FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

SPICY PICKLE FRANCHISING INC
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

000-53000
(Commission file number)

SPICY PICKLE FRANCHISING, INC.
(Exact name of registrant as specified in its charter)

Colorado (State or other jurisdiction of incorporation or organization)	**38-3750924** (IRS Employer Identification No.)
90 Madison Street, Suite 700, Denver, Colorado (Address of principal executive offices)	**80206** (Zip Code)

(303) 297-1902
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 [x] 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [x] 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	☯☒☸

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

Yes [ ] No [x]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 11, 2011 there were 87,813,024 shares of common stock outstanding.

Spicy Pickle Franchising, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 168,119	$ 247,349
Accounts receivable	114,900	241,812
Other short-term receivables	84,139	233,791
Inventory	57,351	30,977
Prepaid expenses and other current assets	74,188	39,092
Total current assets	498,697	793,021
Property and equipment, net of accumulated depreciation	1,286,092	1,328,492
Other assets:		
Deposits and other assets	47,901	50,091
Other long-term receivables	271,962	-
Goodwill	1,369,625	1,517,325
Other intangible assets, net of amortization	786,624	950,856
Total other assets	2,476,112	2,518,272
Total assets	$ 4,260,901	$ 4,639,785
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 567,979	$ 481,637
Accrued expenses and compensation	569,824	277,597
Current portion of long-term debt	115,790	122,500
Deferred franchise revenue	91,000	142,000
Dividends accrued	68,521	68,521
Total current liabilities	1,413,114	1,092,255
Notes payable to related parties	3,879,853	2,225,837
Long-term debt, net of current portion	373,065	317,500
Deferred rent expense	105,360	150,634
Other long-term liabilities	210,123	-
Total long-term liabilities	4,568,401	2,693,971
Equity		
Spicy Pickle Franchising Inc. stockholders' equity (deficit)		
Preferred stock, $.001 par value, 20,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $.001 par value, 200,000,000 shares authorized, 86,819,274 and 85,494,274 shares issued and outstanding in 2011 and 2010, respectively	86,819	85,494
Additional paid in capital	17,474,070	17,358,757
Fair value of common stock warrants	628,010	628,010
Accumulated (deficit)	(19,905,161)	(17,260,802)
Accumulated comprehensive (loss)	(4,352)	(9,855)
Total Spicy Pickle Franchising, Inc. stockholders' equity (deficit)	(1,720,614)	801,604
Non-controlling interest	-	51,955
Total equity	(1,720,614)	853,559
Total liabilities and stockholders' equity (deficit)	$ 4,260,901	$ 4,639,785

See the accompanying notes to the consolidated financial statements

Spicy Pickle Franchising, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
For The Three Months and Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
Restaurant and bakery sales	$ 604,788	$ 645,256	$ 1,725,487	$ 1,938,016
Franchise fees, royalties, and rebates	408,314	496,176	1,087,061	1,409,716
Total revenues	1,013,102	1,141,432	2,812,548	3,347,732
Operating costs and expenses:				
Restaurant and bakery:				
Cost of sales	243,124	243,627	682,241	714,185
Labor	206,136	255,383	633,800	745,251
Occupancy	174,526	107,279	420,304	334,903
Depreciation	41,049	65,674	154,874	220,246
Other operating costs	109,923	89,815	269,290	296,399
Total restaurant and bakery operating costs	774,758	761,778	2,160,509	2,310,984
Franchise and general:				
General and administrative	766,981	1,051,705	2,641,552	2,594,068
Depreciation and amortization	27,274	85,047	204,974	140,410
Total franchise and general	794,255	1,136,752	2,846,526	2,734,478
Total operating costs and expenses	1,569,013	1,898,530	5,007,035	5,045,462
(Loss) from operations	(555,911)	(757,098)	(2,194,487)	(1,697,730)
Other income (expense):				
Interest income (expense)	(100,229)	(45,331)	(239,618)	(135,091)
Gain (loss) on disposal of assets	(28,329)	-	(223,706)	-
Other income (expense)	13,452	-	13,452	-
Total other income (expense):	(115,106)	(45,331)	(449,872)	(135,091)
Net (loss) attributable to common shareholders	(671,017)	(802,429)	(2,644,359)	(1,832,821)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(43)	(8,187)	5,503	(18,842)
Comprehensive (loss)	$ (671,060)	$ (810,616)	$ (2,638,856)	$ (1,851,663)
Per share information - basic and fully diluted:				
Weighted average shares outstanding	86,682,453	84,494,274	86,052,424	83,160,941
Net (loss) per share	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)

See accompanying notes to condensed consolidated financial statements

Spicy Pickle Franchising, Inc.
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	2011	2010
Net cash (used in) operating activities	$ (1,382,830)	$ (1,260,077)
Cash flows from investing activities:		
Purchase of property and equipment	(402,306)	(31,502)
Proceeds from the sale of assets	28,400	-
Net cash (used in) provided by investing activities	(373,906)	(31,502)
Cash flows from financing activities:		
Proceeds from note payable to related parties	1,625,000	1,000,000
Proceeds from long-term debt	398,855	-
Repayment of notes payable	(350,000)	(57,000)
Net cash provided by financing activities	1,673,855	943,000
Effect of foreign exchange rate changes	3,651	(18,842)
Net (decrease) in cash and cash equivalents	(79,230)	(367,421)
Cash and cash equivalents, beginning of period	247,349	809,790
Cash and cash equivalents, end of period	$ 168,119	$ 442,369
Supplemental cash flow information:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 37,584	$ 33,192

See the accompanying notes to the consolidated financial statements

Spicy Pickle Franchising, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation of Interim Period

Throughout this report, the terms “our,” “we,” “us,” and “Company” refer to Spicy Pickle Franchising, Inc. including its subsidiaries. The accompanying unaudited financial statements of Spicy Pickle Franchising, Inc. at September 30, 2011 and 2010 have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial statements, instructions to Form 10-Q, and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2010. In management's opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation to make our financial statements not misleading have been included. The results of operations for the periods ended September 30, 2011 and 2010 presented are not necessarily indicative of the results to be expected for the full year. The December 31, 2010 balance sheet has been derived from our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2010.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Recent Pronouncements
We have reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

2. Per Share Information

Earnings per share are based on the weighted average number of shares outstanding during the period after consideration of the dilutive effect, if any, for common stock equivalents, including stock options, restricted stock, and other stock-based compensation. Earnings per common share are computed in accordance with ASC Topic 260, *Earnings Per Share* which requires companies to present basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding and dilutive securities outstanding during the year. We had a net loss for the nine month periods ended September 30, 2011 and 2010, and accordingly, any outstanding equivalents would be anti-dilutive.

3. Acquisition and Disposal of Assets

During the nine months ended September 30, 2011, the Company purchased four restaurants from franchisees and built one restaurant. Four of the locations were Spicy Pickle restaurants and one location was a BG Urban Café restaurant. The purchase of the BG Urban Café restaurant represents the first company owned and operated location within the BG Urban Café franchise. The purchases were made in exchange for assumption of certain liabilities and relief of amounts owed to the Company by the franchisees, the total of such amounts was approximately $418,427. Additionally, the Company sold two company owned Spicy Pickle restaurants to the minority owner in one of the locations purchased. The two locations are now solely franchisee owned and operated. The sale of the two locations was made in exchange for a note receivable due over approximately seven years in the amount of $335,000. One company owned Spicy Pickle location was closed. The total amount of loss associated with the closing of that location is $215,818. As of September 30, 2011, the purchase price allocation of the acquisitions of the aforementioned restaurants’ operations is preliminary dependent on finalization of the Company’s valuation assessment in accordance with ASC 805, *Business Combinations*.

4. Goodwill and Other Intangible Assets

Goodwill and other intangible assets include the following at September 30, 2011 and December 31, 2010:

	2011	2010
Goodwill:		
Related to franchise operation (BG Urban Café)	$ 1,276,882	$ 1,276,882
Related to restaurant operations	92,743	240,443
Total goodwill	$ 1,369,625	$ 1,517,325
Trademarks and acquired franchise agreements		
Acquired trademarks	$ 291,000	$ 291,000
Acquired franchise agreements	822,667	971,000
Total gross trademarks and acquired franchise agreements	1,113,667	1,262,000
Accumulated amortization of acquired trademarks	(291,000)	(174,600)
Accumulated amortization of acquired franchise agreements	(205,664)	(176,544)
Total accumulated amortization of trademarks and acquired franchise agreements	(496,664)	(351,144)
Total trademarks and acquired franchise agreements	617,003	910,856
Reacquired franchise agreements	169,621	40,000
Total other intangibles	$ 786,624	$ 950,856

Amortization expense related to trademarks and acquired franchise agreements for the three months ended September 30, 2011 and 2010 was $18,696 and $80,268, respectively, and $179,232 and $124,404 for the nine months ended September 30, 2011 and 2010, respectively. Estimated future amortization expense by category as of September 30, 2011 was as follows:

Year	Trademarks	Franchise Agreements	Total Amortization
2011	$ -	$ 18,696	$ 18,696
2012	-	74,784	74,784
2013	-	74,784	74,784
2014	-	74,784	74,784
2015	-	74,784	74,784
Later years	-	299,171	299,171
	$ -	$ 617,003	$ 617,003

We recognize goodwill and identifiable intangibles arising from the allocation of the purchase prices of assets acquired in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). Goodwill represents the excess of cost over fair value of all identifiable assets less any liabilities assumed. In association with the acquisition and disposal of assets during the nine months ended September 30, 2011 the Company closed one location at a loss that had goodwill of $87,946 and sold another location for a gain that had goodwill associated with it of $59,754. As a result, goodwill decreased $147,700 during the nine months ended September 30, 2011. Additionally, ASC 805 gives guidance on five types of assets: marketing-related, customer-related, artistic-related, contract-related, and technology based intangible assets. We identified identifiable intangibles that are market-related and contract-related.

Acquired trademarks represent the trademarks associated with the Bread Garden franchise business acquired in 2008. These trademarks were determined to have an indefinite life. In August 2010, we entered into an agreement with the entity from which we obtained the rights to the trademarks, whereby we ceased using the trademarks by March 31, 2011. In exchange for not using the trademarks we are no longer obligated to pay any overriding royalties on the Bread Garden name. In addition we received $75,000 to defray the cost of rebranding the restaurants in Canada and we have accounted for that as a reduction of the expense. The Bread Garden restaurants have been rebranded using BG Urban Café as the new trademark. We are in the process of registering the trademark in Canada. In accordance with ASC Topic 350, *Intangibles Goodwill and Other*, the trademarks for the Bread Garden were deemed to have a determinable life and we amortized the original acquisition cost through March 31, 2011.

Acquired franchise agreements represent franchise agreements between Bread Garden Franchising, Inc., the company from which we purchased the assets, and the then existing franchisees. Reqcquired franchise agreements represent franchise agreements that were in place between the Company and the franchisees from whom we purchased assets in the acquisition of four restaurants and have an indefinite life. During 2010 one of those restaurants was closed. Acquired franchise agreements have determinable lives between 5.5 years and 11 years. Additionally, during the nine months ended September 30, 2011, one of the franchised restaurants acquired in the original purchase was purchased by the Company from the franchisee and accordingly, $114,621, net of amortization, was reclassified from acquired franchise agreements to reacquired franchise agreements. Additionally, one previously franchised Spicy Pickle location was purchased and as a result $30,000 of the purchase price was recorded as reacquired franchise rights. Amortization expenses related to acquired franchise agreements were $18,696 and $22,068 for the three months ended September 30, 2011 and 2010, respectively, and $62,832 and $66,204 for the nine months ended September 30, 2011 and 2010, respectively.

In making an estimate of future cash flow as it relates to our BG Urban Café operations, we considered the following items:

- The economic forecast in Canada with particular emphasis on British Columbia and western Canada.
- Industry forecast for the restaurant industry in Canada with particular emphasis on British Columbia and western Canada.
- Historical operating history of acquired assets as adjusted for forecast.
- Management's estimates of new franchisees.

We performed the goodwill impairment analysis at December 31, 2010 and determined the fair value of goodwill and other indefinite lived intangibles as related to the BG Urban Café operations was in excess of the carrying value.

In making an estimate of future cash flow as it relates to our Spicy Pickle operations, we considered the following items:

- The economic forecast in United States.
- Industry forecast for the restaurant industry in United States with emphasis on the fast casual segment.
- Historical operating history of acquired assets as adjusted for forecast.
- Changes to our menu and introduction of a new day part in our restaurants.

We performed the goodwill impairment analysis at December 31, 2010 and determined the fair value of goodwill and other indefinite lived intangibles as related to the Spicy Pickle operations was impaired in the amount of $80,136. This impairment was incurred due to the previously mentioned closure of one company store.

We will test for impairment between our annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset. Since our last annual test no events have occurred that would indicate the fair value of the asset has been impaired.

5. Fair Value

ASC Topic 825, *Financial Instruments* ("ASC 825"), permits entities to choose to measure many financial instruments and certain other items at fair value. We did not elect the fair value reporting option for any assets and liabilities not previously recorded at fair value.

ASC Topic 820, *Fair Value Measurement and Disclosures* ("ASC 820"), is applicable to all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 Unobservable inputs that are not corroborated by market data.

We have identified the following as financial assets and liabilities:

- Cash and cash equivalents
- Accounts receivable, trade
- Accounts payable, accrued expenses and accrued dividends
- Notes payable to related parties
- Long-term debt

At September 30, 2011 and December 31, 2010, the carrying amount of cash, accounts receivable, accounts payable, accrued expenses and accrued dividends, are short term in nature and approximate fair value. Interest rates associated with the notes payable to related parties and long-term debt are based upon rates associated with similar companies in our financial condition and the carrying amounts approximate fair value.

6. Related Party Transactions

The Company has a Convertible Note that is due May 1, 2013 and bears interest at one percent above the prime rate. Interest is payable semi-annually. The holders of the Convertible Note may convert any amount of the principal and accrued interest due into our Common Stock at the rate of $0.13 per share. In addition, for every two dollars converted into Common Stock, we will issue to the holder of the Convertible Note a warrant to purchase one share of Common Stock. The exercise price of the warrant will be equal to 120% of the price per share of the Common Stock calculated using the average of the volume weighted average prices per share for the 10 trading days prior to the election to convert.

The conversion feature in the Convertible Note is considered to be a beneficial conversion feature. We have accounted for the beneficial conversion feature in accordance with ASC Topic 470, *Liabilities*. We accounted for a portion of the proceeds, $157,164, from the Convertible Note which related to the intrinsic value of the beneficial conversion feature by allocating that amount to additional paid in capital. The following summarizes the carrying amount of the Convertible Promissory Note:

	September 30, 2011	December 31, 2010
Face value of the note to be repaid if not converted	$ 817,252	$ 817,252
Amount allocated to additional paid in capital	(62,399)	(91,415)
Note payable to related parties	$ 754,853	$ 725,837

In accordance with ASC Topic 835, *Interest*, the amount allocated to the beneficial conversion will be amortized as interest expense over the life of the note in such a way as to result in a constant rate of interest. The amount of amortization for the three months ended September 30, 2011 and 2010 was $9,672 and for the nine months ended September 30, 2011 and 2010, respectively, was $29,016 and $39,238.

The annual interest rate giving effect to the amortization of the beneficial conversion is 9.188% per annum. When combined with the stated interest rate of one percent above the prime rate, the effective rate is 10.188% over the prime rate. At September 30, 2011, the interest rate on the borrowings was 12.438%.

