants.

Interest expense decreased from 9.8% and 9.7% to 8.2% and 8.5%, respectively, of total revenue for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding period in 2005. These decreases were the result of a slight decrease in the dollar amount of interest due to the reduction in the amount of debt outstanding and an increase in revenue, which was partially offset by an increase in interest rate. Since the Company does not anticipate the need to borrow any additional

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funds and plans to continue to reduce its debt, interest rate expense should decrease further in the future.

Other income was \$2,800,830 for both the three-month and nine-month periods ended September 30, 2005 and none for the corresponding periods in 2006. This income was the result of the gain associated with the August 25, 2005 settlement with SummitBridge National Investments, LLC. On August 25, 2005, the Company consummated a Settlement Agreement with SummitBridge National Investments, LLC and related entities. As a result of the Settlement Agreement, Noble Roman's acquired all of SummitBridge's debt and equity interests in Noble Roman's, except for 2,400,000 shares of common stock, for a purchase price of \$8,300,000.

Net income decreased from \$2,237,249 and \$3,029,458 to \$487,345 and \$1,327,780, respectively, for the three-month and nine-month periods ended September 30, 2006 compared to the corresponding periods in 2005. Included in both the three-month and nine-month periods ended September 30, 2005 was the above-described other income of \$2,800,830 which was offset by tax expense of \$952,282. Without the above-described gain, net income for the three-month and nine-month periods ended September 30, 2005, would have been \$388,701 and \$1,180,910, respectively. The increase of 25.4% and 12.4% for the three-month and nine-month periods ended September 30, 2006, compared to the same periods in 2005, in net income without the effect of the one-time gain was primarily the result of the growth in royalty and fee income, partially offset by the increase in operating expenses.

Liquidity and Capital Resources

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

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

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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's current borrowings are at a monthly variable rate tied to LIBOR. However, the Company elected to purchase a swap contract fixing the rate on 50% of the principal balance for the first two years and then \$3 million of the principal amount for the following two years at an annual interest rate of 8.83% per annum.

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The Company has concluded that there is no material market risk exposure and, therefore, no quantitative tabular disclosures are required.

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

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disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective. There have been no changes in internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Company, from time to time, is involved in various litigation relating to claims arising out of its normal business operations.

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

ITEM 6. Exhibits.

(a) Exhibits: See Exhibit Index appearing on page 13.

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:

By: /s/ Paul W. Mobley

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

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Index to Exhibits

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Exhibit

- 3.1 Amended Articles of Incorporation of the Registrant, filed as an exhibit to the Registrant's Amendment No. 1 to the Post Effective Amendment No. 2 to Registration Statement on Form S-1 filed July 1, 1985 (SEC File No.2-84150), is incorporated herein by reference.
- 3.2 Amended and Restated By-Laws of the Registrant, as currently in effect, filed as an exhibit to the Registrant's Registration Statement on Form S-18 filed October 22, 1982 and ordered effective on December 14, 1982 (SEC File No. 2-79963C), is incorporated herein by reference.
- 3.3 Articles of Amendment of the Articles of Incorporation of the Registrant effective February 18, 1992 filed as an exhibit to the Registrant's Registration Statement on Form SB-2 (SEC File No. 33-66850), ordered effective on October 26, 1993, is incorporated herein by reference.
- 3.4 Articles of Amendment of the Articles of Incorporation of the Registrant effective May 11, 2000, filed as Annex A and Annex B to the Registrant's Proxy Statement on Schedule 14A filed March 28, 2000, is incorporated herein by reference.
- 3.5 Articles of Amendment of the Articles of Incorporation of the Registrant effective April 16, 2001 filed as Exhibit 3.4 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
- 3.6 Articles of Amendment of the Articles of Incorporation of the Registrant effective August 23, 2005, filed as Exhibit 3.1 to the Registrant's current report on Form 8-K filed August 29, 2005, is incorporated herein by reference.
- 4.1 Specimen Common Stock Certificates filed as an exhibit to the Registrant's Registration Statement on Form S-18 filed October 22, 1982 and ordered effective on December 14, 1982 (SEC File No. 2-79963C), is incorporated herein by reference.
- 4.2 Form of Warrant Agreement filed as Exhibit 4.1 to the Registrant's current report on Form 8-K filed August 29, 2005, is incorporated herein by reference.
- 10.1 Employment Agreement with Paul W. Mobley dated November 15, 1994 filed as Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
- 10.2 Employment Agreement with A. Scott Mobley dated November 15, 1994 filed as Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
- 10.3 1984 Stock Option Plan filed with the Registrant's Form S-8 filed November 29, 1994 (SEC File No. 33-86804), is incorporated herein by reference.

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