

NOBLE ROMANS INC
Form 10-Q
November 14, 2016

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, 2016

Commission file number: 0-11104

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

Indiana 35-1281154
(State or other jurisdiction of organization) (I.R.S. Employer Identification No.)

One Virginia Avenue, Suite 300 46204
Indianapolis, Indiana
(Address of principal executive offices) (Zip Code)

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

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

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 No

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

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

As of November 9, 2016, there were 20,783,032 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:

| | |
|--|-----------|
| Condensed consolidated balance sheets as of December 31, 2015 and September 30, 2016 (unaudited) | Page 3 |
| Condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2015 and 2016 (unaudited) | Page 4 |
| Condensed consolidated statements of changes in stockholders' equity for the nine-month period ended September 30, 2016 (unaudited) | Page 5 |
| Condensed consolidated statements of cash flows for the nine-month period ended September 30, 2015 and 2016 (unaudited) | Page 6 |
| Notes to condensed consolidated financial statements (unaudited) | Page 8 |

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

| Assets | December 31, 2015 | September 30, 2016 |
|--|----------------------|-----------------------|
| Current assets: | | |
| Cash | \$194,021 | \$175,235 |
| Accounts receivable - net | 2,007,751 | 2,323,301 |
| Inventories | 492,222 | 743,022 |
| Prepaid expenses | 634,016 | 869,853 |
| Deferred tax asset - current portion | 925,000 | 925,000 |
| Total current assets | 4,253,010 | 5,036,411 |
| Property and equipment: | | |
| Equipment | 1,376,190 | 1,829,736 |
| Leasehold improvements | 88,718 | 88,718 |
| | 1,464,908 | 1,918,454 |
| Less accumulated depreciation and amortization | 1,092,785 | 1,157,927 |
| Net property and equipment | 372,123 | 760,527 |
| Deferred tax asset (net of current portion) | 8,158,523 | 8,536,518 |
| Other assets including long-term portion of receivables - net | 5,681,272 | 4,545,092 |
| Total assets | \$18,464,928 | \$18,878,548 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Current portion of term loan payable to bank | \$601,081 | \$1,530,385 |
| Current portion of loan payable to Super G Funding, LLC | - | 1,250,000 |
| Note payable to Kingsway America | - | 600,000 |
| Accounts payable and accrued expenses | 847,418 | 337,254 |
| Total current liabilities | 1,448,499 | 3,717,639 |
| Long-term obligations: | | |
| Term loans payable to bank – net of current portion | 1,366,454 | - |
| Loan payable to Super G Funding, LLC (net of current portion) | - | 576,418 |
| Notes payable to officers | 175,000 | 310,000 |
| Note payable to Kingsway America | 600,000 | - |
| Total long-term liabilities | 2,141,454 | 886,418 |
| Stockholders' equity: | | |
| Common stock – no par value (25,000,000 shares authorized, 20,775,921 issued and outstanding as of December 31, 2015 and 20,783,032 issued and outstanding as of September 30, 2016) | 24,294,002 | 24,304,841 |
| Accumulated deficit | (9,419,027) | (10,030,350) |
| Total stockholders' equity | 14,874,975 | 14,274,491 |

| | | |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$18,464,928 | \$18,878,548 |
|--|--------------|--------------|

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

Edgar Filing: NOBLE ROMANS INC - Form 10-Q

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

| | Three-Months Ended September 30, | | Nine-Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | 2015 | 2016 | 2015 | 2016 |
| Revenue: | | | | |
| Royalties and fees | \$1,848,207 | \$1,953,843 | \$5,647,290 | \$5,544,389 |
| Administrative fees and other | 18,544 | 12,459 | 45,178 | 34,168 |
| Restaurant revenue | 51,689 | 55,691 | 148,763 | 162,737 |
| Total revenue | 1,918,440 | 2,021,993 | 5,841,231 | 5,741,294 |
| Operating expenses: | | | | |
| Salaries and wages | 287,972 | 275,694 | 859,846 | 759,603 |
| Trade show expenses | 143,016 | 124,209 | 405,601 | 383,086 |
| Travel expenses | 57,145 | 57,010 | 171,698 | 152,684 |
| Broker commissions | - | 10,421 | - | 32,241 |
| Other operating expenses | 202,624 | 200,367 | 604,215 | 575,651 |
| Restaurant expenses | 47,539 | 51,270 | 148,974 | 141,175 |
| Depreciation and amortization | 26,354 | 31,675 | 79,063 | 92,763 |
| General and administrative | 418,784 | 415,487 | 1,228,611 | 1,205,961 |
| Total expenses | 1,183,434 | 1,166,133 | 3,498,008 | 3,343,164 |
| Operating income | 735,006 | 855,860 | 2,343,223 | 2,398,130 |
| Interest | 50,412 | 153,882 | 138,641 | 291,822 |
| Loss on restaurant closed | 45,548 | - | 139,220 | 36,776 |
| Adjust valuation of receivables | 250,000 | - | 850,000 | 750,659 |
| Income before income taxes from continuing operations | 389,046 | 701,978 | 1,215,362 | 1,318,873 |
| Income tax expense | 163,286 | 268,208 | 506,932 | 503,907 |
| Net income from continuing operations | 225,760 | 433,770 | 708,430 | 814,966 |
| Loss from discontinued operations net of tax benefit of \$881,902 for 2016 | - | (1,426,289) | - | (1,426,289) |
| Net income (loss) | \$225,760 | \$(992,519) | \$708,430 | \$(611,323) |
| Earnings per share – basic: | | | | |
| Operating income | \$.04 | \$.04 | \$.11 | \$.12 |
| Net income from continuing operations | .01 | .02 | .03 | .04 |
| Net loss from discontinued operations net of tax benefit | .00 | (.07) | .00 | (.07) |
| Net income (loss) | .01 | (.05) | .03 | (.03) |
| Weighted average number of common shares outstanding | 20,722,497 | 20,783,032 | 20,436,846 | 20,781,501 |
| Diluted earnings per share: | | | | |
| Operating income | \$.03 | \$.04 | \$.11 | \$.11 |
| Net income from continuing operations | .01 | .02 | .03 | .04 |
| Net loss from discontinued operations net of tax benefit | .00 | (.07) | .00 | (.07) |