During the year ended December 31, 2010, we entered into an agreement with two members of our Board of Directors whereby they will loan the Company up to $2,000,000 as a revolving line of credit. The line of credit is evidenced by a Convertible Promissory Note and Secured Loan Agreement (the “First Note”). The First Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders' option the First Note is convertible into our common stock at $0.105 per share, the value of the common stock on the date the First Note was executed. In addition for every two shares of common stock issued on conversion we will issue to the lenders a warrant to purchase one share of common stock at a price equal to 120% of the average volume weighted average price per share for the 10 days prior to the conversion. The First Note is also secured by the assets of the Company. Interest expense recognized on the First Note was $50,000 and $18,333 for the three months ended September 30, 2011 and 2010, respectively. Interest expense recognized on the First Note was $142,569 and $25,000 for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, we have drawn down the full $2,000,000 available on the loan.

At the same time as the above, the holders of the Convertible Note described above agreed to extend the due date of their Convertible Note (originally January 31, 2012) to coincide with the Note. As consideration for the extension of the due date, the holders will receive a security interest in the assets of the Company on a pro rata basis with the lenders above. One of the holders of the Convertible Note is also a lender of the First Note while both of the holders of the Convertible Note are also lenders of the Second Note, as described below.

During April 2011 we entered into an agreement with three members of our Board of Directors, two of which participated in the First Note, whereby they will loan the Company up to $1,000,000 as a revolving line of credit. The line of credit is evidenced by a Convertible Promissory Note and Secured Loan Agreement (the “Second Note”). The Second Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders option the Second Note is convertible into our common stock at $0.08 per share, the value of the stock on the date the Second Note was executed. In addition for every two shares of common stock issued on conversion we will issue to the lenders a warrant to purchase one share of common stock at a price equal to 120% of the average volume weighted average price per share for the 10 days prior to the conversion. The Second Note is also secured by the assets of the Company. Interest expense recognized on the Second Note was $17,917 for the three months and $ 24,792 for the nine months ended September 30, 2011. There was no such interest expense for the three or nine months ended 2010. As of September 30, 2011, we have drawn $875,000 on the Second Note and have $125,000 remaining available on the loan.

7. Long-term Debt

Long-term debt represents notes issued in connection with the acquisition of certain assets acquired in prior years. The notes bear interest at the rate of 10% per annum. During the quarter ended March 31, 2011 the terms of the note were amended. The new terms required a payment of $40,000 in February 2011 and then monthly payments through November 30, 2012, with principal payments of $7,500 per month plus accrued interest and with a balloon payment of $235,000 on December 31, 2012. The notes are now secured by all of the assets of the Company. In the event of default these notes will rank equal to the security interest granted to the note holders described in Note 6, pro-rata with the amounts then outstanding with respect to the secured parties. Additionally, the Company assumed a note from a franchisee during the quarter ended September 30, 2011 in order to acquire an existing Spicy Pickle location. The assumed note is for $152,772, bears interest at a per annum rate of 5.5%, and has a three year term with a $78,372 balloon payment in three years. The remaining maturities of the long-term debt are as follows:

Long-term debt	Next 12 Months	Thereafter
Notes issued for acquisition of assets	$ 90,000	$ 250,000
Assumed note	$ 25,790	$ 123,065
Total long-term debt	$ 115,790	$ 373,065

8. Stockholders' Equity

During the nine months ended September 30, 2011, we issued 1,325,000 shares of common stock for compensation to four of our directors. The stock was issued in lieu of cash pursuant to the Company's board of director compensation plan. The stock was valued at the trading price at the date of grant, $0.06 per share on April 20, 2011 and $0.06 per share on July 18, 2011. We included $79,500 as compensation expense related to the stock issuance. During the nine months ended September 30, 2010, we issued 1,500,000 shares of our common stock to two officers (related parties) at $0.11 per share, for an associated expense of $165,000. The stock was issued as consideration for the reduction of salaries. The stock was valued at the trading price, $0.11 per share, at the date of grant, January 26, 2010. We included $180,000 as compensation expense.

9. Income Taxes

We account for income taxes in interim periods in accordance with ASC Topic 740, *Income Taxes* ("ASC 740"). We have determined an estimated annual effective tax rate. The rate will be revised, if necessary, as of the end of each successive interim period during our fiscal year to our best current estimate. As of September 30, 2011, the estimated effective tax rate for the year will be zero.

There are open statutes of limitations for taxing authorities in federal and state jurisdictions to audit our tax returns from 2006 through the current period. Our policy is to account for income tax related interest and penalties in income tax expense in the statement of operations. There have been no income tax related interest or penalties assessed or recorded.
ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

10. Stock-Based Compensation

In October 2006, our Board of Directors adopted the 2006 Stock Option Plan ("2006 Plan"), which was approved by our stockholders the same month. The 2006 Plan provides for the grant of up to 7,500,000 shares of our common stock (subject to certain adjustments in the event of stock splits or other similar events) as incentive stock options. Our Board of Directors has delegated authority to grant awards under the 2006 Plan to a Compensation Committee. During the nine months ended September 30, 2011, 1,000,000 options were granted to employees under the 2006 Plan, no options were granted during the nine months ended September 30, 2010.

In December 2009, our Board of Directors adopted the 2009 Restricted Stock Plan ("2009 Restricted Stock Plan"). The 2009 Restricted Stock Plan provides for the grant of up to 5,000,000 shares of our common stock (subject to certain adjustments in the event of stock splits or other similar events). Our Board of Directors has delegated authority to grant awards under the 2009 Plan to a Compensation Committee. No shares were granted under the 2009 Restricted Stock Plan during the nine months ended September 30, 2011; however, during the nine months ended September 30, 2010, 1,500,000 shares of our common stock with a value of $165,000 were issued (see note 8).

In May 2011, our Board of Directors adopted the 2011 Stock Option Plan ("2011 Plan"), which was approved by our stockholders the same month. The 2011 Plan provides for the grant of up to 15,000,000 shares of our common stock (subject to certain adjustments in the event of stock splits or other similar events) as incentive stock options. Our Board of Directors has delegated authority to grant awards under the 2011 Plan to a Compensation Committee. During the nine months ended September 30, 2011 and 2010, no options were granted to employees under the 2011 Plan.

Total compensation expense of all employee stock-based compensation recognized under ASC 718 for the three months ended September 30, 2011 and 2010 was $10,586 and $11,397, respectively, and for the nine months ended September 30, 2011 and 2010 was $37,138 and $145,161, respectively, which consisted of stock-based compensation expense related to employee stock options.

A summary of stock option activity under 2006 Plan is set forth below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value
Outstanding December 31, 2010	7,200,000	$ 0.13	3.33	$ 124,363
Granted	1,000,000	$ 0.08	4.32	24,083
Exercised				-
Cancelled	(2,015,000)	$ 0.20		(32,845)
Outstanding September 30, 2011	6,185,000	$ 0.10	3.30	$ 115,601
Exercisable September 30, 2011	2,685,000	$ 0.14	2.34	$ 45,646

We also issued stock options to certain employees of our Canadian subsidiary. These options were not included in the 2006 Plan. A summary of stock option activity to those employees is set forth below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value
Outstanding December 31, 2010	1,112,500	$ 0.20	3.19	$ 18,135
Granted	-			-
Exercised	-			-
Cancelled	-	-		-
Outstanding September 30, 2011	1,112,500	$ 0.20	2.44	$ 18,135
Exercisable September 30, 2011	1,112,500	$ 0.20	2.44	$ 18,135

In addition, during the year ended December 31, 2010, we granted options which were not covered by our formal plans. These options are non-qualified stock options. The following table summarizes those options granted:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value
Outstanding December 31, 2010	4,200,000	$ 0.12	4.60	$ 201,703
Granted	-	-		-
Exercised	-	-		-
Cancelled	-	-		-
Outstanding September 30, 2011	4,200,000	$ 0.12	3.86	$ 201,703
Exercisable September 30, 2011	4,200,000	$ 0.12	3.86	$ 201,703

The following table summarizes information concerning outstanding and exercisable options at September 30, 2011:

	Options Outstanding			Options Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.06 - $0.20	11,497,500	3.42	$ 0.12	7,997,500	3.15	$ 0.14

The total compensation cost related to non-vested awards not yet recognized as expense as of September 30, 2011 is $30,173 and will be recognized over the remaining period of 2.4 years.

11. Business Segment information

We operate in two business segments. Our Restaurant Operations segment is comprised of restaurants owned by the Company. The company-owned restaurants conduct business under the Spicy Pickle and BG Urban Café names. These restaurants specialize in fast casual dining featuring fresh, made-to-order, premium submarine, deli and panini sandwiches, salads, soups and soft drinks. Information for this segment for the periods ended September 30, 2011 and 2010 include the operating activities of eight company-owned restaurants (seven Spicy Pickle restaurants and one BG Urban Café restaurant during 2011) and one company-owned bakery and seven company-owned Spicy Pickle restaurants in 2010.

Our Franchise Operations segment is comprised of the operating activities of the franchise business unit, which licenses qualified operators to conduct business under the Spicy Pickle name or the BG Urban Café name, and also of the costs to monitor the operations of these restaurants. Under the terms of the agreements, the licensed operators pay royalties and fees to the Company in return for the use of the Spicy Pickle or the BG Urban Café name, as the case may be.

We are operating in two geographic segments, United States and Canada.

During 2010, segment information for the Restaurant Operations segment and the United States segment include the operations of a company-owned bakery. The bakery is not included in these segments during 2011 as it was closed on December 31, 2010. Segment information related to the Company's two business segments follows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:				
Company restaurants operations	$ 604,788	$ 645,256	$ 1,725,487	$ 1,938,016
Franchise operations	408,314	496,176	1,087,061	1,409,716
Total Revenues	$ 1,013,102	$ 1,141,432	$ 2,812,548	$ 3,347,732
Segment profit (loss):				
Company restaurants operations	$ (169,970)	$ (116,522)	$ (435,022)	$ (372,968)
Franchise operations	(385,941)	(640,576)	(1,759,465)	(1,324,762)
Total segment (loss)	(555,911)	(757,098)	(2,194,487)	(1,697,730)
Other income (expense)	(115,106)	(45,331)	(449,872)	(135,091)
Net loss	$ (671,017)	$ (802,429)	$ (2,644,359)	$ (1,832,821)

12. Subsequent Events

We evaluated all activity of the Company and concluded that no subsequent events have occurred that would require recognition in our financial statements or disclosed in the notes to our financial statements except as follows.

Subsequent to September 30, 2011, the Company entered into a non-binding letter of intent with three members of our Board of Directors (lenders) whereby they will provide future financing for the Company. The initial terms of the agreement include total funding in the amount of $1,450,000 payable in three tranches of $500,000, $500,000 and $450,000 with the first tranche being paid on the date the agreement closes, the second tranche being paid on or about February 1, 2012 and the last tranche being paid on or about May 2, 2012. The interest rate on the funding will be 18% and the lenders will receive a 1.5 percentage of revenue share per $500,000 in funding from the Company. The Company cannot predict with certainty that the agreement will close and the financing will be received, however, we anticipate completion of the deal in the upcoming quarter.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in the forward-looking statements.

Overview

Our business is the franchise and operation of Spicy Pickle™ and BG Urban Café restaurants (f/k/a Bread Garden® restaurants). Spicy Pickle is a fast casual restaurant where made-to-order panini, submarine-style sandwiches, pizzetti (flatbread pizzas), and salads created by our founders are served using fresh-baked breads and high-quality ingredients. Spicy Pickle restaurants are located in nine states in the United States. BG Urban Café restaurants also specialize in fast casual dining. Unlike our Spicy Pickle restaurants, our BG Urban Café restaurants offer a full line of specialty coffees, pastries, and desserts along with hot entrees, salads, soups, and sandwiches. BG Urban Cafés are located primarily in metropolitan Vancouver, British Columbia, Canada.

We market our menu primarily through targeted local store marketing efforts, mail drops, media advertising, and print campaigns, as well as through other grass roots efforts. The "Spicy Pickle" brand name has existed for ten years. The Company completed a rebranding of the "BC Urban Cafe" name this year from the "Bread Garden" brand name which has existed since 1979.

The first Spicy Pickle restaurant was launched in 1999 by two individuals under the name Spicy Pickle, LLC. In late 2001, there were three restaurants, two in Denver and one in Lakewood, a Denver suburb. By January 2003, we organized Spicy Pickle Franchising, LLC and launched the Spicy Pickle brand as a national franchise.

As of September 30, 2011, we had 22 franchised Spicy Pickle restaurants and seven company-owned Spicy Pickle restaurants opened. Previously co-located with one of the restaurants was a bakery which provided fresh baked breads to the local area Denver restaurants. On December 31, 2010 the bakery closed. Bread is now baked system wide in the restaurants.

Our franchise agreements include build-out schedules for franchisee restaurants. At September 30, 2011, we have signed agreements with franchisees to open 8 additional restaurants under the Spicy Pickle Brand. However there can be no assurances that all of the additional restaurants will be built out and opened. We review the schedule of build-outs on an ongoing basis and when we determine that a franchisee will not open a restaurant we terminate the agreement. We continue to interview prospective franchisees and rely on the cash deposits from the franchise sales as well as royalty fees from the existing restaurants to support the expenses of the business.

Our locations and marketing efforts are directed principally to white collar administrative, managerial, professional, and sales personnel, who are generally found in and near downtown districts, technological centers, universities, hospitals and government complexes.

We currently derive our revenue from the sale of franchises, from royalties paid by franchisees and from the sale of food and beverages at the company-owned restaurants. Our business is headquartered in Denver, Colorado, and we have a high concentration of restaurants in the Rocky Mountain region. Additionally, we have franchises opened and planned in a number of other regions in the United States.

Our Spicy Pickle restaurant locations (including both company-owned and franchisee-owned), including those under construction and lease negotiation as of September 30, 2011, are:

Location	Restaurants Operating	Under Construction	In Lease Negotiation
Arizona	1		
Colorado	14		
Illinois	1		
Mississippi	1		
Nevada	4		
North Dakota	1		

Location	Restaurants Operating	Under Construction	In Lease Negotiation
Oregon	1		
Texas	6		
Montana		1	
Total	29	1	

Subsequent to September 30, 2011 one location listed as operating in Mississippi and one location operating in Arizona have closed.

In October 2008, we acquired the franchise rights to the Bread Garden restaurant chain. We believe that our core competence is the building and operation of franchised restaurant chains. Our purpose in acquiring the Bread Garden (currently BG Urban Café) restaurant chain was to allow us to better utilize our existing infrastructure by expanding our operating base. In addition we made the acquisition to increase our revenues. We are currently working towards increasing the number of franchised restaurants in the BG Urban Café chain. We are also working to improve the menu offerings, develop new operating procedures and manuals, and to develop a more comprehensive marketing strategy.

As of September 30, 2011, we had 11 franchised BG Urban Café restaurants and one company-owned BG Urban Café restaurant opened. Our BG Urban Café locations including those under construction and in lease negotiation as of September 30, 2011 are:

Location	Restaurants Operating	Under Construction	In Lease Negotiation
Vancouver, British Columbia	3		
Richmond, British Columbia	2		
Burnaby, British Columbia	1		
West Vancouver, British Columbia	1		1
Coquitlam, British Columbia	2		
Kamloops, British Columbia	2		
Whistler Resort, British Columbia	1		
Total	12	-	1

We intend to increase our revenues by selling new franchises and expanding consumption of our food products at all restaurants. General economic and industry conditions may affect our ability to do so and our revenue performance.

