NOBLE ROMANS INC
Form 10-Q
August 11, 2014

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

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014

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 300 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). Yes o No þ

As of August 8, 2014, there were 19,801,087 shares of Common Stock, no par value, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

The following unaudited condensed consolidated financial statements are included herein:

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

Assets	December 31, 2013	June 30, 2014
Current assets:		
Cash	$157,787	$278,381
Accounts receivable - net	1,268,788	1,988,843
Inventories	337,822	338,688
Prepaid expenses	472,065	566,344
Deferred tax asset - current portion	1,250,000	1,250,000
Total current assets	3,486,462	4,422,256
Property and equipment:		
Equipment	1,361,205	1,369,753
Leasehold improvements	88,718	88,719
	1,449,923	1,458,472
Less accumulated depreciation and amortization	962,502	1,000,232
Net property and equipment	487,421	458,240
Deferred tax asset (net of current portion)	9,332,024	8,739,228
Other assets including long-term portion of receivables - net	3,067,754	3,203,979
Total assets	$16,373,661	$16,823,703
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term notes payable to bank	$1,216,250	$1,216,250
Accounts payable and accrued expenses	818,803	913,818
Total current liabilities	2,035,053	2,130,068
Long-term obligations:		
Notes payable to bank – net of current portion	2,635,208	2,027,083
Total long-term liabilities	2,635,208	2,027,083
Stockholders' equity:		
Common stock – no par value (25,000,000 shares authorized, 19,585,089 issued and outstanding as of December 31, 2013 and 19,801,087 issued and outstanding as of June 30, 2014)	23,498,401	23,519,402
Accumulated deficit	(11,795,001)	(10,852,850)
Total stockholders' equity	11,703,400	12,666,552
Total liabilities and stockholders’ equity	$16,373,661	$16,823,703

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

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

	Three Months Ended June 30, 2013	2014	Six Months Ended June 30, 2013	2014
Royalties and fees	$ 1,857,503	$ 1,969,378	$ 3,639,809	$ 3,783,443
Administrative fees and other	7,600	20,807	8,876	41,493
Restaurant revenue	122,275	98,768	229,431	175,720
Total revenue	1,987,378	2,088,953	3,878,116	4,000,656
Operating expenses:				
Salaries and wages	262,827	265,664	512,030	525,558
Trade show expense	129,991	140,161	259,540	266,422
Travel expense	55,240	61,979	99,555	109,097
Other operating expenses	182,957	219,432	364,320	408,018
Restaurant expenses	109,742	104,892	214,850	196,320
Depreciation and amortization	28,343	27,821	56,689	55,642
General and administrative	413,564	413,638	820,548	807,646
Total expenses	1,182,664	1,233,587	2,327,532	2,368,703
Operating income	804,714	855,366	1,550,584	1,631,953
Interest and other expense	50,247	46,954	103,404	97,007
Income before income taxes	754,467	808,412	1,447,180	1,534,946
Income tax expense	298,845	305,016	573,228	592,795
Net income	455,622	503,396	873,952	942,151
Cumulative preferred dividends	24,411	-	49,364	-
Net income available to common stockholders	$ 431,211	$ 503,396	$ 824,588	$ 942,151
Earnings per share – basic:				
Net income	$ .02	$ .03	$ .04	$ .05
Net income available to common stockholders	$ .02	$ .03	$ .04	$ .05
Weighted average number of common shares outstanding	19,516,589	19,801,087	19,516,589	19,786,507
Diluted earnings per share:				
Net income	$ .02	$ .02	$ .04	$ .04
Net income available to common stockholders	$ .02	$ .02	$ .04	$ .04
	20,290,932	21,082,553	20,290,932	21,067,973

Weighted average number of common shares outstanding	

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 Shares	Common Stock Amount	Accumulated Deficit	Total
Balance at December 31, 2013	19,585,089	$23,498,401	$(11,795,001)	$11,703,400
Cashless exercise of employee stock options	214,998			
Net income for six months ended June 30, 2014			942,151	942,151
Exercise of employee stock options	1,000	830		830
Amortization of value of employee stock options		20,171		20,171
Balance at June 30, 2014	19,801,087	$23,519,402	$(10,852,850)	$12,666,552