Edgar Filing: NOBLE ROMANS INC - Form 10-Q

| | | | | |
|--|------------|------------|------------|------------|
| Net income (loss) | .01 | (.05) | .03 | (.03) |
| Weighted average number of common shares outstanding | 22,012,769 | 20,924,077 | 21,727,118 | 20,922,546 |

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 | Amount | Accumulated Deficit | Total |
|---|------------------------|--------------|------------------------|--------------|
| Balance at December 31, 2015 | 20,775,921 | \$24,294,002 | \$(9,419,027) | \$14,874,975 |
| Net loss for nine months ended September 30, 2016 | | | (611,323) | (611,323) |
| Cashless exercise of employee stock option | 7,111 | | | |
| Amortization of value of employee stock options | - | 10,839 | - | 10,839 |
| Balance at September 30, 2016 | 20,783,032 | \$24,304,841 | \$(10,030,350) | \$14,274,491 |

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

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|--------------------|
| | 2015 | 2016 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$708,430 | \$(611,323) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 91,446 | 75,982 |
| Non-cash expense for the valuation of Heyser receivable | 850,000 | 750,659 |
| Deferred income taxes | 506,932 | (377,995) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (565,507) | (315,551) |
| Inventories | (75,305) | (250,800) |
| Prepaid expenses | (319,231) | (235,837) |
| Other assets, including long-term portion of receivables | (899,541) | 239,816 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 183,746 | (446,851) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 480,970 | (1,171,900) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (11,843) | (9,699) |
| NET CASH USED IN INVESTING ACTIVITIES | (11,843) | (9,699) |
| FINANCING ACTIVITIES | | |
| Payment of principal on bank term loans | (1,106,632) | (437,150) |
| Payment of principal on Super G Funding, LLC loan | - | (89,000) |
| Proceeds from insurance company loan | 600,000 | - |
| Proceeds from the exercise of employee stock options | 201,386 | - |
| Proceeds from Super G Funding, LLC loan | - | 1,915,417 |
| Proceeds from officers loan | - | 135,000 |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | (305,246) | 1,524,267 |
| DISCONTINUED OPERATIONS | | |
| Payment on discontinued operations | (172,796) | (361,454) |
| Decrease in cash | (8,915) | (18,786) |
| Cash at beginning of period | 200,349 | 194,021 |
| Cash at end of period | \$191,434 | \$175,235 |

Supplemental schedule of non-cash investing and financing activities

Cash paid for interest \$117,666 \$266,412

In 2016, leased equipment in the amount of \$443,848 was moved from other assets to equipment account.

In the first nine months of 2015: an option to purchase 100,000 shares at an exercise price of \$.95 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 58,696 shares of common stock, options to purchase 300,000 shares at an exercise price of \$1.05 per share were exercised pursuant to the cashless exercise provision of the options and the holders received 163,043 shares, an option to purchase 66,666 shares at an exercise price of \$.58 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 49,855 shares, options to purchase 30,000 shares at an exercise price of \$.90 per share were exercised pursuant to the cashless exercise provision of the options and the holders received 18,412 shares, an option to purchase 45,000 shares at an exercise price of \$.36 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 36,900 shares and an option to purchase 45,000 shares at an exercise price of \$.36 was exercised pursuant to the cashless exercise provision and the holder received 33,261 shares. In the first nine months of 2015 the Company issued 50,000 shares of common stock in exchange for \$95,000 in payables.

In the first nine months of 2016, an option to purchase 20,000 shares at an exercise price of \$.58 per share was exercised pursuant to the cashless exercise provision of the option and the holder received 7,111 shares of common stock.

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - The accompanying unaudited interim condensed consolidated financial statements, included herein, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated statements have been prepared in accordance with the Company's accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 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 three-month and nine-month periods ended September 30, 2016, respectively, are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

Note 2 – Royalties and fees include initial franchise fees of \$87,000 and \$153,000 for the three-month and nine-month periods ended September 30, 2015 and \$76,000 and \$204,000 for the three-month and nine-month periods ended September 30, 2016, respectively. Royalties and fees included equipment commissions of \$23,000 and \$60,000 for the three-month and nine-month periods ended September 30, 2015, and \$7,000 and \$17,000 for the three-month and nine-month periods ended September 30, 2016, respectively. Royalties and fees including interest per franchise agreements, less initial franchise fees and equipment commissions, were \$1.7 million and \$5.4 million for the respective three-month and nine-month periods ended September 30, 2015, and \$1.9 million and \$5.3 million for the respective three-month and nine-month periods ended September 30, 2016. 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. A significant amount of the Company's royalty income is paid by the Company initiating a draft on the franchisee's account by electronic withdrawal.

There were 2,562 franchises/licenses on December 31, 2015 and 2,736 franchises/licenses on September 30, 2016. During the nine-month period ended September 30, 2016, there were 201 new outlets opened and 27 outlets closed. In the ordinary course, grocery stores from time to time add our licensed products, remove them and may subsequently re-offer them. Therefore, it is unknown how many licensed grocery store units included in the count above have left the system.

Edgar Filing: NOBLE ROMANS INC - Form 10-Q

Note 3 - The following table sets forth the calculation of basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2015:

| | Three Months Ended September 30, 2015 | | |
|-------------------------------|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net income | \$225,760 | 20,722,497 | \$.01 |
| Effect of dilutive securities | | | |
| Options | - | 1,290,272 | |
| Diluted earnings per share | | | |
| Net income | \$225,760 | 22,012,769 | \$.01 |

| | Nine Months Ended September 30, 2015 | | |
|-------------------------------|---|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net income | \$708,430 | 20,436,846 | \$.03 |
| Effect of dilutive securities | | | |
| Options | - | 1,290,272 | |
| Diluted earnings per share | | | |
| Net income | \$708,430 | 21,727,118 | \$.03 |

The following table sets forth the calculation of basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2016:

| | Three Months Ended September 30, 2016 | | |
|-------------------------------|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net loss | \$(992,519) | 20,783,032 | \$(.05) |
| Effect of dilutive securities | | | |
| Options | - | 141,045 | |
| Diluted earnings per share | | | |

