NOBLE ROMANS INC
Form 10-K
March 13, 2012

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

(Mark one)

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011.

--- Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the transition period from ----- to -----.

Commission file number 0-11104

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

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

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

Registrant's telephone number, including area code: (317) 634-3377
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229,405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

Large Accelerated Filer	[ ]	Accelerated Filer	[ ]
Non-Accelerated Filer (do not check if a smaller reporting company)	[ ]	Smaller Reporting Company	[X]

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the registrant's common shares on such date was $7.2 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 19,489,317 shares of common stock as of March 1, 2012.

Documents Incorporated by Reference:

Portions of the definitive proxy statement for the registrant's 2012 Annual Meeting of Shareholders are incorporated by reference in Part III.

NOBLE ROMAN'S, INC.
FORM 10-K
Year Ended December 31, 2011
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PART 1

ITEM 1. BUSINESS

General Information

Noble Roman's, Inc., an Indiana corporation incorporated in 1972 with two wholly-owned subsidiaries, Pizzaco, Inc. and N.R. Realty, Inc., sells and services franchises and licenses for non-traditional foodservice operations under the trade names "Noble Roman's Pizza", "Noble Roman's Take-N-Bake", "Tuscano's Italian Style Subs" and "Tuscano's Grab-N-Go Subs". The concepts' hallmarks include high quality pizza and sub sandwiches, along with other related menu items, simple operating systems, fast service times, labor-minimizing operations, attractive food costs and overall affordability. Since 1997, the Company has focused its efforts and resources primarily on franchising and licensing for non-traditional locations and now has awarded franchise and/or license agreements in 49 states plus Washington, D.C., Puerto Rico, the Bahamas, Italy and Canada. Although from 2005 to2007 the Company sold some franchises for its concepts in traditional restaurant locations, the Company is currently focusing all of its sales efforts on (i) selling franchises for non-traditional locations primarily in convenience stores and entertainment facilities and (ii) license agreements for grocery stores to sell the Noble Roman's Take-n-Bake Pizza. Pizzaco, Inc. is the owner and operator of the two Company locations used for testing and demonstration purposes. The Company has no plans to operate any other locations. References in this report to the "Company" are to Noble Roman's, Inc. and its subsidiaries, unless the context requires otherwise.

Products & Systems

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

Noble Roman's Pizza

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

- Crust made with only specially milled flour with above average protein and yeast.

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

Noble Roman's Take-N-Bake

The Company developed a take-n-bake version of its pizza as an addition to its menu offerings. The take-n-bake pizza is designed as an add-on component for new and existing convenience stores and as a stand-alone offering for grocery stores. The take-n-bake program in grocery stores is being offered as a license agreement rather than a franchise agreement. In convenience stores, take-n-bake is an available menu offering under the existing franchise agreement. The

Company uses the same high quality pizza ingredients for its take-n-bake pizza as with its standard pizza, with slight modifications to portioning for increased home baking performance.

Tuscano's Italian Style Subs

Tuscano's Italian Style Subs is a separate restaurant concept that focuses on sub sandwich menu items. Tuscano's was designed to be comfortably familiar from a customer's perspective but with many distinctive features that include an Italian-themed menu. The franchise fee and ongoing royalty for a Tuscano's is identical to that charged for a Noble Roman's Pizza franchise. For the most part, the Company awards Tuscano's franchises for some of the same facilities as Noble Roman's Pizza franchises, although Tuscano's franchises are also available for locations that do not have a Noble Roman's Pizza franchise.

Tuscano's Grab-N-Go Subs

Noble Roman's has developed a grab-n-go service system for a selected portion of the Tuscano's menu. The grab-n-go system is designed to add sales opportunities at existing non-traditional Noble Roman's Pizza and/or Tuscano's Subs locations. Franchisees that opened prior to the development of the grab-n-go service system may add it as an option. The grab-n-go system has already been integrated into the operations of several existing locations and is now available to all franchisees. New, non-traditional franchisees have the opportunity to open with both take-n-bake pizza and grab-n-go subs when they acquire a Noble Roman's franchise or license.

Business Strategy

The Company's business strategy can be summarized in the following 4 points:

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

Sales of Non-Traditional Franchises and Licenses. The Company believes that in today's macroeconomic circumstances, it has an opportunity for increasing unit growth and revenue within its non-traditional venues, particularly with convenience stores, travel plazas and entertainment facilities. The Company's franchises in non-traditional locations are foodservice providers within a host business, and usually require a substantially less investment compared to a stand-alone traditional location. Non-traditional franchises and licenses are most often sold into pre-existing facilities as a service and/or revenue enhancer for the underlying business. Although the Company's current focus is on non-traditional franchise or license expansion, the Company will still seek to capitalize on other franchising opportunities as they present themselves.

