

Edgar Filing: NOBLE ROMANS INC - Form 10-K

NOBLE ROMANS INC
Form 10-K
March 14, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark one)

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006.
- Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the transition period from ____ to____.

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 incorporation or organization)	(I.R.S. Employer Identification No.)

One Virginia Avenue, Suite 800
Indianapolis, Indiana 46204
(Address of principal executive offices)

Registrant's telephone number: (317) 634-3377
Securities registered under Section 12(b) of the Act: None
Securities registered under Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	<input checked="" type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ----- No X -----

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the registrant's common shares on such date was \$20,093,119.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 16,742,688 shares of common stock as of March 11, 2007.

Documents Incorporated by Reference:

The following documents are incorporated by reference into this 10-K: Part III, Items 10 through 14 from Registrant's Proxy Statement to be filed within 120 days after end of fiscal 2006.

NOBLE ROMAN'S, INC.
FORM 10-K
Year Ended December 31, 2006
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PART 1

ITEM 1. BUSINESS

General Information

Noble Roman's, Inc., an Indiana corporation incorporated in 1972 (the "Company"), sells and services franchises for non-traditional and co-branded foodservice operations under the trade names "Noble Roman's Pizza" 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 for non-traditional and co-branded locations and now has awarded franchises in 45 states plus Washington, D.C., Puerto Rico, Guam, Italy and Canada. In 2005 the Company began selling franchises for its dual-branded concept in traditional locations. The Company has recently begun to sell development territories to Area Developers in an attempt to accelerate growth in the dual-branded traditional concept. Prior to focusing its efforts on franchising for non-traditional and co-branded foodservice operations, the Company had approximately 25 years' experience operating full-service pizza restaurants, giving it unique expertise in the design and support of foodservice systems for franchisees. Royalties and franchise fees from the Company's franchise operations were \$6,788,590; \$7,269,868; and \$8,084,175 for 2004, 2005 and 2006, respectively. Royalties and fees from franchise operations accounted for 85.8%, 86.2% and 85.2% of total revenue for 2004, 2005 and 2006, respectively. Other financial information about the Company's business, including revenue, profit and loss and total assets, is detailed in Item 8 - Financial Statements and Supplementary Data.

Products & Systems

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Noble Roman's Pizza

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

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

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

Tuscano's Italian Style Subs

Tuscano's Italian Style Subs is a separate restaurant 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. For the most part, the Company awards Tuscano's franchises for the same facilities as Noble Roman's Pizza franchises, although Tuscano's franchises are also available for locations that do not have a Noble Roman's Pizza franchise.

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

Business Strategy

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

Continue Focus on Sales of Non-Traditional Franchises. The Company plans to

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

Growth of our Traditional Dual-Branded Concept. In order to seek more rapid growth, the Company initiated a strategy to sell dual-branded franchises and to sell development territories to Area Developers for additional growth of its dual-branded concept of Noble Roman's/Tuscano's for stand-alone traditional locations. Area Developers have the exclusive right to develop the dual-branded traditional concept in their areas. Area Developers generally pay a development fee of \$.05 per capita in their development area and will receive 30% of the initial franchise fee and 2/7ths of the royalty from the franchise locations developed pursuant to those Development Agreements. The Company retains all training and supervision responsibilities and must approve all franchisees and all locations. In order to maintain the rights to develop the territories, each Developer has to meet the minimum development schedule stipulated in the Area Development Agreement. As of March 14, 2007, the Company has entered into eight Area Development Agreements requiring the development of 311 franchises over the next six years and 58 dual-branded franchise agreements for traditional locations, 23 of which were sold through the Area Development Agreements.

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

Competition

The restaurant industry in general is very competitive with respect to convenience, price, product quality and service. In addition, the Company competes for franchise sales on the basis of product engineering and quality, investment cost, cost of sales, distribution, simplicity of operation and labor requirements. A change in the business strategy of one or more of the Company's competitors could have an adverse effect on the Company's ability to sell additional franchises, maintain and renew existing franchises or sell its products through its franchise system. Many of the Company's competitors are very large, internationally established companies.

Within the competitive environment of the non-traditional franchise segment of the restaurant industry, management has defined what it believes to be certain competitive advantages for the Company. First, several of the Company's competitors in the non-traditional segment are also large chains operating thousands of franchised, traditional restaurants. Because of the contractual relationships with many of their franchisees, some competitors may be unable to offer wide-scale site availability for potential non-traditional franchisees. The Company is not faced with any significant geographic restrictions.

Within the competitive environment of the traditional franchise segment of the restaurant industry, management has identified what it believes to be certain

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competitive advantages for the Company. One of these advantages is that using the fully-prepared crust, developed by the Company, pizzas can be prepared and baked in less than five minutes, which the Company believes is significant especially in the delivery segment of the business.

Several of the Company's competitors in the non-traditional segment were established with little or no organizational history in owning and operating traditional foodservice locations. This lack of operating experience may be a limitation for them in attracting and maintaining non-traditional franchisees who, by the nature of the segment, often have little exposure to foodservice operations themselves. The Company's background in traditional restaurant operations has provided it experience in structuring, planning, marketing, and cost controlling franchise unit operations which may be of material benefit to franchisees.

Seasonality of Sales

Direct sales of non-traditional franchises may be affected in minor ways by certain seasonalities and holiday periods. Franchise sales to certain non-traditional venues may be slower around major holidays such as Thanksgiving and Christmas, and during the first quarter of the year. Franchise sales to other non-traditional venues show less or no seasonality. Additionally, in middle and northern climates where adverse winter weather conditions may hamper outdoor travel or activities, foodservice sales by

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franchisees may be sensitive to sudden drops in temperature or precipitation which would in turn affect Company royalties.

Employees

As of February 28, 2007, the Company employed approximately 40 persons full-time and 25 persons on a part-time, hourly basis. No employees are covered under collective bargaining agreements, and the Company believes that relations with its employees are good.

Trademarks and Service Marks

The Company owns and protects several trademarks and service marks. Many of these, including NOBLE ROMAN'S (R), Noble Roman's Pizza(R), THE BETTER PIZZA PEOPLE (R) and Tuscano's Italian Style Subs(R) are registered with the U.S. Patent and Trademark Office as well as with the corresponding agencies of certain other foreign governments. The Company believes that its trademarks and service marks have significant value and are important to its sales and marketing efforts.

Government Regulation

The Company and its franchisees are subject to various federal, state and local laws affecting the operation of our respective businesses. Each franchise location is subject to licensing and regulation by a number of governmental authorities, which include health, safety, sanitation, building and other agencies and ordinances in the state or municipality in which the facility is located. The process of obtaining and maintaining required licenses or approvals can delay or prevent the opening of a franchise location. Vendors, such as our

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third party production and distribution services, are also licensed and subject to regulation by state and local health and fire codes, and U. S. Department of Transportation regulations. The Company, its franchisees and its vendors are also subject to federal and state environmental regulations.