We have been developing our franchise network through the sale of franchises and through acquisition. We have relied on fund raising and the sales of new franchises to augment the cash we receive from continuing royalty payments for our cash flow. The unanticipated economic conditions that surfaced in 2008 and continued into 2011 resulted in a significant reduction in the sales of new franchises which has resulted in a significant decrease in our cash position. As soon as it became apparent that the economic downturn would not correct itself in the short term, we significantly reduced our corporate overhead, mostly in the area of personnel cost.

Critical Accounting Policies and Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. The Company incurred a net loss of $671,017 and $2,644,359 for the three and nine months ended September 30, 2011, respectively, and has incurred significant net losses since inception.

We have been developing our franchise network through the sale of franchises and through acquisition. We have relied on fund raising and the sales of new franchises to augment the cash we receive from continuing royalty payments and rebates for our cash flow. Recent economic conditions have resulted in a significant reduction in the sales of new franchises which has resulted in a significant decrease in our cash position.

Our ability to fund our operations will depend on the length of time of the current economic downturn, our future performance and our ability to successfully implement our business and growth strategies. In the event that we need additional capital and are unable to obtain it, we could be left without sufficient liquidity. The nature of our business is that a portion of our revenue is a continuing stream from franchisees. We will continually monitor our expenses and reduce those expenses as best we can to match the revenue flow. During the current nine months ended September 30, 2011, Management secured additional available funds under a line of credit facility with three related parties (see note 6). Furthermore, Management may elect to raise money during the year ended December 31, 2011 to meet any shortfalls from operations. However a realization of a significant portion of the assets in the accompanying balance sheet is dependent on our continued operations, which in turn is dependent on the increase in sales of new franchises, the number of operating franchise restaurants, or the additional capital raised through a placement of our securities.

The preparation of our financial statements in conformity with generally accepted accounting principles ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods. Actual results could differ from those estimates. A summary of accounting policies that have been applied to the historical financial statements presented in this report can be found in the footnotes thereto. We consider certain of these accounting policies to be critical as they are important to the portrayal of our financial condition and results of operations and may require judgments on the part of management about matters that are uncertain. We have identified the following accounting policies that are important to the presentation of financial information in this report.

Revenue Recognition

Initial Franchise Fees - We enter into franchise agreements, which grant franchisees the exclusive right to develop and operate businesses at certain locations. Initial franchise fees are recognized as revenue when all material services and conditions required to be performed by us have been substantially completed, which is generally when the business commences operations. Initial franchise fees are currently $30,000 for a Spicy Pickle Restaurant and CND $35,000 for a BG Urban Café restaurant. Franchise fees recognized were $45,000 and $164,176 for the three months ended September 30, 2011 and 2010, respectively, and $75,340 and $399,176 for the nine months ended September 30, 2011 and 2010, respectively.

Royalty Fees - Pursuant to the franchise agreements, franchisees are required to pay 5 to 6% in royalties to us based on weekly gross receipts as reported to us through the franchisees' point of sales systems. The royalties are recognized as revenue in the period corresponding to the sales reporting period. Royalty fees were $264,574 and $243,984 for the three months ended September 30, 2011 and 2010, respectively, and $703,580 and $731,744 for the nine months ended September 30, 2011 and 2010, respectively.

Rebates - Rebates received from purveyors that supply products to our franchisees and Company owned restaurants are included in Franchise Fees and Royalties. The rebates are recorded when earned. Rebate revenue was $98,740 and $88,016, for the three months ended September 30, 2011 and 2010, respectively, and $308,141 and $278,796, for the nine months ended September 30, 2011 and 2010, respectively.

All sales taxes are presented on a net basis and are excluded from revenue.

Advertising Costs

Franchisees must contribute to an advertising fund established by us at a rate of 2% for the Spicy Pickle brand and of up to 2% for the BG Urban Café brand of total franchisee gross receipts. Additional marketing programs may be instituted which allow franchisees the option of choosing to participate in the program and, as a result, contributing additional fees for that program specifically. At our discretion, we may spend more or less than actual advertising receipts from the franchises. Advertising fees recognized were $84,266 and $98,550 for the three months ended September 30, 2011 and 2010, respectively, and $286,381 and $282,202 for the nine months ended September 30, 2011 and 2010, respectively. These fees are offset against advertising expenses, which are recognized when incurred. We incurred advertising expense of $229,751 and $214,863 for the three months ended September 30, 2011 and 2010, respectively, and $605,513 and $400,723 for the nine months ended September 30, 2011 and 2010, respectively. The net expenses reflected in the financial statements are $145,485 and $116,313 for the three months ended September 30, 2011 and 2010, respectively, and $319,132 and $118,521 for the nine months ended September 30, 2011 and 2010, respectively.

Rent Expense

We recognize rent expense on a straight-line basis over the reasonably assured lease term as defined in ASC Topic 840, *Leases* ("ASC 840"). In addition, certain of our lease agreements provide for scheduled rent increases during the lease terms or for rental payments commencing at a date other than the date of initial occupancy. We include any rent escalations and construction period and other rent holidays in its determination of straight-line rent expense. Therefore, rent expense for new locations is charged to expense beginning with the start of the construction period. The associated liability for deferred rent expense was $105,360 and $150,634 at September 30, 2011 and December 31, 2010, respectively, and will be charged to rent expense over the life of the leases to which it relates.

Equity-Based Compensation

Stock-based compensation is presented in accordance with the guidance of ASC Topic 718, *Compensation – Stock Compensation* ("ASC 718"). Under the provisions of ASC 718, companies are required to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our statement of operations.

We issued share-based payments under our 2006 Stock Option Plan which is a qualified stock option plan to employees of our Canadian subsidiary, and certain directors on an individual by individual basis.

In both instances we used the Black-Scholes option-pricing model ("Black-Scholes model") to determine fair value. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Although the fair value of employee stock options is determined in accordance with ASC 718 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Goodwill and Other Intangibles

Goodwill and other intangible assets include the following:

	2011	2010
Goodwill:		
Related to franchise operation (BG Urban Café)	$ 1,276,882	$ 1,276,882
Related to restaurant operations	92,743	240,443
Total goodwill	$ 1,369,625	$ 1,517,325
Trademarks and acquired franchise agreements		
Acquired trademarks	$ 291,000	$ 291,000
Acquired franchise agreements	822,667	971,000
Total gross trademarks and acquired franchise agreements	1,113,667	1,262,000
Accumulated amortization of acquired trademarks	(291,000)	(174,600)
Accumulated amortization of acquired franchise agreements	(205,664)	(176,544)
Total accumulated amortization of trademarks and acquired franchise agreements	(496,664)	(351,144)
Total trademarks and acquired franchise agreements	617,003	910,856
Reacquired franchise agreements	169,621	40,000
Total other intangibles	$ 786,624	$ 950,856

We recognize goodwill and identifiable intangibles arising from the allocation of the purchase prices of assets acquired in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). Goodwill represents the excess of cost over fair value of all identifiable assets less any liabilities assumed. In association with the acquisition and disposal of assets during the nine months ended September 30, 2011, the Company closed one location at a loss that had goodwill of $87,946 and sold another location for a gain that had goodwill associated with it of $59,754. As a result, goodwill decreased $147,700 during the nine months ended September 30, 2011. Additionally, ASC 805 gives guidance on five types of assets: marketing-related, customer-related, artistic-related, contract-related, and technology based intangible assets. We identified identifiable intangibles that are market-related and contract-related.

Acquired trademarks represent the trademarks associated with the Bread Garden franchise business acquired in 2008. These trademarks were determined to have an indefinite life. In August 2010, we entered into an agreement with the entity from which we obtained the rights to the trademarks, whereby we ceased using the trademarks on March 31, 2011. In exchange for not using the trademarks, we are no longer obligated to pay any overriding royalties on the Bread Garden name. In addition we received $75,000 to defray the cost of rebranding the restaurants in Canada and have accounted for that as a reduction of the expense during the quarter ended September 30, 2011. The Bread Garden restaurants have been rebranded using BG Urban Café as the new trademark. We are in the process of registering the trademark in Canada. In accordance with ASC Topic 350, *Intangibles Goodwill and Other* ("ASC 350"), the trademarks for the Bread Garden now have a determinable life and were fully amortized as of March 31, 2011. Amortization expenses related to the acquired trademarks were $116,400 and $58,200 for the nine months ended September 30, 2011 and 2010, respectively.

Acquired franchise agreements represent franchise agreements between Bread Garden Franchising, Inc., the company that we purchased the assets from, and the then existing franchisees. Reacquired franchise agreements represent franchise agreements that were in place between us and the franchisees that we purchased assets from in the acquisition of three restaurants and have an indefinite life. During 2010 one of those restaurants was closed. Acquired franchise agreements have determinable lives between 5.5 years and 11 years. Amortization expenses related to acquired franchise agreements were $18,696 and $22,068 for the three months ended September 30, 2011 and 2010, respectively, and $62,832 and $66,204 for the nine months ended September 30, 2011 and 2010, respectively. Additionally, during the nine months ending September 30, 2011, one of the franchised restaurants acquired in the original purchase was purchased by the Company from the franchisee and accordingly, $114,621, net of amortization, was reclassified from acquired franchise agreements to reacquired franchise agreements.

Goodwill and other intangible assets with indefinite lives are not subject to amortization, but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. ASC 350, requires a two-step approach for testing impairment. For goodwill, the fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If impairment is indicated, the fair value of the reporting unit's goodwill is determined by allocating the unit's fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. For intangibles with indefinite lives, the fair value is compared to the carrying value. The amount of impairment for goodwill and other intangible assets is measured as the excess of its carrying amount over its fair value.

In accordance with ASC 350 we perform an impairment analysis of the goodwill and indefinite lived intangibles assets on an annual basis. We determine our reporting units in accordance with the guidance in the ASC Topic 280 *Segment Reporting* ("ASC 280"). We look at the following specific items:

a) The nature of the products and services
b) The nature of the production processes
c) The type or class of customer for their products and services
d) The methods used to distribute their products or provide their services

In making an estimate of future cash flow as it relates to our BG Urban Café operations, we considered the following items:

- The economic forecast in Canada with particular emphasis on British Columbia and western Canada.

- Industry forecast for the restaurant industry in Canada with particular emphasis on British Columbia and western Canada.
- Historical operating history of acquired assets as adjusted for forecast.
- Management's estimates of new franchisees.

We performed the goodwill impairment analysis at December 31, 2010 and determined the fair value of goodwill and other indefinite lived intangibles as related to the BG Urban Café operations was in excess of the carrying value.

In making an estimate of future cash flow as it relates to our Spicy Pickle operations, we considered the following items:

- The economic forecast in United States.
- Industry forecast for the restaurant industry in United States with emphasis on the fast casual segment.
- Historical operating history of acquired assets as adjusted for forecast.
- Changes to our menu and introduction of a new day part in our restaurants.

We performed the goodwill impairment analysis at December 31, 2010 and determined the fair value of goodwill and other indefinite lived intangibles as related to the Spicy Pickle operations was impaired in the amount of $80,136. This impairment was incurred due to the previously mentioned closure of one company store.

We will test for impairment between our annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset. Since our last annual test no events have occurred that would indicate the fair value of the asset has been impaired.

Long-Lived Assets

In accordance with ASC Topic 360, *Property, Plant and Equipment* ("ASC 360"), long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

We performed an analysis on a unit by unit basis for our restaurants at December 31, 2010. Assumptions used in preparing the expected cash flows were as follows:

- Sales projections for 2011 were based on 2010 sales with increases for increased marketing and pricing adjustments. For the years 2012 through 2018 we used annual increases of 3%. We believe the 3% increases beyond 2011 is a reasonable growth and that it would be unreasonable to assume no growth.
- Our food costs are projected based on our anticipated operating cost after our supply chain restructuring which occurred in November 2010.
- Our variable and semi-variable operating costs are projected to increase and include an additional 1.5% per year as inflation.
- Our fixed operating costs are projected to increase 1.5% per year.
- Salvage value has been estimated on a restaurant by restaurant basis.

Based on our analysis, no impairment charges were recognized for the year ended December 31, 2010. Since the end of the year no significant events have occurred that would require the analysis be completed at September 30, 2011.

Each time we conduct an impairment analysis in the future we will compare actual results to our projections and assumptions, and to the extent our actual results do not meet expectations, we will revise our assumptions and this could result in impairment charges being recognized.

All of the judgments and assumptions made in preparing the cash flow projections are consistent with our other financial statement calculations and disclosures. The assumptions used in the cash flow projections are consistent with other forward-looking information prepared by the Company, such as those used for internal budgets, discussions with third parties, and/or reporting to management or the board of directors.

Projecting the cash flows for the impairment analysis involves significant estimates with regard to the performance of each restaurant, and it is reasonably possible that the estimates of cash flows may change in the near term resulting in the need to write down operating assets to fair value. If the assets are determined to be impaired, the amount of impairment recognized is the amount by which the carrying amount of the assets exceeds their fair value. Fair value would be determined using forecasted cash flows discounted using an estimated average cost of capital and the impairment charge would be recognized in income from operations.

Results of Operations

The following analysis shows operating statistics for the three months ended September 30, 2011 and 2010, included in the restaurant statistics in 2010 are revenues and costs associated with the bakery we closed on December 31, 2010:

	2011		2010	
Revenues:	Amount	As a Percentage of Total Revenue	Amount	As a Percentage of Total Revenue
Restaurant sales	$ 604,788	59.70%	$ 645,256	56.53%
Franchise fees, royalties, and rebates	408,314	40.30%	496,176	43.47%
Total revenue	$ 1,013,102	100.00%	$ 1,141,432	100.00%
Operating costs and expenses:				
Restaurant:		As a Percentage of Restaurant Sales		As a Percentage of Restaurant Sales
Cost of sales	$ 243,124	40.20%	$ 243,626	37.76%
Labor	206,136	34.08%	255,383	39.58%
Occupancy	174,526	28.86%	107,279	16.63%
Depreciation	41,049	6.79%	65,674	10.18%
Other operating cost	109,923	18.18%	89,816	13.92%
Total restaurant operating expenses	$ 774,758	128.10%	$ 761,778	118.06%
Franchise and general:		As a Percentage of Franchise Fees and Royalties		As a Percentage of Franchise Fees and Royalties
General and administrative	$ 766,981	187.84%	$ 1,051,705	211.96%
Depreciation	27,274	6.68%	85,047	17.14%
Total franchise and general expenses	$ 794,255	194.52%	$ 1,136,752	229.10%

			As a Percentage of Total Revenue			As a Percentage of Total Revenue
Total operating costs and expenses	$	1,569,013	154.87%	$	1,898,530	166.33%
(Loss) from operations	$	(555,911)	(54.87%)	$	(757,098)	(66.33%)
Other income and (expense):						
Interest income (expense)	$	(100,229)	(9.89%)	$	(45,331)	(3.97%)
Gain (loss) on disposal of assets		(28,329)	(2.80%)			
Other income (expense)		13,452	1.33%		-	-
Total other income and (expense)	$	(115,106)	(11.36%)	$	(45,331)	(3.97%)
Net (loss)	$	(671,017)	(66.23%)	$	(802,429)	(70.30%)

The components of revenue are restaurant sales for company-owned restaurants, including the company-owned bakery in 2010 and royalties and franchise fees for our franchise operations.

For the three months ended September 30, 2011, total revenue decreased $128,330 (11.24%) from $1,141,432 for the three months ended September 30, 2010 to $1,013,102 for the same period in 2011. The decrease resulted primarily as a result of recognizing less franchise fee revenue in 2011 and having no bakery operations in 2011 compared to 2010.