As a result of the Company's major focus being on non-traditional franchising and licensing, its requirements for overhead and operating cost are significantly less than if it were focusing on traditional franchising. In addition, the Company does not operate restaurants except for two restaurants it uses for product testing, demonstration and training purposes. This allows for a more complete focus on selling and servicing franchises and licenses to pursue increased unit growth.

Licensing the Company's Take-N-Bake Program. In September 2009, the Company introduced a take-n-bake pizza as an addition to its menu offering. The take-n-bake pizza is designed as a stand-alone offering for grocery stores and an add-on component for new and existing convenience store franchisees or licensees. Since September 2009, when the Company started offering take-n-bake pizza to grocery store chains, through March 8, 2012, the Company has signed agreements with 1,016 grocery store locations to operate the take-n-bake pizza program and has opened take-n-bake pizza in approximately 833 of those locations. The Company is currently in discussions with numerous grocery store operators for additional take-n-bake locations. Beginning in August 2011, the Company introduced six new "Signature Specialty Take-N-Bake Pizza" combinations to its current standard offerings. These pizzas feature unique, fun combinations of ingredients with proven customer appeal in other Company venues, and include Hawaiian pizza, Four Cheese pizza, BBQ Pork pizza, BBQ Chicken pizza, Hoppin' Jalapeno pizza and Parmesan Tomato pizza. The Company's strategy with these new combinations is to secure more shelf space in existing locations, to add to the appeal of the program in order to attract new locations, and to generally increase sales of the Company's products.

At the start of 2011, seeking to supplement the take-n-bake pizza offering and expand merchandising space, the Company introduced several carton-to-shelf retail items that require no assembly at the grocery store and help expand the merchandising visibility of the Noble Roman's brand. These items include Noble Roman's Pasta Sauce, Noble Roman's Deep-Dish Lasagna with Italian Sausage, Noble Roman's Spicy Cheese Sauce and Noble Roman's Cheesy Stix.

To further accelerate the growth of take-n-bake pizza in grocery stores, the Company has focused on signing agreements with various grocery store distributors to market the take-n-bake pizza program to the distributors' current customer base. As of March 8, 2012, the Company had signed 11 grocery distributors to the program, and continues to pursue others as well.

2. Leverage the results of extensive research and development advances.

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

For example, in convenience stores and travel plazas, at competitive retail prices, the margins on selling Noble Roman's products, after cost of product and royalty, provides the franchisees with a gross margin on the sales of approximately 65% to 70%. The Company believes it maintains a competitive advantage in product cost by using carefully selected independent third-party manufacturers and independent third-party distributors. This allows the Company to contract for proprietary products and services with highly efficient suppliers that have the potential of keeping costs extremely low when compared

to typical, competing systems whereby the franchisor attempts to own and operate production and distribution systems of their own much less efficiently.

3. Expand the Company's overall capacity to generate new franchises and licenses.

To increase the capacity of the Company to generate, follow-up on and close new franchise and licensing leads, the Company has made two strategic decisions. First, the Company's Chairman and CEO has assumed the lead position at all of the Company's trade shows across the country, which is the primary means for demonstrating its product and system advantages to thousands of prospective non-traditional and grocery operators. This focus by the Company's CEO has underscored the Company's current, overriding orientation towards new revenue generation. Additionally, in January 2012, the Company recruited a new, proven sales executive to further help generate, follow-up on and close leads for new franchises, with a particular focus on its non-traditional convenience store and travel plaza venues. The Company was able to accomplish this without increasing corporate overhead by eliminating other positions and spreading those responsibilities across other, existing personnel.

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

The Company utilizes four basic methods of reaching potential franchisees and licensees, and utilizes these methods to communicate its product and system advantages. These methods include calling from both acquired and in-house prospect lists, frequent direct mail campaigns to targeted prospects, web-based lead capturing, and live demonstrations at trade and food shows. In particular, the Company has found that conducting live demonstrations of its systems and products at carefully selected trade and food shows across the country allows it to demonstrate advantages that can otherwise be difficult for a potential prospect to visualize. There is no substitute for actually tasting the difference in a product's quality to demonstrate the advantages of the Company's product quality. The Company carefully selects those national and regional trade and food shows where it either has an existing relationship or considerable previous experience to know that fruitful lead generation has a high probability.

Business Operations

Distribution

Primarily all of the Company's products are manufactured pursuant to the Company's recipes and formulas by third-party manufacturers pursuant to contracts between the Company and the various manufacturers. The contracts require the manufacturers to produce various ingredients and sell them to Company-approved distributors at a price negotiated between the Company and the manufacturer.

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

in various parts of the country which are required to buy their products from one of the primary distributors to distribute take-n-bake products to their grocery store customers.

