SPICY PICKLE FRANCHISING INC
Form 424B3
November 16, 2010

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-148738

PROSPECTUS SUPPLEMENT NO. 3

DATED NOVEMBER 16, 2010

TO PROSPECTUS DATED APRIL 1, 2010

Spicy Pickle Franchising, Inc.

5,287,500 Shares of Common Stock

This prospectus supplement supplements the Prospectus dated April 1, 2010 of Spicy Pickle Franchising, Inc. relating to the registration, distribution and sale of 5,287,500 shares of the common stock of Spicy Pickle Franchising, Inc. You should read this prospectus supplement in conjunction with the Prospectus, which is to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the Prospectus, except to the extent that the information in this prospectus supplement supersedes the information in that document.

RECENT DEVELOPMENTS

On November 15, 2010, we filed with the Securities and Exchange Commission our Quarterly Report on Form 10-Q for the period ended September 30, 2010, the text of which is attached hereto.

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS," BEGINNING AT PAGE 5 OF THE PROSPECTUS, FOR A DISCUSSION OF THESE RISKS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THE PROSPECTUS OR ANY PROSPECTUS SUPPLEMENT TO THE PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus supplement is November 16, 2010.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

[ ] 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 þ 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 ¨ No þ (Not required)

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.

Accelerated filer¨

Large accelerated filer ¨		
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company þ

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November4, 2010 there were 85,494,274 shares of common stock outstanding.

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Spicy Pickle Franchising, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 442,369	$ 809,790
Accounts receivable, trade	295,874	193,138
Inventory	34,114	30,828
Prepaid expenses and other current assets	355,599	254,667
Total current assets	1,127,956	1,288,423
Property and equipment, net of accumulated depreciation	1,378,979	1,583,729
Other assets:		
Deposits and other assets	96,150	140,853
Goodwill	1,597,461	1,597,461
Other intangible assets	1,104,324	1,228,728
Total other assets	2,797,935	2,967,042
Total assets	$ 5,304,870	$ 5,839,194
Liabilities and equity		
Current liabilities:		
Current portion of long term debt	$ 440,000	$ 30,000
Accounts payable	373,808	329,871
Accrued expenses and compensation	219,215	118,467
Deferred franchise revenue	349,500	661,500
Dividends accrued	68,521	68,521
Total current liabilities	1,451,044	1,208,359
Long-term debt	-	467,000
Notes payable related parties	1,727,444	676,927
Deferred rent expense	144,377	143,401
Commitments and contingencies	-	-
Equity		
Spicy Pickle Franchising Inc. stockholders' equity		
Preferred stock, $.001 par value, 20,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $.001 par value, 200,000,000 shares authorized, 85,494,274 and 80,994,274 shares issued and outstanding in 2010 and 2009, respectively	85,494	80,994
Additional paid in capital	17,895,929	17,410,268
Accumulated (deficit)	(16,026,860)	(14,194,039)
Accumulated comprehensive (loss)	(24,513)	(5,671)
	1,930,050	3,291,552

Total Spicy Pickle Franchising, Inc. stockholders' equity				
Non-controlling interest		51,955		51,955
Total equity		1,982,005		3,343,507
Total liabilities and equity	$	5,304,870	$	5,839,194

See the accompanying notes to the consolidated financial statements

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Spicy Pickle Franchising, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
For The Three Months and Nine Months Ended September 30, 2010 and 2009
(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue:				
Restaurant and bakery sales	$ 645,256	$ 658,209	$ 1,938,016	$ 2,087,274
Franchise fees, royalties, and rebates	487,375	295,979	1,383,206	1,094,367
Total revenues	1,132,631	954,188	3,321,222	3,181,641
Operating costs and expenses:				
Restaurant and bakery:				
Cost of sales	234,824	223,652	687,675	694,293
Labor	255,383	291,660	745,251	888,516
Occupancy	107,279	110,688	334,903	317,458
Depreciation	65,674	69,275	220,246	211,064
Other operating costs	89,815	76,255	296,399	238,180
Total restaurant and bakery operating costs	752,977	771,530	2,284,475	2,349,511
Franchise and general:				
General and administrative	1,051,705	707,149	2,594,068	2,055,138
Depreciation and amortization	85,047	30,059	140,410	91,506
Total franchise and general	1,136,752	737,208	2,734,478	2,146,644
Total operating costs and expenses	1,889,729	1,508,738	5,018,953	4,496,155
(Loss) from operations	(757,098)	(554,550)	(1,697,730)	(1,314,514)
Other income (expense):				
Interest income (expense)	(45,331)	(19,254)	(135,091)	(50,622)
Other income (expense)	-	2,892	-	1,998
Total other income (expense):	(45,331)	(16,361)	(135,091)	(48,624)
Net (loss)	(802,429)	(570,911)	(1,832,821)	(1,363,138)
Dividends on preferred stock	-	(62,815)	-	(200,702)
Net (loss) attributable to common shareholders	(802,429)	(633,726)	(1,832,821)	(1,563,840)

Other comprehensive income (loss):								
Foreign currency translation (loss)		(8,187)		25,536		(18,842)		(7,035)
Comprehensive (loss)	$	(810,616)	$	(608,190)	$	(1,851,663)	$	(1,570,875)
Per share information - basic and fully diluted:								
Weighted average shares outstanding		84,494,274		64,740,137		83,160,941		57,832,327
Net (loss) per share	$	(0.01)	$	(0.01)	$	(0.02)	$	(0.03)

See accompanying notes to condensed consolidated financial statements

Spicy Pickle Franchising, Inc.
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2010 and 2009
(Unaudited)

	2010	2009
Net cash (used in) operating activities	$ (1,260,077)	$ (1,154,344)
Cash flows from investing activities:		
Purchase of property and equipment	(31,502)	(7,129)
Disposal of property and equipment		13,500
Net cash (used in) provided by investing activities	(31,520)	6,371
Cash flows from financing activities:		
Proceeds from sale of common stock	-	2,190,485
Cash redemption of preferred stock		(798,998)
Proceeds from note payable to related parties	1,000,000	717,252
Repayment of notes payable	(57,000)	(12,000)
Net cash provided by financing activities	943,000	2,096,739
Effect of foreign exchange rate changes	(18,842)	(34,916)
Net (decrease) in cash and cash equivalents	(367,421)	941,362
Cash and cash equivalents, beginning of period	809,790	287,482
Cash and cash equivalents, end of period	$ 442,369	$ 1,288,844
Supplemental cash flow information:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 33,192	$ 35,798

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, 2010 and 2009 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, 2009. 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, 2010 and 2009 presented are not necessarily indicative of the results to be expected for the full year. The December 31, 2009 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, 2009.