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

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

OPERATING ACTIVITIES	Six Months Ended June 30, 2013	2014
Net income	$ 873,952	$ 942,151
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	82,971	57,901
Deferred income taxes	573,228	592,795
Changes in operating assets and liabilities:		
(Increase) in:		
Accounts receivable	(306,665)	(720,055)
Inventories	(17,090)	(867)
Prepaid expenses	(161,929)	(94,278)
Other assets	(144,424)	(136,225)
Increase in:		
Accounts payable and accrued expenses	21,001	196,793
NET CASH PROVIDED BY OPERATING ACTIVITIES	921,044	838,215
INVESTING ACTIVITIES		
Purchase of property and equipment	(4,525)	(8,549)
NET CASH USED IN INVESTING ACTIVITIES	(4,525)	(8,549)
FINANCING ACTIVITIES		
Payment of cumulative preferred dividends	(49,364)	-
Payment of principal on outstanding debt	(625,000)	(608,125)
Proceeds from the exercise of employee stock options	-	830
NET CASH USED IN FINANCING ACTIVITIES	(674,364)	(607,295)
DISCONTINUED OPERATIONS		
Payment of obligations from discontinued operations	(121,046)	(101,777)
Increase in cash	121,109	120,594
Cash at beginning of period	144,354	157,787
Cash at end of period	$ 265,463	$ 278,381

Supplemental schedule of non-cash investing and financing activities

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

Cash paid for interest	$85,302	$83,302

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

In the opinion of the management of the Company, the information contained herein reflects all adjustments necessary for a fair presentation of the results of operations and cash flows for the interim periods presented and the financial condition as of the dates indicated, which adjustments are of a normal recurring nature. The results for the six-month period ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

Note 2 – Royalties and fees include initial franchise fees of $225,000 and $335,000 for the three-month and six-month periods ended June 30, 2013, and $93,000 and $131,000 for the three-month and six-month periods ended June 30, 2014, respectively. Royalties and fees included equipment commissions of $17,000 and $30,000 for the three-month and six-month periods ended June 30, 2013, and $23,000 and $35,000 for the three-month and six-month periods ended June 30, 2014, respectively. Royalties and fees, less initial franchise fees and equipment commissions were $1.6 million and $3.3 million for the respective three-month and six-month periods ended June 30, 2013 and $1.9 million and $3.6 million for the respective three-month and six-month periods ended June 30, 2014. Most of the cost for the services required to be performed by the Company are incurred prior to the franchise fee income being recorded, which is based on a contractual liability of the franchisee. For the most part, the Company's royalty income is paid by the Company initiating a draft on the franchisee's account by electronic withdrawal.

There were 2,029 franchises/licenses in operation on December 31, 2013, and 2,055 franchises/licenses in operation on June 30, 2014. During the six-month period ended June 30, 2014, there were 45 new outlets opened and 19 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 six-month periods ended June 30, 2013:

	Three Months Ended June 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$455,622	19,516,589	$.02
Less preferred stock dividends	(24,411)		
Earnings per share - basic			
Income available to common stockholders	431,211		.02
Effect of dilutive securities			
Options		407,677	
Convertible preferred stock	24,411	366,666	
Dilutive earnings per share			
Income available to common stockholders and assumed conversions	$455,622	20,290,932	$.02

	Six Months Ended June 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$873,952	19,516,589	$.04
Less preferred stock dividends	(49,364)		
Earnings per share - basic			
Income available to common stockholders	824,588		.04
Effect of dilutive securities			
Options		407,677	
Convertible preferred stock	49,364	366,666	
Dilutive earnings per share			
Income available to common stockholders and assumed conversions	$873,972	20,290,932	$.04

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

	Three Months Ended June 30, 2014		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$ 503,396	19,801,087	$ .03
Effect of dilutive securities			
Options	-	1,281,466	
Dilutive earnings per share			
Net income	$ 503,396	21,082,553	$ .02