Edgar Filing: NOBLE ROMANS INC - Form 10-Q

Net loss \$(992,519) 20,924,077 \$(.05)

Nine Months Ended September 30, 2016

| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|-------------------------------|-----------------------|-------------------------|---------------------|
| Net loss | \$(611,323) | 20,781,501 | \$(.03) |
| Effect of dilutive securities | | | |
| Options | - | 141,045 | |
| Diluted earnings per share | | | |
| Net loss | \$(611,323) | 20,922,546 | \$(.03) |

Note 4 - At the end of December 2015, the Company determined to close a restaurant that had previously been used for demonstration and training purposes. This restaurant was a part of the discontinued operations in 2008, but the Company decided to continue operating this location until the lease expired. Since the restaurant was closed, the related revenue and expense were taken out of 2015 operating income at the end of the year for the full year and the net expense shown as a loss on restaurant closed separate from the ongoing operations. The results for the three-month and nine-month periods ended September 30, 2015 have been reclassified to remove those operations from ongoing operations consistent with the full year 2015 presentation for comparison purposes to the three-month and nine-month periods ended September 30, 2016.

Note 5 - In June 2016, the Company borrowed \$2.0 million from Super G Funding, LLC ("Super G") and used those funds: (1) to repay the \$500,000 revolving bank loan and (2) for working capital purposes. This loan is to be repaid in the total amount of \$2.7 million in regular bi-monthly payments over a two-year period.

Note 6 - In the second quarter ended June 30, 2016, the Company recorded a valuation allowance of \$750,659. This valuation allowance reflected the charge off of certain receivables from the operations discontinued in 2008 and was the remaining receivable from the various plaintiffs in the Heyser lawsuit which the Company won by summary judgment dismissing the Company from any liability and after numerous appeals including an appeal to the Indiana Supreme Court by the Heyser plaintiffs, in which the summary judgment was upheld. The Company also won summary judgment on its counterclaims against the various plaintiffs and was awarded a judgment against the plaintiffs in excess of \$2 million, which included damages and attorneys' fees. The Company has been pursuing collection since that time. During the second quarter the Company made the decision that it was in its best interest to cease incurring additional legal fees and to settle its pending claims for \$350,000, which is evidenced by a promissory note secured by a mortgage on two pieces of real estate.

Note 7 - During the quarter ended September 30, 2016, the Company made the decision to discontinue the stand-alone take-n-bake concept and devote its efforts to its next generation stand-alone prototype, Noble Roman's Craft Pizza & Pub. As a result of that decision, the Company is charging off all assets related to those discontinued operations, including \$504,000 after tax benefit invested in three franchised locations, partially owned by certain officers of the Company which were not involved in the management of the operations, which had been used primarily to support research and development by the Company in those three franchised locations. The Company was using those franchised locations for testing and development in an attempt to improve the stand-alone take-n-bake concept for future franchising before the Company made the decision in the third quarter to discontinue that concept. In addition, \$883,000 of the after-tax benefit reflected the charge-off of various receivables due from unrelated former franchisees of the stand-alone take-n-bake concept. This resulted in the net loss on discontinued operations \$1,426,289, net of tax benefit of \$881,902, for the three-month and nine-month periods ended September 30, 2016, respectively, compared to none in the corresponding periods in 2015. That loss also included a loss of \$39,000, after the tax benefit, for settlement of rent on a former location that was part of the discontinued operations in 2008.

Note 8 - The Company evaluated subsequent events through the date the financial statements were issued and filed with SEC. On November 2, 2016 and November 8, 2016, the Company issued convertible, subordinated, unsecured promissory notes (the "Notes") in an aggregate principal amount of \$950,000 and warrants (the "Warrants") to purchase up to 950,000 shares of the Company's common stock, no par value per share (the "Common Stock"). The Company issued Notes and the Warrants to each of the following investors: Paul W. Mobley, the Company's Executive Chairman, Chief Financial Officer and a director of the Company; Herbst Capital Management, LLC, the principal of which is Marcel Herbst, a director of the Company; and Roger and Darla Weissenberg, Lawrence and Susan Stanton, Neal and Maria Stanton, James and Cornelia Sullivan, Robert H. Paul, Barry W. Blank, Donald Miles, Nolan and Pamela Schabacker and Cleveland Family Limited Partnership (collectively, the "Investors"). The Company may issue additional Notes and Warrants.

Interest on the Notes accrues at the annual rate of 10% and is payable quarterly in arrears. Principal of the Notes matures three years after issuance. Each holder of the Notes may convert them at any time into Common Stock of the Company at a conversion price of \$0.50 per share (subject to anti-dilution adjustment). Subject to certain limitations, upon 30 days' notice the Company may require the Notes to be converted into Common Stock if the daily average weighted trading price of the Common Stock equals or exceeds \$1.50 per share for a period of 30 consecutive trading days. The Notes provide for customary events of default.

The Warrants expire three years from the date of issuance and provide for an exercise price of \$1.00 per share of Common Stock (subject to anti-dilution adjustment). Subject to certain limitations, the Company may redeem the Warrants at a price of \$0.001 per share of Common Stock subject to the Warrant upon 30 days' notice if the daily average weighted trading price of the Common Stock equals or exceeds \$2.00 per share for a period of 30 consecutive trading days.

In connection with the issuance of the Notes and Warrants, the Company granted the Investors certain registration rights with respect to the shares of Common Stock into which the Notes are convertible and for which the Warrants are exercisable.

Divine Capital Markets LLC served as the placement agent for the offering of the Notes and Warrants (the "Placement Agent"). Pursuant to its arrangement with the Placement Agent, the Company may issue additional Notes in an aggregate principal amount of \$1,050,000 and additional Warrants to purchase up to 1,050,000 shares of the Common Stock. In consideration of the Placement Agent's services, the Company will pay the Placement Agent a fee and expense allowance equal to 10% and 3%, respectively, of the gross proceeds of the offering. The Company also has agreed to issue to the Placement Agent a Warrant to purchase up to 10% of the aggregate shares of Common Stock represented by the Investors' Warrants at an exercise price of \$1.20.