The Company is subject to regulation by the Federal Trade Commission ("FTC") and various state agencies pursuant to federal and state laws regulating the offer and sale of franchises. Several states also regulate aspects of the franchisor-franchisee relationship. The FTC requires us to furnish to prospective franchisees a disclosure document containing certain specified information. Some states also regulate the sale of franchises and require registration of a franchise offering circular with state authorities. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for additional federal regulation of the franchisor-franchisee relationship in certain respects. State laws often limit, among other things, the duration and scope of non-competition provisions and the ability of a franchisor to terminate or refuse to renew a franchise. Some foreign countries also have disclosure requirements and other laws regulating franchising and the franchisor-franchisee relationship, and the Company would be subject to applicable laws in each jurisdiction where it seeks to market additional franchised units.

ITEM 1A. RISK FACTORS

All phases of the Company's operations are subject to a number of uncertainties, risks and other influences, many of which are outside of its control and any one of which,

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or a combination of which, could materially affect its results of operations. Important factors that could cause actual results to differ materially from the Company's expectations are discussed below. Prospective investors should carefully consider these factors before investing in our securities. These risks and uncertainties include:

Competition from larger companies.

The Company competes for franchise sales with large national companies and numerous regional and local companies. Many of its competitors have greater financial and other resources than the Company. The restaurant industry in general is intensely competitive with respect to convenience, price, product quality and service. In addition, the Company competes for franchise sales on the basis of several factors including product engineering and quality, investment cost, cost of sales, distribution, simplicity of operation and labor requirements. A change in the business strategy of one or more of its competitors could have an adverse effect on the Company's ability to sell additional franchises or maintain and renew existing franchises or operating results of the Company's franchise system. As a result of these factors, the Company may have difficulty competing effectively from time to time or in certain markets.

Dependence on growth strategy.

A significant component of the Company's growth strategy is selling new franchises and assisting franchisees in opening new restaurants. The opening and success of new restaurants will depend upon various factors, including the franchisee's ability to find suitable sites, the ability to negotiate leases for the new restaurants on acceptable terms, the ability to comply with applicable

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regulatory requirements, the ability to meet construction schedules, the ability of the franchisees to manage their anticipated expansion and to hire and train personnel, the ability of the franchisees to obtain acceptable financing and the effect of competition and general economic and business conditions including food and labor costs. Many of the foregoing factors are not within the Company's control. There can be no assurance that the Company will be able to achieve its plans with respect to the opening of new franchise units.

Dependence on success of franchisees.

A significant portion of the Company's earnings comes from royalties generated by its franchises. Franchisees are independent operators, and their employees are not the Company's employees. The Company provides training and support to franchisees, but the quality of franchise store operations may be diminished by any number of factors beyond the Company's control. Consequently, franchisees may not successfully operate stores in a manner consistent with the Company's standards and requirements, or may not hire and train qualified managers and other store personnel. If they do not, the Company's image and reputation may suffer, and its revenues and stock price could decline. While the Company attempts to ensure that its franchisees maintain the quality of its brand and branded products, franchisees may take actions that adversely affect the value of the Company's intellectual property or reputation.

Dependence on success of area developers.

One of the Company's growth strategies is selling dual-branded franchise agreements for traditional locations and selling development territories to Area Developers to spur the growth of stand-alone traditional locations. The Company has entered into eight Area Development Agreements calling for the development of a minimum of 311 franchise units over the next six years. The Company, as of March 14, 2007, has entered into 58 dual-branded franchise agreements for traditional locations, 23 of which were sold by the Area Developers in their territories. Area Developers are independent contractors. There is no

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assurance that we will be able to add additional Area Developers or that Area Developers that entered into agreements with us will be successful in generating additional new franchises.

Dependence on consumer preferences and perceptions.

The restaurant industry is often affected by changes in consumer tastes, national, regional and local economic conditions, demographic trends, traffic patterns and the type, number and location of competing restaurants. The Company can be substantially adversely affected by publicity resulting from food quality, illness, injury, or other health concerns or operating issues stemming from one restaurant or a limited number of restaurants.

Interruptions in supply or delivery of fresh food products.

Dependence on frequent deliveries of fresh product also subjects the Company to the risks that shortages or interruptions in the supply caused by inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients. In addition, factors such as inflation, market conditions for cheese, food, paper and labor may also adversely affect the franchisees and, as a result, adversely affect the Company's ability to add new restaurants.

Dependence on a few individuals.

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The Company's business has been and will continue to be dependent upon the efforts and abilities of certain members of its management, particularly Paul Mobley, our Chairman, Chief Executive Officer and Chief Financial Officer, and A. Scott Mobley, our President and Chief Operating Officer. The loss of either of their services could have a material adverse effect on the Company.

The Company is subject to Indiana law with regard to purchases of our stock.

Certain provisions of Indiana law applicable to the Company could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. Such provisions could also limit the price that certain investors might be willing to pay in the future for shares of its common stock. These provisions include prohibitions against certain business combinations with persons that become "interested shareholders" (persons owning or controlling shares with voting power equal to 10% or more) unless the board of directors approves either the business combination or the acquisition of stock before the person becomes an "interested shareholder."

The Company and its franchisees are subject to various federal, state and local laws with regard to the operation of the businesses.

The Company is subject to regulation by the FTC and various state agencies pursuant to federal and state laws regulating the offer and sale of franchises. Several states also regulate aspects of the franchisor-franchisee relationship. The FTC requires the Company to furnish to prospective franchisees a disclosure document containing certain specified information. Some states also regulate the sale of franchises and require registration of a franchise offering circular with state authorities. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor-franchisee relationship in certain respects. The state laws often limit, among other things, the

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duration and scope of non-competition provisions and the ability of a franchisor to terminate or refuse to renew a franchise. Some foreign countries also have disclosure requirements and other laws regulating franchising and the franchisor-franchisee relationship, and the Company would be subject to applicable laws in each jurisdiction where it seeks to market additional franchise units.

Each franchise location is subject to licensing and regulation by a number of governmental authorities, which include health, safety, sanitation, building and other agencies and ordinances in the state or municipality in which the facility is located. The process of obtaining and maintaining required licenses or approvals can delay or prevent the opening of a franchise location. Vendors, such as the Company's third party production and distribution services, are also licensed and subject to regulation by state and local health and fire codes, and U. S. Department of Transportation regulations. The Company, its franchisees and its vendors are also subject to federal and state environmental regulations.

The Company's stock is quoted on the OTC Bulletin Board and, accordingly, we are not subject to the same corporate governance standards that would apply if our shares were listed on a national exchange or quoted on the Nasdaq Stock Market, which limits the liquidity and price of our securities more than if our securities were quoted or listed on the Nasdaq Stock Market or a national exchange.

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Our stock is quoted on the OTC Bulletin Board, an NASD-sponsored and operated inter-dealer automated quotation system for equity securities not included on the Nasdaq Stock Market. We are not subject to the same corporate governance requirements that apply to exchange-listed companies. These requirements include having: a majority of independent directors; an audit committee of independent directors and shareholder approval of certain equity compensation plans. As a result, quotation of our stock on the OTC Bulletin Board limits the liquidity and price of our stock more than if our stock was quoted or listed on the Nasdaq Stock Market or a national exchange. There is no assurance that the Company's stock will be continue to be authorized for quotation by the OTC Bulletin Board or any other market in the future.