The loss from operations decreased $201,187 (26.57%) from a loss of $757,098 for the three months ended September 30, 2010 to a loss of $555,911 for the three months ended September 30, 2011. The decreased loss resulted primarily from a decrease in general and administrative expenses in addition to lower labor costs for the quarter.

For the three months ended September 30, 2011, restaurant sales decreased $40,468 (6.27%) from $645,256 in 2010 to $604,788 in 2011. The decrease in restaurant revenue was principally due to having no bakery operations in 2011.

The loss from restaurant operations increased $53,449 (45.87%) from a loss of $116,522 for the three months ended September 30, 2010 to a loss of $169,970 for the three months ended September 30, 2011. The increased loss was primarily a result of higher occupancy costs in addition to higher food costs and having no bakery operations in 2011.

Franchise fees and royalty revenue decreased $87,862 (17.71%) from $496,176 for the three months ended September 30, 2010 to $408,314 in 2011. Initial franchise fees are collected when a franchisee enters into a franchise agreement. At that point in time these fees are recorded as deferred revenue and are recognized as revenue on the statement of operations when the franchised restaurant is opened. In certain cases if a franchisee fails to meet its obligation under its franchise/development agreement we can terminate that agreement and we recognize revenue at that time. Franchise fees decreased $119,176 (72.59%) from $164,176 for the three months ended September 30, 2010 to $45,000 in 2011. Two Spicy Pickle restaurants for which we collected fees opened during the three month period ended September 30, 2011 and no BG Urban Café franchise restaurants opened during the three month period ended September 30, 2011. Comparatively, twelve Spicy Pickle franchise agreements were terminated during the three month period ended September 30, 2010. Royalty fees increased $20,590 (8.44%) from $243,984 for the three months ended September 30, 2010 to $264,574 in 2011. The increase is due primarily to increased BG Urban Café franchise sales and the opening of two Spicy Pickle franchised restaurants operating in the third quarter of 2011. Rebate revenue increased $10,724 (12.18%) from $88,016 for the three months ended September 30, 2010 to $98,740 for the three months ended September 30, 2011. The increase is due primarily as a result of the restructured supply chain agreement put into place during the fourth quarter of 2010 offset by lower purchasing volumes due to fewer locations operating during 2011.

The following sets forth details of the costs that make up general and administrative expenses and the difference for the three months ended September 30, 2011 compared to the three months ended September 30, 2010.

	2011	2010	Difference
Personnel cost	$ 372,734	$ 605,753	$ (233,019)
Stock options	10,586	11,397	(811)
Professional fees	15,618	20,394	(4,776)
Marketing, advertising, and promotion	104,608	116,433	(11,825)
Travel and entertainment	26,828	33,860	(7,032)
Rent	40,371	52,245	(11,874)
MIS	16,270	65,191	(48,921)
Investor relations	5,637	17,683	(12,046)
Director fees	50,250	63,541	(13,291)
Bad Debt	(461)	-	(461)
Other general and administrative expenses	124,540	65,208	59,332
Total general and administrative expenses	$ 766,981	$ 1,051,705	$ (284,724)

General and administrative expenses decreased $284,724 (27.07%) from $1,051,705 for the three month period ended September 30, 2010 to $766,981 for the three month period ended September 30, 2011.

Our most significant expense continues to be personnel costs. The number of full time employees decreased from 16 at September 30, 2010 to 13 at September 30, 2011. Personnel cost decreased $233,019 (38.47%) from $605,753 for the three months ended September 30, 2010 to $372,734 for the three months ended September 30, 2011. During the last year we have made significant management changes including hiring a new Chief Executive Officer, Chief Financial Officer, and a Chief Development Officer. We intend to closely monitor our personnel cost and we will attempt to outsource personnel as needed rather than employ full time personnel. In addition, last year we incurred non-cash personnel cost for the three months ended September 30, 2010 of $180,000, which is the value of 3,000,000 shares of common stock on the date of issuance, $0.06 per share, which was issued to the new CEO. There was no such expense for the current year.

Stock option expense is a non-cash expense. We estimate the fair value of share-based payment awards on the date of grant using the Black-Scholes option-pricing model. Stock option expense decreased $811 (7.12%) from $11,397 for the three months ended September 30, 2010 to $10,586 for the three months ended September 30, 2011.

Professional fees decreased $4,776 (23.42%) from $20,394 for the three month period ended September 30, 2010 to $15,618 for the three month period ended September 30, 2011. The decrease is primarily due to the elimination of marketing and branding consultant fees offset by an increase in accounting services.

Franchisees must contribute to an advertising fund established by us at a rate of 2% for the Spicy Pickle brand and of up to 2% for the BG Urban Café brand of total franchisee gross receipts. Additional marketing programs may be instituted which allow franchisees the option of choosing to participate in the program and, as a result, contributing additional fees for that program specifically. At our discretion, we may spend more or less than actual advertising receipts from the franchisees. Advertising fees recognized were $84,266 and $98,550 for the three months ended September 30, 2011 and 2010. These fees are offset against advertising expenses, which are recognized when incurred. We incurred advertising expense of $229,751 and $214,863 in the three months ended September 30, 2011 and 2010, respectively. The net amounts reflected in the financial statements are $145,485 and $116,313 in the three months ended September 30, 2011 and 2010, respectively.

Travel and entertainment decreased $7,032 (20.77%) from $33,860 for the three months ended September 30, 2010 to $26,828 for the three months ended September 30, 2011. The decrease was due to lower travel costs related to our operations department visiting franchise locations to perform onsite evaluations offset by increased travel associated with the opening of new locations.

Rent expense decreased $11,874 (22.73%) from $52,245 for the three months ended September 30, 2010 to $40,371 for the three months ended September 30, 2011. The decrease is a result of a similar reduction in office space utilized by the Company.

MIS decreased $48,921 (75.04%) from $65,191 for the three months ended September 30, 2010 to $16,270 for the three months ended September 30, 2011. The decrease was primarily as a result of the restructuring of our support and provider services for our computer and telephone systems.

Investor relations decreased $12,046 (68.12%) from $17,683 for the three months ended September 30, 2010 to $5,637 for the three months ended September 30, 2011. The decrease was due primarily to the development of our new investor relations website which supplemented previously outsourced services in this area.

Directors' fees decreased $13,291 (20.92%) from $63,541 for the three months ended September 30, 2010 to $50,250 for the three months ended September 30, 2011. Last year's quarterly expense included fees associated with the addition of new board members of the Board of Directors and the new Board of Director compensation plan.

Bad debt expense incurred for the three months ended September 30, 2011 was a credit of $461. There was no bad debt expense for the three months ended September 30, 2010.

Other general and administrative expenses increased $59,332 (90.99%) from $65,208 for the three months ended September 30, 2010 to $124,540 for the three months ended September 30, 2011. The increase resulted primarily from changes in insurance coverage for the Company.

Overall, net loss was $671,017 for the three months ended September 30, 2011 as compared to $802,429 for the three months ended September 30, 2010. The decrease in the net loss of $131,412 (16.38%) was primarily due to decreased spending in labor and general and administrative expense.

The following analysis shows operating statistics for the nine months ended September 30, 2011 and 2010, included in the restaurant statistics in 2010 are revenues and costs associated with the bakery we closed on December 31, 2010:

	2011		2010	
Revenues:	Amount	As a Percentage of Total Revenue	Amount	As a Percentage of Total Revenue
Restaurant sales	$ 1,725,487	61.35%	$ 1,938,016	57.89%
Franchise fees, royalties, and rebates	1,087,061	38.65%	1,409,716	42.11%
Total revenue	$ 2,812,548	100.00%	$ 3,347,732	100.00%

Operating costs and expenses:

Restaurant:			As a Percentage of Restaurant Sales			As a Percentage of Restaurant Sales
Cost of sales	$	682,241	39.54%	$	714,185	36.85%
Labor		633,800	36.73%		745,251	38.45%
Occupancy		420,304	24.36%		334,903	17.28%
Depreciation		154,874	8.98%		220,246	11.36%
Other operating cost		269,290	15.61%		296,399	15.29%
Total restaurant operating expenses	$	2,160,509	125.22%	$	2,310,985	119.23%

Franchise and general:			As a Percentage of Franchise Fees and Royalties			As a Percentage of Franchise Fees and Royalties
General and administrative	$	2,641,552	243.00%	$	2,594,068	184.01%
Depreciation		204,974	18.86%		140,410	9.96%
Total franchise and general expenses	$	2,846,526	261.86%	$	2,734,478	193.97%

			As a Percentage of Total Revenue			As a Percentage of Total Revenue
Total operating costs and expenses	$	5,007,035	178.02%	$	5,045,463	150.71%
(Loss) from operations	$	(2,194,487)	(78.02%)	$	(1,697,730)	(50.71%)
Other income and (expense):						
Interest income (expense)	$	(239,618)	(8.52%)	$	(135,091)	(4.04%)
Gain (loss) on disposal of assets		(223,706)	(7.95%)		-	-
Other income (expense)		13,452	0.47%		-	-
Total other income and (expense)	$	(449,872)	(16.00%)	$	(135,091)	(4.04%)
Net (loss)	$	(2,644,359)	(94.02%)	$	(1,832,821)	(54.75%)

The components of revenue are restaurant sales for company-owned restaurants, including the company-owned bakery in 2010 and royalties and franchise fees for our franchise operations.

For the nine months ended September 30, 2011, total revenue decreased $535,184 (15.99%) from $3,347,732 for the nine months ended September 30, 2010 to $2,812,548 for the same period in 2011. The decrease resulted primarily as a result of recognizing less franchise fee revenue in 2011 and having no bakery operations in 2011 compared to 2010.

The loss from operations increased $496,757 (29.26%) from a loss of $1,697,730 for the nine months ended September 30, 2010 to a loss of $2,194,487 for the nine months ended September 30, 2011. The increased loss resulted primarily from an increase in marketing and advertising in addition to lower franchise fee revenue for the year.

For the nine months ended September 30, 2011, restaurant sales decreased $212,529 (10.97%) from $1,938,016 in 2010 to $1,725,487 in 2011. The decrease in restaurant revenue was principally due to having no bakery operations in 2011.

The loss from restaurant operations increased $62,054 (16.64%) from a loss of $372,968 for the nine months ended September 30, 2010 to a loss of $435,022 for the nine months ended September 30, 2011. The increased loss was primarily a result of higher food costs and having no bakery operations in 2011.

Franchise fees and royalty revenue decreased $322,655 (22.89%) from $1,409,716 for the nine months ended September 30, 2010 to $1,087,061 in 2011. Initial franchise fees are collected when a franchisee enters into a franchise agreement. At that point in time these fees are recorded as deferred revenue and are recognized as revenue on the statement of operations when the franchised restaurant is opened. In certain cases if a franchisee fails to meet its obligation under its franchise/development agreement we can terminate that agreement and we recognize revenue at that time. Franchise fees decreased $323,834 (81.13%) from $399,176 for the nine months ended September 30, 2010 to $75,340 in 2011. Three Spicy Pickle restaurants for which we collected fees was opened during the nine month period ended September 30, 2011 and two BG Urban Café franchise restaurants were transferred during the nine month period ended September 30, 2011. Comparatively, two Spicy Pickle restaurants for which we collected fees were opened and twenty-seven Spicy Pickle franchise agreements were terminated during the nine month period ended September 30, 2010. Royalty fees decreased $28,164 (3.85%) from $731,744 for the nine months ended September 30, 2010 to $703,580 in 2011. The decrease is due primarily to fewer franchised restaurants operating in 2011. Rebate revenue increased $29,345 (10.53%) from $278,796 for the nine months ended September 30, 2010 to $308,141 for the nine months ended September 30, 2011. The increase is due primarily as a result of the restructured supply chain agreement put into place during the fourth quarter of 2010 offset by lower purchasing volumes due to fewer locations operating during 2011.

The following sets forth details of the costs that make up general and administrative expenses and the difference for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010.

	2011	2010	Difference
Personnel cost	$ 1,119,576	$ 1,493,310	$ (373,734)
Stock options	37,138	145,161	(108,023)
Professional fees	207,689	156,565	51,124
Marketing, advertising, and promotion	319,132	118,641	200,491
Travel and entertainment	103,891	112,917	(9,026)
Rent	139,100	143,903	(4,803)
MIS	48,894	110,679	(61,785)
Investor relations	42,340	46,799	(4,459)
Director fees	156,750	63,541	93,209
Bad Debt	166,475	-	166,475
Other general and administrative expenses	300,567	202,552	98,015
Total general and administrative expenses	$ 2,641,552	$ 2,594,068	$ 47,484

General and administrative expenses increased $47,484 (1.83%) from $2,594,068 for the nine month period ended September 30, 2010 to $2,641,552 for the nine month period ended September 30, 2011.

Our most significant expense continues to be personnel costs. The number of full time employees decreased from 16 at September 30, 2010 to 13 at September 30, 2011. Personnel cost decreased $373,734 (25.03%) from $1,493,310 for the nine months ended September 30, 2010 to $1,119,576 for the nine months ended September 30, 2011. During the last year we have made significant management changes including hiring a new Chief Executive Officer, Chief Financial Officer, and a Chief Development Officer. Included in the nine months ended September 30, 2010 is $165,000 in expense for 1,500,000 shares granted to former officers of the company and severance pay for certain employees no longer with the Company and $180,000 associated with the hiring of our new CEO, which is the value of 3,000,000 shares of common stock on the date of issuance, $0.06 per share. There was no such expense for the current year. We intend to closely monitor our personnel cost and we will attempt to outsource personnel as needed rather than employ full time personnel.

Stock option expense is a non-cash expense. We estimate the fair value of share-based payment awards on the date of grant using the Black-Scholes option-pricing model. Stock option expense decreased $108,023 (74.42%) from $145,161 for the nine months ended September 30, 2010 to $37,138 for the nine months ended September 30, 2011. The decrease is primarily due to the cost last year associated with 2,000,000 options granted to two new board members off set by the additional cost associated with the options issued when hiring the new executive staff.

Professional fees increased $51,124 (32.65%) from $156,565 for the nine month period ended September 30, 2010 to $207,689 for the nine month period ended September 30, 2011. The increase is primarily due to fees associated with accounting and auditing services.

Franchisees must contribute to an advertising fund established by us at a rate of 2% for the Spicy Pickle brand and of up to 2% for the BG Urban Café brand of total franchisee gross receipts. Additional marketing programs may be instituted which allow franchisees the option of choosing to participate in the program and, as a result, contributing additional fees for that program specifically. At our discretion, we may spend more or less than actual advertising receipts from the franchisees. Advertising fees recognized were $286,381 and $282,202 for the nine months ended September 30, 2011 and 2010, respectively. These fees are offset against advertising expenses, which are recognized when incurred. We incurred advertising expense of $605,513 and $400,723 in the nine months ended September 30, 2011 and 2010, respectively. The net amounts reflected in the financial statements are $319,132 and $118,521 in the nine months ended September 30, 2011 and 2010, respectively.

Travel and entertainment decreased $9,026 (7.99%) from $112,917 for the nine months ended September 30, 2010 to $103,891 for the nine months ended September 30, 2011. The reduction of expense is a result of fewer franchise store visits during the year.

Rent expense decreased $4,803 (3.34%) from $143,903 for the nine months ended September 30, 2010 to $139,100 for the nine months ended September 30, 2011. The decrease is a result of a reduction in office space utilized by the Company.

MIS decreased $61,785 (55.82%) from $110,679 for the nine months ended September 30, 2010 to $48,894 for the nine months ended September 30, 2011. The decrease was primarily as a result of the restructuring of our support and provider services for our computer and telephone systems.