The Company intends to use the net proceeds of the Notes to fund the opening of a Noble Roman's Craft Pizza & Pub restaurant and for general working capital needs.

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, services and operates franchises and licenses for non-traditional foodservice operations and stand-alone locations under the trade names "Noble Roman's Pizza", "Noble Roman's Take-N-Bake", "Noble Roman's Craft Pizza & Pub" and "Tuscano's Italian Style Subs". The concepts' hallmarks include high quality pizza and sub sandwiches, along with other related menu items, simple operating systems, fast service times, labor-minimizing operations, attractive food costs and overall affordability. Since 1997, the Company has concentrated its efforts and resources primarily on franchising and licensing for non-traditional locations and now has awarded franchise and/or license agreements in 50 states plus Washington, D.C., Puerto Rico, the Bahamas, Italy, the Dominican Republic and Canada. The Company currently focuses all of its sales efforts on (1) franchises/licenses for non-traditional locations primarily in convenience stores, entertainment facilities and grocery stores, and (2) development of next generation stand-alone Noble Roman's Craft Pizza & Pub restaurants to offer franchises in that venue. Pizzaco, Inc. owns and operates a Company location used for testing and demonstration purposes. References in this report to the "Company" are to Noble Roman's, Inc. and its subsidiaries, unless the context requires otherwise.

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.

A fully-prepared pizza crust that captures the made-from-scratch pizzeria flavor which gets delivered to non-traditional locations in a shelf-stable condition so that dough handling is no longer an impediment to a consistent product in non-traditional locations.

In-store fresh made crust with only specially milled flour with above average protein and yeast for use in its Craft Pizza & Pub locations, the first of which is currently under construction.

Fresh packed, uncondensed and never cooked sauce made with secret spices, parmesan cheese and vine-ripened tomatoes in all venues.

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 in non-traditional locations and vegetables will be sliced fresh on premises in the Craft Pizza & Pub locations.

An extended product line that includes breadsticks and cheesy stix with dip, pasta, baked sandwiches, salads, wings and a line of breakfast products for the non-traditional locations.

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 and as a stand-alone offering for grocery store delis. The Company offers the take-n-bake program in grocery stores under a license agreement rather than a

franchise agreement. In convenience stores, take-n-bake is an available menu offering under the existing franchise/license agreement. The Company uses the same high quality pizza ingredients for its take-n-bake pizza as with its baked 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 but only in locations that also have a Noble Roman's franchise. 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 ongoing royalty for a Tuscano's franchise is identical to that charged for a Noble Roman's Pizza franchise. The Company has a grab-n-go service system for a selected portion of the Tuscano's menu in an attempt to add sales opportunities for 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 franchising/licensing traditional and non-traditional locations:

Sales of Non-Traditional Franchises and Licenses. The Company believes it has an opportunity for increasing unit and revenue growth within its non-traditional venue, particularly with grocery store delis, convenience stores including Circle K franchise stores, travel plazas, Walmart stores 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 stand-alone traditional locations.

Sale of Traditional Franchises. The Company has developed the next generation stand-alone prototype, which features two styles of crust. First is a popular traditional hand-tossed style pizza with a thinner crust, crispy exterior and a flavorful and chewy interior. Second is the Company's signature Deep-Dish Sicilian pizza baked in real olive oil. Both crust styles feature traditional toppings plus several fun new toppings and new specialty pizzas. The menu also includes Noble Roman's famous breadsticks with spicy cheese sauce, an assortment of fun new specialty salads and four new pasta dishes, all designed to be fast, easy to prepare and delicious to eat. The new prototype utilizes new oven technology which reduces traditional pizza oven speeds to two minutes and 30 seconds. The prototype dining room will be relaxed modern decor with seating for 100 plus guests, with a glass enclosed room where all dough and breadsticks are made fresh daily in view of the customers, highlighting the hand-crafted and fresh nature of the products as well as providing entertainment for guests. The Company anticipates opening the first two locations as Company-owned and-operated locations followed by an aggressive plan to promote franchising in concentric circles from those 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 both its non-traditional and traditional locations. The Company will continue to make these advantages the focal point in its marketing process. The Company believes that the quality and freshness of its products, their cost-effectiveness, relatively simple production and service systems, and its diverse, modularized menu offerings will contribute to the Company's strategic attributes and growth potential. The menu items for the non-traditional locations were developed to be delivered in a ready-to-use format requiring only on-site assembly and baking except for take-n-bake pizza, which is sold to bake at home. The Company believes this process results in products that are great tasting, quality consistent, easy to assemble, relatively low in food cost, and require minimal labor, which allows for a significant competitive advantage in the non-traditional locations due to the speed and simplicity at which the products can be prepared, baked and served to customers.

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; and (4) live demonstrations at trade and food shows. 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 Company's proprietary ingredients are manufactured pursuant to the Company's recipes and formulas by third-party manufacturers under contracts between the Company and its various manufacturers. These contracts require the manufacturers to produce ingredients meeting the Company's specifications and to sell them to Company-approved distributors at prices negotiated between the Company and the manufacturer.

At present, the Company has primary distributors strategically located throughout the United States. The distributor agreements require the primary distributors to maintain adequate inventories of all ingredients necessary to meet the needs of the Company's franchisees and licensees in their distribution areas for weekly deliveries to the franchisee/licensee locations and to its grocery store distributors in their respective territories. Each of the primary distributors purchases the ingredients from the manufacturer at prices negotiated between the Company and the manufacturers, but under payment terms agreed upon by the manufacturer and the distributor, and distributes the ingredients to the franchisee/licensee at a price determined by the distributor agreement. Payment terms to the distributor are agreed upon between each franchisee/licensee and the respective distributor. In addition, the Company has agreements with numerous grocery store distributors located in various parts of the country which agree to buy the Company's ingredients from one of the Company's primary distributors and to distribute those ingredients only to their grocery store customers who have signed license agreements with the Company.

Franchising

The Company sells franchises for both non-traditional and traditional locations.