Franchising

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

The initial franchise fee is as follows:

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

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

Licensing

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

Competition

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

Within the competitive environment of the non-traditional franchise and license segment of the restaurant industry, management has defined what it believes to be certain competitive advantages for the Company. First, some of the Company's competitors in the non-traditional segment are also large chains operating thousands of franchised, traditional restaurants. Because of the contractual relationships with many of their franchisees, some competitors may be unable to offer wide-scale site availability for potential non-traditional franchisees.

The Company is not faced with any significant geographic restrictions in this regard.

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

Seasonality of Sales

Direct sales of non-traditional franchises or licenses may be affected by seasonalities and holiday periods. Sales to certain non-traditional venues may be slower around major holidays such as Thanksgiving and Christmas, and during the first quarter of the year. The Company's sales of take-n-bake pizza in grocery stores are slower during the summer months, especially when the weather is hot. Sales to other non-traditional venues show less or no seasonality. Additionally, in middle and northern climates where adverse winter weather conditions may hamper outdoor travel or activities, foodservice sales by franchisees or licensees may be sensitive to sudden drops in temperature or precipitation which would in turn affect Company royalties.

Employees

As of March 1, 2012, the Company employed approximately 22 persons full-time and 16 persons on a part-time, hourly basis, of which 20 of the full-time employees are employed in sales and service of the franchise/license units and two of the full-time employees and the 16 employed on a part-time basis manage and work at the two Company locations. No employees are covered under collective bargaining agreements, and the Company believes that relations with its employees are good.

Trademarks and Service Marks

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

Government Regulation

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

certain circumstances, the Company is, or soon may be, subject to various local, state and/or federal laws requiring disclosure of nutritional and/or ingredient information concerning the Company's products, its packaging, menu boards and/or other literature.

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

Officers of the Company

Chief Executive Officer and Chairman of the Board - Paul W. Mobley* has been Chairman of the Board, Chief Executive Officer and Chief Financial Officer since December 1991 and a Director since 1974. Mr. Mobley was President of the Company from 1981 to 1997. From 1975 to 1987, Mr. Mobley was a significant shareholder and president of a company which owned and operated 17 Arby's franchise restaurants. From 1974 to 1978, he also served as Vice President and Chief Operating Officer of the Company and from l978 to 1981 as Senior Vice President. He is the father of A. Scott Mobley. Mr. Mobley has a B.S. in Business Administration from Indiana University and is a CPA.

Chief Operating Officer, President, Secretary and a Director - A. Scott Mobley* has been President since 1997, a Director since January 1992, and Secretary since February 1993. Mr. Mobley was Vice President from November 1988 to October 1997 and from August 1987 until November 1988 served as Director of Marketing for the Company. Prior to joining the Company Mr. Mobley was a strategic planning analyst with a division of Lithonia Lighting Company. Mr. Mobley has a B.S. in Business Administration from Georgetown University and an MBA from Indiana University. He is the son of Paul W. Mobley.

Executive Vice President of Franchising - Troy Branson* has been Executive Vice President of Franchising for the Company since November 1997 and from 1992 to 1997, he was Director of Business Development. Before joining the Company, Mr. Branson was an owner of Branson-Yoder Marketing Group from 1987 to 1992, after graduating from Indiana University where he received a B.S. in Business.

Vice President of Franchise Services - Mitch Grunat has been Vice President of Franchise Services for the Company since August 2002. Before joining the Company, Mr. Grunat was Chief Operating Officer of Lanter Eye Care from 2001 to 2002, Business Development Officer for Midwest Bankers from 2001 to 2002 and Chief Operating Officer for Tavel Optical Group from 1987 to 2000. Mr. Grunat has a B.A. degree in English and Philosophy from Muskingum College.

Vice President of National Franchise Sales - Juel Tillery has been Vice President of National Franchise Sales since January 2012. Before joining the Company, Mr. Tillery was the founder of MaggieMoo's Ice Cream as well as the

Director of Business Development for Hot Stuff Pizza. Prior to that he had many years experience with both Pizza Inn and McDonald's. Mr. Tillery has an MBA from St. Mary's College of the Plains.

Vice President of Operations - James D. Bales has been Vice President of Operations since March 2008. Before becoming Vice President of Operations, Mr. Bales held various positions with the Company beginning in March 2004. Before joining the Company, Mr. Bales had 15 years of management experience in operations and marketing where he held various positions with TCBY starting in 1989. Mr. Bales attended Northern Kentucky University for Graphic Design, Inver

Hills Community College for Business Management and obtained his B.S. in Business from the University of Phoenix.

*Each of Messieurs Paul W. Mobley, A. Scott Mobley and Troy Branson are "executive officers" of the Company for purposes of the Securities Exchange Act of 1934, as amended.