Compliance with the Sarbanes-Oxley Act of 2002 will require substantial financial and management resources.

The Company will be required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 beginning with our Annual Report on Form 10-K for the year ending December 31, 2008. Section 404 requires us to evaluate and report on our system of internal controls over financial reporting, however, the Company is not currently required to have its auditor report on management's evaluation of our system of internal controls or certify its compliance with the rules related to its system of internal controls. If we fail to maintain the adequacy of our internal controls, we could be subject to various sanctions. Any inability to provide reliable financial reports could harm our business. Any failure to implement required new or improved controls, or difficulties encountered in the implementation of adequate controls over our financial processes and reporting in the future, could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The Company's headquarters are located in 8,000 square feet of leased office space in Indianapolis, Indiana. The lease for this property expires in December 2008.

The Company also leases space for the Company-owned dual-branded restaurant in Indianapolis, Indiana which is used as a demonstration and test restaurant. The lease for this property expires December 31, 2010. The Company has the option to extend the term of this lease for two additional five-year periods.

The Company leases space for operating an additional dual-branded restaurant in Indianapolis, Indiana which it intends to sell when an appropriate franchisee can be identified. The lease for this property expires December 5, 2010. The Company has the option to extend the term of this lease for two additional five-year periods. This lease also provides for the Company to assign the lease to a franchisee when it is franchised.

ITEM 3. LEGAL PROCEEDINGS

The Company, from time to time, is involved in various litigation relating to

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claims arising out of its normal business operations.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Company's common stock is included on Nasdaq "Electronic Bulletin Board" and trades under the symbol "NROM."

The following table sets forth for the periods indicated, the high and low bid prices per share of common stock as reported by Nasdaq. The quotations reflect inter-dealer prices without retail mark-up, mark-down or commissions and may not represent actual transactions.

Quarter Ended:	2005		2006	
	High	Low	High	Low
March 31	\$.95	\$.70	\$1.20	\$.91
June 30	\$.85	\$.63	\$1.42	\$.70
September 30	\$1.15	\$.71	\$3.30	\$1.35
December 31	\$1.01	\$.77	\$4.10	\$2.60

Holdings of Record

As of March 1, 2007, there were approximately 356 holders of record of the Company's common stock. This excludes persons whose shares are held of record by a bank, brokerage house or clearing agency.

Dividends

The Company has never declared or paid dividends on its common stock. The Company intends to retain earnings to fund the development and growth of its business and does not expect to pay any dividends on its common stock within the foreseeable future.

Sale of Unregistered Securities

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None.

Equity Compensation Plan Benefit Information

Information about the Company's equity compensation plan is detailed in Item 12

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ITEM 6. SELECTED FINANCIAL DATA

(In thousands except per share data)

	Year Ended December 31,			
Statement of Operations Data:	2002	2003	2004	2005
Royalties and fees	\$ 5,644	\$ 6,701	\$ 6,789	\$ 7,270
Administrative fees and other	294	199	125	72
Restaurant revenue	711	882	998	1,089
	6,649	7,782	7,912	8,431
Total revenue				
Operating expenses	2,152	2,328	2,522	2,627
Restaurant operating expenses	702	867	962	1,059
Depreciation and amortization	63	68	50	70
General and administrative	1,255	1,259	1,403	1,491
	2,477	3,260	2,975	3,184
Operating income				
Interest and other	1,254	1,047	946	817
Other income	--	--	--	2,801
	1,223	2,213	2,029	5,168
Income before income taxes from continuing operations				
Income taxes	416	752	690	1,757
	807	1,461	1,339	3,411
Net income from continuing operations				
Loss from discontinued operations	(313)	(167)	(404)	(560)
	\$ 494	\$ 1,294	\$ 935	\$ 2,851
Net income				
Cumulative preferred dividends	--	--	--	16
	\$ 494	\$ 1,294	\$ 935	\$ 2,835
Net income available to common stockholders				
Weighted average number of common shares	16,058	16,169	16,280	16,849
Net income per share from continuing operations	\$.05	\$.09	\$.08	\$.20
Loss per share from discontinued operations	(.02)	(.01)	(.02)	(.03)
	\$.03	\$.08	\$.06	\$.17
Net income per share				
Balance Sheet Data (at year end):				
Working capital	\$ 16	\$ 2,220	\$ 2,107	\$ 2,793

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Total assets	13,601	14,284	15,249	15,523
Long-term obligations, net of current portion	9,232	10,099	9,740	7,125
Stockholders' equity	\$ 1,168	\$ 2,462	\$ 4,256	\$ 6,513

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

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

On August 25, 2005, the Company consummated a Settlement Agreement with SummitBridge National Investments, LLC and related entities. As of a result of the Settlement Agreement, Noble Roman's acquired all of SummitBridge's debt and equity interests in Noble Roman's, except for 2,400,000 shares of common stock all of which SummitBridge subsequently sold to various other investors, for a purchase price of \$8,300,000. These interests consisted of a senior secured promissory note in the principal amount of \$7,700,000, interest accrued on the note of \$927,756, 3,214,748 shares of Noble Roman's common stock, \$4,929,274 stated amount of Noble Roman's no-yield preferred stock which was convertible into 1,643,092 shares of common stock, and a warrant to purchase 385,000 shares of Noble Roman's common stock with an exercise price of \$.01 per share.

Simultaneous with the closing on the Settlement Agreement, Noble Roman's obtained a new six-year term loan in the principal amount of \$9,000,000. As of March 4, 2007 this balance has been reduced to \$6,750,000. The note calls for monthly principal payments of \$125,000 plus interest at the rate of LIBOR plus 4% per annum adjusted on a monthly basis. The Company's obligations under the loan are secured by the grant of a security interest in its personal property. The Company elected to purchase a swap contract fixing the rate on 50% of the principal balance for the first two years and then \$3 million of the principal amount for the following two years at an annual interest rate of 8.83% per annum.

Financial Summary

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

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Condensed Consolidated Statement of Operations
Noble Roman's, Inc. and Subsidiaries
Years Ended December 31,

	2004		2005	
	-----		-----	
Royalties and fees	\$ 6,788,590	85.8%	\$ 7,269,868	86.2%
Administrative fees and other	124,893	1.6	72,177	.9
Restaurant revenue	998,037	12.6	1,088,783	12.9
	-----		-----	
Total revenue	7,911,520	100.0	8,430,828	100.0
Franchise related operating expenses:				
Salaries and wages	1,169,701	14.8	1,139,502	13.5
Trade show expense	405,580	5.1	474,555	5.6
Travel expense	282,302	3.6	333,617	4.0
Sales commissions	--	--	--	--
Other operating expense	664,001	8.4	678,231	8.0
Restaurant expenses	961,552	12.2	1,059,396	12.6
Depreciation	50,493	.6	69,964	.8
General and administrative	1,403,338	17.7	1,491,243	17.7
	-----		-----	
Operating income	2,974,553	37.6	3,184,320	37.8
Interest expense	946,234	12.0	817,357	9.7
Other income	--	--	2,800,830	33.2
	-----		-----	
Income before income taxes	2,028,319	25.6	5,167,793	61.3
Income taxes	689,628	8.7	1,757,051	20.8
	-----		-----	
Net income from continuing operations	\$ 1,338,691	16.9%	\$ 3,410,742	40.5%
	=====		=====	

2006 Compared with 2005

Total revenue increased from \$8.4 million in 2005 to \$9.5 million in 2006. This increase was primarily the result of an increase in royalties and fees from the addition of new franchises. Royalties and fees increased from approximately \$7.3 million in 2005 to approximately \$8.1 million in 2006. Included in royalties and fees were approximately \$700,000 in 2005 and \$963,000 in 2006 for initial franchise fees. In addition, royalties and fees included approximately \$707,000, in 2006, for the sale of Area Development Agreements. Because the Company's growth strategy is to grow its business by franchising non-traditional locations, franchising its dual-branded concept in traditional locations and to sell development territories to Area Developers for growth of its dual-branded concept, and because the number of such locations that are available for targeted growth is large, the Company believes that the initial franchise fee revenue has the potential to be greater in the future.