Investor relations decreased $4,459 (9.53%) from $46,799 for the nine months ended September 30, 2010 to $42,340 for the nine months ended September 30, 2011. The decrease was due primarily to the development of our new investor relations website which supplemented previously outsourced services in this area offset by the increase in expense associated with our annual shareholders meeting conducted in 2011, compared to no meeting being held in 2010.

Directors' fees increased $93,209 (146.69%) from $63,541 for the nine months ended September 30, 2010 to $156,750 for the nine months ended September 30, 2011. The increase is primarily the result of a full year of expenses associated with the new members of the Board of Directors and the new Board of Director compensation plan.

Bad debt expense incurred for the nine months ended September 30, 2011 was $166,475. There was no bad debt expense for the nine months ended September 30, 2010. The increase in expense was the result of the establishment of an allowance for a large receivable associated with the BG operations offset by some collections on items that allowances were previously established.

Other general and administrative expenses increased $98,015 (48.39%) from $202,552 for the nine months ended September 30, 2010 to $300,567 for the nine months ended September 30, 2011. The increase resulted primarily from changes in insurance coverage for the Company.

Overall, net loss was $2,644,359 for the nine months ended September 30, 2011 as compared to $1,832,821 for the nine months ended September 30, 2010. The increase in the net loss of $811,538 (44.28%) was primarily due to increased spending on marketing and advertising, increased bad debt expense from the BG Urban Café operations, loss on disposal of assets associated with the closing of a Spicy Pickle Company owned restaurant, and decreased franchise fee revenue.

Liquidity and Capital Resources

At September 30, 2011, we had a working capital deficit of $914,417, as compared to a working capital deficit of $299,234 at December 31, 2010. Of the working capital deficit at September 30, 2011, $91,000 was deferred franchise fee revenue and does not represent a cash liability. The decrease in working capital is primarily due to a decrease in other short-term receivables and an increase in accrued expenses and compensation.

Subsequent to September 30, 2011, the Company entered into a non-binding letter of intent with three members of our Board of Directors (lenders) whereby they will provide future financing for the Company. The initial terms of the agreement include total funding in the amount of $1,450,000 payable in three tranches of $500,000, $500,000 and $450,000 with the first tranche being paid on the date the agreement closes, the second tranche being paid on or about February 1, 2012 and the last tranche being paid on or about May 2, 2012. The interest rate on the funding will be 18% and the lenders will receive a 1.5 percentage of revenue share per $500,000 in funding from the Company. The Company cannot predict with certainty that the agreement will close and the financing will be received, however, we anticipate completion of the deal in the upcoming quarter.

We receive payments from franchisees when they sign a franchise agreement. We do not include those payments in revenue until such time as the franchisee opens the restaurant. The amount recorded as deferred revenue at September 30, 2011 was $91,000, a decrease of $51,000 compared to December 31, 2010 end of year balance of $142,000. Although not recorded as revenue, any payments received will provide working capital.

At September 30, 2011 we had contractual obligations for operating leases of $2,361,762, of which $117,295 is due by December 31, 2011.

As of September 30, 2011, our aggregate minimum requirements under non-cancelable leases are as follows:

2011	$	117,295
2012		536,964
2013		487,677
2014		345,006
2015		318,220
Later years		556,600
	$	2,361,762

The current portion of our long-term debt is $115,790 which is due and payable over the next twelve months and we have long-term debt in the amount of $373,065 which is due over the course of the next 33 months. Additionally, we have $3,879,853 in long-term debt from related parties. Of the $3,879,853, $250,000 is payable in equal installments over the course of seven years. The remaining amount is due and payable in May 2013.

During the year ended December 31, 2010, we entered into an agreement with two members of our Board of Directors whereby they will loan the Company up to $2,000,000 as a revolving line of credit. The line of credit is evidenced by a Convertible Promissory Note and Secured Loan Agreement (the "First Note"). The First Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders' option the First Note is convertible into our common stock at $0.105 per share, the value of the common stock on the date the First Note was executed. In addition for every two shares of common stock issued on conversion we will issue to the lenders a warrant to purchase one share of common stock at a price equal to 120% of the average volume weighted average price per share for the 10 days prior to the conversion. The First Note is also secured by the assets of the Company. Interest expense recognized on the First Note was $50,000 and $18,333 for the three months ended September 30, 2011 and 2010, respectively. Interest expense recognized on the First Note was $142,569 and $25,000 for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, we have drawn down the full $2,000,000 available on the loan.

At the same time as the above, the holders of the Convertible Note described above agreed to extend the due date of their Convertible Note (originally January 31, 2012) to coincide with the Note. As consideration for the extension of the due date, the holders will receive a security interest in the assets of the Company on a pro rata basis with the lenders above. One of the holders of the Convertible Note is also a lender of the First Note while both of the holders of the Convertible Note are also lenders of the Second Note (see below).

During April 2011 we entered into an agreement with three members of our Board of Directors, two of which participated in the First Note, whereby they will loan the Company up to $1,000,000 as a revolving line of credit. The line of credit is evidenced by a Convertible Promissory Note and Secured Loan Agreement (the "Second Note"). The Second Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders option the Second Note is convertible into our common stock at $0.08 per share. In addition for every two shares of common stock issued on conversion we will issue to the lenders a warrant to purchase one share of common stock at a price equal to 120% of the average volume weighted average price per share for the 10 days prior to the conversion. The Second Note is also secured by the assets of the Company. Interest expense recognized on the Second Note was $17,917 for the three months ended September 30, 2011 and $24,792 for the nine months ended September 30, 2011. There was no such interest expense for the three or nine months ended September 30, 2010. As of September 30, 2011, we have drawn $875,000 on the Second Note and have $125,000 remaining available on the loan.

Off-Balance Sheet Arrangements

At September 30, 2011 we had no obligations that would qualify to be disclosed as off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

During the current year, the Company began outsourcing daily accounting activities, including accounts payable, accounts receivable, and standard general ledger entries. Management believes that the changes have not resulted in any changes to the Company's internal control over financial reporting during the current fiscal year 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

None.

Item 1A. Risk Factors

Not required.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the nine months ended September 30, 2011, we issued 662,500 shares of unregistered common stock for compensation to four members of our board of directors. The stock was issued in lieu of cash pursuant to the Company's board of director compensation plan. We relied upon the exemption from registration contained in Section 4(2) of the Securities Act, as these persons were deemed to be sophisticated with respect to the investment in the securities due to their financial condition and involvement in our business, and had access to the kind of information which registration would disclose.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

None.

Item 5. Other Information

None

Item 6. Exhibits

Regulation S-K Number	Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Bylaws (2)
4.1	Certificate of Designation of Series A Variable Rate Convertible Preferred Stock (3)
4.2	Form of warrant to be issued to Midtown Partners & Co, LLC and assigns (4)
4.3	Form of warrant to be issued to private placement investors (4)
10.1	2006 Stock Option Plan (2)
10.2	Promissory Note to Spicy Pickle, LLC (2)
10.3	Amendment, Redemption and Conversion Agreement (4)
10.4	Agreement with Midtown Partners & Co, LLC and assigns (4)
10.5	2009 Restricted Stock Plan (5)
10.6	Convertible Promissory Note and Secured Loan Agreement dated May 10, 2010 – Presley Reed and Patricia Stacey Reed (6)
10.7	First Amendment to Convertible Promissory Note Dated May 10, 2010 - Presley Reed and Patricia Stacey Reed (6)
10.8	First Amendment to Convertible Promissory Note Dated May 10, 2010 - Raymond BonAnno and Joan BonAnno (6)
10.9	Executive Employment Agreement with Mark Laramie dated August 3, 2010 (7)
10.10	Executive Employment Agreement with Clint Woodruff dated October 18, 2010 (8)
10.11	Convertible Promissory Note and Secured Loan Agreement dated April 15, 2011 with Raymond and Joan BonAnno (9)

Regulation S-K Number	Exhibit
10.12	Convertible Promissory Note and Secured Loan Agreement dated April 15, 2011 with Presley and Patricia Stacey Reed (9)
10.13	2011 Stock Option Plan (10)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (10)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (10)
32.1	Section 1350 Certification of Chief Executive Officer (10)
32.2	Section 1350 Certification of Chief Financial Officer (10)

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(1) Incorporated by reference to the exhibits to Amendment No. 1 to the registrant's registration statement on Form SB-2 filed on December 12, 2006.
(2) Incorporated by reference to the exhibits to the registrant's registration statement on Form SB-2 filed on October 26, 2006.
(3) Incorporated by reference to the exhibits to the registrant's Current Report on Form 8-K filed on December 19, 2007
(4) Incorporated by reference to the exhibits to the registrant's Current Report on Form 8-K filed on September 23, 2009.
(5) Incorporated by reference to the exhibits to the registrant's Current Report on Form 8-K filed on January 6, 2010.
(6) Incorporated by reference to the exhibits to the registrant's Quarterly Report on Form 10-Q filed on May 13, 2010.
(7) Incorporated by reference to the exhibits to the registrant's Current Report on Form 8-K filed on August 5, 2010.
(8) Incorporated by reference to the exhibits to the registrant's Current Report on Form 8-K filed on October 12, 2010.
(9) Incorporated by reference to the exhibits to the registrant's Current Report on Form 8-K filed on April 19, 2011.
(10) Filed herewith.

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.

SPICY PICKLE FRANCHISING, INC.

November 21, 2011 By: /s/ Mark Laramie
Mark Laramie
Chief Executive Officer

November 21, 2011 By: /s/ Clint Woodruff
Clint Woodruff
Chief Financial Officer

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EXHIBIT 10.13

2011 STOCK OPTION PLAN

SPICY PICKLE FRANCHISING, INC.

2011 STOCK OPTION PLAN

Adopted by the Resolution of the Directors on March 2, 2011.
Approved by the Shareholders on ____________________.

SPICY PICKLE FRANCHISING, INC.
2011 STOCK OPTION PLAN

1. Purpose.

The purpose of this Plan is to advance the interests of the Company and its stockholders by helping the Company obtain and retain the services of employees, officers, consultants, and directors, upon whose judgment, initiative and efforts the Company is substantially dependent, and to provide those persons with further incentives to advance the interests of the Company.

2. Certain Definitions.

Unless the context otherwise requires, the following defined terms (together with other capitalized terms defined elsewhere in this Plan) will govern the construction of this Plan, and of any stock option agreements entered into pursuant to this Plan:

(a) "10% Stockholder" means a person who owns, either directly or indirectly by virtue of the ownership attribution provisions set forth in Section 424(d) of the Code at the time he or she is granted an Option, stock possessing more than ten percent (10%) of the total combined voting power or value of all classes of stock of the Company and/or of its subsidiaries;

(b) "1933 Act" means the federal Securities Act of 1933, as amended;

(c) "Board" means the Board of Directors of the Company;

(d) "Called for under an Option," or words to similar effect, means issuable pursuant to the exercise of an Option;

(e) "Code" means the Internal Revenue Code of 1986, as amended (references herein to Sections of the Code are intended to refer to Sections of the Code as enacted at the time of this Plan's adoption by the Board and as subsequently amended, or to any substantially similar successor provisions of the Code resulting from recodification, renumbering or otherwise);

(f) "Committee" means a committee of two or more Disinterested Directors, appointed by the Board, to administer and interpret this Plan; provided that the term "Committee" will refer to the Board during such times as no Committee is appointed by the Board;

(g) "Company" means Spicy Pickle Franchising, Inc., a Colorado corporation;

(h) "Disability" has the same meaning as "permanent and total disability," as defined in Section 22(e)(3) of the Code;

(i) "Disinterested Director" means a member of the Board who is not during the period of one year prior to his or her service as an administrator of the Plan, or during the period of such service, granted or awarded Stock, options to acquire Stock, or similar equity securities of the Company under this Plan or any similar plan of the Company, other than the grant of a Formula Option pursuant to section 6(m) of this Plan;

(j) "Eligible Participants" means persons who, at a particular time, are employees, officers, consultants, or directors of the Company or its subsidiaries;

(k) "Fair Market Value" means, with respect to the Stock and as of the date an ISO or a Formula Option is granted hereunder, the market price per share of such Stock determined by the Committee, consistent with the requirements of Section 422 of the Code and to the extent consistent therewith, as follows:

(i) If the Stock was traded on a stock exchange on the date in question, then the Fair Market Value will be equal to the closing price reported by the applicable composite-transactions report for such date;

(ii) If the Stock was traded over-the-counter on the date in question and was classified as a national market issue, then the Fair Market Value will be equal to the last-transaction price quoted by the NASDAQ system for such date;

(iii) If the Stock was traded over-the-counter on the date in question but was not classified as a national market issue, then the Fair Market Value will be equal to the average of the last reported representative bid and asked prices quoted by the NASDAQ system for such date; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value will be determined by the Committee in good faith on such basis as it deems appropriate.

(l) "Formula Option" means an NSO granted to members of the Committee pursuant to section 6(m) hereof;

(m) "ISO" has the same meaning as "incentive stock option," as defined in Section 422 of the Code;

(n) "Just Cause Termination" means a termination by the Company of an Optionee's employment by and/or service to the Company (or if the Optionee is a director, removal of the Optionee from the Board by action of the stockholders or, if permitted by applicable law and the by-laws of the Company, the other directors), in connection with the good faith determination of the Company's board of directors (or of the Company's stockholders if the Optionee is a director and the removal of the Optionee from the Board is by action of the stockholders, but in either case excluding the vote of the Optionee if he or she is a director or a stockholder) that the Optionee has engaged in any acts involving dishonesty or moral turpitude or in any acts that materially and adversely affect the business, affairs or reputation of the Company or its subsidiaries;

(o) "NSO" means any option granted under this Plan whether designated by the Committee as a "non-qualified stock option," a "non-statutory stock option" or otherwise, other than an option designated by the Committee as an ISO, or any option so designated but which, for any reason, fails to qualify as an ISO pursuant to Section 422 of the Code and the rules and regulations thereunder;

(p) "Option" means an option granted pursuant to this Plan entitling the option holder to acquire shares of Stock issued by the Company pursuant to the valid exercise of the option;

(q) "Option Agreement" means an agreement between the Company and an Optionee, in form and substance satisfactory to the Committee in its sole discretion, consistent with this Plan;

(r) "Option Price" with respect to any particular Option means the exercise price at which the Optionee may acquire each share of the Option Stock called for under such Option;

(s) "Option Stock" means Stock issued or issuable by the Company pursuant to the valid exercise of an Option;

(t) "Optionee" means an Eligible Participant to whom Options are granted hereunder, and any transferee thereof pursuant to a Transfer authorized under this Plan;

(u) "Plan" means this 2011 Stock Option Plan of the Company;

(v) “QDRO” has the same meaning as “qualified domestic relations order” as defined in Section 414(p) of the Code;

(w) “Stock” means shares of the Company’s Common Stock, $0.001 par value;

(x) “Subsidiary” has the same meaning as “Subsidiary Corporation” as defined in Section 424(f) of the Code;

(y) “Transfer,” with respect to Option Stock, includes, without limitation, a voluntary or involuntary sale, assignment, transfer, conveyance, pledge, hypothecation, encumbrance, disposal, loan, gift, attachment or levy of such Option Stock, including without limitation an assignment for the benefit of creditors of the Optionee, a transfer by operation of law, such as a transfer by will or under the laws of descent and distribution, an execution of judgment against the Option Stock or the acquisition of record or beneficial ownership thereof by a lender or creditor, a transfer pursuant to a QDRO, or to any decree of divorce, dissolution or separate maintenance, any property settlement, any separation agreement or any other agreement with a spouse (except for estate planning purposes) under which a part or all of the shares of Option Stock are transferred or awarded to the spouse of the Optionee or are required to be sold; or a transfer resulting from the filing by the Optionee of a petition for relief, or the filing of an involuntary petition against such Optionee, under the bankruptcy laws of the United States or of any other nation.

