El plan de saber a donde ir: caso Krispy Kreme.

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EL PLAN DE SABER A DONDE IR: CASO KRISPY KREME

ESTUDIO DE CASO

Que para obtener el grado de

MAESTRO EN ADMINISTRACION

Presenta

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Introducción.

Que puede ser tan perfecto que una dona de Krispy Kreme? Muchas veces detrás de una esponjada masa de pan, existen muchas estrategias que pueden dar en el blanco o empezar con la agonía de una corporación.

Disponible por mucho tiempo en los estados del sur de la Unión Americana, Krispy Kreme atrajo a muchos clientes los cuales fueron muy devotos y fanáticos de las donas pero cuando esta empezó su plan de crecimiento sin modelos de expansión exitosos, empezaron las presiones financieras y por consiguiente las presiones atañen a una compañía pública.

Raramente una corporación revela mucha información acerca de sus operaciones pero Qué pasa cuando no acierta en el modelo de crecimiento?

Esto puede ser un pequeño panorama de cómo una corporación que tiene muy acreditado el nombre de la marca y no lo explota al máximo, puede perder la visión y la meta de cómo y a donde se quiere ir.

Descripción Genérica de la empresa

La esencia de Krispy Kreme nace de la compra que realiza Vernon Rudolph en 1933 a Joe LeBeau en Paducah, Kentucky. La operación realizada incluía el activo fijo de la compañía, el activo intangible, el nombre de Krispy Kreme y los derechos de una receta secreta de donas esponjadas con levadura.

Bajo la administración de Vernon Rudolph las oficinas fueron trasladadas a la ciudad de Nashville, TN., con el fin de buscar un mercado más grande. Otros miembros de la familia se fueron uniendo a la empresa y abrieron tiendas en Charleston, Virginia del Oeste, y Atlanta Georgia.

El negocio consistía principalmente en producir, comercializar y entregar donas a las tiendas comerciales de comestibles.

En el verano de 1937 Rudolph decide dejar el negocio familiar marchándose de Nashville con algo de equipo para hacer donas y llevándose la receta secreta.

Después de decepcionantes y fallidos intentos por establecerse en otros lugares, la primera tienda Krispy Kreme se lleva a cabo en la ciudad de Winston-Salem, Carolina del Norte. La atracción de esta ciudad estaba basada en que el crecimiento industrial de Tabaco y Textiles en el sureste era significativo lo cual, a Rudolph se le ocurrió que una tienda de donas sería un buen agregado a la próspera economía local.

La variedad en la comercialización de las donas era una de las atracciones que existía en los locales de Krispy Kreme (Ver anexo “A”)

Hacia 1950, la renta de un local en la cera de enfrente del Salem Collage and Academy, fue el lugar donde se empezaron a producir de forma masiva las primeras donas Krispy

Kreme para entregarlas a las tiendas comerciales de comestibles locales.

Las necesidades de desarrollo y de capital, orilló a Rudolph a la busca de un socio que le apoyara en los planes de ampliación del negocio, lo cual lo condujo a Mike Harding, quién tenia un negocio que le vendía leche en polvo a panaderías locales y que posteriormente en 1954 se uniría a la compañía como socio.

En los inicios de esta nueva sociedad se contaba con 6 empleados con quienes se empezó a construir el departamento de equipo y una planta para mezclar masas para las donas.

Se tenía muy en arraigado que la clave para la expansión de Krispy Kreme era tener el control de los procesos de elaboración y capacidad para realizar las entregas a los clientes. Esta primera situación reflejó efectos debido a que para fines de la década de los 50's, se tenían 29 tiendas en 12 estados y cada tienda era capaz de producir 500 docenas de donas por hora.

Para 1960, se toma la decisión de estandarizar todos los establecimientos de Krispy Kreme lo cual, crea una apariencia que se posteriormente se convirtió en una marca registrada para esos tiempos.

Para 1954, los ingresos de Krispy Kreme que eran de menos de un millón de dólares, los cuales crecieron a 58 millones cuando Harding decide retirarse en 1974.

Posteriormente, una compañía de alimentos llamada Beatrice Foods compra Krispy Kreme pero durante esta administración las ventas empiezan a declinar y un grupo de franquiciatarios encabezados por Joseph McAleer compra la franquicia a Beatrice Foods en 1982 en una operación de readquisición apalancado con deuda (LBO Leveraged Buyout).

Una recuperación a las ventas bajo la administración del grupo de franquiciatarios sucedió rápidamente después de que algunas restauraciones a los logos y los letreros de estilo manuscrito se llevaron a cabo pero esto, con las tasas de interés de dos dígitos con la que habían adquirido los préstamos que en esa década prevalecían, tomo años para pagar la deuda lo cual los dejo con pocos recursos para programas de expansión.

Con el fin de que crecieran los ingresos, la compañía se apoyo en la concesión de franquicias a tiendas asociadas además, dicha operación permitió la apertura de unas cuantas tiendas nuevas propiedad de la firma y de esta manera, impulsar el crecimiento de los establecimientos mediante ventas fuera de instalaciones.

Para las franquicias, las licencias otorgadas eran por un total de 15 años en donde se tenía establecido un pago por regalías mensual del 3% de las ventas dentro de las instalaciones y el 1% de todas las demás ventas bajo marca (Supermercados, Tiendas de Conveniencia, organizaciones caritativas y clientes mayoristas)

Para el año de 1989, los ingresos ascendieron a 117 millones de dólares y luego se mantuvieron en ese mismo nivel durante los siguientes 6 años (hasta 1995). En 1990 con las tasas de interés a la baja y con gran parte de la deuda saldada, la compañía empezó a experimentar cautelosamente la expansión.

A principios del año 2000, la compañía había firmado trato con 13 desarrolladores de área que operaban 33 tiendas Krispy Kreme y que se comprometían a abrir otras 130 en sus territorios en 5 años o menos. Esto era adicional a 61 tiendas bajo la propia administración de la compañía. La expansión se empezaba a reflejar.