Available Information

We make available, free of charge through our Internet website (http://www.nobleromans.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the Securities and Exchange Commission. The information on our website is not incorporated into this annual report.

ITEM 1A. RISK FACTORS

All phases of the Company's operations are subject to a number of uncertainties, risks and other influences, many of which are outside of its control and any one of which, or a combination of which, could materially affect its results of operations. Important factors that could cause actual results to differ materially from the Company's expectations are discussed below. Prospective investors should carefully consider these factors before investing in our securities as well as the information set forth under "Forward-Looking Statements" in Item 7 of this report. These risks and uncertainties include:

Competition from larger companies.

The Company competes for franchise and license sales with large national companies and numerous regional and local companies. Many of its competitors have greater financial and other resources than the Company. The restaurant industry in general is intensely competitive with respect to convenience, price, product quality and service. In addition, the Company competes for franchise and license sales on the basis of several factors, including product engineering and quality, investment cost, cost of sales, distribution, simplicity of operation and labor requirements. Activities of the Company's competitors could have an adverse effect on the Company's ability to sell additional franchises or licenses or maintain and renew existing franchises and licenses or operating results of the Company's system. Unlike the other non-traditional agreements, the take-n-bake license agreements with grocery stores are not for any specified period of time and, therefore, grocery stores could discontinue offering the take-n-bake pizza or other retail items at any time. As a result of these factors, the Company may have difficulty competing effectively from time to time or in certain markets.

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Dependence on growth strategy.

The Company's primary growth strategy includes selling new franchises or licenses for non-traditional locations. The opening and success of new non-traditional locations will depend upon various factors, including the traffic generated by and viability of the underlying activity or business, the ability of the franchisee and licensee to operate their locations, their ability to comply with applicable regulatory requirements and the effect of competition and general economic and business conditions including food and labor costs. Many of the foregoing factors are not within the Company's control. There can be no assurance that the Company will be able to achieve its plans with respect to the opening or operation of new non-traditional or take-n-bake locations.

Dependence on success of franchisees and licensees.

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

Dependence on consumer preferences and perceptions.

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

Interruptions in supply or delivery of food products.

Dependence on frequent deliveries of product from unrelated third-party manufacturers through unrelated third-party distributors also subjects the Company to the risk that shortages or interruptions in supply caused by contractual interruptions, market conditions, inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients. In addition, factors such as inflation, market conditions for cheese, wheat, meats, paper and labor may also adversely affect the franchisees and licensees and, as a result, can adversely affect the Company's ability to add new franchised or licensed locations.

Dependence on key executives.

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

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The Company is subject to ongoing litigation.

As described in Item 3 of this report, the Company is a defendant in a lawsuit filed by certain of its former traditional franchisees. The Company has been awarded summary judgment dismissing substantially all the claims against the Company and the Plaintiffs' time for appeal has expired. This matter has been time-consuming, expen0pt 0pt;width:282.4pt;">

Amgen, Inc. (2)

160,000

11,640,000

$

11,640,000

Capital Markets 0.8%

Mellon Financial Corp.

200,000

7,120,000

$

7,120,000

Chemicals 0.8%

Ecolab, Inc.

204,000

7,792,800

$

7,792,800

Commercial Banks 0.9%

Commerce Bancorp, Inc.

235,600

8,634,740

$

8,634,740

Commercial Services & Supplies 1.6%

Cendant Corp.

351,800

6,103,730

Cintas Corp.

208,600

8,890,532

$

14,994,262

Communications Equipment 4.2%

Cisco Systems, Inc. (2)

451,700

9,788,339

Harris Corp.

124,000

5,863,960

QUALCOMM, Inc.

200,000

10,122,000

Tellabs, Inc. (2)

844,800

13,432,320

$

39,206,619

1

Computer Peripherals 4.6%			
Dell, Inc. (2)	156,200	$	4,648,512
EMC Corp. (2)	503,000	6,855,890	
NCR Corp. (2)	266,000	11,116,140	
Network Appliance, Inc. (2)	310,000	11,169,300	
Seagate Technology (2)	370,000	9,742,100	
		$	**43,531,942**
Consumer Finance 0.6%			
American Express Co.	106,500	5,596,575	
		$	**5,596,575**
Diversified Consumer Services 2.6%			
ServiceMaster Co.	567,000	7,439,040	
Weight Watchers International, Inc.	323,900	16,648,460	
		$	**24,087,500**
Diversified Financial Services 0.7%			
Citigroup, Inc.	136,500	6,446,895	
		$	**6,446,895**
Diversified Telecommunication Services 1.6%			
CenturyTel, Inc.	386,800	15,131,616	
		$	**15,131,616**
Electrical Equipment 1.3%			
Thomas & Betts Corp. (2)	243,500	12,511,030	
		$	**12,511,030**
Electronic Equipment & Instruments 1.7%			
CDW Corp.	151,800	8,933,430	
Flextronics International Ltd. (2)	670,300	6,937,605	
		$	**15,871,035**
Energy Equipment & Services 3.7%			
Diamond Offshore Drilling, Inc.	120,000	10,740,000	
Halliburton Co.	167,000	12,194,340	
Noble Corp.	146,000	11,840,600	
		$	**34,774,940**
Food & Staples Retailing 3.1%			
BJ s Wholesale Club, Inc. (2)	365,200	11,507,452	
Safeway, Inc.	338,000	8,490,560	
SUPERVALU, Inc.	300,600	9,264,492	
		$	**29,262,504**