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 three-month and nine month periods ended September 30, 2010 and 2009, and accordingly, any outstanding equivalents would be anti-dilutive.

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets include the following at September 30, 2010 and December 31, 2009:

	2010	2009

Goodwill:				
Related to franchise operation (Bread Garden)	$	1,276,882	$	1,276,882
Related to restaurant operations		320,579		320,579
Total goodwill	$	1,597,461	$	1,597,461
Other intangibles				
Acquired trademarks, net of amortization	$	232,800	$	291,000
Acquired franchise agreements, net of amortization		816,524		882,728
Reacquired franchise agreements		55,000		55,000
Total other intangibles	$	1,104,324	$	1,228,728

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

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. 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 Urban Café 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 would cease 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 Urban Café. In addition we will receive $75,000 to defray the cost of rebranding the restaurants in Canada and we will account for that as a reduction of the expense. The Bread Garden Urban Café restaurants will be 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 Urban Café now have a determinable life and we are amortizing the original acquisition cost through March 31, 2011. Amortization expense related to the acquired trademarks was $58,200 for the three and nine months ended September 30, 2010. There was no amortization for the three and nine month periods ended September 30, 2009.

Acquired franchise agreements represent franchise agreements between Bread Garden, 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 four restaurants and have an indefinite life. Acquired franchise agreements have determinable lives between 5.5 years and 11 years.

Amortization expenses related to acquired franchise agreements was $22,068 and $22,068 for the three months ended September 30, 2010 and 2009, respectively, and $66,204 and $66,204 for the nine months ended September 30, 2010 and 2009, respectively.

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 have two reporting units for which goodwill has been recognized, franchise operations and restaurant operations. We performed the analysis at December 31, 2009 on each of these reporting units separately and there was no indication of impairment in goodwill and indefinite lived intangible assets.

In making an estimate of future cash flow as they relate to our franchise operations of the Bread Garden Cafes, we considered the following items:

Growth of the number of opened Bread Garden Urban Cafe franchised restaurants at the date of the acquisition to date.

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.
Trends in the real estate markets.

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

At the time of our last analysis the fair value of goodwill and other indefinite lived intangibles as related to the Bread Garden franchise operations was in excess of 150% of the carrying value.

In making an estimate of future cash flow as they relate to our restaurant operations, we considered the following items:

- The economic forcast in United States.
- Industry forecast for the restaurant industry in United States with emphasis on the quick serve 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.

At the time of our last analysis the fair value of goodwill and other indefinite lived intangibles as related to the restaurant operations was in excess of 150% of the carrying value.

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.

4. Fair Value

Effective January 1, 2008, we adopted ASC Topic 825, Financial Instruments ("ASC 825"). 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.

Effective January 1, 2008, we adopted the provisions of ASC Topic 820, Fair Value Measurement and Disclosures ("ASC 820") 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, 2010 and December 31, 2009 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 party and long term debt are based upon rates associated with similar companies in our financial condition and the carrying amounts approximate fair value.

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

5. Related Party Transactions

In December 2008, two members of our Board of Directors granted us a line of credit which was to expire January 31, 2010. The line of credit was for an aggregate of $550,000 and bears interest at a rate of one percent above the prime rate and is secured by certain of our assets. During 2009 the amount of the line was increased to $800,000. Interest expense for the three months ended September 30, 2010 and 2009 was $25,420 and $8,020, respectively, and for the nine months ended September 30, 2010 and 2009 was $76,260 and $17,252, respectively. At September 30, 2010, the interest rate on the borrowings was 4.25%.

During 2009, the line of credit was renegotiated and the outstanding principal and accrued interest totaling, $817,252, was converted to a convertible promissory note ("Convertible Note"). The Convertible Note is due January 31, 2012, bears interest at the same rate that the line of credit did, one percent above the prime rate. The due date was subsequently changed to May 1, 2013 (see below). Interest is payable semi-annually. The holders of the Convertible Note may convert any amount of the principal and accrued interest due into our par value $.001 common stock ("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 Note at September 30, 2010:

Face value of the note to be repaid if not converted	$	817,252
Amount allocated to additional paid in capital		(89,808)
Note payable to related parties	$	727,444

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 Convertible Note in such a way as to result in a constant rate of interest.

The annual interest rate giving effect to the amortization of the beneficial conversion, combined with the stated interest rate of one percent above the prime rate at September 30, 2010, the interest rate on the borrowings was 12.438%.

During the nine months ended September 30, 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 "Note"). The Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders' option the Note is convertible into our common stock at $0.105 per share, the value of the common stock on the date the 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 Note is also secured by the assets of the Company. Interest expense recognized on the note was $18,750 and $25,000 for the three and nine month periods ended September 30, 2010. As of September 30, 2010 we have drawn down $1,000,000 of the loan and have $1,000,000 available.

At the same time as the above, the holders of the Convertible Note described above have agreed to extend the due date of their Convertible Note 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 Note.

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

6. Long-term Debt

Long-term debt represents notes issued in connection with the acquisition of certain assets during the year ended December 31, 2008. The notes bear interest at the rate of 10% per annum payable monthly. The balance of the notes is due and payable in March 2011.

7. Stockholders' Equity

During the nine months ended September 30, 2010 we issued 1,500,000 shares of our common stock to two officers (related parties). 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. In addition during the three month period ended September 30, 2010 we issued 3,000,000 shares of our common stock to an officer (related party) as an inducement to become the Chief Executive Officer. The stock was valued at the trading price, $0.06 per share, at the date of grant, August 3, 2010. We recognized $180,000 and $345,000 as compensation expense for the three and nine months ended September 30, 2010, respectively.

8. 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, 2010, the estimated effective tax rate for the year will be zero.

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.

9. Stock-Based Compensation

In October 2006, our Board of Directors adopted the 2006 Stock Option Plan ("2006 Plan"), which was approved by our shareholders the same month. The 2006 Plan provides for the granting 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 our Compensation Committee.

There were no options granted under the 2006 Plan during the three-month and nine month periods ended September 30, 2010 and 2009.

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

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding January 1, 2010	6,790,000	$0.20	3.38	$ 98,317
Granted	-	-		
Exercised	-	-		
Cancelled	3,090,000	-		
Outstanding September 30, 2010	3,700,000	$0.20	2.35	$ 47,950
Exercisable September 30, 2010	3,700,000	$0.20	2.35	$ 47,950

In December 2009, our Board of Directors adopted the 2009 Stock Option Plan ("2009 Plan"). The 2009 Plan, as amended by the Board of Directors, provides for the grant of up to 13,000,000 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 2009 Plan to a Compensation Committee. There were grants for 5,000,000 shares made during the nine months ended September 30, 2010 and grants for 3,000,000 shares made during the three month period ended September 30, 2010.