	Six Months Ended June 30, 2014		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$942,151	19,786,507	$.05
Effect of dilutive securities			
Options	-	1,281,466	
Dilutive earnings per share			
Net income	$942,151	21,067,973	$.04

Note 4 - 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 under the trade names “Noble Roman’s Pizza”, “Noble Roman’s Take-N-Bake” and “Tuscano’s Italian Style Subs”. The concepts’ hallmarks include high quality pizza and sub sandwiches, along with other related menu items, simple operating systems, fast service times, labor-minimizing operations, attractive food costs and overall affordability. Since 1997, the Company has focused its efforts and resources primarily on franchising and licensing for non-traditional locations and has awarded franchise and/or license agreements in all 50 states plus Washington, D.C., Puerto Rico, the Bahamas, Italy, the Dominican Republic and Canada. Although from 2005 to 2007, the Company sold some franchises for its concepts in traditional restaurant locations, the Company currently focuses all of its sales efforts on (1) franchises for non-traditional locations primarily in convenience stores and entertainment facilities, (2) franchises for stand-alone Noble Roman’s Take-N-Bake Pizza retail outlets and (3) license agreements for grocery stores to sell the Noble Roman’s Take-N-Bake Pizza and related products. Pizzaco, Inc. owns and operates the two Company locations used for testing and demonstration purposes. The Company has no plans to operate any other locations. References in this report to the “Company” are to Noble Roman’s, Inc. and its subsidiaries, unless the context requires otherwise.

Products & Systems

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

Noble Roman’s Pizza

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

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

Noble Roman’s Take-N-Bake

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

Tuscano’s Italian Style Subs

Tuscano’s Italian Style Subs is a separate non-traditional location concept that focuses on sub sandwich menu items. Tuscano’s was designed to be comfortably familiar from a customer’s perspective but with many distinctive features that include an Italian-themed menu. The franchise fee and ongoing royalty for a Tuscano’s is identical to that charged for a Noble Roman’s Pizza franchise. The Company awards Tuscano’s franchises in the same facilities as Noble Roman’s Pizza franchises. Noble Roman’s has developed a grab-n-go service system for a selected portion of the Tuscano’s menu. The grab-n-go system is designed to add sales opportunities at existing non-traditional Noble Roman’s Pizza locations.

Business Strategy

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

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

Sales of Non-Traditional Franchises and Licenses. The Company believes it has an opportunity for increasing unit growth and revenue within its non-traditional venues, particularly with convenience stores, travel plazas and entertainment facilities. The Company’s franchises/licenses in non-traditional locations are foodservice providers within a host business, and usually require a substantially lower investment compared to a stand-alone traditional location. Non-traditional franchises/licenses are most often sold into pre-existing facilities as a service and/or revenue enhancer for the underlying business. In 2014, the Company has signed franchise/license agreements for 24 additional locations for its non-traditional venue other than grocery stores.

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

Licensing and Franchising the Company’s Take-N-Bake Program. The take-n-bake pizza is designed as a stand-alone offering for grocery stores, an add-on component for new or existing convenience store franchisees/licensees and stand-alone franchise locations. Since the Company started offering take-n-bake pizza to grocery store chains in late 2009, through August 8, 2014 the Company has signed agreements for nearly 1,900 grocery store locations to operate the take-n-bake pizza program, approximately 185 of which have been signed in 2014, and has opened the take-n-bake pizza program in approximately 1,300 of those locations. The Company is currently in discussions with grocery store chains that operate over 5,000 additional locations that are candidates for take-n-bake license agreements. Recently, the Company re-designed its packaging for take-n-bake pizza in grocery stores, which is a treated bottom aluminum baking pan with a clear plastic top, added new mega-topped 14” pizzas (designed as value appeal to the customers) and added new gluten-free pizzas. The Company’s strategy with these new products is to secure more shelf space in existing locations, to add appeal of the program in order to attract new locations, and to generally increase sales of the Company’s products to new and existing customers.