3. Eligibility.

The Company may grant Options under this Plan only to persons who are Eligible Participants as of the time of such grant. Subject to the provisions of sections 4(d), 5 and 6 hereof, there is no limitation on the number of Options that may be granted to an Eligible Participant.

4. Administration.

(a) *Committee.* The Committee, if appointed by the Board, will administer this Plan. If the Board, in its discretion, does not appoint such a Committee, the Board itself will administer this Plan and take such other actions as the Committee is authorized to take hereunder; provided that the Board may take such actions hereunder in the same manner as the Board may take other actions under the Company’s Articles of Incorporation and By-laws generally.

(b) *Authority and Discretion of Committee.* The Committee will have full and final authority in its discretion, at any time and from time to time, subject only to the express terms, conditions and other provisions of the Company’s Articles of incorporation, by-laws and this Plan, and the specific limitations on such discretion set forth herein:

(i) to select and approve the persons who will be granted Options under this Plan from among the Eligible Participants, and to grant to any person so selected one or more Options to purchase such number of shares of Option Stock as the Committee may determine;

(ii) to determine the period or periods of time during which Options may be exercised, the Option Price and the duration of such Options, and other matters to be determined by the Committee in connection with specific Option grants and Options Agreements as specified under this Plan;

(iii) to interpret this Plan, to prescribe, amend and rescind rules and regulations relating to this Plan, and to make all other determinations necessary or advisable for the operation and administration of this Plan; and

(iv) to delegate all or a portion of its authority under subsections (i) and (ii) of this section 4(b) to one or more directors of the Company who are executive officers of the Company, but only in connection with Options granted to Eligible Participants who are not subject to the reporting and liability provisions of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, and subject to such restrictions and limitations (such as the aggregate number of shares of Option Stock called for by such Options that may be granted) as the Committee may decide to impose on such delegate directors.

(c) *Limitation on Authority.* Notwithstanding the foregoing, or any other provision of this Plan, the Committee will have no authority:

(i) to grant Options to any of its members, whether or not approved by the Board; and

(ii) to determine any matters, or exercise any discretion, in connection with the Formula Options under section 6(m) hereof, to the extent that the power to make such determinations or to exercise such discretion would cause one or more members of the Committee no longer to be “Disinterested Directors” within the meaning of section 2(i) above.

(d) *Designation of Options.* Except as otherwise provided herein, the Committee will designate any Option granted hereunder either as an ISO or as an NSO. To the extent that the Fair Market Value (determined at the time the Option is granted) of Stock with respect to which all ISOs are exercisable for the first time by any individual during any calendar year (pursuant to this Plan and all other plans of the Company and/or its subsidiaries) exceeds $100,000, such option will be treated as an NSO. Notwithstanding the general eligibility provisions of section 3 hereof, the Committee may grant ISOs only to persons who are employees of the Company and/or its subsidiaries.

(e) Option Agreements. Options will be deemed granted hereunder only upon the execution and delivery of an Option Agreement by the Optionee and a duly authorized officer of the Company. Options will not be deemed granted hereunder merely upon the authorization of such grant by the Committee; provided however, for purposes of determining the Option Price only, the grant date shall be deemed the date of the authorization of such grant by the Committee unless expressly stated otherwise by the Committee prior to execution and delivery of the Option Agreement.

5. Shares Reserved for Options.

(a) *Option Pool.* The aggregate number of shares of Option Stock that may be issued pursuant to the exercise of Options granted under this Plan will not exceed Fifteen Million (15,000,000) (the “Option Pool”), provided that such number will be increased by the number of shares of Option Stock that the Company subsequently may reacquire through repurchase or otherwise. Shares of Option Stock that would have been issuable pursuant to Options, but that are no longer issuable because all or part of those Options have terminated or expired, will be deemed not to have been issued for purposes of computing the number of shares of Option Stock remaining in the Option Pool and available for issuance.

(b) *Adjustments Upon Changes in Stock.* In the event of any change in the outstanding Stock of the Company as a result of a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification, appropriate proportionate adjustments will be made in:

(i) the aggregate number of shares of Option Stock in the Option Pool that may be issued pursuant to the exercise of Options granted hereunder;

(ii) the Option Price and the number of shares of Option Stock called for in each outstanding Option granted hereunder; and

(iii) other rights and matters determined on a per share basis under this Plan or any Option Agreement hereunder. Any such adjustments will be made only by the Board, and when so made will be effective, conclusive and binding for all purposes with respect to this Plan and all Options then outstanding. No such adjustments will be required by reason of the issuance or sale by the Company for cash or other consideration of additional shares of its Stock or securities convertible into or exchangeable for shares of its Stock.

6. Terms of Stock Option Agreements.

Each Option granted pursuant to this Plan will be evidenced by an agreement (an "Option Agreement") between the Company and the person to whom such Option is granted, in form and substance satisfactory to the Committee in its sole discretion, consistent with this Plan. Without limiting the foregoing, each Option Agreement (unless otherwise stated therein) will be deemed to include the following terms and conditions:

(a) *Covenants of Optionee.* At the discretion of the Committee, the person to whom an Option is granted hereunder, as a condition to the granting of the Option, must execute and deliver to the Company a confidential information agreement approved by the Committee. Nothing contained in this Plan, any Option Agreement or in any other agreement executed in connection with the granting of an Option under this Plan will confer upon any Optionee any right with respect to the continuation of his or her status as an employee of, consultant or independent contractor to, or director of, the Company or its subsidiaries.

(b) *Vesting Periods.* Except as otherwise provided herein, each Option Agreement may specify the period or periods of time within which each Option or portion thereof will first become exercisable (the "Vesting Period") with respect to the total number of shares of Option Stock called for thereunder (the "Total Award Option Stock"). Such Vesting Periods will be fixed by the Committee in its discretion, and may be accelerated or shortened by the Committee in its discretion.

(c) *Exercise of the Option.*

(i) *Mechanics and Notice.* An Option may be exercised to the extent exercisable (1) by giving written notice of exercise to the Company, specifying the number of full shares of Option Stock to be purchased and accompanied by full payment of the Option Price thereof and the amount of withholding taxes pursuant to subsection 6(c)(ii) below; and (2) by giving assurances satisfactory to the Company that the shares of Option Stock to be purchased upon such exercise are being purchased for investment and not with a view to resale in connection with any distribution of such shares in violation of the 1933 Act; provided, however, that in the event the Option Stock called for under the Option is registered under the 1933 Act, or in the event resale of such Option Stock without such registration would otherwise be permissible, this second condition will be inoperative if, in the opinion of counsel for the Company, such condition is not required under the 1933 Act, or any other applicable law, regulation or rule of any governmental agency.

(ii) *Withholding Taxes.* As a condition to the issuance of the shares of Option Stock upon full or partial exercise of an NSO granted under this Plan, the Optionee will pay to the Company in cash, or in such other form as the Committee may determine in its discretion, the amount of the Company's tax withholding liability required in connection with such exercise. For purposes of this subsection 6(c)(ii), "tax withholding liability" will mean all federal and state income taxes, social security tax, and any other taxes applicable to the compensation income arising from the transaction required by applicable law to be withheld by the Company.

(d) *Payment of Option Price.* Each Option Agreement will specify the Option Price with respect to the exercise of Option Stock thereunder, to be fixed by the Committee in its discretion, but in no event will the Option Price for an ISO granted hereunder be less than the Fair Market Value (or, in case the Optionee is a 10% Stockholder, one hundred ten percent (110%) of such Fair Market Value) of the Option Stock at the time such ISO is granted, and in no event will the Option Price for an NSO granted hereunder be less than eighty-five percent (85%) of Fair Market Value. The Option Price will be payable to the Company in United States dollars in cash or by check or, such other legal consideration as may be approved by the Committee, in its discretion.

(i) For example, the Committee, in its discretion, may permit a particular Optionee to pay all or a portion of the Option Price, and/or the tax withholding liability set forth in subsection 6(c)(ii) above, with respect to the exercise of an Option either by surrendering shares of Stock already owned by such Optionee or by withholding shares of Option Stock, provided that the Committee determines that the fair market value of such surrendered Stock or withheld Option Stock is equal to the corresponding portion of such Option Price and/or tax withholding liability, as the case may be, to be paid for therewith.

(ii) If the Committee permits an Optionee to pay any portion of the Option Price and/or tax withholding liability with shares of Stock with respect to the exercise of an Option (the "Underlying Option") as provided in subsection 6(d)(i) above, then the Committee, in its discretion, may grant to such Optionee (but only if Optionee remains an Eligible Participant at that time) additional NSOs, the number of shares of Option Stock called for thereunder to be equal to all or a portion of the Stock so surrendered or withheld (a "Replacement Option"). Each Replacement Option will be evidenced by an Option Agreement. Unless otherwise set forth therein, each Replacement Option will be immediately exercisable upon such grant (without any Vesting Period) and will be coterminous with the Underlying Option. The Committee, in its sole discretion, may establish such other terms and conditions for Replacement Options as it deems appropriate.

(e) *Termination of the Option.* Except as otherwise provided herein, each Option Agreement will specify the period of time, to be fixed by the Committee in its discretion, during which the Option granted therein will be exercisable, not to exceed ten years from the date of grant in the case of an ISO (the "Option Period"); provided that the Option Period will not exceed five years from the date of grant in the case of an ISO granted to a 10% Stockholder. To the extent not previously exercised, each Option will terminate upon the expiration of the Option Period specified in the Option Agreement; provided, however, that each such Option will terminate, if earlier:

(i) ninety days after the date that the Optionee ceases to be an Eligible Participant for any reason, other than by reason of death or disability or a Just Cause Termination;

(ii) twelve months after the date that the Optionee ceases to be an Eligible Participant by reason of such person's death or disability; or

(iii) immediately as of the date that the Optionee ceases to be an Eligible Participant by reason of a Just Cause Termination.

In the event of a sale or all or substantially all of the assets of the Company, or a merger or consolidation or other reorganization in which the Company is not the surviving corporation, or in which the Company becomes a subsidiary of another corporation (any of the foregoing events, a "Corporate Transaction"), then notwithstanding anything else herein, the right to exercise all then outstanding Options will vest immediately prior to such Corporate Transaction and will terminate immediately after such Corporate Transaction; provided, however, that if the Board, in its sole discretion, determines that such immediate vesting of the right to exercise outstanding Options is not in the best interests of the Company, then the successor corporation must agree to assume the outstanding Options or substitute therefor comparable options of such successor corporation or a parent or subsidiary of such successor corporation.

(f) *Options Nontransferable.* No Option will be transferable by the Optionee otherwise than by will or the laws of descent and distribution, or in the case of an NSO, pursuant to a QDRO. During the lifetime of the Optionee, the Option will be exercisable only by him or her, or the transferee of an NSO if it was transferred pursuant to a QDRO.

(g) *Qualification of Stock.* The right to exercise an Option will be further subject to the requirement that if at any time the Board determines, in its discretion, that the listing, registration or qualification of the shares of Option Stock called for thereunder upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of or in connection with the granting of such Option or the purchase of shares of Option Stock thereunder, the Option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval is effected or obtained free of any conditions not acceptable to the Board, in its discretion.

(h) *Additional Restrictions on Transfer.* By accepting Options and/or Option Stock under this Plan, the Optionee will be deemed to represent, warrant and agree as follows:

(i) *Securities Act of 1933.* The Optionee understands that the shares of Option Stock have not been registered under the 1933 Act, and that such shares are not freely tradable and must be held indefinitely unless such shares are either registered under the 1933 Act or an exemption from such registration is available. The Optionee understands that the Company is under no obligation to register the shares of Option Stock.

(ii) *Other Applicable Laws.* The Optionee further understands that Transfer of the Option Stock requires full compliance with the provisions of all applicable laws.

(iii) *Investment Intent.* Unless a registration statement is in effect with respect to the sale of Option Stock obtained through exercise of Options granted hereunder: (1) Upon exercise of any Option, the Optionee will purchase the Option Stock for his or her own account and not with a view to distribution within the meaning of the 1933 Act, other than as may be effected in compliance with the 1933 Act and the rules and regulations promulgated thereunder; (2) no one else will have any beneficial interest in the Option Stock; and (3) he or she has no present intention of disposing of the Option Stock at any particular time.

(i) *Compliance with Law.* Notwithstanding any other provision of this Plan, Options may be granted pursuant to this Plan, and Option Stock may be issued pursuant to the exercise thereof by an Optionee, only after there has been compliance with all applicable federal and state securities laws, and all of the same will be subject to this overriding condition. The Company will not be required to register or qualify Option Stock with the Securities and Exchange Commission or any State agency, except that the Company will register with, or as required by local law, file for and secure an exemption from such registration requirements from, the applicable securities administrator and other officials of each jurisdiction in which an Eligible Participant would be granted an Option hereunder prior to such grant.

(j) *Stock Certificates.* Certificates representing the Option Stock issued pursuant to the exercise of Options will bear all legends required by law and necessary to effectuate this Plan's provisions. The Company may place a "stop transfer" order against shares of the Option Stock until all restrictions and conditions set forth in this Plan and in the legends referred to in this section 6(k) have been complied with.

(k) *Notices.* Any notice to be given to the Company under the terms of an Option Agreement will be addressed to the Company at its principal executive office, Attention: Corporate Secretary, or at such other address as the Company may designate in writing. Any notice to be given to an Optionee will be addressed to the Optionee at the address provided to the Company by the Optionee. Any such notice will be deemed to have been duly given if and when enclosed in a properly sealed envelope, addressed as aforesaid, registered and deposited, postage and registry fee prepaid, in a post office or branch post office regularly maintained.

(l) *Other Provisions.* The Option Agreement may contain such other terms, provisions and conditions, including such special forfeiture conditions, rights of repurchase, rights of first refusal and other restrictions on Transfer of Option Stock issued upon exercise of any Options granted hereunder, not inconsistent with this Plan, as may be determined by the Committee in its sole discretion.

(m) *Formula Options.* [Reserved for future consideration]

7. Proceeds from Sale of Stock.

Cash proceeds from the sale of shares of Option Stock issued from time to time upon the exercise of Options granted pursuant to this Plan will be added to the general funds of the Company and as such will be used from time to time for general corporate purposes.

8. Modification, Extension and Renewal of Options.

Subject to the terms and conditions and within the limitations of this Plan, and except with respect to Formula Options, the Committee may modify, extend or renew outstanding Options granted under this Plan, or accept the surrender of outstanding Options (to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefor (to the extent not theretofore exercised). Notwithstanding the foregoing, however, no modification of any Option will, without the consent of the holder of the Option, alter or impair any rights or obligations under any Option theretofore granted under this Plan.

9. Amendment and Discontinuance.

The Board may amend, suspend or discontinue this Plan at any time or from time to time; provided that no action of the Board will cause ISOs granted under this Plan not to comply with Section 422 of the Code unless the Board specifically declares such action to be made for that purpose and provided further that no such action may, without the approval of the stockholders of the Company, materially increase (other than by reason of an adjustment pursuant to section 5(b) hereof) the maximum aggregate number of shares of Option Stock in the Option Pool that may be issued under Options granted pursuant to this Plan or materially increase the benefits accruing to Plan participants or materially modify eligibility requirements for the participants. Provided, further, that the provisions of section 6(m) hereof may not be amended more often than once during any six (6) month period, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules and regulations thereunder. Moreover, no such action may alter or impair any Option previously granted under this Plan without the consent of the holder of such Option.