A summary of stock option activity under the 2009 Plan is set forth below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding January 1, 2010	-	-		$ -
Granted	5,000,000	$0.10	4.68	
Exercised	-	-		
Cancelled	-	-		
Outstanding September 30, 2010	5,000,000	$0.10	4.68	$ 180,450
Exercisable September 30, 2010	2,000,000	$0.16	4.46	$ 129,879

We also issued stock options to certain employees of our Canadian subsidiary. These options were not included in either the 2006 Plan or the 2009 Plan. A summary of stock option activity to those employees is set forth below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value

Outstanding January 1, 2010	1,200,000	$0.20	4.16	$ 19,561
Granted	-	-		
Exercised	-	-		
Cancelled	-	-		
Outstanding September 30, 2010	1,200,000	$0.20	2.91	$ 19,561
Exercisable September 30, 2010	1,150,000	$0.20	2.91	$ 18,745

Stock-based compensation expense accounted for in accordance with ASC Topic 718, Compensation – Stock Compensation ("ASC 718") related to employee stock options for the three-month periods ended September 30, 2010 and 2009 was $11,397 and $64,366, respectively, and for the nine months ended September 30, 2010 and 2009 was $145,161 and $68,803, respectively, and as discussed in Note 7, $180,000 and $345,000 for the three months and nine month periods ended September 30, 2010, respectively, for shares issued to employees for compensation in 2010.

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

10. Business Segment information

We operate in three business segments. Our Restaurant Operations segment is comprised of restaurants owned by the Company. The company-owned restaurants conduct business under the Spicy Pickle name. 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, 2010, and 2009 include the operating activities of seven company-owned restaurants through April 2010 and six company-own restaurants in May through September 2010.

Our Bakery Operations segment is comprised of the operating activities of a bakery co-located at one our Denver restaurants, which supplies breads and other bakery products for Company and franchisee-owned locations in Colorado.

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 Bread Garden 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 Bread Garden Urban Café name, as the case may be.

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

There were no differences in the basis of measurement of segment profit or loss between these financial statements and the financial statements for the year ended December 31, 2009. There have been no material changes in segment assets since December 31, 2009. Segment information related to the Company's three business segments follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Company restaurants operations	$ 586,755	$ 554,836	$ 1,767,284	$ 1,767,875
Company bakery operations	58,501	103,373	170,731	319,399
Franchise operations	487,375	295,979	1,383,207	1,094,367
Total Revenues	$ 1,132,631	$ 954,188	$ 3,321,222	$ 3,181,641
Segment profit (loss):				
Company restaurants operations	$ (97,494)	$ (112,830)	$ (326,466)	$ (266,292)
Company bakery operations	(10,227)	(491)	(19,993)	4,055
Franchise operations	(649,377)	(441,229)	(1,351,271)	(1,052,277)
Total segment (loss)	(757,098)	(554,550)	(1,697,730)	(1,314,514)
Interest income (expense)	(45,331)	(19,253)	(135,091)	(50,622)
Other expense	-	2,892	-	1,998

Net loss	$ (802,429)	$ (570,911)	$ (1,832,821)	$ (1,363,138)

11. 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.

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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 Bread Garden Urban Café restaurants. Spicy Pickle is a fast casual restaurant where made-to-order panini, sandwiches, pizzetti (Neapolitan thin crust pizza), and salads created by our staff are served using fresh-baked breads and high-quality ingredients. Spicy Pickle restaurants are located in 10 states in the United States. Bread Garden Urban Café restaurants also specialize in fast casual dining. Unlike our Spicy Pickle restaurants, our Bread Garden Urban Café restaurants offer a full line of specialty coffees, pastries, and desserts along with hot entrees, salads, soups, and sandwiches. Bread Garden Urban Cafés are located primarily in metropolitan Vancouver, British Columbia, Canada. In August 2010, we entered into an agreement with the entity from which we obtained the rights to the Bread Garden Urban Café trademarks, whereby we would cease 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 Urban Café. In addition we will receive $75,000 to defray the cost of rebranding the restaurants in Canada. The Bread Garden Urban Café restaurants will be rebranded using BG Urban Café as the new trademark. We are in the process of registering the trademark in 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 "Bread Garden Urban Café" brand name has existed since 1979. As mentioned above we are in the process of changing the brand name to BG Urban Café.

We are headquartered in Denver, Colorado.

The first Spicy Pickle restaurant was launched in 1999 by two Denver based chefs under the name Spicy Pickle. 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, 2010, we had 26 franchised Spicy Pickle restaurants and six company-owned Spicy Pickle restaurants opened. One of our company owned restaurants was closed in May 2010 and we are looking for the appropriate real estate to relocate it. Co-located with one of the restaurants is a bakery which provides fresh baked breads to the local area Denver restaurants. Spicy Pickle restaurants outside this market are equipped for bread baking at the store location.

Our franchise agreements include build-out schedules for franchisee restaurants. As a result of the recent economic slowdown a number of our franchisees that had agreements for multiple restaurants failed to meet their commitments. We are evaluating all of our agreements and where the franchisee cannot meet the obligation of its build out schedule we are terminating its agreement for future restaurants. In the three months ended September 30, 2010, we recorded revenue of $130,000 which represented 12 future units and for the nine months ended September 30, 2010, we recorded revenue of $305,000 which represented 27 future units. As of September 30, 2010, we still had agreements with franchisees to open 30 additional restaurants under the Spicy Pickle Brand. We will continue to monitor the franchisee ability to meet their build out schedule and terminate those agreements that are in violation of their terms and will not meet their commitment. Based on current franchise agreements and construction schedules, we believe there will be approximately 28 Spicy Pickle, franchisee-owned and operated restaurants and at least six company-operated restaurants open by the end of 2010. The Company continues to interview prospective franchisees and relies on the cash deposits from the franchise sales as well as royalty fees from the existing stores 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 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, by state, (including both company-owned and franchisee-owned), including those under construction and lease negotiation as of September 30, 2010, are:

Location	Restaurants Operating	Under Construction	In Lease Negotiation
Colorado	16		
Texas (1)	5	1	1
California	3		
Nevada	3	1	
Illinois	1		
Arizona	1		
Mississippi	1		
Ohio	1		
Oklahoma	1		
Oregon	1		
	33	2	1

(1) Restaurant under construction opened subsequent to September 30, 2010

In October 2008 we acquired the franchise rights to the Bread Garden Urban Café restaurant chain. We believe that our core competence is the building and operation of franchised restaurant chains. Our purpose in acquiring the Bread Garden 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 Bread Garden 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. We are currently updating the brand and image of the Bread Garden Urban Cafés. We are in the process of renaming the restaurants to BG Urban Cafés. We believe this new name, new color schemes and new graphics will update the brand and attract more customers to the restaurants.