In 2012, the Company developed a stand-alone take-n-bake pizza prototype and has entered into agreements for 61 locations as of August 8, 2014, of which agreements for five locations have been signed in 2014. The Company’s stand-alone take-n-bake program features the chain’s popular traditional Hand-Tossed Style pizza, Deep-Dish Sicilian pizza, SuperThin pizza, the new gluten-free pizza and Noble Roman’s famous breadsticks with spicy cheese sauce, all in a convenient cook-at-home format. Additional menu items include fresh salads, cookie dough, cinnamon rounds, bake-able pasta and more. The Company is currently in discussions with several prospects for its stand-alone program and is advertising for additional franchisees through various web-based franchise referral systems and through direct Internet advertising. The Company is now targeting areas where locations already exist for signing new agreements in an attempt to develop clusters of locations where advertising dollars can be leveraged in an attempt to increase sales in all locations.

2. Leverage the results of research and development advances.

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

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

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

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

Business Operations

Distribution

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

At present, the Company has distribution agreements with 11 primary distributors strategically located throughout the United States. The distribution agreements require the primary distributors to maintain adequate inventories of all products necessary to meet the needs of the Company's franchisees and licensees in their distribution area for weekly deliveries to the franchisee/licensee locations plus the grocery store distributors in their respective territories. Each of the primary distributors purchases the products from the manufacturer, under payment terms agreed upon by the manufacturer and the distributor, and distributes the products to the franchisee/licensee at a price fixed by the distribution agreement, which is landed cost plus a contracted mark-up for distribution. Payment terms to the distributor are agreed upon between each franchisee/licensee and the respective distributor. In addition, the Company has agreements with several grocery store distributors located in various parts of the country which agree to buy their products from one of the primary distributors and to distribute take-n-bake products to their grocery store customers.

Franchising

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

The initial franchise fees are as follows:

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

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

Licensing

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

Financial Summary

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

The following table sets forth the percentage relationship to total revenue of the listed items included in Noble Roman's consolidated statements of operations for the three-month and six-month periods ended June 30, 2013 and 2014, respectively.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2014		2013		2014	
Royalties and fees	93.5	%	94.3	%	93.9	%	94.6	%
Administrative fees and other	.4		1.0		.2		1.0	
Restaurant revenue	6.1		4.7		5.9		4.4	
Total revenue	100.0		100.0		100.0		100.0	
Operating expenses:								
Salaries and wages	13.2		12.7		13.2		13.1	
Trade show expense	6.5		6.7		6.7		6.7	
Travel expense	2.8		3.0		2.6		2.7	
Other operating expense	9.2		10.5		9.4		10.2	
Restaurant expenses	5.6		5.0		5.4		4.9	
Depreciation and amortization	1.4		1.4		1.5		1.4	
General and administrative	20.8		19.8		21.2		20.2	
Total expenses	59.5		59.1		60.0		59.2	
Operating income	40.5		40.9		40.0		40.8	
Interest and other expense	2.5		2.2		2.7		2.4	
Income before income taxes	38.0		38.7		37.3		38.4	
Income tax expense	15.0		14.6		14.8		14.8	
Net income	23.0	%	24.1	%	22.5	%	23.6	%

Results of Operations

Total revenue increased from $1.99 million to $2.09 million and from $3.88 million to $4.00 million for the respective three-month and six-month periods ended June 30, 2014 compared to the corresponding periods in 2013. Franchisee fees and equipment commissions ("upfront fees") decreased from $242,000 and $365,000 to $116,000 and $166,000 during the respective three-month and six-month periods ended June 30, 2014 compared to the corresponding periods in 2013. Royalties and fees, less upfront fees, increased from $1.62 million and $3.27 million to $1.85 million and $3.62 million for the respective three-month and six-month periods ended June 30, 2014 compared to the corresponding periods in 2013. The breakdown of royalties and fees less upfront fees, for the respective three-month and six-month periods ended June 30, 2014 and 2013 were: royalties and fees from non-traditional franchises other than grocery stores were $1.19 million compared to $1.11 million and $2.36 million compared to $2.27 million; royalties and fees from the grocery store take-n-bake were $373,000 compared to $374,000 and $717,000 compared to $771,000; royalties and fees from stand-alone take-n-bake franchises were $221,000 compared to $53,000 and $400,000 compared to $77,000; and royalties and fees from traditional locations were $74,000 compared to $81,000 and $146,000 compared to $158,000.

