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NOBLE ROMANS INC
Form 10-Q
August 09, 2007

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

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended June 30, 2007

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 July 30, 2007, there were 18,284,493 shares of Common Stock, no par value, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

The following unaudited condensed consolidated financial statements are

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included herein:

| | |
|--|--------|
| Condensed consolidated balance sheets as of December 31, 2006 and June 30, 2007 (unaudited) | Page 3 |
| Condensed consolidated statements of operations for the three months and six months ended June 30, 2006 and 2007 (unaudited) | Page 4 |
| Condensed consolidated statements of cash flows for the six months ended June 30, 2006 and 2007 (unaudited) | Page 5 |
| Notes to condensed consolidated financial statements (unaudited) | Page 6 |

2

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

| | Assets | December 31, 2006 ----- |
|---|--------|-------------------------------|
| Current assets: | | |
| Cash | | \$ 920,590 |
| Accounts and notes receivable (net of allowances of \$136,462 as of December 31, 2006 and June 30, 2007) | | 1,505,444 |
| Inventories | | 215,557 |
| Assets held for resale | | 381,768 |
| Prepaid expenses | | 136,167 |
| Current portion of long-term notes receivable | | 187,898 |
| Deferred tax asset - current portion | | 1,971,875 |
| | | ----- |
| Total current assets | | 5,319,299 ----- |
| Property and equipment: | | |
| Equipment | | 1,183,655 |
| Leasehold improvements | | 105,928 |
| | | ----- |
| | | 1,289,583 |
| Less accumulated depreciation and amortization | | 653,336 |
| | | ----- |
| Net property and equipment | | 636,247 |

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| | |
|--|---------------|
| Deferred tax asset (net of current portion) | 8,300,244 |
| Other assets including long-term portion of notes receivable | 1,882,173 |
| | ----- |
| Total assets | \$ 16,137,963 |
| | ===== |
| Liabilities and Stockholders' Equity | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 396,046 |
| Current portion of long-term note payable | 1,500,000 |
| | ----- |
| Total current liabilities | 1,896,046 |
| | ----- |
| Long-term obligations: | |
| Note payable to bank (net of current portion) | 5,625,000 |
| | ----- |
| Total long-term liabilities | 5,625,000 |
| | ----- |
| Stockholders' equity: | |
| Common stock -no par value (25,000,000 shares authorized, 16,602,601 issued and outstanding as of December 31, 2006 and 17,874,276 issued and outstanding as of June 30, 2007) | 21,393,360 |
| Preferred stock (5,000,000 shares authorized and 51,000 issued and outstanding as of December 31, 2006 and 43,700 issued and outstanding as of June 30, 2007) | 1,978,800 |
| Accumulated deficit | (14,755,243) |
| | ----- |
| Total stockholders' equity | 8,616,917 |
| | ----- |
| Total liabilities and stockholders' equity | \$ 16,137,963 |
| | ===== |

See accompanying notes to condensed consolidated financial statements.

3

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|--------------------------------|--------------|------------------------------|--------------|
| | 2006 | 2007 | 2006 | 2007 |
| | ----- | ----- | ----- | ----- |
| Royalties and fees | \$ 1,944,822 | \$ 2,787,232 | \$ 3,812,259 | \$ 5,372,232 |
| Administrative fees and other | 18,992 | 18,639 | 34,178 | 36,178 |
| Restaurant revenue | 351,807 | 274,276 | 764,740 | 525,276 |
| | ----- | ----- | ----- | ----- |
| Total revenue | 2,315,620 | 3,080,147 | 4,611,177 | 5,935,232 |
| Operating expenses: | | | | |
| Salaries and wages | 310,309 | 422,067 | 584,853 | 799,067 |
| Trade show expense | 116,906 | 136,048 | 223,636 | 273,048 |
| Travel expense | 96,731 | 122,522 | 192,337 | 201,048 |
| Sales commissions | 0 | 242,592 | 0 | 357,048 |
| Other operating expenses | 177,785 | 221,325 | 374,694 | 447,048 |