10. Plan Compliance with Rule 16b-3.

With respect to persons subject to Section 16 of the Securities Exchange Act of 1934, transactions under this plan are intended to comply with all applicable conditions of Rule 16b- 3 or its successors under the 1934 Act. To the extent any provision of the plan or action by the plan administrators fails so to comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the plan administrators.

11. Copies of Plan.

A copy of this Plan will be delivered to each Optionee at or before the time he or she executes an Option Agreement.

Date Plan Adopted by Board of Directors: ____________________, 2011

Approved by Shareholders: _________________________

Exhibit 31.1

RULE 13a-14(a) CERTIFICATION

I, Mark Laramie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spicy Pickle Franchising, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2011

/s/ Mark Laramie

Mark Laramie
Chief Executive Officer

Exhibit 31.2

RULE 13a-14(a) CERTIFICATION

I, Clint Woodruff, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spicy Pickle Franchising, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2011

/s/ Clint Woodruff

Clint Woodruff
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Spicy Pickle Franchising, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Laramie, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark Laramie
Mark Laramie
Chief Executive Officer
November 21, 2011

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Spicy Pickle Franchising, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Clint Woodruff, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Clint Woodruff
Clint Woodruff
Chief Financial Officer
November 21, 2011

Goodwill and Other Intangible Assets	9 Months Ended Sep. 30, 2011
Goodwill and Intangible Assets Disclosure [Abstract]	
Goodwill and Intangible Assets Disclosure [Text Block]	4. Goodwill and Other Intangible Assets

Goodwill and other intangible assets include the following at September 30, 2011 and December 31, 2010:

	2011	2010
Goodwill:		
Related to franchise operation (BG Urban Café)	$ 1,276,882	$ 1,276,882
Related to restaurant operations	92,743	240,443
Total goodwill	$ 1,369,625	$ 1,517,325
Trademarks and acquired franchise agreements		
Acquired trademarks	$ 291,000	$ 291,000
Acquired franchise agreements	822,667	971,000
Total gross trademarks and acquired franchise agreements	1,113,667	1,262,000
Accumulated amortization of acquired trademarks	(291,000)	(174,600)
Accumulated amortization of acquired franchise agreements	(205,664)	(176,544)
Total accumulated amortization of trademarks and acquired franchise agreements	(496,664)	(351,144)
Total trademarks and acquired franchise agreements	617,003	910,856
Reacquired franchise agreements	169,621	40,000
Total other intangibles	$ 786,624	$ 950,856

Amortization expense related to trademarks and acquired franchise agreements for the three months ended September 30, 2011 and 2010 was $18,696 and $80,268, respectively, and $179,232 and $124,404 for the nine months ended September 30, 2011 and 2010, respectively. Estimated future amortization expense by category as of September 30, 2011 was as follows:

Year	Trademarks	Franchise Agreements	Total Amortization
2011	$ -	$ 18,696	$ 18,696
2012	-	74,784	74,784
2013	-	74,784	74,784
2014	-	74,784	74,784
2015	-	74,784	74,784
Later years	-	299,171	299,171
	$ -	$ 617,003	$ 617,003

We recognize goodwill and identifiable intangibles arising from the allocation of the purchase prices of assets acquired in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). Goodwill represents the excess of cost over fair value of all identifiable assets less any liabilities assumed. In association with the acquisition and disposal of assets during the nine months ended September 30, 2011 the Company closed one location at a loss that had goodwill of $87,946 and sold another location for a gain that had goodwill associated with it of $59,754. As a result, goodwill decreased $147,700 during the nine months ended September

30, 2011. Additionally, ASC 805 gives guidance on five types of assets: marketing-related, customer-related, artistic-related, contract-related, and technology based intangible assets. We identified identifiable intangibles that are market-related and contract-related.

Acquired trademarks represent the trademarks associated with the Bread Garden franchise business acquired in 2008. These trademarks were determined to have an indefinite life. In August 2010, we entered into an agreement with the entity from which we obtained the rights to the trademarks, whereby we ceased using the trademarks by March 31, 2011. In exchange for not using the trademarks we are no longer obligated to pay any overriding royalties on the Bread Garden name. In addition we received $75,000 to defray the cost of rebranding the restaurants in Canada and we have accounted for that as a reduction of the expense. The Bread Garden restaurants have been rebranded using BG Urban Café as the new trademark. We are in the process of registering the trademark in Canada. In accordance with ASC Topic 350, *Intangibles Goodwill and Other*, the trademarks for the Bread Garden were deemed to have a determinable life and we amortized the original acquisition cost through March 31, 2011.

Acquired franchise agreements represent franchise agreements between Bread Garden Franchising, Inc., the company from which we purchased the assets, and the then existing franchisees. Reqcquired franchise agreements represent franchise agreements that were in place between the Company and the franchisees from whom we purchased assets in the acquisition of four restaurants and have an indefinite life. During 2010 one of those restaurants was closed. Acquired franchise agreements have determinable lives between 5.5 years and 11 years. Additionally, during the nine months ended September 30, 2011, one of the franchised restaurants acquired in the original purchase was purchased by the Company from the franchisee and accordingly, $114,621, net of amortization, was reclassified from acquired franchise agreements to reacquired franchise agreements. Additionally, one previously franchised Spicy Pickle location was purchased and as a result $30,000 of the purchase price was recorded as reacquired franchise rights. Amortization expenses related to acquired franchise agreements were $18,696 and $22,068 for the three months ended September 30, 2011 and 2010, respectively, and $62,832 and $66,204 for the nine months ended September 30, 2011 and 2010, respectively.

In making an estimate of future cash flow as it relates to our BG Urban Café operations, we considered the following items:

- The economic forecast in Canada with particular emphasis on British Columbia and western Canada.
- Industry forecast for the restaurant industry in Canada with particular emphasis on British Columbia and western Canada.
- Historical operating history of acquired assets as adjusted for forecast.
- Management's estimates of new franchisees.

We performed the goodwill impairment analysis at December 31, 2010 and determined the fair value of goodwill and other indefinite lived intangibles as related to the BG Urban Café operations was in excess of the carrying value.

In making an estimate of future cash flow as it relates to our Spicy Pickle operations, we considered the following items:

- The economic forecast in United States.
- Industry forecast for the restaurant industry in United States with emphasis on the fast casual segment.
- Historical operating history of acquired assets as adjusted for forecast.
- Changes to our menu and introduction of a new day part in our restaurants.

We performed the goodwill impairment analysis at December 31, 2010 and determined the fair value of goodwill and other indefinite lived intangibles as related to the Spicy Pickle operations was impaired in the amount of $80,136. This impairment was incurred due to the previously mentioned closure of one company store.

We will test for impairment between our annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset. Since our last annual test no events have occurred that would indicate the fair value of the asset has been impaired.

Acquisition and Disposal of Assets	9 Months Ended Sep. 30, 2011
Acquisition and Disposal Of Assets [Abstract]	
Acquisition and Disposal Of Assets [Text Block]	3. Acquisition and Disposal of Assets During the nine months ended September 30, 2011, the Company purchased four restaurants from franchisees and built one restaurant. Four of the locations were Spicy Pickle restaurants and one location was a BG Urban Café restaurant. The purchase of the BG Urban Café restaurant represents the first company owned and operated location within the BG Urban Café franchise. The purchases were made in exchange for assumption of certain liabilities and relief of amounts owed to the Company by the franchisees, the total of such amounts was approximately $418,427. Additionally, the Company sold two company owned Spicy Pickle restaurants to the minority owner in one of the locations purchased. The two locations are now solely franchisee owned and operated. The sale of the two locations was made in exchange for a note receivable due over approximately seven years in the amount of $335,000. One company owned Spicy Pickle location was closed. The total amount of loss associated with the closing of that location is $215,818. As of September 30, 2011, the purchase price allocation of the acquisitions of the aforementioned restaurants' operations is preliminary dependent on finalization of the Company's valuation assessment in accordance with ASC 805, *Business Combinations*.

Condensed Consolidated Balance Sheets (USD $)	Sep. 30, 2011	Dec. 31, 2010
Assets		
Cash and cash equivalents	$ 168,119	$ 247,349
Accounts receivable	114,900	241,812
Other short-term receivables	84,139	233,791
Inventory	57,351	30,977
Prepaid expenses and other current assets	74,188	39,092
Total current assets	498,697	793,021
Property and equipment, net of accumulated depreciation	1,286,092	1,328,492
Other assets:		
Deposits and other assets	47,901	50,091
Other long-term receivables	271,962	0
Goodwill	1,369,625	1,517,325
Other intangible assets, net of amortization	786,624	950,856
Total other assets	2,476,112	2,518,272
Total assets	4,260,901	4,639,785
Liabilities and equity		
Accounts payable	567,979	481,637
Accrued expenses and compensation	569,824	277,597
Current portion of long-term debt	115,790	122,500
Deferred franchise revenue	91,000	142,000
Dividends accrued	68,521	68,521
Total current liabilities	1,413,114	1,092,255
Notes payable to related parties	3,879,853	2,225,837
Long-term debt, net of current portion	373,065	317,500
Deferred rent expense	105,360	150,634
Other long-term liabilities	210,123	0
Total long-term liabilities	4,568,401	2,693,971
Equity		
Spicy Pickle Franchising Inc. stockholders' equity (deficit) Preferred stock, $.001 par value, 20,000,000 shares authorized, none issued or outstanding	0	0
Common stock, $.001 par value, 200,000,000 shares authorized, 86,819,274 and 85,494,274 shares issued and outstanding in 2011 and 2010, respectively	86,819	85,494
Additional paid in capital	17,474,070	17,358,757
Fair value of common stock warrants	628,010	628,010
Accumulated (deficit)	(19,905,161)	(17,260,802)
Accumulated comprehensive (loss)	(4,352)	(9,855)
Total Spicy Pickle Franchising, Inc. stockholders' equity (deficit)	(1,720,614)	801,604
Non-controlling interest	0	51,955
Total equity	(1,720,614)	853,559
Total liabilities and stockholders' equity (deficit)	$ 4,260,901	$ 4,639,785

Basis of Presentation of Interim Period	9 Months Ended Sep. 30, 2011
Basis Of Presentation [Abstract]	
Basis Of Presentation Of Interim Period [Text Block]	1. Basis of Presentation of Interim Period Throughout this report, the terms "our," "we," "us," and "Company" refer to Spicy Pickle Franchising, Inc. including its subsidiaries. The accompanying unaudited financial statements of Spicy Pickle Franchising, Inc. at September 30, 2011 and 2010 have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial statements, instructions to Form 10-Q, and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2010. In management's opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation to make our financial statements not misleading have been included. The results of operations for the periods ended September 30, 2011 and 2010 presented are not necessarily indicative of the results to be expected for the full year. The December 31, 2010 balance sheet has been derived from our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2010. *Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods. Actual results could differ from those estimates. *Recent Pronouncements* We have reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

Per Share Information	9 Months Ended Sep. 30, 2011
Earnings Per Share [Abstract]	
Earnings Per Share [Text Block]	2. Per Share Information Earnings per share are based on the weighted average number of shares outstanding during the period after consideration of the dilutive effect, if any, for common stock equivalents, including stock options, restricted stock, and other stock-based compensation. Earnings per common share are computed in accordance with ASC Topic 260, *Earnings Per Share* which requires companies to present basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding and dilutive securities outstanding during the year. We had a net loss for the nine month periods ended September 30, 2011 and 2010, and accordingly, any outstanding equivalents would be anti-dilutive.

Condensed Consolidated Balance Sheets [Parenthetical] (USD $)	Sep. 30, 2011	Dec. 31, 2010
Preferred stock, par value (in dollars per share)	$ 0.001	$ 0.001
Preferred stock, shares authorized	20,000,000	20,000,000
Preferred stock, shares issued	0	0
Preferred stock, shares outstanding	0	0
Common stock, par value (in dollars per share)	$ 0.001	$ 0.001
Common stock, shares authorized	200,000,000	200,000,000
Common stock, shares issued	86,819,274	85,494,274
Common stock, shares outstanding	86,819,274	85,494,274

Subsequent Events	9 Months Ended Sep. 30, 2011
Subsequent Events [Abstract]	
Subsequent Events [Text Block]	12. Subsequent Events We evaluated all activity of the Company and concluded that no subsequent events have occurred that would require recognition in our financial statements or disclosed in the notes to our financial statements except as follows. Subsequent to September 30, 2011, the Company entered into a non-binding letter of intent with three members of our Board of Directors (lenders) whereby they will provide future financing for the Company. The initial terms of the agreement include total funding in the amount of $1,450,000 payable in three tranches of $500,000, $500,000 and $450,000 with the first tranche being paid on the date the agreement closes, the second tranche being paid on or about February 1, 2012 and the last tranche being paid on or about May 2, 2012. The interest rate on the funding will be 18% and the lenders will receive a 1.5 percentage of revenue share per $500,000 in funding from the Company. The Company cannot predict with certainty that the agreement will close and the financing will be received, however, we anticipate completion of the deal in the upcoming quarter.