The initial franchise fees are as follows:

| Franchise Format | Non-Traditional, Except Hospitals | Hospitals | Traditional Stand-Alone |
|---------------------------|-----------------------------------|-----------|-------------------------|
| Noble Roman's Pizza | \$7,500 | \$10,000 | \$25,000(1) |
| Tuscano's Subs | \$6,000 | \$10,000 | - |
| Noble Roman's & Tuscano's | \$11,500 | \$18,000 | - |

(1) With the sale of multiple traditional stand-alone franchises to a single franchisee, the franchise fee for the first unit is \$25,000, the franchise fee for the second unit is \$20,000 and the franchise fee for the third unit and any additional unit is \$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 only 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 distributor agreements, the primary 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 fees in trust for the Company and to remit them to the Company within ten days after the end of each month.

Financial Summary

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

The following table sets forth the percentage relationship to total revenue of the listed items included in Noble Roman's consolidated statements of operations for the three-month and nine-month periods ended September 30, 2015 and 2016, respectively.

Edgar Filing: NOBLE ROMANS INC - Form 10-Q

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------|-----------------------|-------|----------------------|-------|
| | September 30, | | September 30, | |
| | 2015 | 2016 | 2015 | 2016 |
| Royalties and fees | 96.3% | 96.6% | 96.7% | 96.6% |
| Administrative fees and other | 1.0 | .6 | .8 | .6 |
| Restaurant revenue | 2.7 | 2.8 | 2.5 | 2.8 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 |
| Operating expenses: | | | | |
| Salaries and wages | 15.0 | 13.6 | 14.7 | 13.2 |
| Trade show expense | 7.5 | 6.1 | 6.9 | 6.7 |
| Travel expense | 3.0 | 2.8 | 2.9 | 2.7 |
| Broker commissions | - | .5 | - | .5 |
| Other operating expense | 10.6 | 9.9 | 10.3 | 10.0 |
| Restaurant expenses | 2.5 | 2.6 | 2.6 | 2.5 |
| Depreciation and amortization | 1.4 | 1.6 | 1.4 | 1.6 |
| General and administrative | 21.7 | 20.5 | 21.0 | 21.0 |
| Total expenses | 61.7 | 57.6 | 59.8 | 58.2 |
| Operating income | 38.3% | 42.4% | 40.2% | 41.8% |

Results of Operations

Total revenue increased to \$2.0 million from \$1.9 million for the three-month period ended September 30, 2016 and decreased to \$5.7 million from \$5.8 million for the nine-month period ended September 30, 2016, compared to the corresponding periods in 2015. Franchise fees and equipment commissions (“upfront fees”) decreased to \$83,000 from \$110,000 for the three-month period ended September 30, 2016 and increased to \$222,000 from \$213,000 for the nine-month period ended September 30, 2016, compared to the corresponding periods in 2015. Royalties and fees, less upfront fees, increased to \$1.9 million from \$1.7 million for the three month period ended September 30, 2016, and royalties and fees, less upfront fees, decreased to \$5.3 million from \$5.4 million for the nine-month period ended September 30, 2016, compared to the corresponding periods in 2015. Royalties and fees from non-traditional franchises other than grocery stores increased to \$1.2 million from \$1.1 million for the three-month period ended September 30, 2016 and remained approximately the same at \$3.3 million for the nine-month period ended September 30, 2016, compared to the corresponding periods in 2015. Royalties and fees from the grocery store take-n-bake increased to \$531,000 from \$486,000 and to \$1.5 million from \$1.4 million for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. Royalties and fees from stand-alone take-n-bake franchises decreased to \$65,000 from \$131,000 and to \$276,000 from \$556,000 for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. Royalties and fees from traditional locations decreased to \$60,000 from \$67,000 and to \$180,000 from \$201,000 for the three-month and nine-month periods ended September 2016, respectively, compared to the corresponding periods in 2015.

During 2014 and early 2015, the Company began auditing the reporting of sales for computing royalties by each non-traditional franchisee and is continuing to do so on an ongoing basis. The Company estimates franchise sales based on product purchases as reflected on distributor reports and, where under-reporting is identified, the Company invoices the franchisees for royalties on the unreported amount.

Restaurant revenue increased to \$56,000 from \$52,000 and to \$163,000 from \$149,000 for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. The Company currently operates one location used primarily for testing and demonstration purposes. Those increases reflected an increase in same store sales.

As a percentage of total revenue, salaries and wages decreased to 13.6% from 15.0% and to 13.2% from 14.7% for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. Salaries and wages decreased to \$276,000 from \$288,000 and to \$760,000 from \$860,00 for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. These decreases were a result of enhanced efforts to minimize costs.

As a percentage of total revenue, trade show expenses decreased to 6.1% from 7.5% and to 6.7% from 6.9% for the three-month and nine-month periods ended September 30, 2016, compared to the corresponding periods in 2015. Trade show expenses decreased to \$124,000 from \$143,000 and to \$383,000 from \$406,000 for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. These decreases were the result of enhanced efforts to minimize costs.

As a percentage of total revenue, travel expenses decreased to 2.8% from 3.0% and to 2.7% from 2.9% for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. Travel expense remained approximately the same for the three-month period ended September 30, 2016 at approximately \$57,000 and decreased to \$153,000 from \$172,000 for the nine-month period ended September 30, 2016, compared to the corresponding periods in 2015. These decreases were the result of enhanced efforts to minimize cost and by grouping openings for multiple trainings to be done on the same trip.

As a percentage of total revenue, other operating expenses decreased to 9.9% from 10.6% and to 10.0% from 10.3% for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. Other operating expenses decreased to \$200,000 from \$203,000 and to \$576,000 from \$604,000 for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015.

As a percentage of total revenue, restaurant expenses increased to 2.6% from 2.5% for the three-month period ended September 30, 2016 and decreased to 2.5% from 2.6% for nine-month period ended September 30, 2016, compared to the corresponding period in 2015. The Company currently operates one location used primarily for testing and demonstration purposes.

As a percentage of total revenue, general and administrative expenses decreased to 20.5 from 21.7% for the three-month period ended September 30, 2016 and remained at approximately 21.0% for the nine-month period ended September 30, 2016, compared to the corresponding periods in 2015. General and administrative expenses decreased to \$415,000 from \$419,000 for the three-month period ended September 30, 2016 and remained approximately the same at \$1.2 million for the nine-month period ended September 30, 2016, compared to the corresponding periods in 2015.