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| | | | | |
|--|------------|------------|------------|--------------|
| Restaurant expenses | 341,018 | 255,025 | 737,018 | 489,000 |
| Depreciation and amortization | 20,857 | 24,359 | 41,616 | 45,000 |
| General and administrative | 393,642 | 423,385 | 788,447 | 848,000 |
| | ----- | ----- | ----- | ----- |
| Operating income | 858,373 | 1,232,824 | 1,668,577 | 2,471,000 |
| Interest and other expense | 197,964 | 166,906 | 395,190 | 340,000 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 660,408 | 1,065,918 | 1,273,387 | 2,131,000 |
| Income tax expense | 224,539 | 362,412 | 432,951 | 724,000 |
| | ----- | ----- | ----- | ----- |
| Net income | 435,870 | 703,506 | 840,435 | 1,406,000 |
| Cumulative preferred dividends | 40,241 | 34,481 | 81,377 | 75,000 |
| | ----- | ----- | ----- | ----- |
| Net income available to common stockholders | \$ 395,628 | \$ 669,025 | \$ 759,059 | \$ 1,330,000 |
| Earnings per share - basic: | | | | |
| Net income | \$.03 | \$.04 | \$.05 | \$.05 |
| Weighted average number of common shares outstanding | 16,322,136 | 17,009,825 | 16,322,136 | 16,839,000 |
| Diluted earnings per share: | | | | |
| Net income | \$.03 | \$.04 | \$.05 | \$.05 |
| Weighted average number of common shares outstanding | 16,963,051 | 19,580,118 | 16,963,051 | 19,410,000 |

See accompanying notes to condensed consolidated financial statements.

4

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

| OPERATING ACTIVITIES | Six Months Ended June 30, 2006 | 2007 |
|---|-----------------------------------|--------------|
| | ----- | ----- |
| Net income | \$ 840,435 | \$ 1,406,509 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 75,173 | 93,585 |
| Deferred federal income taxes | 432,952 | 724,565 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts and notes receivable | (107,088) | (262,717) |
| Inventories | 2,693 | 14,063 |
| Assets held for resale | (14,089) | (21,410) |
| Prepaid expenses | (41,927) | (237,509) |
| Other assets | 1,022 | (47,900) |
| Decrease in: | | |
| Accounts payable | (213,228) | (46,412) |
| | ----- | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 975,942 | 1,622,774 |

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| | | |
|--|-------------|--------------|
| | ----- | ----- |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (9,040) | (76,702) |
| | ----- | ----- |
| NET CASH USED BY INVESTING ACTIVITIES | (9,040) | (76,702) |
| | ----- | ----- |
| FINANCING ACTIVITIES | | |
| Payment of obligations from discontinued operations | (264,269) | (318,436) |
| Payment of cumulative preferred dividends | (81,377) | (75,616) |
| Payment of principal on outstanding debt | (750,000) | (750,000) |
| Payments received on long-term notes receivable | 85,020 | 92,076 |
| Proceeds from the exercise of stock options and warrants | -- | 204,171 |
| | ----- | ----- |
| NET CASH USED IN FINANCING ACTIVITIES | (1,010,626) | (847,805) |
| | ----- | ----- |
| Increase (decrease) in cash | (43,723) | 698,267 |
| Cash at beginning of period | 740,940 | 920,590 |
| | ----- | ----- |
| Cash at end of period | \$ 697,217 | \$ 1,618,857 |
| | ===== | ===== |

Supplemental schedule of non-cash investing and financing activities

None.

| | | |
|------------------------|------------|------------|
| Cash paid for interest | \$ 366,150 | \$ 314,585 |
|------------------------|------------|------------|

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 six-month period ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007.

Note 2 - Approximately \$300 thousand and \$766 thousand are included in the three-month period and six-month period ended June 30, 2007, respectively, and approximately \$352 thousand and \$688 thousand for the three-month period and six-month period ended June 30, 2006, respectively, for initial franchise fees. In addition, included in royalties and fees were approximately \$686 thousand and \$1,056 thousand in the three-month period and six-month period ended June 30, 2007, respectively, and none in the three-month period and six-month period ended June 30, 2006, respectively, for the sale of Area Development Agreements. Because the Company's growth strategy is to grow its business by franchising non-traditional locations, franchising its dual-branded concept in traditional locations and selling development territories to area developers for growth of its dual-branded concept, and because the number of such locations that are available for targeted growth is large, the Company believes that its initial

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franchise fee revenue has the potential to increase in the future. The Company's ongoing royalty income is primarily paid electronically by the Company initiating a draft on the franchisee's account by electronic withdrawal. As such, the Company has no material amount of past due royalties.