2

Food Products 3.3%		
Kellogg Co.	202,400	$ 8,913,696
Smithfield Foods, Inc. (2)	400,800	11,759,472
Wm. Wrigley Jr. Co.	156,000	9,984,000
		$ 30,657,168
Health Care Equipment & Supplies 4.2%		
DENTSPLY International, Inc.	144,300	8,391,045
Edwards Lifesciences Corp. (2)	202,400	8,804,400
Fisher Scientific International, Inc. (2)	154,900	10,540,945
Millipore Corp. (2)	108,000	7,890,480
Thoratec Corp. (2)	196,200	3,780,774
		$ 39,407,644
Health Care Providers & Services 6.2%		
Caremark Rx, Inc. (2)	199,000	9,786,820
DaVita, Inc. (2)	225,500	13,577,355
Henry Schein, Inc. (2)	249,200	11,926,712
LifePoint Hospitals, Inc. (2)	416,900	12,965,590
WellPoint, Inc. (2)	126,000	9,756,180
		$ 58,012,657
Hotels, Restaurants & Leisure 3.0%		
Carnival Corp.	230,500	10,918,785
Harrah s Entertainment, Inc.	143,000	11,148,280
Starwood Hotels & Resorts Worldwide, Inc.	83,300	5,641,909
		$ 27,708,974
Household Durables 0.9%		
Ryland Group, Inc.	120,000	8,328,000
		$ 8,328,000
Household Products 0.9%		
Colgate-Palmolive Co.	146,400	8,359,440
		$ 8,359,440
Industrial Conglomerates 1.1%		
Tyco International, Ltd.	375,600	10,096,128
		$ 10,096,128
Insurance 1.9%		
PartnerRe Ltd.	142,000	8,816,780
St. Paul Travelers Companies, Inc.	215,000	8,984,850
		$ 17,801,630
Internet Software & Services 0.9%		
Google, Inc., Class A (2)	22,000	8,580,000
		$ 8,580,000

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IT Services 2.2%		
CheckFree Corp. (2)	240,000	$ 12,120,000
Paychex, Inc.	196,100	8,169,526
		$ 20,289,526
Media 2.6%		
Lamar Advertising Co. (2)	250,700	13,191,834
Time Warner, Inc.	644,400	10,819,476
		$ 24,011,310
Metals & Mining 2.1%		
Alcoa, Inc.	279,700	8,547,632
Inco Ltd. (2)	215,000	10,726,350
		$ 19,273,982
Multiline Retail 4.0%		
Dollar General Corp.	540,000	9,541,800
Federated Department Stores, Inc.	145,000	10,585,000
Nordstrom, Inc.	214,300	8,396,274
Sears Holdings Corp. (2)	68,300	9,031,992
		$ 37,555,066
Oil, Gas & Consumable Fuels 1.1%		
Chesapeake Energy Corp.	330,000	10,365,300
		$ 10,365,300
Personal Products 1.0%		
Alberto-Culver Co.	214,200	9,474,066
		$ 9,474,066
Pharmaceuticals 7.4%		
Abbott Laboratories	217,000	9,215,990
Endo Pharmaceuticals Holdings, Inc. (2)	325,100	10,666,531
Johnson & Johnson	185,800	11,003,076
Mylan Laboratories, Inc.	389,000	9,102,600
Sepracor, Inc. (2)	239,000	11,665,590
Teva Pharmaceutical Industries Ltd. ADR	184,400	7,593,592
Wyeth	208,000	10,092,160
		$ 69,339,539
Road & Rail 1.2%		
Swift Transportation Co., Inc. (2)	534,200	11,608,166
		$ 11,608,166
Semiconductors & Semiconductor Equipment 12.6%		
Analog Devices, Inc.	335,000	12,827,150
Cypress Semiconductor Corp. (2)	601,000	10,186,950
Intel Corp.	482,000	9,326,700
Intersil Corp., Class A	348,300	10,072,836
Linear Technology Corp.	273,100	9,580,348