As a percentage of total revenue, total expenses decreased to 57.6% from 61.7% and to 58.2% from 59.8% for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015. Total expenses remained at \$1.2 million for the three-months ended September 30, 2016, compared to the comparable period in 2015, and decreased to \$3.3 million from \$3.5 million for the nine-month period ended September 30, 2016, compared the corresponding period in 2015. This evidences the Company's efforts to maintain expenses stable while it attempts to increase revenue.

As a percentage of total revenue, operating income increased to 42.4% from 38.3%, and to 41.8% from 40.2% , respectively, for the three-month and nine-month periods ended September 30, 2016, respectively, compared to the corresponding periods in 2015.

Interest expense increased to \$154,000 from \$50,000 and to \$292,000 from \$139,000, respectively, for the three-month and nine-month periods ended September 30, 2016, compared to the corresponding periods in 2015. The increase in interest expense is the result of additional borrowing and an increase in the effective interest rate.

In the second quarter ended June 30, 2016, the Company recorded a valuation allowance of \$750,659. This valuation allowance reflected the charge off of certain receivables from the operations discontinued in 2008 and was the remaining receivable from the various plaintiffs in the Heyser lawsuit which the Company won by summary judgment dismissing the Company from any liability and, after numerous appeals including an appeal to the Indiana Supreme Court by the Heyser plaintiffs, in which the summary judgment was upheld. The Company also won summary judgment on its counterclaims against the various plaintiffs and was awarded a judgment against the plaintiffs in excess of \$2 million, which included damages and attorneys' fees. The Company has been pursuing collection since that time. During the second quarter the Company made the decision that it was in its best interest to cease incurring additional legal fees and to settle its pending claims for \$350,000, which is evidenced by a promissory note secured by a mortgage on two pieces of real estate. Settling this case enables management to more efficiently apply its efforts to the business and eliminate the expense of this case which began in 2008.

Net income before income taxes from continuing operations increased to \$702,000 from \$389,000 and to \$1.3 million from \$1.2 million, respectively, for the three-month and nine-month periods ended September 30, 2016, compared to the corresponding periods in 2015. Part of the increase in the three-month period ended September 30, 2016 was a result of a \$250,000 valuation of receivables adjustment in 2015 and none in 2016. The nine-month periods ended September 30, 2016 and 2015 contained an adjustment for the valuation of receivables of \$751,000 and \$850,000, respectively. The adjustment for valuation of receivables was made because of the age of certain receivables in 2015 and in 2016 as described in Note 6 to the accompanying financial statements which was the result of the charge-off of certain receivables related to the Heyser lawsuit regarding operations that were discontinued in 2008. Although income tax expense is reflected on the Condensed Consolidated Statement of Operations, the Company will not pay any income tax on approximately the next \$22 million in net income before income taxes due to its net operating loss carry-forwards.

During the quarter ended September 30, 2016, the Company made the decision to discontinue the stand-alone take-n-bake concept and devote its efforts to its next generation stand-alone prototype, Noble Roman's Craft Pizza & Pub. As a result of that decision, the Company is charging off all assets related to those discontinued operations, including \$504,000 after-tax benefit invested in three franchised locations, partially owned by certain officers of the Company which were not involved in the management of the operations, which had been used primarily to support research and development by the Company in those three franchised locations. The Company was using those franchised locations for testing and development in an attempt to improve the stand-alone take-n-bake concept for future franchising before the Company made the decision in the third quarter to discontinue that concept. In addition, \$883,000 of the after-tax benefit reflected the charge-off of various receivables due from unrelated former franchisees of the stand-alone take-n-bake concept. This resulted in the net loss on discontinued operations \$1,426,289, net of tax benefit of \$881,902, for the three-month and nine-month periods ended September 30, 2016, respectively, compared to none in the corresponding periods in 2015. That loss also included a loss of \$39,000, after the tax benefit, for settlement of rent on a former location that was part of the discontinued operations in 2008.

After the loss on discontinued operations and after the valuation allowance for the Heyser receivable, net loss was \$992,519 and \$611,323 for the three-month and nine-month periods ended September 30, 2016, respectively, compared to a net income of \$225,760 and \$708,430 for the three-month and nine-month periods ended September 30, 2015, respectively. The losses in the current year were primarily the result of the loss on discontinued operations for the stand-alone take-n-bake venue that the Company discontinued in the third quarter of 2016 and the Company's decision to cease incurring additional legal fees and to settle its pending claims for \$350,000, which is evidenced by a promissory note secured by a mortgage on two pieces of real estate.

Liquidity and Capital Resources

The Company's strategy in recent years has been to grow its business by concentrating on franchising/licensing non-traditional locations including grocery store delis to sell take-n-bake pizza and franchising stand-alone locations. This strategy was intended to not require significant increase in expenses. The focus on franchising/licensing non-traditional locations will most certainly continue to be the Company's strategy but, in addition, over the last two years the Company has been working on a major development by re-designing and re-positioning its stand-alone franchise for the next generation stand-alone prototype called "Craft Pizza & Pub". As a result, the Company plans to open and operate two locations of the Craft Pizza & Pub and, once open, the Company plans to launch a major franchising effort based on Craft Pizza & Pub. This plan requires additional capital investment, but is not expected to change in any significant manner the operating expenses of the Company except for growth in restaurant revenue and restaurant expenses. The first Craft Pizza & Pub is now under construction and is expected to open mid-January 2017. The Company currently operates one restaurant location which it uses for testing and demonstration purposes.

The Company's current ratio was 1.35-to-1 as of September 30, 2016, compared to 2.9-to-1 as of December 31, 2015. A large portion of the Company's outstanding debt is due in the first quarter of 2017 and July 2017; therefore that debt was reclassified from long-term debt at December 31, 2015 to short-term debt at September 30, 2016.