All of our Bread Garden Urban Cafés are located in British Columbia, Canada. There are 18 units operating and none under construction as of September 30, 2010. A test unit is operating in Brisbane, Australia.

We intend to increase our revenues by adding new company-owned stores, 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 2009 resulted in a significant reduction in the sales of new franchises which in turn 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.

Our ability to fund our operations will depend on the length of time for the economy to improve, 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. However, realization of a significant portion of the assets on the 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, the additional capital raised through a placement of our securities or our ability to borrow sufficient funds for working capital purposes.

During the nine monthsended September 30, 2010, we entered into an agreement with two members of our Board of Directors whereby they agreed to 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 "Note"). The Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders' option the Note is convertible into our common stock at $0.105 per share, the value of the common stock on the date the 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 Note is also secured by the assets of the Company. As of September 30, 2010 we have drawn down $1,000,000 of the loan and have $1,000,000 available.

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 ("GAAP").

The preparation of our financial statements in conformity with 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.

Goodwill and Other Intangible Assets

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. 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 Urban Café 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 would cease 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 Brad Garden Urban Café. In addition we will receive $75,000 to defray the cost of rebranding the restaurants in Canada. The Bread Garden Urban Café restaurants will be 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 Urban Café now have a determinable life and we are amortizing the original acquisition cost through March 31, 2011. Amortization expense related to the acquired trademarks was $58,200 for the three and nine months ended September 30, 2010. There was no amortization for the three and nine month periods ended September 30, 2009.

Acquired franchise agreements represent franchise agreements between Bread Garden, 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 four restaurants and have an indefinite life. Acquired franchise agreements have determinable lives between 5.5 years and 11 years.

Amortization expenses related to acquired franchise agreements was $22,068 and $22,068 for the three months ended September 30, 2010 and 2009, respectively, and $66,204 and $66,204 for the nine months ended September 30, 2010 and 2009, respectively.

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 have two reporting units for which goodwill has been recognized, franchise operations and restaurant operations. We determine our reporting units in accordance with the guidance in 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

We performed the analysis at December 31, 2009 on each of these reporting units separately and there was no indication of impairment in goodwill and indefinite lived intangible assets.

In making an estimate of future cash flow as they relate to our franchise operations of the Bread Garden Cafes, we considered the following items:

- Growth of the number of opened Bread Garden Urban Cafe franchised restaurants at the date of the acquisition to date.
- 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.
- Trends in the real estate markets.

At the time of our last analysis the fair value of goodwill and other indefinite lived intangibles as related to the Bread Garden franchise operations was in excess of 150% of the carrying value.

In making an estimate of future cash flow as they relate to our restaurant 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 quick serve segment.
- Historical operating history of acquired assets as adjusted for forecast.
- Changes to the menu and introduction of a new day part in our restaurants.

At the time of our last analysis the fair value of goodwill and other indefinite lived intangibles as related to the restaurant operations was in excess of 150% of the carrying value.

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.

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 both our restaurants and bakery at December 31, 2009. Assumptions used in preparing the expected cash flows were as follows:

- Sales projections for 2010 were based on 2009 sales with increases in the later part of the year for the introduction of another day part on our menu. For the years 2011 through 2019 we used annual increases of 3%. We believe the 3% increases beyond 2010 is a reasonable growth.
- Our food costs are projected based on 2009 operating cost as adjusted for new menu items.
- 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 at December 31, 2009 and the fact that there were no significant changes in facts and circumstances that would require an interim analysis, no impairment charges were recognized for the nine months ended September 30, 2010.

Our impairment analysis included a sensitivity analysis with regard to the cash flow projections that determine the recoverability of each restaurant's assets. The results indicate that even with a 20% decline in our projected cash flows we would still not have any potential impairment issues. However if we elect to sublease, close or otherwise exit a restaurant location, impairment could be required.

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.

To date we have not written down any assets due to impairment; however 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.

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 restaurant opens. Initial franchise fees for Spicy Pickle restaurants is $30,000 and the fee for Bread Garden Urban Café restaurants is Canadian dollars (“CN$”) 35,000. In certain instances we charge a transfer fee when an existing restaurant is transferred to a new franchisee. These fees are less than the full fee charged. Franchise fees recognized were $164,176 and $35,584 for the three months ended September 30, 2010 and 2009, respectively, and $399,176 and $247,634 for the nine months ended September 30, 2010 and 2009, respectively.

Royalty Fees - Pursuant to the franchise agreements of both our Spicy Pickle and Bread Garden Urban Café brands, franchisees are required to pay royalties to us based on 5% of weekly gross sales 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 $243,984 and $219,434 for the three months ended September 30, 2010 and 2009, respectively, and $731,744 and $663,060 for the nine months ended September 30, 2010 and 2009, respectively.

With regard to royalty fees, our franchisees grant us the right to extract data from their point of sale systems in each restaurant they operate. We receive weekly reports on sales at each franchise location and calculate our revenue directly from those reports. This allows for extremely accurate accounting of our revenue stream from royalty fees. We do not anticipate any future change in the method of reporting.

Rebates - We receive rebates from certain purveyors that supply products to our franchisees, these rebates are included in Franchise Fees and Royalties on the statement of operations. The rebates are recorded when earned. Rebates that relate to company-owned restaurants are offset against restaurant cost of sales. Rebates related to franchisees were $79,215 and $40,961 for the three months ended September 30, 2010 and 2009, respectively, and $252,287 and $183,673 for the nine months ended September 30, 2010 and 2009, respectively.

Restaurant and Bakery Sales - We record revenue from company-owned restaurant sales upon delivery of the related food and other products to customers. Our restaurant sales are either cash or credit card (which are pre-approved) sales and, therefore, no estimate for allowance for doubtful accounts is necessary. We record revenue from bakery sales when sold to the bakery customers, which are our franchisees.

Advertising Costs

Franchisees must contribute to an advertising fund established by us at a rate of up to 2% for our Spicy Pickle brand and 1.5% for our Bread Garden Urban Café brand of total franchisee gross sales. At our discretion, we may spend more or less than our actual advertising receipts from the franchisees. Advertising fees collected were $98,550 and $90,781 for the three months ended September 30, 2010 and 2009, and $282,202 and $277,101 for the nine months ended September 30, 2010 and 2009, respectively. These fees are offset against actual advertising expenses, which are recognized when incurred. We incurred advertising expenses of $214,863 and $155,706 for the three months ended September 30, 2010 and 2009, respectively, and $400,723 and $286,302 for the nine months ended September 30, 2010 and 2009, respectively. We anticipate that for the year ending December 31, 2010 we will spend at least as much as we collect. To the extent we do not spend all that we have collected we are allowed to utilize the funds to offset amounts spent in previous periods and other indirect costs associated with marketing and promotion. The net amounts reflected as advertising costs in the financial statements was $116,313 and $64,925 for the three months ended September 30, 2010 and 2009, respectively. The net amounts reflected as advertising costs in the financial statements was $118,521 and $9,201 for the nine months ended September 30, 2010 and 2009, 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. In addition, certain of our lease agreements provide for scheduled rent increases during the lease term or for rental payments commencing on a date other than the date of initial occupancy. We include any rent escalations and construction period and other rent holidays in our determination of straight-line rent expense. Therefore, rent expense for new locations is charged to expense beginning with the start of the construction period.