Restaurant revenues increased from \$1.089 million in 2005 to \$1.340 million in 2006. The Company only intends to operate one restaurant to be used for testing

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and demonstration purposes but from time to time temporarily operates others until a suitable franchisee is located.

Salaries and wages remained constant at 13.5% of revenue in 2006 compared to 2005.

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Trade show expenses decreased from 5.6% of revenue in 2005 to 4.7% of revenue in 2006. This decrease was the result of actual trade show expense slightly decreasing while revenue increased. The Company anticipates this actual dollar expense will increase slightly in 2007 and, with anticipated growth in revenue, the trade show expense, as a percentage of revenue, is anticipated to slightly decrease in 2007.

Travel expenses remained constant at 4.0% of revenue in 2006 compared to 2005. Even though the Company expects opening more locations farther away from the home office will continue, the Company anticipates that the expected additional growth in revenue for 2007 will offset the expected increase in travel so that the travel expense, as a percentage of revenue, will remain stable or slightly decrease.

Sales commission expense was .8% of revenue in 2006 and nothing in prior years. This increase was the result of hiring a sales person for the growth of traditional locations and for payment to the Area Developers for their share of franchise fee revenue. This expense is expected to increase further in 2007.

Other operating expenses decreased from 8.0% of revenue in 2005 to 7.8% of revenue in 2006. This decrease was primarily the result of actual operating expenses increasing slower than the revenue increase primarily from the growth in franchise locations. The Company anticipates that other operating expenses, as a percentage of revenue, will continue to decline as a result of anticipated additional growth in 2007 while maintaining operating expenses at approximately the same or a slight increase in the dollar amount.

Restaurant expenses increased from 12.6% of revenue in 2005 to 13.5% of revenue in 2006. This increase resulted primarily from the Company operating more restaurants on a temporary basis in 2006. The Company only intends to operate one restaurant to be used for testing and demonstration purposes on a long-term basis but from time to time temporarily operates others until a suitable franchisee is located.

General and administrative expenses decreased from 17.7% of revenue in 2005 compared to 16.3% of revenue in 2006. This decrease was a result of only a small increase in actual administrative expense compared to the growth in revenue. The Company expects that, as a percentage of revenue, general and administrative expense will continue to decline.

Operating income increased from \$3.2 million in 2005 to \$3.6 million in 2006. This was primarily the result of additional revenue from growth in the number of franchise locations while maintaining control of the operating expenses.

Interest expense decreased from 9.7% of revenue in 2005 to 8.2% of revenue in 2006. This was a result of a decrease in interest cost due to a reduction in the amount of debt outstanding and, additionally, the result of an increase in revenue.

Other income was \$2.8 million in 2005 compared to none in 2006. The \$2.8 million revenue in 2005 was a one-time gain that resulted from the Company consummating a settlement agreement with SummitBridge National Investments, LLC and related

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entities, as described above under "Introduction".

Net income from continuing operations decreased from \$3.4 million in 2005 to \$1.9 million in 2006. This decrease was the result of the other income in 2005 as described in the previous paragraph. Without the effect of the one-time gain in 2005, as previously discussed, net income from continuing operations increased from \$1.6 million in 2005 to \$1.9 million in 2006. This was primarily the result of additional revenue from growth in the number of franchise locations while maintaining control of the operating expenses.

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2005 Compared with 2004

Total revenue increased from \$7.9 million in 2004 to \$8.4 million in 2005. This increase was primarily the result of an increase in royalties and fees from the addition of new franchises. Royalties and fees increased from approximately \$6.8 million in 2004 to approximately \$7.3 million in 2005. Included in royalties and fees were approximately \$795,500 for 2004 and \$699,500 for 2005 for initial franchise fees.

Restaurant revenues increased from \$998,037 in 2004 to \$1.089 million in 2005. The Company only intends to operate one restaurant to be used for testing and demonstration purposes but from time to time temporarily operates others until a suitable franchisee is located.

Salaries and wages decreased from 14.8% of revenue in 2004 to 13.5% of revenue in 2005. This decrease was primarily the result of actual salaries and wages remaining constant while the revenue increased primarily as a result of an increase in franchise locations.

Trade show expenses increased from 5.1% of revenue in 2004 to 5.6% of revenue in 2005. This increase was primarily the result of adding additional national trade shows in different venues.

Travel expenses increased from 3.6% of revenue in 2004 to 4.0% of revenue in 2005. This increase was primarily the result of opening more locations farther away from the home office.

Other operating expenses decreased from 8.4% of revenue in 2004 to 8.0% of revenue in 2005. This decrease was primarily the result of maintaining operating expenses at approximately the same dollar amount while the revenue increased primarily from the growth in franchise locations.

Restaurant expenses increased from 12.2% of revenue in 2004 to 12.6% of revenue in 2005. This increase resulted primarily from the Company operating more restaurants on a temporary basis in 2005. The Company only intends to operate one restaurant to be used for testing and demonstration purposes but from time to time temporarily operates others until a suitable franchisee is located.

General and administrative expenses remained a constant 17.7% of revenue in 2004 and 2005. This was primarily the result of growth in administrative expense being offset by growth in revenue. The increase in administrative expenses was due in part to expenses associated with the now-settled SummitBridge litigation.

Operating income increased from \$3.0 million in 2004 to \$3.2 million in 2005. This was primarily the result of additional revenue from growth in the number of franchise locations while maintaining control of the operating expenses.

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Interest expense decreased from 12.0% of revenue in 2004 to 9.7% of revenue in 2005. This was a result of a decrease in interest cost because of the reduction in the amount of debt outstanding and, additionally, the result of an increase in revenue.

Other income was \$2.8 million in 2005 resulting from the Company consummating a settlement agreement with SummitBridge National Investments, LLC and related entities, as described above under "Introduction."

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Net income from continuing operations increased from \$1.34 million in 2004 to \$3.41 million in 2005. This increase was primarily the result of the other income described in the previous paragraph and, additionally, the increase in income from continuing operations from \$1.34 million in 2004 to \$1.56 million in 2005 as a result of the increase in operating income.