En el año fiscal del 2001, la compañía reportó ventas de 301 millones de dólares y utilidades de 14.7 millones de dólares. Investigaciones de la compañía indicaban que el atractivo de Krispy Kreme se extendía a través de todos los grupos demográficos mayores, incluidos los de edad e ingresos.

A principios del 2001, Krispy Kreme adquirió Digital Java Inc. Una pequeña compañía cafetera con base en Chicago la cual proveía y tostaba café de calidad Premium y que comercializaba una amplia línea de bebidas lácteas, de café y otros tipos

Para efectos de mercadotecnia, cada tienda estaba diseñada con un teatro de donas, donde los clientes podían observar en donde y como se hacían las donas a través de una ventana de 40 pies (12 metros)

Si bien Krispy kreme se encontraba en un mercado muy competido, la variedad de donas independientemente de las calorías, es una ventaja con la que Krispy Kreme ha contado, comparándolo con sus principales competidores (ver anexo “B” y “C”)

Descripción detallada objeto de estudio

El modelo de negocio de Krispy Kreme esta principalmente basado en 3 aspectos:

1.-Ventas en tiendas propiedad de la compañía.

2.-Regalías de tiendas franquiciadas y cuotas de franquicia de apertura de nuevas tiendas

3.-Ventas de masa para preparar donas y de equipo de elaboración de donas armado o pedido para tiendas franquiciadas.

La venta de mezcla de masa y equipo, a la que la empresa se refiere como "manufactura y distribución de KK" generaba una considerable fracción, tanto de los ingresos como de las ganancias.

Por otro lado, partiendo de las cifras mostradas en la tabla de ingresos según el tipo de tienda, se puede ver que gran parte que las operaciones están concentradas en las tiendas propiedad de la corporación y una de las grandes preguntas que pudiera resultar de éste caso de estudio, es ¿Por qué no se han enfocado a las franquicias? (ver anexo "D")

Cuando Krispy Kreme fue una compañía privada de rápido crecimiento, era muy fácil encontrar debilidades en la administración del negocio sin embargo, esas debilidades se fueron corrigiendo por las presiones de los mercados y de la competencia en muchos aspectos (financieros, operativos y mercadológicos). Estas llegaron a ser una fortaleza que se ha aprovechado de manera exitosa.

Aspectos internacionales “México”

En últimas fechas, Krispy Kreme se ha convertido en una marca que muchas personas buscan. En gran parte, esto se debe a las exitosas campañas de relaciones públicas que se han estado llevando a cabo, tales como Saca 10 con Krispy Kreme y el programa de financiamiento para instituciones sin fines de lucro.

Más allá de lo lucrativas que están resultando sus donas, Krispy Kreme anuncia una nueva promoción al público basada en su gama de bebidas heladas con sabores Krema Original con o sin café, Frambuesa, Latte y Doble Chocolate con o sin café para la temporada de calor, promoción que se basa en el sistema de "compra frecuente", regalando una presentación por cada 5 compras anteriores de dichos productos.

Por otra parte, la firma anuncia que este año abrirá 10 nuevos puntos de venta, uno de ellos recién inaugurado en San Jerónimo y, dentro de dos meses, abrirá una nueva tienda en el Wal-Mart de San Marcos, Cuautitlán Izcalli.

Principales conceptos, objeto para fundamentar propuestas.

Después de analizar los diferentes aspectos en los que Krispy Kreme se ha venido desenvolviendo y basados en los elementos proporcionados tanto operativos, financieros, de mercadotecnia y de estructura, algunas de las observaciones más importantes que pudieran ser consideradas como áreas de oportunidad para la corporación son como a continuación se mencionan:

Después de varias experiencias y anécdotas suscitadas en Krispy Kreme, se llego a la conclusión de que el darle énfasis a las ventas fuera de las instalaciones, no se estaba aprovechando adecuadamente el entusiasmo y la lealtad de los clientes de Krispy Kreme.

Un enfoque exclusivo de la empresa sobre la permanencia en los estados del Sureste de los Estados Unidos, era una de las situaciones que debería ser evaluada y prosperada, debido a que podría mermar los esfuerzos de apalancar los valores y calidad de la marca en el resto de los estados del país.

Independientemente de las cuestiones territoriales, a la par se estaban llevando a cabo análisis en otros aspectos del negocio dentro de los cuales determinaron que las tiendas de tamaño estándar, (7000 pies o 650 metros cuadrados) eran de operaciones poco rentables en todas las ubicaciones, excepto por aquellas que lógicamente mantenían un volumen alto.

Muchas de las tiendas construidas antes de 1997, se diseñaron en principio como panaderías mayoristas y sus formatos y ubicaciones diferían considerablemente de las tiendas recientemente construidas ubicadas en zonas de alta densidad, donde había mucha gente e intenso tránsito.

Como toda compañía en crecimiento la visión de planes de expansión no podía dejar atrás los huecos de logística, operación, marca, presencia, por lo que había que enfocarse de manera igual a lo ya establecido.

La construcción de un centro de producción y distribución para proveer de paquetes de 12 donas Krispy Kreme a supermercados Metroplex, (tiendas de conveniencia, y otros detallistas del área) era debido a que las tiendas recién abiertas no tenían la capacidad de horneado para satisfacer la demanda de instalaciones fuera de estas, lo cual dejaba ver que la logística en la cadena de suministro estaba tomando un rumbo diferente al que se pudiera presumir que debería ser un plan de desarrollo interno.

Esta situación estaba ocurriendo en otros centros similares operados por Franquicias de Elaboración y Distribución mayoristas en Nashville, Cincinnatti, Atlanta, Chicago y Philadelphia.

Varios de estos centros tenían capacidad instalada de entrega para proveer materia prima Krispy Kreme a detallistas en áreas alejadas que se consideraban demasiado pequeñas para justificar una tienda Krispy Kreme independiente.

Evaluación de variables

Para determinar las alternativas de solución lógicamente se están tomando en cuenta las siguientes cuestiones:

-Tener acceso a una nueva Fuente de capitales.