Maxim Integrated Products, Inc.	113,700	$ 4,223,955
Microchip Technology, Inc.	278,800	10,120,440
Micron Technology, Inc. (2)	612,500	9,016,000
Teradyne, Inc. (2)	1,014,800	15,739,548
Texas Instruments, Inc.	417,000	13,539,990
Veeco Instruments, Inc. (2)	591,900	13,820,865
		$ 118,454,782
Software 1.2%		
Oracle Corp. (2)	850,161	11,638,704
		$ 11,638,704
Specialty Retail 1.2%		
Staples, Inc.	425,000	10,846,000
		$ 10,846,000
Textiles, Apparel & Luxury Goods 2.6%		
Liz Claiborne, Inc.	323,400	13,252,932
NIKE, Inc., Class B	134,000	11,403,400
		$ 24,656,332
Tobacco 0.8%		
Altria Group, Inc.	106,200	7,525,332
		$ 7,525,332
Trading Companies & Distributors 1.2%		
MSC Industrial Direct Co., Inc.	207,700	11,219,954
		$ 11,219,954
Total Common Stocks (identified cost $924,574,397)		**$ 965,481,015**

Short-Term Investments 1.1%

Security	**Principal Amount (000 s omitted)**	**Value**
Investors Bank and Trust Company Time Deposit, 4.86%, 4/3/06	$ 2,000	$ 2,000,000
Royal Bank of Canada Time Deposit, 4.85%, 4/3/06	8,753	8,753,000
Total Short-Term Investments (at amortized cost, $10,753,000)		**$ 10,753,000**
Total Investments 104.0% (identified cost $935,327,397)		**$ 976,234,015**

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Covered Call Options Written (4.0)%

	Number of Contracts	Premium Received	Value
Abbott Laboratories, Expires, 5/20/06, Strike 42.50	960	$ 160,315	$ (124,800)
Alberto-Culver Co., Expires 06/17/06, Strike 45.00	885	178,764	(123,900)
Alcoa, Inc., Expires 7/22/06, Strike 30.00	2,797	439,115	(629,325)
Altria Group, Inc., Expires 6/17/06, Strike 75.00	610	190,314	(125,050)
American Express Co., Expires 4/22/06, Strike 52.50	785	148,753	(62,800)
Amgen, Inc., Expires 4/22/06, Strike 75.00	555	107,178	(52,725)
Analog Devices, Inc., Expires 6/17/06, Strike 40.00	3,350	810,675	(402,000)
BJ s Wholesale Club, Inc., Expires 6/17/06, Strike 30.00	3,652	865,497	(1,013,430)
Boeing Company, Expires 5/20/06, Strike 75.00	1,142	322,034	(513,900)
Borgwarner Inc., Expires 7/22/06, Strike 55.00	600	235,193	(399,000)
Caremark Rx, Inc., Expires 06/17/06, Strike 50.00	700	169,395	(133,000)
Carnival Corp., Expires 07/22/06, Strike 50.00	695	209,884	(86,875)
CDW Corp., Expires 4/22/06, Strike 60.00	1,518	450,832	(144,210)
Cendant Corp., Expires 5/20/06, Strike 17.50	965	120,139	(53,075)
CenturyTel Inc., Expires 4/22/06, Strike 35.00	3,868	284,289	(1,624,560)
CheckFree Corp., Expires 5/20/06, Strike 50.00	1,660	487,455	(481,400)
Chesapeake Energy Corp., Expires 07/22/06, Strike 30.00	1,185	357,859	(379,200)
Cintas Corp., Expires 5/20/06, Strike 40.00	950	272,642	(304,000)
Cisco Systems, Inc., Expires 4/22/06, Strike 17.50	2,285	223,920	(982,550)
Citigroup, Inc., Expires 6/17/06, Strike 50.00	1,365	156,288	(40,950)
Colgate-Palmolive Co., Expires 5/20/06, Strike 55.00	1,464	288,399	(417,240)
Commerce Bancorp, Inc., Expires 6/17/06, Strike 35.00	1,175	125,721	(299,625)
Constellation Brands, Inc., Class A, Expires 4/22/06, Strike 25.00	1,410	179,062	(119,850)
Cypress Semiconductor Corp., Expires 06/17/06, Strike 17.50	2,825	339,872	(296,625)
Davita Inc., Expires 7/22/06, Strike 55.00	1,290	512,114	(903,000)
Dell, Inc., Expires 5/20/06, Strike 30.00	680	135,654	(71,400)
DENTSPLY International, Inc., Expires 4/22/06, Strike 55.00	760	206,714	(258,400)
Diamond Offshore Drilling, Inc., Expires 6/17/06, Strike 80.00	510	340,262	(642,600)
Dollar General Corp., Expires 5/20/06, Strike 17.50	920	116,836	(55,200)
Ecolab, Inc., Expires 4/22/06, Strike 35.00	2,040	160,419	(683,400)
Edwards Lifesciences Corp., Expires 5/20/06, Strike 45.00	2,024	246,920	(172,040)
EMC Corp., Expires 07/22/06, Strike 13.00	1,660	190,064	(224,100)
Endo Pharmaceuticals Holdings, Inc., Expires 4/22/06, Strike 30.00	3,251	510,391	(1,040,320)
Federated Department Stores, Inc., Expires 5/20/06, Strike 70.00	525	197,919	(262,500)