Note 3 - Since June 30, 2007, 23,075 shares of the Company's preferred stock, with a liquidation preference of \$923,000, have been converted to 410,217 shares of the Company's common stock, in accordance with the conversion provisions of the preferred stock. After these conversions, there are 20,625 shares of the Company's preferred stock with a liquidation preference of \$825,000, outstanding which may be converted at the option of the holders to 366,666 shares of the Company's common stock.

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

Introduction

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

Noble Roman's Pizza

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

- o Crust made with only specially milled flour with above average protein and yeast.

6

- 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.
- 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 fully-prepared pizza crust that captures the made-from-scratch pizzeria flavor which gets delivered to the franchise location shelf-stable so that dough handling is no longer an impediment to a consistent product.

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

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assemble, relatively low in food cost and require very low amounts of labor.

Tuscano's Italian Style Subs -----

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

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

Business Strategy

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

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

Growth of our Traditional Dual-Branded Concept. In order to seek more rapid growth, the Company initiated a strategy to sell dual-branded franchises and to sell development territories to Area Developers for additional growth of its dual-branded concept of Noble Roman's Pizza/Tuscano's Subs

7

for stand-alone traditional locations. Area Developers have the exclusive right to develop the dual-branded traditional concept in their areas. Area Developers generally pay a development fee of \$.05 per capita in their development area and will receive 30% of the initial franchise fee and 2/7ths of the royalty from the franchise locations developed pursuant to those Development Agreements. The Company retains all training and supervision responsibilities and must approve all franchisees and all locations. In order to maintain the rights to develop the territories, each Developer has to meet the minimum development schedule stipulated in the Area Development Agreement. As of August 3, 2007, the Company has entered into 19 Area Development Agreements requiring the development of 685 franchise locations over the next five to seven years. In addition, as of August 3, 2007, the Company has entered into 84 dual-branded franchise agreements for traditional locations, 37 of which were sold through the Area Development Agreements.

Maintain Superior Product Quality. The Company believes that the quality of its

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

Financial Summary

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates. The Company 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 June 30, 2006 and 2007, respectively.

8

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|---------|------------------|---------|
| | June 30, | | June 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| | ---- | ---- | ---- | ---- |
| Royalties and fees | 84.0 % | 90.5 % | 82.7 % | 90.5 % |
| Administrative fees and other | .8 | .6 | .7 | .6 |
| Restaurant revenue | 15.2 | 8.9 | 16.6 | 8.9 |
| | ----- | ----- | ----- | ----- |
| Total revenue | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Operating expenses: | | | | |
| Salaries and wages | 13.4 | 13.7 | 12.7 | 13.5 |
| Trade show expense | 5.0 | 4.4 | 4.8 | 4.6 |
| Travel expense | 4.2 | 4.0 | 4.2 | 3.4 |
| Sales commissions | 0 | 7.9 | 0 | 6.0 |
| Other operating expense | 7.7 | 7.2 | 8.1 | 7.5 |
| Restaurant expenses | 14.7 | 8.3 | 16.0 | 8.2 |
| Depreciation and amortization | .9 | .8 | .9 | .8 |
| General and administrative | 17.0 | 13.7 | 17.1 | 14.3 |
| | ----- | ----- | ----- | ----- |
| Operating income | 37.1 % | 40.0 % | 36.2 % | 41.7 % |
| Interest and other expense | 8.5 | 5.4 | 8.6 | 5.7 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 28.6 | 34.6 | 27.6 | 36.0 |
| Income tax expense | 9.8 | 11.8 | 9.4 | 12.2 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|------------|--------|--------|--------|--------|
| Net income | 18.8 % | 22.8 % | 18.2 % | 23.8 % |
| | ===== | ===== | ===== | ===== |

Results of Operations

Noble Roman's, Inc. and Subsidiaries

Results of Operations - Three-Month and Six-Month Periods Ended June 30, 2006 and 2007