The Company recognized a net loss from discontinued operations in 2005 of \$560,153 after a tax benefit of \$387,603 and \$403,753 after a tax benefit of \$243,175 in 2004. The loss from discontinued operations was primarily the result of settling lease disputes on lease agreements related to restaurants closed in 1999 and 2000 and for legal fees related to the discontinued operations.

Impact of Inflation

The primary inflation factors affecting the Company's operations are food and labor costs to the franchisee. To date, the Company has been able to offset the effects of inflation in food costs without significantly increasing prices through effective cost control methods and greater purchasing power as a result of additional growth. The competition for labor has resulted in higher salaries and wages for the franchisees, however, that effect is largely minimized by the relatively low labor requirements of the Company's franchise concepts.

Liquidity and Capital Resources

The Company's strategy is to grow its business by continuing to franchise in non-traditional locations and by franchising in traditional locations, both by selling franchises directly by the company and through the use of Area Development Agents. This strategy does not require significant additional capital.

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

In 2005, the Company obtained a six-year term loan in the principal amount of \$9,000,000. The note calls for monthly principal payments of \$125,000 plus interest at the rate of LIBOR plus 4% per annum adjusted on a monthly basis. The Company's obligations under the loan are secured by the grant of a security interest in its personal property. The Company elected to purchase a swap contract fixing the rate on 50% of the principal balance for the first two years and then \$3 million of the principal amount for the following two years at an annual interest rate of 8.83% per annum.

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

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Contractual Obligations

	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Long-term debt	\$7,125,000	\$1,500,000	\$3,000,000	\$2,625,000	\$ --
Operating leases	563,792	210,406	281,398	71,988	--
Total	\$7,688,792	\$1,710,406	\$3,281,398	\$2,696,988	\$ --

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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 projected in the forward-looking statements due to risks and uncertainties that exist including, but not limited to, competitive factors and pricing pressures, shifts in market demand, general economic conditions, changes in demand for the Company's products or franchises, success of Area Developers, the impact of competitors' actions and changes in prices or supplies of food ingredients and labor as well as the factors discussed above under "Risk Factors." 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheets
Noble Roman's, Inc. and Subsidiaries

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Assets	Decem ----- 2005 -----
Current assets:	
Cash	\$ 740,940
Accounts and notes receivable (net of allowances of \$122,262 in 2005 and \$136,462 in 2006)	1,299,942
Inventories	221,712
Assets held for resale	461,709
Prepaid expenses	301,661
Current portion of long-term notes receivable	173,498
Deferred tax asset - current portion	1,478,175

Total current assets	4,677,637

Property and equipment:	
Equipment	1,150,718
Leasehold improvements	105,503

	1,256,221
Less accumulated depreciation and amortization	565,102

Net property and equipment	691,119

Deferred tax asset (net of current portion)	7,782,360
Other assets including long-term portion of notes receivable	2,371,774

Total assets	\$ 15,522,890
	=====
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued expenses	\$ 384,928
Current portion of long-term note payable	1,500,000

Total current liabilities	1,884,928

Long-term obligations:	
Note payable to bank (net of current portion)	7,125,000

Total long-term liabilities	7,125,000

Stockholders' equity:	
Common stock - no par value (25,000,000 shares authorized, 16,322,136 issued and outstanding at December 31, 2005 and 16,602,601 outstanding as of December 31, 2006)	21,021,632
Preferred stock (5,000,000 shares authorized and 51,000 issued and outstanding as of December 31, 2005 and December 31, 2006)	1,978,800
Accumulated deficit	(16,487,470)

Total stockholders' equity	6,512,962

Total liabilities and stockholders' equity	\$ 15,522,890
	=====

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations
Noble Roman's, Inc. and Subsidiaries

	Year Ended December 31,		
	2004	2005	2006
Royalties and fees	\$ 6,788,590	\$ 7,269,868	\$ 8,084,633
Administrative fees and other	124,893	72,177	63,000
Restaurant revenue	998,037	1,088,783	1,339,000
Total revenue	7,911,520	8,430,828	9,486,633
Operating expenses:			
Salaries and wages	1,169,701	1,139,502	1,278,000
Trade show expense	405,580	474,555	447,000
Travel expense	282,302	333,617	380,000
Sales commissions	--	--	72,000
Other operating expenses	664,001	678,231	742,000
Restaurant expenses	961,552	1,059,396	1,283,000
Depreciation and amortization	50,493	69,964	84,000
General and administrative	1,403,338	1,491,243	1,550,000
Operating income	2,974,553	3,184,320	3,647,633
Interest and other expense	946,234	817,357	776,000
Other income	--	2,800,830	--
Income before income taxes from continuing operations	2,028,319	5,167,793	2,871,633
Income tax expense	689,628	1,757,051	976,000
Net income from continuing operations	1,338,691	3,410,742	1,895,633
Loss from discontinued operations net of tax benefit of \$243,175 and \$387,603 for the years 2004 and 2005, respectively	(403,753)	(560,153)	--
Net income	934,938	2,850,589	1,895,633
Cumulative preferred dividends	--	16,096	163,000
Net income available to common stockholders	\$ 934,938	\$ 2,834,493	\$ 1,732,633
Earnings per share - basic:			
Net income from continuing operations	\$.08	\$.20	\$.16
Net income	.06	.17	.13
Weighted average number of common shares outstanding	16,280,171	16,848,932	16,405,000
Diluted earnings per share:			
Net income from continuing operations	\$.08	\$.20	\$.16
Net income	.06	.16	.12
Weighted average number of common shares outstanding	16,888,236	17,406,367	18,796,000

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in
Stockholders' Equity
Noble Roman's, Inc. and Subsidiaries

	Preferred Stock -----	Common Stock		Accumula Defici -----
		Shares -----	Amount -----	
Balance at December 31, 2003	4,929,274	16,277,824	17,789,452	(20,256,
2004 net income				934,
Conversion of participating income notes to common stock	-----	859,060	859,060	-----
Balance at December 31, 2004	4,929,274	17,136,884	18,648,512	(19,321,
2005 net income				2,850,
Cumulative preferred dividends				(16,
Conversion of long-term subordinated debentures to preferred stock less issuance cost	1,978,800			
Conversion of preferred stock to common stock	(4,929,274)	1,643,092	4,929,274	
Purchase of SummitBridge shares	-----	(2,457,840)	(2,556,154)	-----
Balance at December 31, 2005	1,978,800	16,322,136	21,021,632	(16,487,
2006 net income				1,895,
Cumulative preferred dividends				(163,
Exercise of employee stock options		46,250	67,807	
Amortization of value of employee stock options			11,077	
Exercise of warrants from previous debt holders	-----	234,275	292,844	-----

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Balance at December 31, 2006	\$ 1,978,800	16,602,661	\$ 21,393,360	\$(14,755,000)
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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