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 issue share-based payments under our 2006 Stock Option Plan and our 2009 Stock Option Plan and to employees of our Canadian subsidiary 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.

The weighted average fair value of options granted during the nine months ended September 30, 2010 of $0.04 was estimated on the grant dates using the Black-Scholes model with the following weighted average assumptions: expected volatility of 40.94% to 41.22%, expected term of 3 to 5 years, risk-free interest rate of 2.37% and no expected dividend yield. There were 3,000,000 and 5,000,000 options granted during the three months and nine months ended September 30, 2010, respectively.

Stock-based compensation expense accounted for in accordance with ASC Topic 718 related to employee stock options for the three-month periods ended September 30, 2010 and 2009 was $11,397 and $64,366, respectively, and for the nine months ended September 30, 2010 and 2009 was $145,161 and $68,803, respectively.

During the nine months ended September 30, 2010 we issued 1,500,000 shares of our common stock to two officers (related parties). 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. In addition during the three month period ended September 30, 2010 we issued 3,000,000 shares of our common stock to an officer (related party) as an inducement to become the Chief Executive Officer. The stock was valued at the trading price, $0.06 per share, at the date of grant, August 3, 2010. We recognized $180,000 and $345,000 as compensation expense for the three and nine months ended September 30, 2010, respectively.

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.

Results of Operations

Operating Statistics

The following analysis shows operating statistics for the three months ended September 30, 2010 and 2009:

	2010		2009	
Revenues:	Amount	As a Percentage of Total Revenue	Amount	As a Percentage of Total Revenue
Restaurant sales	$ 586,755	51.80 %	$ 554,836	58.15 %
Bakery sales	58,501	5.17 %	103,373	10.83 %
Franchise fees, royalties, and rebates	487,375	43.03 %	295,979	31.02 %
Total revenue	$ 1,132,631	100.00 %	$ 954,188	99.99 %

Operating costs and expenses:

Restaurant:	2010 Amount	As a Percentage of Restaurant Sales	2009 Amount	As a Percentage of Restaurant Sales
Cost of sales	$ 217,345	37.04 %	$ 195,829	35.29 %
Labor	227,110	38.71 %	245,238	44.20 %
Occupancy	101,368	17.28 %	102,542	18.48 %
Depreciation	56,335	9.60 %	59,649	10.75 %
Other operating cost	82,091	13.99 %	64,408	11.61 %
Total restaurant operating expenses	$ 684,249	116.62 %	$ 667,666	120.33 %

Bakery		As a Percentage of Restaurant Sales			As a Percentage of Restaurant Sales	
Cost of sales	$17,480	29.88	%	$27,823	26.92	%
Labor	28,274	48.33	%	46,422	44.91	%
Occupancy	5,910	10.10	%	8,146	7.88	%
Depreciation	9,339	15.96	%	9,626	9.31	%
Other operating cost	7,725	13.20	%	11,847	11.46	%
Total bakery operating expenses	$68,728	117.47	%	$103,864	100.48	%

Franchise and general:		As a Percentage of Franchise Fees and Royalties			As a Percentage of Franchise Fees and Royalties	
General and administrative	$1,051,705	215.79	%	$707,149	238.92	%
Depreciation	85,047	17.45	%	30,059	10.16	%
Total franchise and general expenses	$1,136,752	233.24	%	$737,208	249.08	%

		As a Percentage of Total Revenue			As a Percentage of Total Revenue	
Total operating costs and expenses	$1,889,729	166.84	%	$1,508,738	158.12	%
(Loss) from operations	$(757,098)	(66.84	%)	$(554,550)	(58.12	%)
Other income and (expense):						
Interest income (expense)	$(45,331)	(8.80	%)	$(19,253)	(2.02	%)
Other (income) expense				2,892	.30	%
Total other income and (expense)	$(45,331)	(8.80	%)	$(16,361)	(1.72	%)
Net (loss)	$(802,429)	(75.64	%)	$(570,911)	(59.83	%)

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

For the three months ended September 30, 2010, total revenue increased $178,443 (18.70%) from $954,188 for the three months ended September 30, 2009 to $1,132,631 for the same period in 2010.

The loss from restaurant operations decreased $15,336 (13.59%) from $112,830 for the three months ended September 30, 2009 to $97,494 for the three months ended September 30, 2010. The decreased loss resulted from an increase in revenue and improvement in operating costs.

For the three months ended September 30, 2010, restaurant sales increased $31,918 (5.75%) from $554,836 in 2009 to $586,755 in 2010. The increase in restaurant revenue was principally due to changes in economic conditions.

For the three months ended September 30, 2010, bakery sales decreased by $44,872 (43.41%) from $103,373 in 2009 to $58,501 in 2010. We had fewer bakery customers, which consist of franchised restaurants and our restaurants, in

2010 than we did in 2009.

The loss from bakery operations increased $9,736 (1,982%) from $491 for the three months ended September 30, 2009 to $10,227 for the three months ended September 30, 2010. The increased loss resulted from a decrease in revenue selling to fewer customers.

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Franchise fees and royalty revenue increased $191,396 (64.67%) from $295,979 for the three months ended September 30, 2009 to $487,375 in 2010. Initial franchise fee 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. No Spicy Pickle restaurants for which we collected fees were opened and 12 agreements were terminated during the three-month period ended September 30, 2010 and we recognized fees of $130,000. One new Spicy Pickle restaurant was opened and no agreements were terminated during the three months ended September 30, 2009. We recognized fees of $35,000 for the three months ended September 30, 2009. One new Bread Garden was opened and we recognized $33,766 in franchise fees for the Bread Garden Urban Café restaurants for the three months ended September 30, 2010. Deferred franchise fees collected but not recognized as revenue during the three months ended September 30, 2010 was $9,000 as compared to no fees collected in the three months ended September 30, 2009. Royalty fees increased $24,550 (11.19%) from $219,434 for the three months ended September 30, 2009 to $243,984 for the three months ended September 30, 2010. The increase is due primarily to an increase in the number of franchised restaurants, primarily Bread Garden. Rebates related to franchisees increased $38,254 (93.39%) from $40,961 for the three months ended September 30, 2009 to $79,215 for the three months ended September 30, 2010. The increase is due primarily to an increase in the number of franchised restaurants, primarily Bread Garden.