Total revenue increased from \$2,315,620 to \$3,080,147 and from \$4,611,177 to \$5,935,486 for the three-month and six-month periods ended June 30, 2007 compared to the corresponding periods in 2006. These increases were primarily the result of increases in royalties and fees from the addition of new franchises, partially offset by a decrease in restaurant revenue. Royalties and fees increased from approximately \$1,944,822 to \$2,787,232 and from \$3,812,259 to \$5,372,640 for the three-month and six-month periods ended June 30, 2007 compared to the corresponding periods in 2006. Included in royalties and fees were initial franchise fees of approximately \$300 thousand and \$766 thousand in the three-month period and six-month period ended June 30, 2007, respectively, and approximately \$352 thousand and \$688 thousand for the three-month period and six-month period ended June 30, 2006, respectively. In addition, included in royalties and fees were fees from the sale of Area Development Agreements of approximately \$686 thousand and \$1,056 thousand in the three-month period and six-month period ended June 30, 2007, respectively. There were no Area Developer Agreement fees in the three-month period and six-month period ended June 30, 2006. The Company has sold 19 territories to Area Developers and is in discussions regarding additional agreements with several other potential Area Developers. The 19 territories include an agreement for 49 restaurants in 15 counties surrounding the Greensboro, Winston-Salem, High Point areas of North Carolina and Virginia, an agreement for 20 restaurants in three counties near Cincinnati, Ohio, an agreement for 25 restaurants in Sacramento County, California, an agreement for an additional 40 restaurants in 21 additional counties surrounding Cincinnati, Ohio, an agreement for 30 restaurants in five counties near Atlanta, Georgia, an agreement for 70

restaurants in three additional counties in Georgia, near Atlanta, an agreement for 52 restaurants in two counties near Dallas, Texas, an agreement for 25 restaurants for Springfield, Missouri and surrounding counties, an agreement for 35 restaurants for Riverside County, California, an agreement for 38 restaurants for San Bernardino County, California, an agreement for 30 restaurants in Dayton, Ohio and surrounding counties, an agreement for 15 restaurants in a third county near Dallas, Texas, an agreement for 60 restaurants in a large portion of Los Angeles County, California, an agreement for 45 restaurants in Orange County, California, an agreement for 18 restaurants in Ventura County, California, an agreement for 34 restaurants in Santa Barbara, San Luis Obispo and Fresno Counties in California, an agreement for 60 restaurants in San Diego County, California, an agreement for 19 restaurants Kern County, California plus the cities of Santa Clarita, Lancaster and Palmdale, and an agreement for 20 restaurants in Naples/Ft. Myers, Florida. Because of the identified growth opportunities in franchising in non-traditional locations, in traditional dual-branded locations and the units committed by the Area Development Agreements, the Company believes that franchise fee revenue will increase in the future. If an Area Developer does not meet the required development schedule, the Developer loses its rights to the development area and its share of the franchise fee income on any units that are developed.

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Restaurant revenues decreased from approximately \$351,807 to \$274,276 and from \$764,740 to \$525,861, respectively for the three-month and six-month periods ended June 30, 2007 compared to the corresponding periods in 2006. The Company only intends to operate two restaurants to be used for testing and demonstration purposes, but from time to time temporarily operates others until a suitable franchisee is located. Restaurant revenue decreased because the Company was operating fewer restaurants in the three-month and six-month periods ended June 30, 2007 than in the corresponding periods in 2006.

Salaries and wages increased from 13.4% of total revenue to 13.7% of total revenue and from 12.7% of total revenue to 13.5% of total revenue, respectively, for the three-month and six-month periods ended June 30, 2007 compared to the corresponding periods in 2006. These increases during the periods in 2007 compared to 2006 were the result of adding additional experienced staff for the growth of franchising in traditional locations in mid-year 2006. Salaries and wages, as a percentage of total revenue, are expected to gradually decline in the future as the revenue continues to grow from opening more traditional franchises.

Trade show expenses decreased from 5.0% of total revenue to 4.4% of total revenue and from 4.8% of total revenue to 4.6% of total revenue, respectively, for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in 2006. The actual amount of trade show expenses increased slightly for both the three-month and six-month periods as a result of adding a few additional trade shows for traditional franchising and, at the same time, dropping a couple of the non-traditional shows that did not get significant responses in the past. The Company anticipates the dollar amount of trade show expense to remain approximately the same for the balance of 2007, which is expected to result in a lower trade show expense as a percentage of total revenue as revenue continues to increase as more traditional restaurants are opened.