Restaurant revenue was $99,000 and $176,000 for the three-month and six-month periods ended June 30, 2014 compared to $122,000 and $229,000 for the three-month and six-month periods ended June 30, 2013, respectively. The decrease in both periods was the result of same store sales decreases. The primary reason for the same store sales decreases was the result of extremely inclimate weather in the Midwest during the winter and early spring. The Company only operates two locations used primarily for testing and demonstration purposes.

As a percentage of total revenue, salaries and wages decreased from 13.2% to 12.7% and 13.2% to 13.1% for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013. Salaries and wages increased from $263,000 and $512,000 to $266,000 and $526,000 for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013.

Trade show expenses remained approximately the same as a percentage of total revenue in 2014 compared to 2013. Trade show expenses were $140,000 compared to $130,000 and $266,000 compared to $260,000 for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013.

As a percentage of revenue, travel expenses slightly increased from 2.8% to 3.0% and from 2.6% to 2.7% for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013. Travel expense increased from $55,000 and $62,000 to $100,000 and $109,000 for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013.

As a percentage of total revenue, other operating expenses increased from 9.2% to 10.5% and from 9.4% to 10.2% for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013. Operating expenses increased from $183,000 to $219,000 and from $364,000 to $408,000 for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013, primarily due to commission expense increases.

As a percentage of total revenue, restaurant expenses decreased from 5.6% to 5.0% and from 5.4% to 4.9% for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013. These percentage decreases were partially the result of a decrease in restaurant revenue as a percentage of total revenue. The Company only operates two restaurants which it uses for demonstration, training and testing purposes.

As a percentage of total revenue, general and administrative expenses decreased from 20.8% to 19.8% and from 21.2% to 20.2% for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013.

As a percentage of total revenue, total expenses decreased from 59.5% to 59.1% and from 60.0% to 59.2% for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding period in 2013. These decreases were the result of revenue increases partially offset by a slight increase in actual expenses.

As a percentage of total revenue, operating income increased from 40.5% to 40.9% and from 40.0% to 40.8% for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013. This was a result of the Company's strategy to increase revenue while maintaining relatively stable operating expenses.

For the three-month and six-month periods ended June 30, 2014 compared to the corresponding periods in 2013, interest expense decreased from $50,000 to $47,000 and from $103,000 to $97,000, respectively, compared to the corresponding periods in 2013.

Net income before taxes increased from $754,000 to $808,000 and from $1.45 million to $1.53 million for the three-month and six-month periods ended June 30, 2014, respectively, compared to the corresponding periods in 2013. The increase in net income was a result of the Company's strategy to increase revenue while maintaining total expenses relatively stable. Net income before taxes is significant since the Company will pay no income taxes on approximately the next $25 million in net income before taxes due to its deferred tax assets.

Liquidity and Capital Resources

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

The Company's current ratio was 2.1-to-1 as of June 30, 2014 compared to 1.7-to-1 as of December 31, 2013.

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

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

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

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 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, dependence on current management, general economic conditions, changes in demand for the Company's products or franchises, the success or failure of individual franchisees and changes in prices or supplies of food ingredients and labor as well as the factors discussed under “Risk Factors” as contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company’s exposure to interest rate risk relates primarily to its variable-rate debt. As of June 30, 2014, the Company had outstanding variable interest-bearing debt in the aggregate principal amount of $3.2 million. The Company’s current borrowings are at a variable rate tied to the London Interbank Offered Rate (“LIBOR”) plus 4% per annum on $2.58 million and LIBOR plus 6.08% on $660,000 adjusted on a monthly basis. Based on its current debt structure, for each 1% increase in LIBOR the Company would incur increased interest expense of approximately $30,000 over the succeeding 12-month period.