-Establecer compromisos con los franquiciatarios con el fin de abarcar más tiendas.

-Evitar los gastos fijos elevados que implican administrar restaurantes propios.

-Cooperar con los hombres de negocios locales bien integrados en medio de la ciudad, de la región o del país.

-Crear una nueva fuente de ingresos basada en el saber hacer técnico y comercial que se posee.

Respecto a los restaurantes propiedad de la corporación, un enfoque directo a las ventas traería como resultado el desarrollo de una cultura de productos exclusividad de Krispy Kreme, donas que solo se encuentran en tiendas de la marca. Este es uno de los valores agregados que más incrementaría el crédito mercantil de la marca.

Una vez evaluados los tamaños de las tiendas se ha llegando finalmente a la conclusión que las tiendas de 2400 a 4200 pies cuadrados (222 a 390 metros cuadrados) son las más adecuadas para los planes de reposicionamiento de mercado y expansión de la empresa a nivel nacional e internacional así como.

La parte de franquicia es una alternativa que requiere que la firma otorgue licencias (franquicias por tienda) de territorios definidos habitualmente por áreas metropolitanas o estados definidos estadísticamente. Este es un aspecto que ampliaría el número de tiendas a nivel nacional como internacional.

Algo importante para el éxito de esta alternativa es que los franquiciatarios cumplan con los siguientes aspectos:

-Conocimiento del mercado local.

-Conocimiento del segmento de mercado que interesa a la franquicia.

-Recursos económicos necesarios

-Recursos administrativos necesarios

-Experiencia de negocios en el país del franquiciatario

-Conocimientos del mercado inmobiliario de su país

-Buenas relaciones y experiencia en el trato con los funcionarios de gobierno del país al que ingresa la franquicia.

Por otra parte, con el plan de construcción de instalaciones para manufactura en lugares estratégicos, la preparación de la mezcla y empacado de masas preparadas para donas ayudará a la distribución de estas, equipos y otros suministros a las tiendas. El objetivo de esta logística es bajar los costos unitarios de Krispy Kreme.

Metodología utilizada

La metodología utilizada para la detección de posibles áreas de oportunidad fue la de identificar los principales problemas tanto operativos como financieros y con base en eso, evaluar las alternativas de solución que pudiera tener Krispy Kreme

Primero que todo, Para lograr un crecimiento sustentable tanto operativo y territorial, sería el enfocarse en el otorgamiento de licencias para franquicias de tiendas.

Se puede apreciar que las franquicias en los últimos años se han incrementado de manera razonable de un 40 a un 60 %, con respecto del total de tiendas existentes. (Ver anexo ”D”)

Krispy Kreme es una compañía que todavía tiene mucho valor en su nombre y su producto, el cual debe ser explotado en su totalidad y creo que el otorgar licencias para franquicias de tienda es uno de los pilares para que la compañía continúe con el crecimiento de su negocio lo cual, esta opción es muy viable para la corporación.

El panorama financiero para los desarrolladores de área, es contar con un valor neto de 5 millones de dólares o 750 mil dólares por tienda lo que fuera mayor.

Los desarrolladores de área le tienen que pagar a Krispy Kreme una cuota de franquicia de 20,000 a 40,000 dólares por cada tienda que abran. Esta situación también implica un 4.5% de cuota de regalías sobre todas las ventas y una contribución del 1% de los ingresos a un fondo de publicidad y relaciones públicas administradas por la compañía.

Por otro lado, como se mencionó anteriormente, después de evaluados los tamaños de los locales se llegó a la conclusión que las tiendas de 2400 a 4200 pies cuadrados (222 a 390 metros cuadrados) son las más adecuadas para los planes de reposicionamiento de mercado y expansión de la empresa a nivel nacional e internacional.

Esta es una cuestión que dentro de nuestra alternativa de solución debe ser revaluada, debido a que como corporación no puede dejar de pensar en posibles mercados secundarios de menos de 100,000 habitantes los cuales, tienen un potencial significativo de ventas y utilidades además de que el diseños de un modelo de tiendas de menor tamaño adecuados para esos mercados puede ser muy rentable a la corporación. El análisis de los proyectos de inversión sobre estos locales daría resultados muy positivos.

Análisis de variables.

Uno de los criterios usados para el análisis de variables fue la interpretación de razones financieras las cuales, si bien presentan una operación razonablemente baja, soportan de manera adecuada el reforzamiento del otorgamiento de franquicias. (Ver Anexo "F-1")

	Ene 29 1995	**Ene 28 1996**	**Feb 02 1997**	**Feb 01 1998**	**Ene 31 1999**	**Ene 30 2000**	**Ene 28 2001**
Liquidez (Por cada peso que debo anualmente, tengo para pagar…)				1.55	1.32	1.39	1.77
Margen de utilidad de operación (por cada peso vendido gano…)			0.12	0.12	0.13	0.14	0.17
Rend. S/Capital (Por cada peso invertido gano….)	0.04	0.00	0.02	0.02	-0.02	0.03	0.05
Grado de Endeud. (por c/peso que tengo corresponde a aport. de 3os)	0.19	0.25	0.26	0.46	0.50	0.50	0.22
Grado de Posesión Por c/peso de activos el % correspondiente. A aportaciones de los dueños	0.53	0.48	0.47	0.47	0.45	0.45	0.73
Grado de Apalancamiento (Por c/peso que aporté, los terceros aportaron……)	0.35	0.52	0.55	0.98	1.11	1.10	0.30

Como se puede apreciar en la tabla anterior y en especial el margen de utilidad de operación, el margen que actualmente está manejando la corporación es bajo el cual, podría ser incrementado de manera significativa a través de nueva fuentes de financiamiento (Franquicias) (Ver anexo F-2)

Por lo que se refiere a los otros renglones, van muy relacionados con aspectos propiedad de la corporación, pero no necesariamente implicarían un incremento en las ventas debido a que de la misma manera se incrementarían los renglones del costo de ventas y el de los gastos de operación. (Ver análisis en anexo "F")

Dentro del grado de posesión que tiene la corporación, es muy importante mencionar que el indicador esta orientado a las tiendas propiedad de la corporación y que para poder cumplir con las operaciones, estamos recurriendo al apalancamiento de terceros debido a que nuestra participación en la mayoría de los años no sobrepasa el 50%.