	Year ended December 31	
	2004	2005
	----	----
OPERATING ACTIVITIES		
Net income	\$ 934,938	\$ 2,850,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	137,172	134,403
Interest accrued not paid	--	354,533
Non-cash gain from purchase of SummitBridge's interest	--	(2,800,830)
Deferred income taxes	446,453	1,449,303
Loss from discontinued segment	646,927	560,153
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts and notes receivable	(379,616)	(308,559)
Inventories	57,835	(34,868)
Assets held for resale	--	(449,564)
Prepaid expenses	(65,745)	163,985
Other assets	(42,861)	21,397
Increase (decrease) in:		
Accounts payable	277,962	(253,187)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,013,065	1,687,355
	-----	-----
INVESTING ACTIVITIES		
Purchase of property and equipment	(125,851)	(98,402)
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(125,851)	(98,402)
	-----	-----
FINANCING ACTIVITIES		
Payment of obligations from discontinued operations	(1,771,718)	(1,190,795)
Payment of cumulative preferred dividends	--	(16,096)
Asset sold for note receivable	(75,000)	--
Payment of principal on outstanding debt	(165,840)	(375,000)
Payment received on long-term notes receivable	147,923	235,201
Purchase of all of SummitBridge's interest in the company except 2.4 million shares of common stock	--	(8,300,000)
Issuance cost of the new preferred stock	--	(61,200)
Proceeds from issuance of long-term debt, net of debt issue costs	--	8,599,852
Proceeds from the exercise of stock options and warrants	--	--
	-----	-----
NET CASH USED BY FINANCING ACTIVITIES	(1,864,635)	(1,108,038)
	-----	-----

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Increase in cash	22,579	480,915
Cash at beginning of year	237,446	260,025
	-----	-----
Cash at end of year	\$ 260,025	\$ 740,940
	=====	=====

Supplemental Schedule of Non-Cash Investing and Financing Activities:

The holders of \$2,040,000 aggregate principal amount of subordinated debentures on August 25, 2005 exchanged their subordinated debentures for preferred stock with an aggregate liquidation value of \$2,040,000.

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements Noble Roman's, Inc. and Subsidiaries

Note 1: Summary of Significant Accounting Policies

Organization: The Company sells and services franchises for non-traditional and co-branded foodservice operations under the trade names "Noble Roman's Pizza" and "Tuscano's Italian Style Subs."

Principles of Consolidation: The consolidated financial statements include the accounts of Noble Roman's, Inc. and its subsidiaries, Pizzaco, Inc. and N.R. Realty, Inc. (collectively, the "Company"). Inter-company balances and transactions have been eliminated in consolidation.

Inventories: Inventories consist of food, beverage, restaurant supplies, restaurant equipment and marketing materials and are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment: Equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives ranging from 10 years to 12 years. Leasehold improvements are amortized over the shorter of estimated useful life or the term of the lease.

Cash and Cash Equivalents: Includes actual cash balance plus cash invested overnight pursuant to agreement with bank. Neither the cash or cash equivalents are pledged nor are there any withdrawal restrictions.

Advertising Costs: The Company records advertising costs consistent with Statement of Position 93-7 "Reporting on Advertising Costs." This statement requires the Company to expense advertising production costs the first time the production material is used.

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

Use of Estimates: The preparation of the consolidated financial statements in conformity with United States 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

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could differ from those estimates. The Company records a valuation allowance in a sufficient amount to adjust the total Notes and accounts receivables value, in its best judgment, to reflect the amount that the Company estimates will be collected from its total receivables. As any accounts are determined to be uncollectible, they are charged off against the valuation allowance. The Company evaluates its assets held for resale, property and equipment and related costs periodically to assess whether any impairment indications are present, including recurring operating losses and significant adverse changes in legal factors or business climate that affect the recovery of recorded value. If any impairment of an individual asset is evident, a loss would be provided to reduce the carrying value to its estimated fair value. As of December 31, 2006, the Company had Notes receivables totaling \$502,164 bearing interest of 8% per annum which are collected monthly in installments. In general, the Notes mature in August 2008 and 2009. The principal amounts to be collected are approximately \$187,895 in 2007, \$193,913 in 2008 and \$120,356 in 2009.

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Intangible Assets: Debt issue costs are amortized to interest expense ratably over the term of the applicable debt. The debt issue cost being amortized is \$402,691 with accumulated amortization at December 31, 2005 of \$22,372 and December 31, 2006 of \$89,487.

Royalties, Administrative and Franchise Fees: Royalties are recognized as income monthly and are based on a percentage of monthly sales of franchised restaurants. Administrative fees are recognized as income monthly as earned. Initial franchise fees are recognized as income when the majority of services for the franchised restaurant are completed.

Income Taxes: The Company provides for current and deferred income tax liabilities and assets utilizing an asset and liability approach along with a valuation allowance as appropriate. The Company concluded that its valuation allowance was adequate at December 31, 2005 and 2006 because it is more likely than not that the Company will earn sufficient income before the expiration of its net operating loss carry forwards to fully realize the value of the recorded deferred tax asset. As of December 31, 2006, the net operating loss carry-forward was approximately \$24.6 million which expires between the years 2011 and 2016. Management made the determination that the valuation allowance was adequate after reviewing the Company's business plans, all known facts to date, recent trends, current performance and analysis of the backlog of franchises sold but not yet open.

Basic and Diluted Net Income Per Share: Net income per share is based on the weighted average number of common shares outstanding during the respective year. When dilutive, stock options and warrants are included as share equivalents using the treasury stock method.

Note 2: Notes Payable

On August 25, 2005, the Company consummated a Settlement Agreement with SummitBridge National Investments, LLC and related entities. As of a result of the Settlement Agreement, Noble Roman's acquired all of SummitBridge's debt and equity interests in Noble Roman's, except for 2,400,000 shares of common stock, for a purchase price of \$8,300,000. These interests consisted of a senior secured promissory note in the principal amount of \$7,700,000, interest accrued on the note of \$927,756, 3,214,748 shares of Noble Roman's common stock, \$4,929,274 stated amount of Noble Roman's no-yield preferred stock which was convertible into 1,643,092 shares of common stock, and a warrant to purchase 385,000 shares of Noble Roman's common stock with an exercise price of \$.01 per share.

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Simultaneous with the closing on the Settlement Agreement, Noble Roman's obtained a new six-year term loan in the principal amount of \$9,000,000, with an unpaid balance as of December 31, 2006 of \$7,125,000. Interest paid on this Note was \$721,930 in 2006 and \$426,154 in 2005. The new note calls for monthly principal payments of \$125,000 plus interest at the rate of LIBOR plus 4% per annum adjusted on a monthly basis. The principal amounts of Note maturity are \$1.5 million in 2007, \$1.5 million in 2008, \$1.5 million in 2009, \$1.5 million 2010 and \$1.125 million in 2011. The Company's obligations under the loan are secured by the grant of a security interest in its personal property and certain restrictions apply such as prohibiting the payment of dividends, all as defined in the loan agreement. The Company elected to purchase a swap contract fixing the rate on 50% of the principal balance for the first two years and then \$3 million of the principal amount for the following two years at an annual interest rate of 8.83% per annum. The cumulative difference between interest from the swap contract compared to interest expense on the term loan was an immaterial amount for the periods ended December 31, 2005 and 2006.