The economic downturn which began in 2008 and continued through the first half of 2010 had a negative effect on our business. In response to the economy in late 2008 we began to scale back in the infrastructure we had in place. Our most significant expense is personnel and related costs. We reduced the number of full time employees from a high of 28 in 2008 to 13 at September 30, 2009 with a further reduction to 12 at September 30, 2010. We also reduced overhead expenses that have a direct bearing on the number of personnel employed as well as other areas such as travel and entertainment and communication. We will continue to review our general and administrative costs and respond to the effects of the general economy as timely as possible.

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, 2010 compared to the three months ended September 30, 2009.

	2010	2009	Difference
Personnel cost	$ 425,753	$ 293,989	$ 131,764
Non-cash personnel cost	180,000	-	180.000
Marketing advertising and promotion	116,433	64,925	51,508
Directors' fees	63,541	-	63,541
Rent	52,245	43,659	8,586
Travel and entertainment	33,860	34,098	(238)
Professional fees	20,394	81,248	(60,854)
Investor relations	17,683	25,847	(8,164)
Stock options	11,396	64,366	(52,970)
Other general and administrative expenses	130,400	99,017	31,383
Total general and administrative expenses	$ 1,051,705	$ 707,149	$ 344,556

General and administrative expenses increased $344,556 (48.72%) from $707,149 for the three-month period ended September 30, 2009 to $1,051,705 for the three-month period ended September 30, 2010.

Our most significant expense continues to be personnel costs. The number of full time employees was reduced from 13 at September 30, 2009 to 12 at September 30, 2010. Personnel cost increased $131,764 (44.82%) from $293,989 for the three months ended September 30, 2009 to $425,753 for the three months ended September 30, 2010. We made significant management changes including hiring a new Chief Executive Officer. Also included in the three months ended September 30, 2010 is severance pay for certain employees no longer with the Company. We anticipate that personnel cost will be reduced in the fourth quarter of 2010. 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 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 our 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 prior year.

Franchisees must contribute to an advertising fund established by us at a rate of up to 2% for our Spicy Pickle brand and 1.5% for our Bread Garden Urban Café brand of total franchisee gross sales. At our discretion, we may spend more or less than our actual advertising receipts from the franchisees. Advertising fees collected were $98,550 and $90,781 for the three months ended September 30, 2010 and 2009, respectively. These fees are offset against actual advertising expenses, which are recognized when incurred. We incurred advertising expenses of $214,863 and $155,706 for the three months ended September 30, 2010 and 2009, respectively. We anticipate that for the year ending December 31, 2010 we will spend at least as much as we collect. To the extent we do not spend all that we have collected we are allowed to utilize the funds to offset amounts spent in previous periods and other indirect costs associated with marketing and promotion. The net amounts reflected as advertising costs in the financial statements was $116,313 and $64,925 for the three months ended September 30, 2010 and 2009, respectively. The increases were planned and had an effect of increasing system wide revenue.

During 2010 we added additional members to our Board of Directors. In order to attract qualified members we now pay non-employee directors an annual fee of $25,000. We did not have such fees in 2009.

Rent expense increased $8,586 (19.67%) from $43,659 for the three months ended September 30, 2009 to $52,245 for the three months ended September 30, 2010. The increase resulted from a higher than expected common area charge adjustment.

The change in travel and entertainment was not significant. We anticipate that travel expenses will go up in future periods as we make more visits to our franchised locations.

Professional fees decreased $60,854 (74.90%) from $81,248 for the three-month period ended September 30, 2009 to $20,394 for the three-month period ended September 30, 2010. The decrease is primarily due to timing of expenses and the use of fewer outside professionals.

Investor relations decreased $8,164 (31.59%) from $25,847 for the three months ended September 30, 2009 to $17,683 for the three months ended September 30, 2010. The decrease is a matter of timing. See the nine month comparison below.

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 $52,970 (82.30%) from $64,366 for the three months ended September 30, 2009 to $11,396 for the three months ended September 30, 2010. The decrease in stock option expense results primarily from a repricing of options in 2009 which resulted in a charge to income of approximately $61,000. During the three months ended September 30, 2010 we granted 3,000,000 options and none were granted during the three months ended September 30, 2009.

Other general and administrative expenses increased $31,383 (31.69%) from $99,017 for the three months ended September 30, 2009 to $130,400 for the three months ended September 30, 2010. The increase resulted from a variety of different items none of which is significant.

The loss from operations was $757,098 for the three months ended September 30, 2010 as compared to $554,550 for the three months ended September 30, 2009. The increase in the loss from operations of $202,548 (36.52%) was primarily due to the increased personnel cost, the majority of which was non-cash, director fees which were not paid in prior periods and increased marketing costs. Other expense which primarily consists of interest cost was $45,331 for the three months ended September 30, 2010 as compared to an expense of $19,253 for the three months ended

September 30, 2009. The increase in interest costs is primarily due to increased borrowing against our line of credit in the three months ended September 30, 2010. The net loss for the three months ended September 30, 2010 was $802,429 compared to a net loss of $570,911 for the three months ended September 30, 2009, an increased loss of $231,518 (40.55%).

The following analysis shows operating statistics for the nine months ended September 30, 2010 and 2009:

	2010		2009	
Revenues:	Amount	As a Percentage of Total Revenue	Amount	As a Percentage of Total Revenue
Restaurant sales	$1,767,284	53.21 %	$1,767,875	55.57 %
Bakery sales	170,731	5.14 %	319,399	10.04 %
Franchise fees, royalties, and rebates	1,383,207	41.65 %	1,094,367	34.40 %
Total revenue	$3,321,222	100.00 %	$3,181,641	100.00 %

Operating costs and expenses:

Restaurant:		As a Percentage of Restaurant Sales		As a Percentage of Restaurant Sales
Cost of sales	$640,050	36.22 %	$611,101	34.57 %
Labor	670,451	37.94 %	748,175	42.32 %
Occupancy	318,109	18.00 %	296,208	16.76 %
Depreciation	192,229	10.88 %	181,036	10.24 %
Other operating cost	272,912	15.44 %	197,647	11.18 %
Total restaurant operating expenses	$2,093,751	118.48 %	$2,034,167	115.07 %

Bakery		As a Percentage of Restaurant Sales		As a Percentage of Restaurant Sales
Cost of sales	$47,625	27.89 %	$83,192	26.05 %
Labor	74,800	43.81 %	140,341	43.94 %
Occupancy	16,795	9.84 %	21,250	6.65 %
Depreciation	28,017	16.41 %	30,028	9.40 %
Other operating cost	23,488	13.76 %	40,533	12.69 %
Total bakery operating expenses	$190,724	111.71 %	$315,344	98.73 %