In 2012, the Company entered into a Credit Agreement with BMO Harris Bank, N.A. (the "Bank") for a term loan in the amount of \$5.0 million which was repayable in 48 equal monthly principal installments of approximately \$104,000 plus interest with a final payment due in May, 2016. In October, 2013, the Company entered into a First Amendment to the Credit Agreement (the "First Amendment"). The First Amendment maintained the terms of the term loan except for reducing the monthly principal payments from \$104,000 to approximately \$80,700 and extending the loan's maturity to February, 2017. All other terms and conditions of the term loan remained the same including interest on the unpaid principal at a rate per annum of LIBOR plus 4%. The First Amendment also provided for a new term loan in the original amount of \$825,000 requiring monthly principal payments of approximately \$20,600 per month commencing in November, 2013 and continuing thereafter until the final payment in February, 2017. The term loan provided for interest on the unpaid principal balance to be paid monthly at a rate per annum of LIBOR plus 6.08% per annum. Proceeds from the new term loan were used to redeem the Company's Series B Preferred Stock which were earning a return to the holders of 12% per annum.

In October, 2014, the Company entered into a Second Amendment to its Credit Agreement (the "Second Amendment"). Pursuant to the Second Amendment, the Company borrowed \$700,000 in the form of a term loan repayable in 36 equal monthly installments of principal in the amount of \$19,444 plus interest on the unpaid balance of LIBOR plus 6% per annum. The terms and conditions of the Credit Agreement were otherwise unchanged. The Company used the proceeds from the loan for additional working capital and open air display coolers for grocery stores, as a result of the then recent growth in the grocery store take-n-bake venue.

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

In December 2015, the Company borrowed \$100,000 from Paul Mobley and \$75,000 from A. Scott Mobley, two officers of the Company, which are evidenced by promissory notes that were originally to mature in January 2017. In January 2016, \$25,000 of the previous borrowing from A. Scott Mobley was repaid. In February 2016, A. Scott Mobley loaned the Company another \$10,000, evidenced by a promissory note. In April 2016, the Company borrowed an additional \$150,000 from Paul Mobley, evidenced by a promissory note. Proceeds were used for working capital. In conjunction with the loan from Super G Funding, LLC ("Super G"), as described below, both Paul Mobley and A. Scott Mobley subordinated their notes to the Super G loan and agreed to extend the maturity of each to June 10, 2018. Interest on the notes are payable at the rate of 10% per annum paid quarterly in arrears and the loans are unsecured.

In January, 2016, the Company entered into a Third Amendment to its Credit Agreement (the "Third Amendment"). Pursuant to the Third Amendment, the Company consolidated its three term loans with the Bank into a new term loan of \$1,967,000 repayable in monthly payments of principal in the amount of \$54,654 plus interest on the unpaid balance of LIBOR plus 6% per annum. The new term loan matures March 31, 2017 when the remaining principal balance becomes due. In addition, the Third Amendment provided for a revolving loan in the maximum amount of \$500,000 with a maturity of March 31, 2017. In conjunction with a new loan in June 2016 from Super G Funding, LLC ("Super G"), the \$500,000 revolving loan to the Bank was repaid.

In June 2016, the Company borrowed \$2.0 million from Super G and used those funds: (i) to repay the \$500,000 revolving Bank loan and (ii) for working capital purposes. This loan is to be repaid in the total amount of \$2.7 million in regular bi-monthly payments over a two year period.

As discussed in Note 8 regarding subsequent events, on November 2, 2016 and November 8, 2016, the Company issued Notes in an aggregate principal amount of \$950,000 and Warrants to purchase up to 950,000 shares of the Company's Common Stock. The Company issued Notes and the Warrants to each of the following investors: Paul W. Mobley, the Company's Executive Chairman, Chief Financial Officer and a director of the Company; Herbst Capital Management, LLC, the principal of which is Marcel Herbst, a director of the Company; and Roger and Darla Weissenberg, Lawrence and Susan Stanton, Neal and Maria Stanton, James and Cornelia Sullivan, Robert H. Paul, Barry W. Blank, Donald Miles, Nolan and Pamela Schabacker and Cleveland Family Limited Partnership (collectively, the "Investors"). The Company may issue additional Notes and Warrants.

Interest on the Notes accrues at the annual rate of 10% and is payable quarterly in arrears. Principal of the Notes matures three years after issuance. Each holder of the Notes may convert them at any time into Common Stock of the Company at a conversion price of \$0.50 per share (subject to anti-dilution adjustment). Subject to certain limitations, upon 30 days' notice the Company may require the Notes to be converted into Common Stock if the daily average weighted trading price of the Common Stock equals or exceeds \$1.50 per share for a period of 30 consecutive trading days. The Notes provide for customary events of default.

The Warrants expire three years from the date of issuance and provide for an exercise price of \$1.00 per share of Common Stock (subject to anti-dilution adjustment). Subject to certain limitations, the Company may redeem the Warrants at a price of \$0.001 per share of Common Stock subject to the Warrant upon 30 days' notice if the daily average weighted trading price of the Common Stock equals or exceeds \$2.00 per share for a period of 30 consecutive trading days.

In connection with the issuance of the Notes and Warrants, the Company granted the Investors certain registration rights with respect to the shares of Common Stock into which the Notes are convertible and for which the Warrants are exercisable.

Divine Capital Markets LLC served as the placement agent for the offering of the Notes and Warrants (the "Placement Agent"). Pursuant to its arrangement with the Placement Agent, the Company may issue additional Notes in an aggregate principal amount of \$1,050,000 and additional Warrants to purchase up to 1,050,000 shares of the Common Stock. In consideration of the Placement Agent's services, the Company will pay the Placement Agent a fee and expense allowance equal to 10% and 3%, respectively, of the gross proceeds of the offering. The Company also has agreed to issue to the Placement Agent a Warrant to purchase up to 10% of the aggregate shares of Common Stock represented by the Investors' Warrants at an exercise price of \$1.20.

The Company intends to use the net proceeds of the Notes to fund the opening of a Noble Roman's Craft Pizza & Pub restaurant and for general working capital needs.