En lo que respecta al grado de apalancamiento como se muestra en los últimos tres años, se tuvo que recurrir a un financiamiento externo.

Otra alternativa de poder allegarse de capitales sin que estos representen un pasivo a largo plazo, es a través de la transferencia de tiendas propias a franquiciatarios. Esto quiere decir que cuando una tienda deja de cumplir con los estándares de rentabilidad que tiene marcados por esta disposición la corporación (sin que ésta deje de ser rentable) puede ser traspasada a un tercero (Franquiciatario) con el fin de que la operación se maneje a través de este.

Este tipo de tiendas si continuaran siendo manejadas por la corporación, financieramente tendrían que ser reclasificadas a resultados a través de un ordenamiento contable FASB 121.

Por otra parte, la falta de cumplimiento en procesos contables establecidos por los auditores externos, restan confiabilidad a las cifras mostradas. Entre ellas están:

Falta de aseguramiento a los apegos de USGAAP

Falta de controles sobre los procesos de consolidación de los franquiciatarios.

Falta de controles sobre reservas por retiro, vacaciones, compensaciones, lo cual a largo plazo puede llegar a representar un pasivo muy difícil de cubrir.

Falta de control sobre el aseguramiento de los ingresos provenientes de los franquiciatarios. (Regalías, Publicidad.)

Finalmente, creo que ninguna de las alternativas podría estar completa si no se entrelazan los eslabones dentro de un plan llamado, El Plan de saber a donde se quiere ir compuesto por:

Planes de Mercadotecnia (Establecer verdaderos puntos de venta)
Planes Financieros (Financiarse con franquiciatarios, revisar estructuras de costos y renegociar deudas)
Planes de Productos (Establecer los mejores estándares de calidad mantenerlos y mejorarlos)
Planes de Personal. (Empleados, franquiciatarios sean parte de nuestro plan de incentivos)

Por otro lado, las variables operativas son un termómetro muy importante para evaluar las cifras de los estados financieros; esto es, en la medida en que los controles internos sean confiables, las cifras que se reflejan en dichos estados reflejaran una mayor confiabilidad en estas.

Basándonos en los reportes emitidos por los auditores independientes de Krispy Kreme, muestran las siguientes áreas de oportunidad:

-No están en disposición de emitir una opinión respecto al control interno debido a que la compañía no ha completado su compromiso de evaluación y reingeniería al mismo.
-La compañía no mantiene un control efectivo respecto a los criterios establecidos y basados en el marco de referencia COSO. (Sabanees-Oxley)

-La compañía ha fallado en la asignación de líneas de responsabilidad y comunicación entre lo operativo y lo financiero.

-La compañía no sigue políticas y procedimientos respecto de la supervisión y monitoreo de las operaciones contables y su fuente (operaciones de monitoreo y auditoria en restaurantes propios.

Decisión

Basado en las evaluaciones de la información en la que se sustenta este caso y con la información financiera además de la tendencia por la que Krispy Kreme está determinando para la estrategia a seguir, podría determinar que la decisión a tomar será la de continuar y reforzar la orientación al otorgamiento de licencias para franquicias para tiendas por un periodo de 10 años con lo cual, la corporación empezaría a diversificar las fuentes de financiamiento proveniente de tiendas como en locales de fabricación y distribución.

El adecuado manejo de las evaluaciones de proyectos de inversión que cada uno de estos proyectos requiere, será la clave para la adecuada administración del financiamiento debido a que éste tipo de avaluaciones estará basado en lo financiero por lo que, primero se tendrá que trabajar en un reforzar los aspectos operativos que estén directamente ligados con los aspectos financieros para garantizar oportunidad y confiabilidad en las cifras.

Bajo esta decisión, operativa y financieramente se llevarán a cabo las evaluaciones de tiendas a otorgar como franquicia con el fin de encontrar un rendimiento sobre la inversión que beneficie tanto al franquiciatario como a la corporación.

Por otro lado respecto a las tiendas propias, esas mismas evaluaciones se llevarán a cabo con el fin de determinar cuales serían las zonas o territorios que serían factibles de franquiciatar. Lógicamente dentro de este proceso, se estarían evaluando de manera paralela condiciones demográficas, desarrollo urbano e industrial con el fin de determinar las potencialidades de cada una de estas.

Lo que se busca con este tipo de evaluaciones es que la corporación adelgace sus gastos de operación al no tener que invertir cifras elevadas en la logística de producción y distribución y canalizarlas adecuadamente a través del otorgamiento de franquicias para producir y distribuir.

Pasando a un nivel internacional, para mayo del 2001, la compañía había dejado de aceptar solicitudes para franquicias para ubicaciones en estados unidos, indicando que no había territorios abiertos. Sin embargo, se estaban aceptando solicitudes de desarrolladores interesados en tiendas franquiciadas en mercados internacionales lo que le permitiría a la corporación enfocar sus operaciones en un mercado fuera de la unión americana.

Esto es una situación que además de internacionalizar operaciones, podría analizar la coyuntura de la tropicalización de los productos lo cual bien encaminado, le traería valores agregados que incrementarían el crédito mercantil de la corporación. (Ver crecimiento de operaciones, ventas y restaurantes en anexos “G” y “H”)

Conclusión.

Krispy Kreme ha tenido una trayectoria de altibajos la cual ha venido desde que Vernon Carter Rudolph compro la marca y la receta secreta para hacer las donas.

Otros propietarios que en su momento confiaron en la marca e intentaron con modelos diferentes innovar y buscar la forma de sacarla adelante posiblemente se encontraron con paradigmas operativos y financieros que conlleva a la operación de establecimientos de esta índole sin embargo, a la fecha la corporación se encuentra todavía buscando las innovaciones y el modelo que permita capitalizar los intangibles que de la marca y producto no han sido aprovechados.