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Fedex Corp., Expires 4/22/06, Strike 100.00	1,190	$ 627,111	$ (1,558,900)
Fisher Scientific International, Inc., Expires 6/17/06, Strike 65.00	970	520,874	(485,000)
Flextronics International, Ltd., Expires 4/22/06, Strike 10.00	3,655	323,454	(164,475)
General Dynamics Corp., Expires 5/20/06, Strike 57.50	500	128,946	(340,000)
General Dynamics Corp., Expires 5/20/06, Strike 60.00	1,140	237,683	(513,000)
Google, Inc., Class A, Expires 6/17/06, Strike 400.00	70	160,785	(154,000)
Halliburton Co., Expires 7/22/06, Strike 70.00	1,265	1,011,336	(936,100)
Harrah s Entertainment, Inc., Expires 5/20/06, Strike 70.00	690	301,517	(593,400)
Harris Corp., Expires 05/20/06, Strike 45.00	680	298,851	(251,600)
Henry Schein, Inc., Expires 4/22/06, Strike 45.00	2,492	416,844	(760,060)
Inco Ltd., Expires 04/22/06, Strike 50.00	970	336,580	(169,750)
Intel Corp., Expires 7/22/06, Strike 20.00	910	170,165	(91,000)
Intersil Corp., Class A, Expires 4/22/06, Strike 25.00	1,645	424,474	(625,100)
Johnson & Johnson, Expires 7/22/06, Strike 60.00	845	117,874	(147,875)
Kellogg Co., Expires 6/17/06, Strike 45.00	645	65,788	(48,375)
L-3 Communications Holdings, Inc., Expires 4/22/06, Strike 75.00	490	184,724	(539,000)
Lamar Advertising Co., Expires 4/22/06, Strike 45.00	1,245	400,878	(946,200)
LifePoint Hospitals, Inc., Expires 05/20/06, Strike 30.00	1,265	400,993	(259,325)
Linear Technology Corp., Expires 5/20/06, Strike 37.50	1,850	604,931	(74,000)
Liz Claiborne, Inc., Expires 4/22/06, Strike 35.00	1,490	338,220	(901,450)
Maxim Integrated Products, Inc., Expires 05/20/06, Strike 40.00	1,137	272,303	(79,590)
Mellon Financial Corp., Expires 6/17/06, Strike 37.50	1,260	146,665	(56,700)
Microchip Technology, Inc., Expires 7/22/06, Strike 35.00	2,788	702,554	(473,960)
Micron Technology Inc., Expires 07/22/06, Strike 16.00	1,625	218,468	(117,812)
Millipore Corp., Expires 07/22/06, Strike 70.00	455	174,169	(282,100)
Mylan Laboratories, Inc., Expires 04/22/06, Strike 20.00	1,195	111,729	(430,200)
NCR Corp., Expires 04/22/06, Strike 40.00	1,465	142,101	(366,250)
Network Appliance, Inc., Expires 06/17/06, Strike 32.50	1,375	363,676	(646,250)
NIKE Inc., Class B, Expires 07/22/06, Strike 90.00	900	178,104	(162,000)
Noble Corp., Expires 6/17/06, Strike 80.00	1,460	959,190	(919,800)
Nordstrom, Inc., Expires: 4/22/06, Strike: 40.00	1,290	254,122	(77,400)
Oracle Corp., Expires 6/17/06, Strike 12.00	3,165	394,030	(617,175)
PartnerRe, Ltd., Expires 5/20/06, Strike 65.00	295	34,514	(21,388)
Paychex Inc., Expires 6/17/06, Strike 40.00	965	112,901	(246,075)
PepsiCo, Inc., Expires 7/22/06, Strike 60.00	2,388	255,508	(226,860)
QUALCOMM, Inc., Expires 7/22/06, Strike 50.00	795	244,057	(294,150)
Rockwell Collins, Inc., Expires 4/22/06, Strike 50.00	1,020	114,235	(642,600)