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 until March 31, 2017. The Company will need to refinance its bank debt as of March 31, 2017 with an expected balance at that time of \$1.2 million. Once the offering of Notes and Warrants, as described above, is complete the Company will begin efforts to refinance all of its loans except the Notes into one loan with an extended amortization schedule. The Company's cash flow projections for the next two years are primarily based on the Company's strategy of growing the non-traditional franchising/licensing venues including growth in the number of grocery store locations licensed to sell the take-n-bake pizza and operating two Craft Pizza & Pub locations, as described above, plus launching an aggressive franchising program of Craft Pizza & Pub restaurants.

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

The Financial Accounting Standards Board (the "FASB") recently issued Accounting Standards Update ("ASU") 2015-17 as part of its Simplification Initiative. The amendments eliminate the guidance in Topic 740, Income Taxes, that required an entity to separate deferred tax liabilities and assets between current and noncurrent amounts in a classified balance sheet. Rather, deferred taxes will be presented as noncurrent under the new standard. It takes effect in 2017 for public companies and early adoption is permitted.

In February 2016, the FASB issued ASU 2016-02, its leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. The new standard takes effect in 2019 for public business entities.

The Company does not believe these accounting pronouncements will have a material adverse effect on its financial condition or results of operations.

Forward-Looking Statements

The statements contained above in Management's Discussion and Analysis 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 indicated by the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment, including, but not limited to its need to refinance its indebtedness that matures in March 2017, its ability to market the Craft Pizza & Pub locations, competitive factors and pricing pressures, non-renewal of franchise agreements, shifts in market demand, general economic conditions, changes in demand for the Company's products or franchises, the impact of franchise regulation, 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" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's exposure to interest rate risk relates primarily to its variable-rate debt. As of September 30, 2016, the Company had outstanding variable interest-bearing debt in the aggregate principal amount of \$1.5 million. The Company's current bank borrowings are at a variable rate tied to LIBOR plus 6% per annum adjusted on a monthly basis. Based on its current debt structure, for each 1% increase in LIBOR the Company's interest expense could increase by approximately \$13,800 over the succeeding 12-month period.

ITEM 4. Controls and Procedures

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Company is not involved in material litigation against it.

ITEM 6. Exhibits.

(a) Exhibits: See the accompanying Exhibit Index.

SIGNATURES

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

NOBLE ROMAN'S, INC.

Date: November 14,
2016

By: /s/ Paul W. Mobley

Paul W. Mobley
Executive Chairman, Chief Financial Officer and Principal Accounting Officer
(Authorized Officer and Principal Financial Officer)

Index to Exhibits

| Exhibit No. | 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. |
| 4.2 | Warrant to purchase common stock, dated July 1, 2015, filed as Exhibit 10.11 to the Registrant's Form 10-Q filed on August 11, 2015 in 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. |

Edgar Filing: NOBLE ROMANS INC - Form 10-Q

- 10.5 Second Amendment to Credit Agreement with BMO Harris Bank, N.A. dated October 15, 2014, filed as Exhibit 10.7 to the Registrant's annual report on Form 10-K filed on March 12, 2015, is incorporated herein by reference.
- 10.6 Agreement dated April 8, 2015, by and among Noble Roman's, Inc. and the Shareholder Parties, filed as Exhibit 10.1 to Registrant's Form 8-K filed on April 8, 2015, is incorporated herein by reference.
- 10.7 Promissory Note payable to Kingsway America, Inc. dated July 1, 2015, filed as Exhibit 10.10 to the Registrant's Form 10-Q filed on August 11, 2015 is incorporated herein by reference.
- 10.8 Third Amendment to Credit Agreement with BMO Harris Bank, N.A. dated January 22, 2016, filed as Exhibit 10.11 to the Registrant's Form 10-K filed on March 14, 2016 is incorporated herein by reference.
- 10.9 Promissory Note payable to BMO Harris Bank, N.A. dated January 22, 2016, filed as Exhibit 10.12 to the Registrant's Form 10-K filed on March 14, 2016 is incorporated herein by reference.
- 10.1 Promissory Note payable to Paul Mobley dated December 21, 2015, filed as Exhibit 10.14 to the Registrant's Form 10-K filed on March 14, 2016 is incorporated herein by reference.
- 10.11 Promissory Note payable to A. Scott Mobley dated December 21, 2015, filed as Exhibit 10.15 to the Registrant's Form 10-K filed on March 14, 2016 is incorporated herein by reference.
- 10.12 Amended and Restated Promissory Note payable to Paul and Jenny Mobley dated August 10, 2016, filed as Exhibit 10.12 to the Registrant's Form 10-Q filed on August 11, 2016 is incorporated herein by reference.
- 10.13 Amended and Restated Promissory Note payable to Scott Mobley dated August 10, 2016, filed as Exhibit 10.13 to the Registrant's Form 10-Q filed on August 11, 2016 is incorporated herein by reference.

- 10.14 Subordination Letter from Paul Mobley dated June 8, 2016, filed as Exhibit 10.15 to Registrant's Form 10-Q filed on August 11, 2016 is incorporated herein by reference.
- 10.15 Subordination Letter from A. Scott Mobley dated June 8, 2016, filed as Exhibit 10.16 to Registrant's Form 10-Q filed on August 11, 2016 is incorporated hereby by reference.
- 10.16 Business Loan and Security Agreement with Super G Funding LLC dated June 10, 2016, filed as Exhibit 10.17 to the Registrant's Form 10-Q filed on August 11, 2016 is incorporated hereby by reference.
- 10.17 Debt and Lien Subordination Agreement between Super G Funding, LLC and BMO Harris Bank, N.A., filed as Exhibit 10.18 to the Registrant's Form 10-Q filed on August 11, 2016 is incorporated hereby by reference
- 21.1 Subsidiaries of the Registrant filed in the Registrant's Registration Statement on Form SB-2 (SEC File No. 33-66850) ordered effective on October 26, 1993, is incorporated herein by reference.
- 31.1 C.E.O. Certification under Rule 13a-14(a)/15d-14(a)
- 31.2 C.F.O. Certification under Rule 13a-14(a)/15d-14(a)
- 32.1 C.E.O. Certification under 18 U.S.C. Section 1350
- 32.2 C.F.O. Certification under 18 U.S.C. Section 1350
- 101 Interactive Financial Data