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McDonald's Web page www. mcdonalds.com

ANEXO A

VARIEDAD DE DONAS DE KRISPY KREME

Original Glazed (espolvoreada de azúcar original)

Chocolate Iced (Fría de Chocolate)

Chocolate Iced with Sprinkies (Fría de Chocolate con Chispas)

Maple Iced (Fría con jarabe de Maple)

Chocolate Iced Creme Filled (Fría de Chocolate rellena de crema)

Glazed créeme Filled (Glaseada rellena de crema)

Traditional Cake (De pastel tradicional)

Chocolate iced Custard Filled (Fría chocolate rellena de flan)

Raspberry Filled (Rellena de frambuesa)

Lemon Filled (Rellena de Limón)

Cinnamon Apple Filled (Rellena de Manzana con Canela)

Powered Blueberry Filled (Rellena de Arándanos y espolvoreada)

Chocolate Iced Cake (De pastel fría de Chocolate)

Glazed Cruller (De churro glaseada)

Powered Cake (De pastel espolvoreado)

Glazed Devil's Food (Bocado del diablo glaseada)

Chocolate Iced Cruller (De churro fría de chocolate)

Cinnamon Bun (Bollo de Canela)

Glazed Blueberry (De Arándanos glaseada)

Glazed Sour Creme (De crema agria glaseada)

Fuente: www.krispykreme.com

Fecha: Agosto, 2006

ANEXO B

CONTENIDO NUTRITIVO DE VARIEDADES SELECTAS DE DONAS KRISPY KREME

Producto	Calorías	Calorías de Grasa	Gramos	% de Valores diarios	Gramos	% de Valores diarios	Colesterol	Sodio	Gramos	% de Valores diarios	Azúcar
Original Glazed	210	110	12	19	4	19	<5 mg	65 mg	22	7	13 g
Fudge Iced Glazed	280	130	14	22	4	22	<5 mg	75 mg	36	12	22 g
Maple Iced Glazed	200	80	9	14	2.5	13	0 mg	100 mg	28	9	18 g
Powdered Blueberry Filled	270	110	13	20	4	20	<5 mg	1700 mg	33	11	40 g
Fudge Iced Creme Filled	340	160	18	28	5	25	<5 mg	160 mg	39	13	22 g
Glazed Creme Filled	350	120	20	31	5	25	<5 mg	135 mg	39	13	24 g
Traditional Cake	200	100	11	17	3	14	15 mg	280 mg	22	7	7 g
Glazed Cruller	250	140	16	25	4	20	5 mg	190 mg	24	8	15 g
Cinnamon Bun	220	100	11	17	3	15	0 mg	160 mg	26	9	7 g
Glazed Devil's Food	390	220	24	37	5	25	<5 mg	250 mg	41	14	30 g

Fuente: www.krispykreme.com

Fecha: Agosto, 2006

ANEXO C

CONTENIDO NUTRITIVO DE PRODUCTOS DE DONAS SELECCIONADAS DE " LAMAR'S "

Producto	Calorías	Calorías de Grasa	Total de Grasas	Grasas Saturadas	Colesterol	Sodio	Carbohidratos	Azúcar
Ray's Original Glazed Donut (Glaseada original de Ray)	220	90	10 g	2.5 g	0 mg	260 mg	31 g	13 g
Chocolate Iced LaMar's Bar (Fría de Chocolate sin relleno)	540	200	22 g	6 g	0 mg	440 mg	81 g	49 g
Cinnamon Twist (Trenzada de Canela)	770	240	26 g	7 g	0 mg	1190 mg	120 g	32 g
Old Fashioned Sour Cream Donut (Dona Antigua de Crema)	420	160	18 g	4.5 g	15 mg	380 mg	60 g	40 g
Cherry Filled Bizmark (Rellena de Cereza)	550	170	19 g	5 g	0 mg	560 mg	88 g	45 g
Apple Fitter (Buñuelo de Manzana)	650	230	26 g	7 g	0 mg	1020 mg	91 g	13 g
Cinnamon Roll (Rollo de Canela)	690	220	25 g	6 g	0 mg	1020 mg	106 g	30 g
Raisin Nut Cinnamon Roll (Rollo de Canela con Nueces y Pasas)	850	240	27 g	6 g	0 mg	1020 mg	137 g	62 g
Chocolate Iced LaMar's Bar (Barra de Chocolate helado rellena de merengue)	810	320	35 g	9 g	0 mg	460 mg	120 g	85 g
Ray's Chocolate Glazed Donut (Glaseada de Chocolate)	290	100	11 g	3 g	0 mg	260 mg	44 g	25 g
White Iced Cake Donut (De pastel Blanco Helado)	320	160	17 g	4.5 g	0 mg	320 mg	38 g	23 g

Las Donas de los competidores contienen hasta un 50% más de calorías que las de Krispy Kreme.

Fuente: **www.krispykreme.com**

Fecha: **Agosto, 2006**

ANEXO D

RESUMEN DEL DESEMPEÑO FINANCIERO Y OPERATIVO DE KRISPY KREME
AÑOS FISCALES DE 1995 - 2001
(Cantidades en dólares en miles excepto por acción)