Franchise and general:		As a Percentage of Franchise Fees and Royalties		As a Percentage of Franchise Fees and Royalties
General and administrative	$2,594,068	187.54 %	$2,055,138	187.79 %
Depreciation	140,410	10.15 %	91,506	8.36 %
Total franchise and general expenses	$2,734,478	197.69 %	$2,146,644	196.15 %

		As a Percentage of Total Revenue			As a Percentage of Total Revenue	
Total operating costs and expenses	$5,018,953	151.12	%	$4,496,155	141.32	%
(Loss) from operations	(1,697,730)	-51.12	%	(1,314,514)	-41.32	%
Other income and (expense):						
Interest income (expense)	(135,091)	-4.07	%	(50,622)	-1.59	%
Other (income) expense		0.00	%	1,998	0.06	%
Total other income and (expense)	(135,091)	-4.07	%	(48,624)	-1.53	%
Net income (loss)	$(1,832,821)	-55.19	%	$(1,363,138)	-42.84	%

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

For the nine months ended September 30, 2010, total revenue increased $139,581 (4.39%) from $3,181,641 for the nine months ended September 30, 2009 to $3,321,222 for the same period in 2010.

For the nine months ended September 30, 2010, restaurant sales decreased by $591 (0.03%) from $1,767,875 in 2009 to $1,767,284 in 2010. The decrease in restaurant revenue was principally due to improved economic conditions and offset by the closure of one company owned restaurant in May 2010.

The loss from restaurant operations increased $60,174 (22.60%) from $266,292 for the nine months ended September 30, 2009 to $326,467 for the nine months ended September 30, 2010. The increased loss resulted from a decrease in revenue and the effect of closing one restaurant in 2010.

For the nine months ended September 30, 2010, bakery sales decreased by $148,668 (46.55%) from $319,399 in 2009 to $170,731 in 2010. We had fewer customers, both franchise and our restaurants, in 2010 than we did in 2009. Some of the restaurants baked their own bread in 2010.

The loss from bakery operations increased $24,048 (593.05%) from income of $4,055 for the nine months ended September 30, 2009 to a loss of $19,993 for the nine months ended September 30, 2010. The increased loss resulted from a decrease in revenue. We are currently evaluating the bakery operations and will make a decision on closing those operations early in 2011.

Franchise fees and royalty revenue increased $288,840 (26.39%) from $1,094,367 for the nine months ended September 30, 2009 to $1,383,207 in 2010. Initial franchise fee 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. Two Spicy Pickle restaurants for which we collected fees were opened and 27 agreements were terminated or transferred during the nine months ended September 30, 2010 and we recognized fees of $365,000. Four new Spicy Pickle restaurants were opened and three agreements were terminated during the nine months ended September 30, 2009. We recognized fees of $235,000 for the nine months ended September 30, 2009. We recognized $34,176 in franchise fees for the Bread Garden Urban Café restaurants for the nine months ended September 30, 2010 and we recognized a transfer fee of $7,634 for the nine months ended September 30, 2009. Deferred franchise fees collected but not recognized as revenue during the nine months ended September 30, 2010 was $14,000 as compared to $55,000 in the nine months ended September 30, 2009. Royalty fees increased $68,684 (10.36%) from $663,060 for the nine months ended September 30, 2009 to $731,744 for the nine months ended September 30, 2010. The increase is due primarily to an increase in the number of franchised Bread Garden Urban Café restaurants and a stronger economy in the United States. Rebates related to franchisees increased

$68,614 (37.36%) from $183,673 for the nine months ended September 30, 2009 to $252,287 for the nine months ended September 30, 2010. The increase is due primarily to an increase in the number of franchised restaurants, primarily Bread Garden.

The economic downturn which began in 2008 and continued through the first half of 2010 had a negative effect on our business. In response to the economy in late 2008 we began to scale back in the infrastructure we had in place. Our most significant expense is personnel and related costs. We reduced the number of full time employees from a high of 28 in 2008 to 13 at September 30, 2009 with a further to 12 at September 30, 2010. We also reduced overhead expenses that have a direct bearing on the number of personnel employed as well as other areas such as travel and entertainment and communication. We will continue to review our general and administrative costs and respond to the effects of the general economy as timely as possible.

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, 2010 and compared to the nine months ended September 30, 2009.

	2010	2009	Difference
Personnel cost	$ 1,148,310	$ 1,118,089	$ 30,221
Non-cash personnel cost	345,000	-	345,000
Professional fees	156,565	211,166	(54,701)
Stock options	145,161	68,803	76,358
Rent	143,903	143,107	796
Marketing, advertising, promotion	118,521	9,201	109,320
Travel and entertainment	112,917	122,900	(9,983)
Directors' fees	78,125	-	78,125
Investor relations	46,799	35,546	11,253
Other general and administrative expenses	298,767	346,226	(47,459)
Total general and administrative expenses	$ 2,594,068	$ 2,055,138	$ 538,930

General and administrative expenses increased $538,930 (26.22%) from $2,055,138 for the nine months ended September 30, 2009 to $2,594,068 for the nine months ended September 30, 2010.

Our most significant expense continues to be personnel costs. The number of full time employees was reduced from 13 at September 30, 2009 to 12 at September 30, 2010. However, personnel cost increased $30,221 (2.70%) from $1,118,089 for the nine months ended September 30, 2009 to $1,148,310 for the nine months ended September 30, 2010. We made significant management changes including hiring a new Chief Executive Officer. In addition severance payments to former employees accounted for an increase of approximately $98,000. The reduction in the number of employees and salary adjustments resulted in a decrease in personnel cost of approximately $68,000 which offset the increases.

In addition we incurred non-cash personnel cost for the nine months ended September 30, 2010 of $180,000, which is the value of 3,000,000 shares of our common stock on the date of issuance, $0.06 per share, which was issued to the new CEO and $165,000 in shares, which is the value of 1,500,000 shares of our common stock on the date of issuance, $0.11 per share, to two officers of the company. There was no such expense for the prior year.

We intend to closely monitor our personnel cost and we will attempt to outsource personnel as need rather than employ full time personnel.

Professional fees decreased $54,701 (25.89%) from $211,266 for the nine months ended September 30, 2009 to $156,565 for the nine months ended September 30, 2010. The decrease was planned as we are using fewer outside professionals.