ITEM 4. Controls and Procedures

Based on his evaluation as of the end of the period covered by this report, Paul W. Mobley, the Company’s Chief Executive Officer and Chief Financial Officer, has concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) and internal controls over financial reporting are effective. There have been no changes in internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Company is not involved in material litigation against it.

ITEM 6. Exhibits.

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

SIGNATURES

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

NOBLE ROMAN'S, INC.

August 11, 2014	By:	/s/ Paul W. Mobley Paul W. Mobley Chairman, Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer (Authorized Officer and Principal Financial Officer)

Index to Exhibits

Exhibit Number	Description
3.1	Amended Articles of Incorporation of the Registrant, filed as an exhibit to the Registrant’s Amendment No. 1 to the Post Effective Amendment No. 2 to Registration Statement on Form S-1 filed July 1, 1985 (SEC File No.2-84150), is incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Registrant, as currently in effect, filed as an exhibit to the Registrant’s Form 8-K filed December 23, 2009, is incorporated herein by reference.
3.3	Articles of Amendment of the Articles of Incorporation of the Registrant effective February 18, 1992 filed as an exhibit to the Registrant’s Registration Statement on Form SB-2 (SEC File No. 33-66850), ordered effective on October 26, 1993, is incorporated herein by reference.
3.4	Articles of Amendment of the Articles of Incorporation of the Registrant effective May 11, 2000, filed as Annex A and Annex B to the Registrant’s Proxy Statement on Schedule 14A filed March 28, 2000, is incorporated herein by reference.
3.5	Articles of Amendment of the Articles of Incorporation of the Registrant effective April 16, 2001 filed as Exhibit 3.4 to Registrant’s annual report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
3.6	Articles of Amendment of the Articles of Incorporation of the Registrant effective August 23, 2005, filed as Exhibit 3.1 to the Registrant's current report on Form 8-K filed August 29, 2005, is incorporated herein by reference.
4.1	Specimen Common Stock Certificates filed as an exhibit to the Registrant’s Registration Statement on Form S-18 filed October 22, 1982 and ordered effective on December 14, 1982 (SEC File No. 2-79963C), is incorporated herein by reference.
10.1	Employment Agreement with Paul W. Mobley dated January 2, 1999 filed as Exhibit 10.1 to Registrant’s annual report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
10.2	Employment Agreement with A. Scott Mobley dated January 2, 1999 filed as Exhibit 10.2 to Registrant’s annual report on Form 10-K for the year ended December 31, 2005, is incorporated herein by reference.
10.3	Credit Agreement with BMO Harris Bank, N.A., dated May 25, 2012, filed as Exhibit 10.17 to the Registrant’s quarterly report on Form 10-Q filed on

	August 13, 2012, is incorporated herein by reference.
10.4	First Amendment to Credit Agreement with BMO Harris Bank, N.A. dated October 31, 2013, filed as Exhibit 10.4 to the Registrant's annual report on Form 10-K filed on March 12, 2014, is incorporated herein by reference.
10.5	Promissory Note (Term Loan) with BMO Harris Bank, N.A. dated October 31, 2013, filed as Exhibit 10.5 to the Registrant's annual report on Form 10-K filed on March 12, 2014, is incorporated herein by reference.
10.6	Promissory Note (Term Loan II) with BMO Harris Bank, N.A. dated October 31, 2013, filed as Exhibit 10.6 to the Registrant's annual report on Form 10-K filed on March 12, 2014, is incorporated herein by reference.
21.1	Subsidiaries of the Registrant filed in the Registrant's Registration Statement on Form SB-2 (SEC File No. 33-66850) ordered effective on October 26, 1993, is incorporated herein by reference.
31.1	C.E.O. and C.F.O. Certification under Rule 13a-14(a)/15d-14(a)
32.1	C.E.O. and C.F.O. Certification under Section 1350
101	Interactive Financial Data

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