	Feb-02 1997	%	Feb-01 1998	%	Ene-31 1999	%	Ene-30 2000	%	Ene-28 2001	%
Ingreso por segmento de negocios										
Operaciones de tienda de la compañía	113,940	0.86	132,826	0.84	145,251	0.80	164,230	0.75	213,677	0.71
Operaciones de Franquicia	1,709	0.01	2,285	0.01	3,236	0.02	5,529	0.03	9,445	0.03
Manufactura y distribución de KK	16,965	0.13	23,632	0.15	32,393	0.18	50,484	0.23	77,593	0.26
Total	132,614		158,743		180,880		220,243		300,715	
Gtos. Operativos por segmento de Negocio (Antes de la Dep. y Amort.)										
Operaciones de tienda de la compañía	100,655	0.86	117,252	0.84	126,961	0.81	142,925	0.75	181,470	0.72
Operaciones de Franquicia	1,575	0.01	2,368	0.02	2,731	0.02	4,012	0.02	3,642	0.01
Manufactura y distribución de KK	14,428	0.12	20,587	0.15	27,913	0.18	43,066	0.23	65,578	0.26
Total	116,658		140,207		157,605		190,003		250,690	
Beneficio Operativo por segmento de Negocio (Antes de la Dep. y Amort.)										
Operaciones de tienda de la compañía	13,285	0.83	15,574	0.84	18,290	0.79	21,305	0.70	32,207	0.64
Operaciones de Franquicia	134	0.01	-83	0.00	505	0.02	1,517	0.05	5,803	0.12
Manufactura y distribución de KK	2,537	0.16	3,045	0.16	4,480	0.19	7,418	0.25	12,015	0.24
Total	15,956		18,536		23,275		30,240		50,025	
Gastos generales y administrativos no asignados	-7,630		-10,476		-12,020		-16,035		-21,305	
Gastos de Depreciación y Amortización										
Operaciones de tienda de la compañía	No Disp.		2,339	0.65	2,873	0.67	3,059	0.67	4,838	0.75
Operaciones de Franquicia	No Disp.		100	0.03	57	0.01	72	0.02	72	0.01
Manufactura y distribución de KK	No Disp.		201	0.06	225	0.05	236	0.05	303	0.05
Administración corporativa	No Disp.		946	0.26	1,123	0.26	1,179	0.26	1,244	0.19
Total			3,586		4,278		4,546		6,457	

Fuente: **www.krispykreme.com**

Fecha: **Agosto, 2006**

ANEXO E

	Propiedad de la Compañía	%	Franquiciadas	%	Total
Año terminado el 2 de Febrero de 1997					
Al comenzar la cuenta	53	0.56	42	0.44	95
Abiertas	7	0.32	15	0.68	22
Cerradas	0	0.00	-1	1.00	-1
Transferidas	1		-1		0
Al terminar la cuenta	61		55		116
Año terminado el 1 de Febrero de 1998					
Al comenzar la cuenta	61	0.53	55	0.47	116
Abiertas	0	0.00	7	1.00	7
Cerradas	-2	0.67	-1	0.33	-3
Transferidas	-1		1		0
Al terminar la cuenta	58		62		120
Año terminado el 31 de Enero de 1999					
Al comenzar la cuenta	58	0.48	62	0.52	120
Abiertas	0	0.00	14	1.00	14
Cerradas	0	0.00	-3	1.00	-3
Transferidas	3		-3		0
Al terminar la cuenta	61		70		131
Año terminado el 30 de Enero de 2000					
Al comenzar la cuenta	61	0.47	70	0.53	131
Abiertas	2	0.10	19	0.90	21
Cerradas	-5	0.63	-3	0.38	-8
Transferidas	0		0		0
Al terminar la cuenta	58		86		144
Año terminado el 28 de Enero de 2001					
Al comenzar la cuenta	58	0.40	86	0.60	144
Abiertas	8	0.22	28	0.78	36
Cerradas	-3	0.50	-3	0.50	-6
Transferidas	0		0		0
Al terminar la cuenta	63		111		174

Las tiendas transferidas representan tiendas vendidas entre la compañía y los franquiciatarios.

Nuevas tiendas en nuevos mercados existentes	**Nuevas tiendas en mercados ya**
Denver	Baton Rouge
Oklahoma City	Charleston
Syracusa	Greensboro
Alburquerque	Alexandria
Wichita	Davenport
Minneapolis	Nueva Orleans
Pittsburgh	Orlando
Seattle	Dallas
Reno	Richmond
Little Rock	Ciudad de New York
West Palm Beach	

Concepto	**Importe**
* Ingresos por tienda	3,600,000
* Flujo de efectivo (después de gastos operativos)	960,000
* Margen de Flujo de efectivo	0.27
* Inversión de Capital Contable del propietario para Construir una tienda	1,050,000
* Beneficio del flujo de efectivo sobre inversión de Capital contable	0.91

Fuente: **www.krispykreme.com**
Fecha: **Agosto, 2006**

ANEXO F-1

EVALUACION DE RAZONES FINANCIERAS

	Ene-29 1995	**Ene-28 1996**	**Feb-02 1997**	**Feb-01 1998**	**Ene-31 1999**	**Ene-30 2000**	**Ene-28 2001**
Liquidez (Por cada peso que debo anualmente, tengo para pagar…)				1.55	1.32	1.39	1.77
Margen de utilidad de operación (Por cada peso vendido, obtengo…)			0.12	0.12	0.13	0.14	0.17
Rend. S/Capital (Por cada peso invertido, obtengo….)	0.04	0.00	0.02	0.02	-0.02	0.03	0.05
Grado de Endeudamiento (Por c/peso que tengo corresponde a aport de 3os)	0.19	0.25	0.26	0.46	0.50	0.50	0.22
Grado de Posesión (Por c/peso de activos el % corresp. a aportaciones de los dueños)	0.53	0.48	0.47	0.47	0.45	0.45	0.73
Grado de Apalancamiento (Por c/peso que aporté, los terceros aportaron……)	0.35	0.52	0.55	0.98	1.11	1.10	0.30

Cálculos realizados sobre bases financieras de Enero 1995 a Enero del 2001

ANEXO F-2

EVALUACION DE RAZONES FINANCIERAS

	Feb-01 2004	**Ene-30 2005**
Liquidez (Por cada peso que debo anualmente, tengo para pagar…)	2.34	1.01
Margen de utilidad de operación (Por cada peso vendido, obtengo…)	0.14	-0.20
Rend. S/Capital (Por cada peso invertido, obtengo….)	0.11	-0.82
Grado de Endeudamiento (Por c/peso que tengo corresponde a aport de 3os)	0.34	0.50
Grado de Posesión (Por c/peso de activos el % corresp. a aportaciones de los dueños)	0.66	0.50
Grado de Apalancamiento (Por c/peso que aporté, los terceros aportaron……)	0.50	0.99

Cálculos realizados sobre bases financieras de Enero 1995 a Enero del 2001

ANEXO G

Half-Baked

Krispy Kreme first reported solid growth, but has since announced that its results for 2001-2005 are not reliable.