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Simultaneous with the closing under the Settlement Agreement and the new term loan, the previous holders of the Company's subordinated debentures, in the principal amount of \$2,040,000, which bore interest at the rate of 8% per annum which was payable quarterly and which were to mature December 31, 2006, accepted an offer from the Company to convert their subordinated debentures to convertible preferred stock with an aggregate liquidation value of \$2,040,000. The convertible preferred stock provides for cumulative dividends of 8% per annum on the liquidation value of the convertible preferred stock. The preferred stock is convertible after December 31, 2006 into Noble Roman's common stock at a conversion price of \$2.25 per share. At any time after December 31, 2008, the Company shall have the right, but not the obligation, to redeem all preferred shares for a purchase price equal to the liquidation value.

Note 3: Royalties and Fees

Approximately \$795,500, \$700,000 and \$963,000 are included in the 2004, 2005 and 2006 royalties and fees in Consolidated Statement of Operations for initial franchise fees. In addition, approximately \$707,000 is included in the 2006 royalties and fees in Consolidated Statement of Operations for the sale of Area Development Agreements. Because the Company's growth strategy is to grow its business by franchising non-traditional locations, franchising its dual-branded concept in traditional locations and to sell development territories to Area Developers for growth of its dual-branded concept, and because the number of such locations that are available for targeted growth is large, the Company believes that the initial franchise fee revenue has the potential to be greater in the future. Most of the cost for the services required to be performed by the Company are incurred prior to the franchise fee income being recorded which is based on contractual liability for the franchisee. For the most part, the Company's ongoing royalty income is paid electronically by the Company initiating a draft on the franchisee's account by electronic withdrawal. As such, the Company has no material amount of past due royalties.

In conjunction with the development of Noble Roman's Pizza and Tuscano's Italian Style Subs, the Company has devised its own recipes for many of the ingredients that go into the making of its products ("Proprietary Products"). The Company contracts with various manufacturers to manufacture its Proprietary Products in accordance with the Company's recipes and formulas and to sell those products to authorized distributors at a contract price which includes an allowance for use of the Company's recipes. The manufacturing contracts also require the manufacturers to remit those allowances to the Company on a periodic basis, usually monthly. The Company recognizes those allowances in revenue as earned

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based on sales reports from the distributors.

Note 4: Contingent Liabilities for Leased Facilities

The Company formerly leased its restaurant facilities under non-cancelable lease agreements which generally had initial terms ranging from five to 20 years with extended renewal terms. All of these leases have been terminated or assigned to franchisees who operate them pursuant to a Noble Roman's, Inc. Franchise Agreement. The assignment passes all liability for future lease payments to the assignees, however, the Company remains contingently liable on a portion of the leases to the landlords in the event of default by the assignees. The leases generally required the Company or its assignees to pay all real estate taxes, insurance and maintenance costs. The leases provided for a specified annual rental, and some leases called for additional rental based on sales volume over specified levels at that particular location. At December 31, 2006, contingent obligations under non-cancelable operating leases for 2007, 2008, 2009, 2010, 2011 and after 2011 were approximately \$171,528, \$169,983, \$107,688, \$107,688, \$107,688 and \$352,630, respectively.

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The Company has future obligations under current operating leases of \$563,792 as follows: due in less than one year \$210,406, due in years one through three \$281,398 and due in three to five years \$71,988.

Note 5: Income Taxes:

The Company had a deferred tax asset, as a result of prior operating losses, of \$9,260,535 at December 31, 2005 and \$10,272,119 at December 31, 2006, most of which expires between the years 2012 and 2016. In 2004, 2005 and 2006, the Company used deferred benefits to offset its tax expense of \$689,628, \$1,757,051 and \$976,432, respectively, and tax benefits from loss on discontinued operations of \$243,175 and \$387,603 for 2004 and 2005, respectively. After review, based on time period of the tax carry-forward and current operating results, the Company reduced its valuation allowance by approximately \$1,471,000 to \$200,000 against the deferred tax asset as of December 31, 2006. The valuation allowance reduction is reflected in the discontinued operations. At December 31, 2006, the Company had a Federal tax credit of \$8.4 million, a State tax credit of \$2.1 million less a valuation allowance of \$.2 million for net tax credit carrying value of \$10.3 million. As a result of the tax credits, the Company did not pay any income taxes for the years 2004, 2005 and 2006. There are no material differences between reported income tax expense and the income tax expense that would result from applying the Federal Statutory Tax rates.

Note 6: Common Stock

During 2004, the holders of participating income notes exercised their option to convert those notes to 859,060 shares of common stock.

During 2005, the Company purchased all of the common stock owned by SummitBridge National Investments, LLC except for 2,400,000 shares after the conversion of its preferred stock with a stated value of \$4,929,274 to common stock at the conversion price of \$3.00 per share.

During 2006, certain warrant holders exercised their warrants to purchase 234,275 shares of common stock and various employees exercised stock options for 45,250 shares of common stock.

At December 31, 2006, the Company had outstanding warrants to purchase common stock as follows:

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# Common Shares Represented	Exercise Price	Warrant Expiration Date
1,000,000	\$.40	12/31/2007
1,000,000	\$.93	12/31/2007
169,725	\$ 1.25	1/15/2008
100,000	\$.75	6/2/2009
1,000,000	\$.93	1/7/2010
50,000	\$.95	9/26/2010
600,000	\$.93	1/24/2011

The Company has an incentive stock option plan for key employees and officers. The options are generally exercisable three years after the date of grant and expire ten years after the date of grant. The option prices are the fair market value of the stock at the date of grant. Options granted and remaining outstanding at December 31, 2006 are: 40,000 common shares at \$1.00 per share, 5,500 common shares at \$1.385 per share, 23,500 common shares at \$1.46 per share, 47,500 common shares at \$1.45 per share,

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65,000 common shares at \$.55 per share, 10,000 common shares at \$.89 per share, 61,000 common shares at \$.83 per share, 20,000 common shares at \$1.10 per share, 15,000 common shares at \$.88 per share and 64,000 common shares at \$2.30 per share. As of December 31, 2006, options for 191,500 shares are exercisable.

The Series B Preferred Stock with a liquidation value of \$2,040,000 is convertible, after December 31, 2006, at the option of the holder to common stock at a conversion price of \$2.25 per share. The Company, at its option, may redeem the preferred stock after December 31, 2008 at the liquidation value.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R (revised 2004), "Share-Based Payments" (SFAS 123R). SFAS 123R requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements based on the estimated fair value of the awards. The Company adopted SFAS 123R effective for periods beginning January 1, 2006. For periods prior to 2006, the Company accounted for stock-based compensation using the intrinsic method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations (APB 25). Accordingly, \$11,077 of compensation cost for stock options has been recognized in 2006 for the options granted in 2006.

Note 7: Statement of Financial Accounting Standards

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

Note 8: Loss from Discontinued Operations

Pursuant to the Company's strategic decision in 1999 to refocus its business on its non-traditional and co-branding franchising opportunities, the Company closed or franchised all of its formerly owned full-service restaurants. A loss on these discontinued operations was recognized as follows: an expense of \$403,753 after a tax benefit of \$243,175 in 2004, an expense of \$560,153 after a tax benefit of \$387,603 in 2005, and none in 2006. The loss from discontinued operations is primarily the result of settling lease disputes on lease agreements related to restaurants closed in 1999 and 2000 and for legal fees related to the discontinued operations.