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Ryland Group, Inc., Expires 07/22/06, Strike 70.00	900	$ 486,285	$ (468,000)
Safeway, Inc., Expires 6/17/06, Strike 22.50	2,030	476,020	(629,300)
Seagate Technology, Expires 06/17/06, Strike 30.00	2,085	275,211	(114,675)
Sears Holdings Corp., Expires 06/17/06, Strike 120.00	350	247,442	(535,500)
Sepracor, Inc., Expires 7/22/06, Strike 55.00	560	148,935	(126,000)
Servicemaster Co. (The), Expires 4/22/06, Strike 12.50	5,670	374,208	(382,725)
Smithfield Foods, Inc., Expires 07/22/06, Strike 25.00	455	137,410	(241,150)
St. Paul Travelers Companies, Inc., Expires 7/22/06, Strike 45.00	985	115,241	(83,725)
Staples Inc., Expires 06/17/06, Strike 25.00	2,520	210,413	(378,000)
Starwood Hotels & Resorts Worldwide, Inc., Expires 5/20/06, Strike 65.00	833	272,383	(333,200)
SUPERVALU, Inc., Expires 7/22/06, Strike 35.00	3,006	351,691	(97,695)
Swift Transportation Co., Expires 4/22/06, Strike 22.50	3,715	398,565	(148,600)
Tellabs Inc., Expires 06/17/06, Strike 15.00	5,430	457,300	(895,950)
Teradyne, Inc., Expires 4/22/06, Strike 15.00	4,495	784,801	(449,500)
Teva Pharmaceutical Industries, Ltd. ADR, Expires 06/17/06, Strike 40.00	515	178,699	(128,750)
Texas Instruments, Inc., Expires 07/22/06, Strike 30.00	2,070	480,225	(786,600)
Thoratic Corp., Expires 07/22/06, Strike 22.50	305	38,171	(22,113)
Time Warner, Inc., Expires 07/22/06, Strike 17.00	2,455	281,089	(159,575)
Tyco International, Ltd., Expires 7/22/06, Strike 27.50	945	78,905	(103,950)
Veeco Insturments, Inc., Expires 4/22/06, Strike 17.50	3,764	364,051	(2,220,760)
Weight Watchers International, Inc., Expires 4/22/06, Strike 50.00	2,020	387,824	(343,400)
Wellpoint, Inc., Expires 6/17/06, Strike 75.00	580	320,150	(292,900)
Wm. Wrigley Jr. Co., Expires 6/17/06, Strike 65.00	780	139,931	(152,100)
Wyeth, Expires 04/22/06, Strike 47.50	1,425	213,031	(206,625)
Total Call Options Written (premiums recieved, $28,709,223)			**$ (37,642,763)**
Other Assets, Less Liabilities (0.0)%			**$ (345,688)**
Net Assets 100.0%			**$ 938,245,564**

ADR American Depository Receipt
(1) A portion of each common stock holding has been segregated as collateral for outstanding options written.
(2) Non-income producing security.

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The cost and unrealized appreciation (depreciation) in value of the investments owned at March 31, 2006, as computed on a federal income tax basis, were as follows:

Aggregate cost	**$**	**935,327,397**
Gross unrealized appreciation	$	71,037,443
Gross unrealized depreciation	(30,130,825	)
Net unrealized appreciation	**$**	**40,906,618**

Written call option activity for the period ended March 31, 2006 was as follows:

	Number of Contracts	**Premiums Received**
Outstanding, beginning of period	153,413	$ 27,803,143
Options written	135,047	27,888,284
Options terminated in closing purchase transactions	(180,087)	(17,593,108)
Options exercised	38,166	(9,389,096)
Outstanding, end of period	146,539	$ 28,709,223

At March 31, 2006, the Fund had sufficient cash and/or securities to cover commitments under these contracts.

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Item 2. Controls and Procedures

(a) It is the conclusion of the registrant s principal executive officer and principal financial officer that the effectiveness of the registrant s current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable assurance that the information required to be disclosed by the registrant on this Form N-Q has been recorded, processed, summarized and reported within the time period specified in the Commission s rules and forms and that the information required to be disclosed by the registrant on this Form N-Q has been accumulated and communicated to the registrant s principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.

(b) There have been no changes in the registrant s internal controls over financial reporting during the fiscal quarter for which the report is being filed that have materially affected, or are reasonably likely to materially affect the registrant s internal control over financial reporting.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eaton Vance Enhanced Equity Income Fund II

By:	/s/ Duncan W. Richardson
	Duncan W. Richardson
	President and Principal Executive Officer
Date:	May 24, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Duncan W. Richardson
	Duncan W. Richardson
	President and Principal Executive Officer
Date:	May 24, 2006
By:	/s/ Barbara E. Campbell
	Barbara E. Campbell
	Treasurer and Principal Financial Officer
Date:	May 24, 2006