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 increased $76,358 (110.98%) from $68,803 for the nine months ended September 30, 2009 to $145,161 for the nine months ended September 30, 2010. We granted 1,000,000 options to each of two new members of our Board of Directors and 3,000,000 options to our new CEO. In the nine months ended September 30, 2009 we repriced the exercise price of the then outstanding options which resulted in approximately $61,000 in stock option expense

Travel and entertainment decreased $9,983 (8.12%) from $122,900 for the nine months ended September 30, 2009 to $112,917 for the nine months ended September 30, 2010. The decrease was due to less travel related to our operations department in visiting franchised locations to perform onsite evaluations. We anticipate that travel expenses will go up in future periods as we make more visits to our franchised locations.

Investor relations increased $11,253 (31.66%) from $35,546 for the nine months ended September 30, 2009 to $46,799 for the nine months ended September 30, 2010. In 2010 we intentionally increased our attention to investor relations in order for the public to become more aware of what was happening in our company.

Franchisees must contribute to an advertising fund established by us at a rate of up to 2% for our Spicy Pickle brand and 1.5% for our Bread Garden Urban Café brand of total franchisee gross sales. At our discretion, we may spend more or less than our actual advertising receipts from the franchisees. Advertising fees collected were $282,202 and $277,101 for the nine months ended September 30, 2010 and 2009. These fees are offset against actual advertising expenses, which are recognized when incurred. We incurred advertising expenses of $400,723 and $286,302 for the nine months ended September 30, 2010 and 2009, respectively. We anticipate that for the year ending December 31, 2010 we will spend at least as much as we collect. To the extent we do not spend all that we have collected we are allowed to utilize the funds to offset amounts spent in previous periods and other indirect costs associated with marketing and promotion. The net amount reflected as advertising cost for the nine months ended September 30, 2010 and 2009 was $118,521 and $9,201, respectively. The increases were planned and had an effect of increasing system wide revenue.

Other general and administrative expenses decreased $47,459 (13.71%) from $346,226 for the nine months ended September 30, 2009 to $298,767 for the nine months ended September 30, 2010.

The loss from operations was $1,697,730 for the nine months ended September 30, 2010 as compared to $1,314,514 for the nine months ended September 30, 2009. The increase in the loss from operations of $383,216 (29.15%) was primarily due to non-cash equity based compensation charged to personnel costs and stock option expense. Other expense which primarily represents interest cost was $135,091 for the nine months ended September 30, 2010 as compared to an expense of $48,624 for the nine months ended September 30, 2009. The increase in interest expense is a result of increased borrowings. The net loss for the nine months ended September 30, 2010 was $1,832,821 compared to a net loss of $1,363,138 for the nine months ended September 30, 2009, an increased loss of $469,683 (34.46%).

Liquidity and Capital Resources

At September 30, 2010, we had a working capital deficit of $323,088, as compared to working capital of $80,064 at December 31, 2009. Of the working capital deficit at September 30, 2010, $349,500 was deferred franchise fee revenue and does not represent a cash liability. The decrease in working capital is primarily due to certain debt maturing in 2011.

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, 2010 was $349,500, a decrease of $282,857 compared to December 31, 2009. Although not recorded as revenue, any payments received will provide working capital.

At September 30, 2010 we had contractual obligations for operating leases of $2,016,453, of which $104,533 is due by December 31, 2010.

As of September 30, 2010, our aggregate minimum requirements under non-cancelable leases are as follows:

2010	$ 104,533
2011	391,701
2012	348,294
2013	274,826
2014	263,783
Later years	633,316
	$ 2,016,453

The current portion of our long term debt is $440,000 which is due and payable in 2011 and we have long-term debt in the amount of $1,727,444 which is due and payable in 2013.

Summary – September 30, 2010
The difficult economic conditions of 2008 and 2009 resulted in us not selling as many new franchises as we initially projected and reduced system wide revenue which results in lower revenue to us. The extent of the recession was not clear until the third or fourth quarter of 2008. We reacted to the downturn as soon as it became apparent that it would not correct itself in the short term. Our need to raise additional equity or debt financing and our ability to generate cash flow from operations will depend on the speed with which the U.S. economy recovers from the recession, the availability of financing for existing and potential franchisees to open new restaurants, our future performance and our ability to successfully implement our stated business and growth strategies. Many of these factors are beyond our control. If our working capital is insufficient to fund the implementation of our business plan we will be required to seek additional financing sooner than currently anticipated in order to proceed with our business goals. 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. In the past we have issued common stock to our consultants and professional services providers in lieu of cash payments for these services. We may continue this practice to conserve our cash to pay for operations, product development and inventory.

During the nine months ended September 30, 2010 we entered into an agreement with two members of our Board of Directors whereby they agreed to 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 “Note”). The Note bears interest at the rate of 10% per annum and matures on May 1, 2013. At the lenders’ option the Note is convertible into our common stock at $0.105 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 Note is also secured by the assets of the Company. As of September 30, 2010 we have drawn down $1,000,000 of the loan and have $1,000,000 available.

At the same time as the above, the holders of the Convertible Note described in Note 5 to the September 30, 2010 financial statements have agreed to extend the due date of their Convertible Note 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 Note.

Off-Balance Sheet Arrangements

At September 30, 2010 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.

There have been no changes in the Company's internal control over financial reporting during the last fiscal quarter 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

None

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 Stock Option Plan (5)
10.6	2009 Restricted Stock Plan (5)
10.7	Convertible Promissory Note and Secured Loan Agreement dated May 10, 2010 – Presley Reed and Patricia Stacey Reed (6)
10.8	First Amendment to Convertible Promissory Note Dated May 10, 2010 - Presley Reed and Patricia Stacey Reed (6)
10.9	First Amendment to Convertible Promissory Note Dated May 10, 2010 - Raymond BonAnno and Joan BonAnno (6)
10.10	Executive Employment Agreement with Mark Laramie dated August 3, 2010 (7)
10.11	Executive Employment Agreement with Clinton R. Woodruff dated October 18, 2010 (8)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (9)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (9)
32.1	Section 1350 Certification of Chief Executive Officer (9)
32.2	Section 1350 Certification of Chief Financial Officer (9)

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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) 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 15, 2010 By: /s/ Mark Laramie
Mark Laramie
Chief Executive Officer

November 15, 2010 By: /s/ Clinton R. Woodruff
Clinton R. Woodruff
Chief Financial Officer

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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 15, 2010

/s/ Mark Laramie
Mark Laramie
Chief Executive Officer

Exhibit 31.2

RULE 13a-14(a) CERTIFICATION

I, Clinton R. 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 15, 2010

/s/ Clinton R. Woodruff
Clinton R. 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, 2010, 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/ Marc Laramie
Marc Laramie
Chief Executive Officer
November 15, 2010

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, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arnold Tinter, 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/ Clinton R. Woodruff
Clinton R. Woodruff
Chief Financial Officer
November 15, 2010