	2002	**2003**	**2004**
Total revenue*	$394.40	$491.60	$665.60
Net Income*	$26.40	$33.50	$57.10
Total long-term debt*	$3.90	$62.40	$146.20
Number of stores	218	276	357

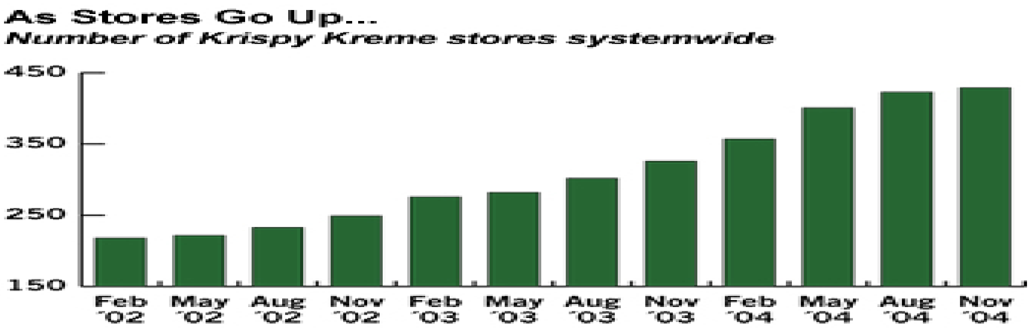
Note: Figures for fiscal years ended in February
*in $ millions