Travel expenses decreased from 4.2% of total revenue to 4.0% of total revenue and from 4.2% of total revenue to 3.4% of total revenue, respectively, for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in 2006. The actual amount of travel expenses increased slightly for both the three-month and six-month periods as a result of having more franchise managers on the road as the number of locations increased. The decrease as a percentage of revenue was the result of the actual dollar expenses increasing less than the revenue increase as a result of selling more Area Development Agreements and opening more traditional restaurants.

10

Sales commissions were 7.9% of total revenue and 6.0% of total revenue, respectively, for the three-month period and six-month period ended June 30, 2007 compared to no sales commissions in the corresponding periods in 2006. The sales commissions are the result of commissions earned by the Area Developers and internal sales staff designed to increase the Company's revenue growth by expanding franchising activity for traditional locations.

Other operating expenses decreased as a percentage of total revenue from 7.7% to 7.2% and from 8.1% to 7.6%, respectively, for the three-month and six-month periods ended June 30, 2007 compared to the corresponding periods in 2006. This decrease was primarily the result of actual operating expenses only slightly increasing in dollar amount while total revenue increased from the growth of more franchises and from the sale of Area Development Agreements for traditional locations. The Company anticipates that other operating expenses, as a percentage of revenue, will continue to decline as a percentage of revenue as a result of anticipated additional growth in 2007 while maintaining operating

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expenses at approximately the same level.

Restaurant expenses decreased as a percentage of total revenue from 14.7% to 8.3% and from 16.0% to 8.2%, respectively, for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in 2006. These decreases were the result of the decrease in number of restaurants operated by the Company while the revenues increased as a result of the growth in the number of franchises and the sale of Area Development Agreements for traditional locations. The Company only intends to operate two restaurants to be used for testing and demonstration purposes, but from time to time temporarily operates others until a suitable franchisee is located.

General and administrative expenses decreased as a percentage of total revenue from 17.0% to 13.7% and 17.1% to 14.3%, respectively, for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in 2006. These decreases were the result of only a small increase in the dollar amount of administrative expense, which was more than offset by the growth in revenue due to the growth in the number of franchises and the sale of Area Development Agreements for traditional locations. The Company anticipates that general and administrative expenses, as a percentage of revenue, will continue to decline as a result of expected additional growth in revenue.

Operating income increased as a percentage of total revenue from 37.1% to 40.0% and from 36.2% to 41.7%, respectively, for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in 2006. The primary reason for these increases in operating income percentages were the growth in royalties and fees due to the growth in the number of franchises and the sale of Area Development Agreements for traditional locations, which more than offset the growth in operating expenses. Operating income, as a percentage of total revenue, is anticipated to continue to increase as the expected growth in the amount of franchising activity continues with operating expenses increasing at a substantially lower rate.

Interest expense decreased as a percentage of total revenue from 8.5% to 5.4% and 8.6% to 5.7%, respectively, for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in 2006. These decreases were the result of a decrease in the dollar amount of interest as a result of the reduction in the amount of debt outstanding and the increase in revenue due to the growth in the number of franchises and the sale of Area Development Agreements for traditional locations. Interest expense is expected to decline in the future as the Company continues to reduce its debt.

Net income increased from \$435,870 to \$703,506 and from \$840,435 to \$1,406,509 for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in

11

2006. The 61.4% and the 67.4% increases in net income, respectively, for the three-month period and six-month period ended June 30, 2007 compared to the corresponding periods in 2006, was the result of the growth in royalty and fee income as a result of the sale of additional Area Development Agreements and the growth in the number of franchises for traditional locations, only partially offset by increased operating expenses.

Liquidity and Capital Resources

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

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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 in Franchise Agreements and Area Development Agreements in the future, the Company believes it will have sufficient cash flow to meet its obligations and to carry out its current business plan.

The Company 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.

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 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.

12

ITEM 6. Exhibits.

(a) Exhibits: See Exhibit Index appearing on page 15.

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: August 9, 2007

By: /s/ Paul W. Mobley

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

Index to Exhibits

Exhibit

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

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November 29, 1994 (SEC File No. 33-86804), is incorporated herein by reference.

15

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

16