Note 9: Contingencies

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

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

All phases of the Company's operations are subject to a number of uncertainties, risks and other influences, many of which are outside of its control and any one of which, or a combination of which, could materially affect its results of operations. These risks and uncertainties include competition from larger companies, dependence on growth strategy, dependence on success of franchisees, dependence on success of Area Developers, dependence on consumer preferences and perceptions, interruption of supply or delivery of fresh food products and dependence on a few individuals.

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Note 10: Certain Relationships and Related Transactions

The following is a summary of transactions to which the Company and certain officers and directors of the Company are a party or have a financial interest. The Board of Directors of the Company has adopted a policy that all transactions between the Company and its officers, directors, principal shareholders and other affiliates must be approved by a majority of the Company's disinterested directors, and be conducted on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

Douglas Coape-Arnold was paid \$60,000 in consulting fees and \$4,680 of interest on Participating Income Notes in 2004, \$72,000 in consulting fees and \$2,800 of interest on Participating Income Notes in 2005, and \$79,200 in consulting fees in 2006.

Geovest Capital Partners, LP, whose managing partner is Douglas Coape-Arnold, was paid \$150,728 in interest in participating income notes in 2004 and \$77,379 in 2005.

On August 25, 2005, the Company consummated a Settlement Agreement with SummitBridge. As a result of the Settlement Agreement, Noble Roman's acquired all of SummitBridge's debt and equity interests in Noble Roman's, except for 2,400,000 shares of common stock, for a purchase price of \$8,300,000. These interests consisted of a senior secured promissory note in the principal amount of \$7,700,000, interest accrued on the note of \$927,756, 3,214,748 shares of Noble Roman's common stock, \$4,929,274 stated amount of Noble Roman's no-yield preferred stock which was convertible into 1,643,092 shares of common stock, and a warrant to purchase 385,000 shares of Noble Roman's common stock with an exercise price of \$.01 per share.

Note 11: Unaudited Quarterly Financial Information

	Quarter Ended			
2006	December 31	September 30	June 30	March 31
	(in thousands, except per share data)			
Total revenue	\$2,503	\$2,372	\$2,316	\$2,296
Operating income	1,047	933	858	810
Income before income taxes	861	738	660	613
Net income	567	487	436	405

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Net income per common share				
Basic	.04	.03	.03	.02
Diluted	.03	.03	.03	.02

	Quarter Ended			
2005	December 31	September 30	June 30	March 31
-----	-----	-----	-----	-----
	(in thousands, except per share data)			
Total revenue	\$2,114	\$2,105	\$2,161	\$2,051
Operating income	781	796	831	776
Income before income taxes from continuing operations	578	3,390	627	573
Net income from continuing operations	382	2,237	414	378
Net income	450	1,912	111	378
Net income per common share from continuing operations				
Basic	.03	.13	.02	.02
Diluted	.03	.13	.02	.02
Net income per share				
Basic	.02	.11	.01	.02
Diluted	.01	.11	.01	.02

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Noble Roman's, Inc.
Indianapolis, Indiana

We have audited the accompanying consolidated balance sheet of Noble Roman's, Inc. and subsidiaries as of December 31, 2006 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Noble Roman's, Inc. and Subsidiaries at December 31, 2006, and the results of its

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operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Somerset CPAs, P.C.

Indianapolis, Indiana
March 14, 2007

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To the Board of Directors and
Stockholders of Noble Roman's, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Noble Roman's, Inc. and subsidiaries as of December 31, 2005 and the related consolidated statements of operations, cash flows and changes in stockholders' equity(deficit) for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Noble Roman's, Inc. and subsidiaries at December 31, 2005, and the results of their operations, and their cash flows for the years ended December 31, 2005 and 2004 in conformity with accounting principles generally accepted in the United States.

/s/ Larry E. Nunn & Associates, LLC

Columbus, Indiana
March 13, 2007

As updated from original issue date of March 22, 2006

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has used Larry E. Nunn & Associates, LLC as its independent auditors since 1999. Larry E. Nunn & Associates, LLC chose not to be reappointed as auditors for the Company for the year ended December 31, 2006 since their firm chose to discontinue doing any audit assignments for Securities and Exchange Commission reporting companies. There have been no disagreements with the auditors.

ITEM 9A. CONTROLS AND PROCEDURES

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to the information included in the Registrant's Proxy Statement which the Company will file with the S.E.C. within 120 days after the end of fiscal year 2006.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information included in the Registrant's Proxy Statement which the Company will file with the S.E.C. within 120 days after the end of fiscal year 2006.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to the information included in the Registrant's Proxy Statement which the Company will file with the S.E.C. within 120 days after the end of fiscal year 2006.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the information included in the Registrant's Proxy Statement which the Company will file with the S.E.C. within 120 days after the end of fiscal year 2006.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the information included in the Registrant's Proxy Statement which the Company will file with the S.E.C. within 120 days after the end of fiscal year 2006.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements of Noble Roman's, Inc. and subsidiaries are included in Item 8:	Page

Consolidated Balance Sheets - December 31, 2005 and 2006	20
Consolidated Statements of Operations - years ended December 31, 2004, 2005 and 2006	21
Consolidated Statements of Changes in Stockholders' Equity - years ended December 31, 2004, 2005 and 2006	22
Consolidated Statements of Cash Flows - years ended December 31, 2004, 2005 and 2006	23
Notes to Consolidated Financial Statements	24
Report of Independent Registered Accounting Firm. - Somerset CPAs, P.C.	30
Report of Independent Registered Accounting Firm - Larry E. Nunn & Associates, LLC	31
Exhibits	
Exhibit Number	Description

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

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incorporated herein by reference.

- 10.4 Noble Roman's, Inc. Form of Stock Option Agreement filed with the Registrant's Form S-8 filed November 29, 1994 (SEC File No. 33-86804), is incorporated herein by reference.
- 10.5 Settlement Agreement with SummitBridge dated August 1, 2005, filed as Exhibit 99.2 to the Registrant's current report on Form 8-K filed August 5, 2005, is incorporated herein by reference.
- 10.6 Loan Agreement with Wells Fargo Bank, N.A. dated August 25, 2005 filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed August 29, 2005, is incorporated herein by reference.
- 10.7 Registration Rights Agreement dated August 1, 2005 between the Company and SummitBridge National Investments filed as an Exhibit to the Registrant's Form S-1 filed on April 19, 2006, is incorporated herein by reference.
- 21.1 Subsidiaries of the Registrant filed in the Registrant's Registration Statement on Form SB-2 (SEC File No. 33-66850) ordered effective on October 26, 1993, is incorporated herein by reference.
- 31.1 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

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SIGNATURES

In accordance with of Section 13 or 15(d) 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: March 14, 2007

By: /s/ Paul W. Mobley

Paul W. Mobley, Chief Executive Officer and
Chief Financial Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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Date: March 14, 2007

/s/ Paul W. Mobley

Paul W. Mobley
Chairman of the Board and Director

Date: March 14, 2007

/s/ A. Scott Mobley

A. Scott Mobley
President and Director

Date: March 14, 2007

/s/ Douglas H. Coape-Arnold

Douglas H. Coape-Arnold
Director