Document and Entity Information	9 Months Ended Sep. 30, 2011	Nov. 11, 2011
Entity Registrant Name	SPICY PICKLE FRANCHISING INC	
Entity Central Index Key	0001367722	
Current Fiscal Year End Date	--12-31	
Entity Filer Category	Smaller Reporting Company	
Trading Symbol	spkl	
Entity Common Stock, Shares Outstanding		87,813,024
Document Type	10-Q	
Amendment Flag	false	
Document Period End Date	Sep. 30, 2011	
Document Fiscal Period Focus	Q3	
Document Fiscal Year Focus	2011	

Condensed Consolidated Statements of Operations and Comprehensive Loss (USD $)	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Revenue:				
Restaurant and bakery sales	$ 604,788	$ 645,256	$ 1,725,487	$ 1,938,016
Franchise fees, royalties, and rebates	408,314	496,176	1,087,061	1,409,716
Total revenues	1,013,102	1,141,432	2,812,548	3,347,732
Operating costs and expenses:				
Cost of sales	243,124	243,627	682,241	714,185
Labor	206,136	255,383	633,800	745,251
Occupancy	174,526	107,279	420,304	334,903
Depreciation	41,049	65,674	154,874	220,246
Other operating costs	109,923	89,815	269,290	296,399
Total restaurant and bakery operating costs	774,758	761,778	2,160,509	2,310,984
Franchise and general:				
General and administrative	766,981	1,051,705	2,641,552	2,594,068
Depreciation and amortization	27,274	85,047	204,974	140,410
Total franchise and general	794,255	1,136,752	2,846,526	2,734,478
Total operating costs and expenses	1,569,013	1,898,530	5,007,035	5,045,462
(Loss) from operations	(555,911)	(757,098)	(2,194,487)	(1,697,730)
Other income (expense):				
Interest income (expense)	(100,229)	(45,331)	(239,618)	(135,091)
Gain (loss) on disposal of assets	(28,329)	0	(223,706)	0
Other income (expense)	13,452	0	13,452	0
Total other income (expense):	(115,106)	(45,331)	(449,872)	(135,091)
Net (loss) attributable to common shareholders	(671,017)	(802,429)	(2,644,359)	(1,832,821)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(43)	(8,187)	5,503	(18,842)
Comprehensive (loss)	(671,060)	(810,616)	(2,638,856)	(1,851,663)
Per share information - basic and fully diluted:				
Weighted average shares outstanding (in shares)	$ 86,682,453	$ 84,494,274	$ 86,052,424	$ 83,160,941
Net (loss) per share (in dollars per share)	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)

Long-term Debt	9 Months Ended Sep. 30, 2011
Debt Disclosure [Abstract]	
Long-term Debt [Text Block]	7. Long-term Debt

Long-term debt represents notes issued in connection with the acquisition of certain assets acquired in prior years. The notes bear interest at the rate of 10% per annum. During the quarter ended March 31, 2011 the terms of the note were amended. The new terms required a payment of $40,000 in February 2011 and then monthly payments through November 30, 2012, with principal payments of $7,500 per month plus accrued interest and with a balloon payment of $235,000 on December 31, 2012. The notes are now secured by all of the assets of the Company. In the event of default these notes will rank equal to the security interest granted to the note holders described in Note 6, pro-rata with the amounts then outstanding with respect to the secured parties. Additionally, the Company assumed a note from a franchisee during the quarter ended September 30, 2011 in order to acquire an existing Spicy Pickle location. The assumed note is for $152,772, bears interest at a per annum rate of 5.5%, and has a three year term with a $78,372 balloon payment in three years. The remaining maturities of the long-term debt are as follows:

Long-term debt	Next 12 Months	Thereafter
Notes issued for acquisition of assets	$ 90,000	$ 250,000
Assumed note	$ 25,790	$ 123,065
Total long-term debt	$ 115,790	$ 373,065

Related Party Transactions	9 Months Ended Sep. 30, 2011
Related Party Transactions [Abstract]	
Related Party Transactions Disclosure [Text Block]	6. Related Party Transactions The Company has a Convertible Note that is due May 1, 2013 and bears interest at one percent above the prime rate. Interest is payable semi-annually. The holders of the Convertible Note may convert any amount of the principal and accrued interest due into our Common Stock at the rate of $0.13 per share. In addition, for every two dollars converted into Common Stock, we will issue to the holder of the Convertible Note a warrant to purchase one share of Common Stock. The exercise price of the warrant will be equal to 120% of the price per share of the Common Stock calculated using the average of the volume weighted average prices per share for the 10 trading days prior to the election to convert. The conversion feature in the Convertible Note is considered to be a beneficial conversion feature. We have accounted for the beneficial conversion feature in accordance with ASC Topic 470, *Liabilities* . We accounted for a portion of the proceeds, $157,164, from the Convertible Note which related to the intrinsic value of the beneficial conversion feature by allocating that amount to additional paid in capital. The following summarizes the carrying amount of the Convertible Promissory Note:

	September 30, 2011	December 31, 2010
Face value of the note to be repaid if not converted	$ 817,252	$ 817,252
Amount allocated to additional paid in capital	(62,399)	(91,415)
Note payable to related parties	$ 754,853	$ 725,837

In accordance with ASC Topic 835, *Interest* , the amount allocated to the beneficial conversion will be amortized as interest expense over the life of the note in such a way as to result in a constant rate of interest. The amount of amortization for the three months ended September 30, 2011 and 2010 was $9,672 and for the nine months ended September 30, 2011 and 2010, respectively, was $29,016 and $39,238.

The annual interest rate giving effect to the amortization of the beneficial conversion is 9.188% per annum. When combined with the stated interest rate of one percent above the prime rate, the effective rate is 10.188% over the prime rate. At September 30, 2011, the interest rate on the borrowings was 12.438%.

During the year ended December 31, 2010, we entered into an agreement with two members of our Board of Directors whereby they will loan the Company up to $2,000,000 as a revolving line of credit. The line of credit is evidenced by a Convertible Promissory Note and Secured Loan Agreement (the “First Note”). The First Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders' option the First Note is convertible into our common stock at $0.105 per share, the value of the common stock on the date the First Note was executed. In addition for every two shares of common stock issued on conversion we will issue to the lenders a warrant to purchase one share of common stock at a price equal to 120% of the average volume weighted average price per share for the 10 days prior to the conversion. The First Note is also secured by the assets of the Company. Interest expense recognized on the First Note was $50,000 and $18,333 for the three months ended September 30, 2011 and 2010, respectively. Interest expense recognized on the First Note was $142,569 and $25,000 for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, we have drawn down the full $2,000,000 available on the loan.

At the same time as the above, the holders of the Convertible Note described above agreed to extend the due date of their Convertible Note (originally January 31, 2012) to coincide with the Note. As consideration for the extension of the due date, the holders will receive a security interest in the assets of the Company on a pro rata basis with the lenders above. One of the holders of the Convertible Note is also a lender of the First Note while both of the holders of the Convertible Note are also lenders of the Second Note, as described below.

During April 2011 we entered into an agreement with three members of our Board of Directors, two of which participated in the First Note, whereby they will loan the Company up to $1,000,000 as a revolving line of credit. The line of credit is evidenced by a Convertible Promissory Note and Secured Loan Agreement (the "Second Note"). The Second Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders option the Second Note is convertible into our common stock at $0.08 per share, the value of the stock on the date the Second Note was executed. In addition for every two shares of common stock issued on conversion we will issue to the lenders a warrant to purchase one share of common stock at a price equal to 120% of the average volume weighted average price per share for the 10 days prior to the conversion. The Second Note is also secured by the assets of the Company. Interest expense recognized on the Second Note was $17,917 for the three months and $ 24,792 for the nine months ended September 30, 2011. There was no such interest expense for the three or nine months ended 2010. As of September 30, 2011, we have drawn $875,000 on the Second Note and have $125,000 remaining available on the loan.

Stock-Based Compensation	9 Months Ended Sep. 30, 2011
Disclosure of Compensation Related Costs, Share-based Payments [Abstract]	
Disclosure of Compensation Related Costs, Share-based Payments [Text Block]	10. Stock-Based Compensation

10. Stock-Based Compensation

In October 2006, our Board of Directors adopted the 2006 Stock Option Plan ("2006 Plan"), which was approved by our stockholders the same month. The 2006 Plan provides for the grant of up to 7,500,000 shares of our common stock (subject to certain adjustments in the event of stock splits or other similar events) as incentive stock options. Our Board of Directors has delegated authority to grant awards under the 2006 Plan to a Compensation Committee. During the nine months ended September 30, 2011, 1,000,000 options were granted to employees under the 2006 Plan, no options were granted during the nine months ended September 30, 2010.

In December 2009, our Board of Directors adopted the 2009 Restricted Stock Plan ("2009 Restricted Stock Plan"). The 2009 Restricted Stock Plan provides for the grant of up to 5,000,000 shares of our common stock (subject to certain adjustments in the event of stock splits or other similar events). Our Board of Directors has delegated authority to grant awards under the 2009 Plan to a Compensation Committee. No shares were granted under the 2009 Restricted Stock Plan during the nine months ended September 30, 2011; however, during the nine months ended September 30, 2010, 1,500,000 shares of our common stock with a value of $165,000 were issued (see note 8).

In May 2011, our Board of Directors adopted the 2011 Stock Option Plan ("2011 Plan"), which was approved by our stockholders the same month. The 2011 Plan provides for the grant of up to 15,000,000 shares of our common stock (subject to certain adjustments in the event of stock splits or other similar events) as incentive stock options. Our Board of Directors has delegated authority to grant awards under the 2011 Plan to a Compensation Committee. During the nine months ended September 30, 2011 and 2010, no options were granted to employees under the 2011 Plan.

Total compensation expense of all employee stock-based compensation recognized under ASC 718 for the three months ended September 30, 2011 and 2010 was $10,586 and $11,397, respectively, and for the nine months ended September 30, 2011 and 2010 was $37,138 and $145,161, respectively, which consisted of stock-based compensation expense related to employee stock options.

A summary of stock option activity under 2006 Plan is set forth below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value
Outstanding December 31, 2010	7,200,000	$ 0.13	3.33	$ 124,363
Granted	1,000,000	$ 0.08	4.32	24,083
Exercised				-
Cancelled	(2,015,000)	$ 0.20		(32,845)
Outstanding September 30, 2011	6,185,000	$ 0.10	3.30	$ 115,601

Exercisable September 30, 2011	2,685,000	$	0.14	2.34	$	45,646

We also issued stock options to certain employees of our Canadian subsidiary. These options were not included in the 2006 Plan. A summary of stock option activity to those employees is set forth below:

	Options		Weighted Average Exercise Price	Weighted Average Remaining Term (in years)		Aggregate Intrinsic Value
Outstanding December 31, 2010	1,112,500	$	0.20	3.19	$	18,135
Granted	-					-
Exercised	-					-
Cancelled	-		-			-
Outstanding September 30, 2011	1,112,500	$	0.20	2.44	$	18,135
Exercisable September 30, 2011	1,112,500	$	0.20	2.44	$	18,135

In addition, during the year ended December 31, 2010, we granted options which were not covered by our formal plans. These options are non-qualified stock options. The following table summarizes those options granted:

	Options		Weighted Average Exercise Price	Weighted Average Remaining Term (in years)		Aggregate Intrinsic Value
Outstanding December 31, 2010	4,200,000	$	0.12	4.60	$	201,703
Granted	-		-			-
Exercised	-		-			-
Cancelled	-		-			-
Outstanding September 30, 2011	4,200,000	$	0.12	3.86	$	201,703
Exercisable September 30, 2011	4,200,000	$	0.12	3.86	$	201,703

The following table summarizes information concerning outstanding and exercisable options at September 30, 2011:

	Options Outstanding				Options Exercisable			
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price
$0.06 - $0.20	11,497,500	3.42	$	0.12	7,997,500	3.15	$	0.14

The total compensation cost related to non-vested awards not yet recognized as expense as of September 30, 2011 is $30,173 and will be recognized over the remaining period of 2.4 years.

Stockholders' Equity	9 Months Ended Sep. 30, 2011
Stockholders' Equity Note [Abstract]	
Stockholders' Equity Note Disclosure [Text Block]	8. Stockholders' Equity During the nine months ended September 30, 2011, we issued 1,325,000 shares of common stock for compensation to four of our directors. The stock was issued in lieu of cash pursuant to the Company's board of director compensation plan. The stock was valued at the trading price at the date of grant, $0.06 per share on April 20, 2011 and $0.06 per share on July 18, 2011. We included $79,500 as compensation expense related to the stock issuance. During the nine months ended September 30, 2010, we issued 1,500,000 shares of our common stock to two officers (related parties) at $0.11 per share, for an associated expense of $165,000. The stock was issued as consideration for the reduction of salaries. The stock was valued at the trading price, $0.11 per share, at the date of grant, January 26, 2010. We included $180,000 as compensation expense.

Income Taxes	9 Months Ended Sep. 30, 2011
Income Tax Disclosure [Abstract]	
Income Tax Disclosure [Text Block]	9. Income Taxes We account for income taxes in interim periods in accordance with ASC Topic 740, *Income Taxes* ("ASC 740"). We have determined an estimated annual effective tax rate. The rate will be revised, if necessary, as of the end of each successive interim period during our fiscal year to our best current estimate. As of September 30, 2011, the estimated effective tax rate for the year will be zero. There are open statutes of limitations for taxing authorities in federal and state jurisdictions to audit our tax returns from 2006 through the current period. Our policy is to account for income tax related interest and penalties in income tax expense in the statement of operations. There have been no income tax related interest or penalties assessed or recorded. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Business Segment information	9 Months Ended Sep. 30, 2011
Segment Reporting [Abstract]	
Segment Reporting Disclosure [Text Block]	11. Business Segment information

We operate in two business segments. Our Restaurant Operations segment is comprised of restaurants owned by the Company. The company-owned restaurants conduct business under the Spicy Pickle and BG Urban Café names. These restaurants specialize in fast casual dining featuring fresh, made-to-order, premium submarine, deli and panini sandwiches, salads, soups and soft drinks. Information for this segment for the periods ended September 30, 2011 and 2010 include the operating activities of eight company-owned restaurants (seven Spicy Pickle restaurants and one BG Urban Café restaurant during 2011) and one company-owned bakery and seven company-owned Spicy Pickle restaurants in 2010.

Our Franchise Operations segment is comprised of the operating activities of the franchise business unit, which licenses qualified operators to conduct business under the Spicy Pickle name or the BG Urban Café name, and also of the costs to monitor the operations of these restaurants. Under the terms of the agreements, the licensed operators pay royalties and fees to the Company in return for the use of the Spicy Pickle or the BG Urban Café name, as the case may be.

We are operating in two geographic segments, United States and Canada.

During 2010, segment information for the Restaurant Operations segment and the United States segment include the operations of a company-owned bakery. The bakery is not included in these segments during 2011 as it was closed on December 31, 2010. Segment information related to the Company's two business segments follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Company restaurants operations	$ 604,788	$ 645,256	$ 1,725,487	$ 1,938,016
Franchise operations	408,314	496,176	1,087,061	1,409,716
Total Revenues	$ 1,013,102	$ 1,141,432	$ 2,812,548	$ 3,347,732
Segment profit (loss):				
Company restaurants operations	$ (169,970)	$ (116,522)	$ (435,022)	$ (372,968)
Franchise operations	(385,941)	(640,576)	(1,759,465)	(1,324,762)
Total segment (loss)	(555,911)	(757,098)	(2,194,487)	(1,697,730)
Other income (expense)	(115,106)	(45,331)	(449,872)	(135,091)
Net loss	$ (671,017)	$ (802,429)	$(2,644,359)	$(1,832,821)

Condensed Consolidated Statements of Cash Flows (USD $)	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Net cash (used in) operating activities	$ (1,382,830)	$ (1,260,077)
Cash flows from investing activities:		
Purchase of property and equipment	(402,306)	(31,502)
Proceeds from the sale of assets	28,400	0
Net cash (used in) provided by investing activities	(373,906)	(31,502)
Cash flows from financing activities:		
Proceeds from note payable to related parties	1,625,000	1,000,000
Proceeds from long-term debt	398,855	0
Repayment of notes payable	(350,000)	(57,000)
Net cash provided by financing activities	1,673,855	943,000
Effect of foreign exchange rate changes	3,651	(18,842)
Net (decrease) in cash and cash equivalents	(79,230)	(367,421)
Cash and cash equivalents, beginning of period	247,349	809,790
Cash and cash equivalents, end of period	168,119	442,369
Supplemental cash flow information:		
Cash paid for income taxes	0	0
Cash paid for interest	$ 37,584	$ 33,192

Fair Value	9 Months Ended Sep. 30, 2011
Fair Value Disclosures [Abstract]	
Fair Value Disclosures [Text Block]	5. Fair Value ASC Topic 825, *Financial Instruments* ("ASC 825"), permits entities to choose to measure many financial instruments and certain other items at fair value. We did not elect the fair value reporting option for any assets and liabilities not previously recorded at fair value. ASC Topic 820, *Fair Value Measurement and Disclosures* ("ASC 820"), is applicable to all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value: Level 1 Quoted market prices in active markets for identical assets or liabilities. Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data. Level 3 Unobservable inputs that are not corroborated by market data. We have identified the following as financial assets and liabilities: Cash and cash equivalents Accounts receivable, trade Accounts payable, accrued expenses and accrued dividends Notes payable to related parties Long-term debt At September 30, 2011 and December 31, 2010, the carrying amount of cash, accounts receivable, accounts payable, accrued expenses and accrued dividends, are short term in nature and approximate fair value. Interest rates associated with the notes payable to related parties and long-term debt are based upon rates associated with similar companies in our financial condition and the carrying amounts approximate fair value.