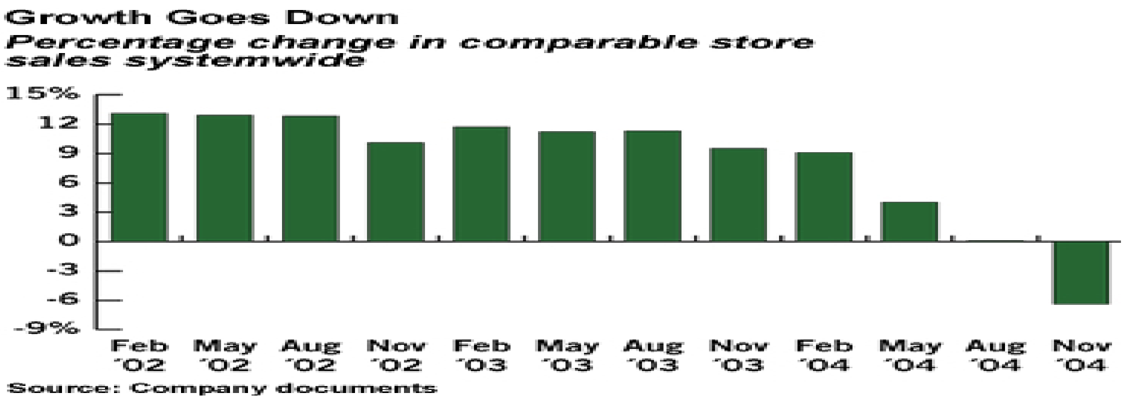
Source: www.krispykreme.com

Date: Augost, 2006

ANEXO H

COMPORTAMIENTO DE APERTURA DE TIENDAS

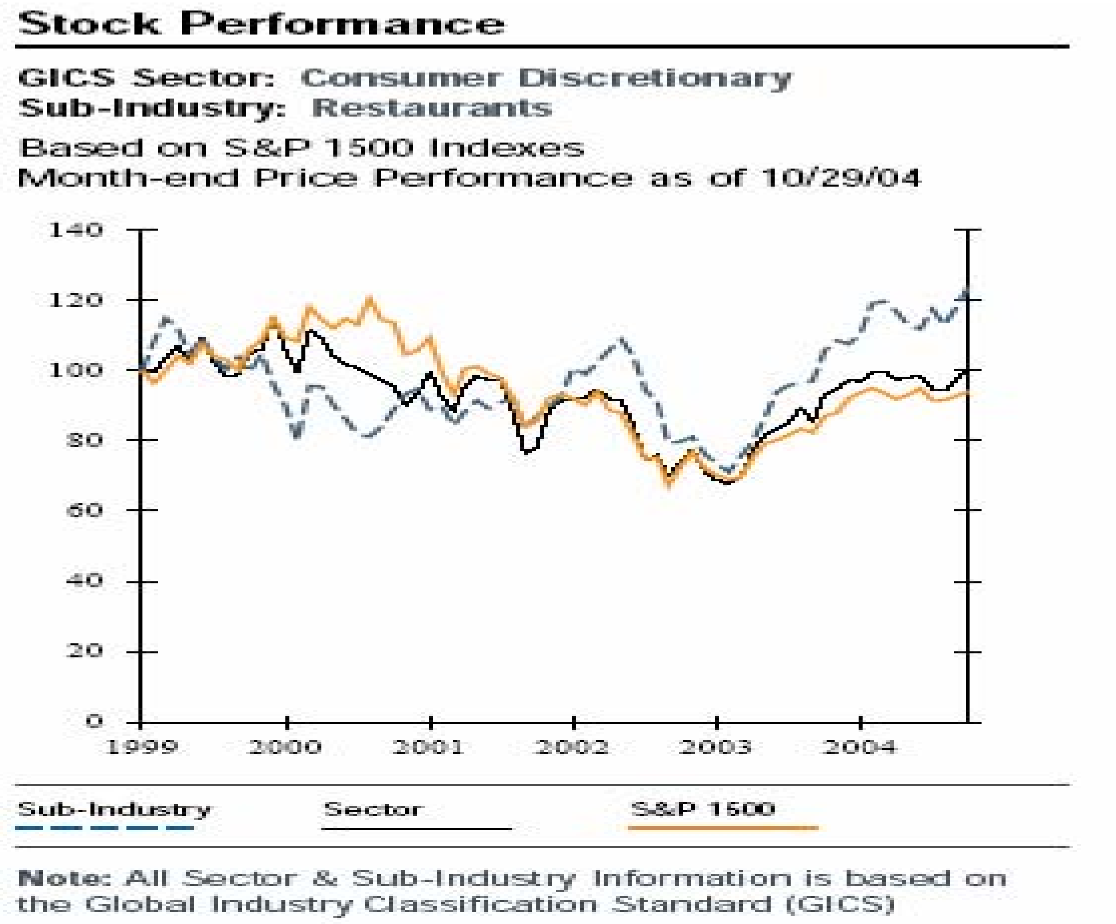




Source: www.krispykreme.com
Date: Augost, 2006

ANEXO I

COMPORTAMIENTO DE LAS ACCIONES



ANEXO J

INFORMACION DE INGRESOS 2001- 2005 POR CUARTO

Revenues/Earnings Data Fiscal year ending January 31

Revenues (Million $)

	2005	2004	2003	2002	2001	2000
1Q	184.4	148.7	111.1	87.92	71.00	—
2Q	177.4	161.8	114.6	89.55	69.99	—
3Q	—	169.6	129.1	99.8	77.91	—
4Q	—	185.5	136.7	117.2	81.81	—
Yr.	—	665.6	491.6	394.4	300.7	220.2

Earnings Per Share ($)

	2005	2004	2003	2002	2001	2000
1Q	0.16	0.22	0.15	0.10	0.07	0.07
2Q	0.10	0.21	0.15	0.10	0.06	0.06
3Q	E0.17	0.23	0.17	0.11	0.07	0.07
4Q	E0.22	0.26	0.09	0.14	0.08	0.08
Yr.	E0.73	0.92	0.56	0.45	0.27	0.15

Next earnings report expected: late-November Source: S&P, Company Reports
EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Source: www.krispykreme.com

Date: Augost, 2006

ANEXO K

COMPARACION DE PRECIO DE ACCIONES POR INDUSTRIA DE RESTAURANTES.

Sub-Industry: Restaurants *Peer Group: Fast-food - Smaller

Peer Group	Stock Symbol	Recent Stock Price	P/E Ratio	12-Mo. Trailing EPS	30-day Price Chg(%)	1-year Price Chg.(%)	Beta	Yield (%)	Quality Ranking	Stk. Mkt. Cap. (Mil. $)	Ret. on Equity (%)	Pretax Margin (%)	LTD to Cap. (%)
Krispy Kreme Doughnuts	**KKD**	**11.14**	**59**	**0.19**	**-7%**	**-74%**	**NA**	**Nil**	**NR**	**688**	**15.7**	**14.5**	**22.7**
Briazz Inc	BRZZQ	0.02	NM	-1.89	5%	-92%	NA	Nil	D	NA	NM	NM	373.6
Checkers Drive-In Restr	CHKR	12.27	12	1.05	0%	36%	1.21	Nil	B-	139	21.8	8.2	24.2
Cosi, Inc.	COSI	6.26	NM	-0.76	17%	151%	NA	Nil	NR	192	NM	NM	0.9
Meritage Hospitality Grp	MHG	4.95	NM	-0.03	-1%	10%	0.23	Nil	NR	26	8.9	0.5	80.3
Morgan's Foods	MRFD	NA	NM	-0.82	213%	NA	-0.25	Nil	C	NA	NM	NM	106.6
New World Restaurant Grp	NWRG	NA	NM	14.57	24%	NA	NM	Nil	C	20	NM	NM	118.2
Panera Bread	PNRA	39.13	34	1.14	-1%	-4%	0.78	Nil	B-	1,124	17.5	13.7	Nil
Red Robin Gourmet Burgers	RRGB	48.03	34	1.41	7%	75%	NA	Nil	NR	772	12.8	7.2	20.5
Schlotzsky's Inc	BUNZQ	0.25	NM	-1.54	0%	-92%	0.20	Nil	D	2	NM	NM	40.5
Sonic Corp.	SONC	29.49	29	1.02	12%	45%	0.05	Nil	B+	1,757	21.1	21.9	37.9
Triarc Cos'A'	TRY	12.78	NM	0.11	14%	7%	NA	2.0	B-	296	NM	NM	59.0
Triarc Cos. Cl 'B'	TRY.B	12.54	NM	-0.50	15%	2%	0.35	2.4	B-	517	NM	NM	59.0

NA-Not Available NM-Not Meaningful NR-Not Rated *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Source: www.krispykreme.com
Date: Augost, 2006

ANEXO L

INFORMACION FINANCIERA 2001-2004

Company Financials Fiscal Year ending January 31

Per Share Data ($)				
(Year Ended January 31)	**2004**	**2003**	**2002**	**2001**
Tangible Bk. Val.	3.99	3.99	3.15	2.43
Cash Flow	1.25	0.77	0.59	0.40
Earnings	0.92	0.56	0.45	0.27
S&P Core Earnings	0.72	0.52	0.37	0.26
Dividends	Nil	Nil	Nil	Nil
Payout Ratio	Nil	Nil	Nil	Nil
Cal. Yrs.	2003	2002	2001	2000
Prices - High	49.74	44.36	46.90	27.12
- Low	26.42	27.40	15.12	5.25
P/E Ratio - High	54	79	NM	NM
- Low	29	49	NM	NM
Income Statement Analysis (Million $)				
Revs.	666	492	394	301
Oper. Inc.	121	81.2	49.8	30.0
Depr.	19.7	12.3	7.96	6.50
Int. Exp.	4.41	1.78	0.34	0.61
Pretax Inc.	96.7	57.1	43.7	23.8
Eff. Tax Rate	38.9%	37.3%	37.0%	38.1%
Net Inc.	57.1	33.5	26.4	14.7
S&P Core Earnings	45.3	30.5	21.8	13.7
Balance Sheet & Other Fin. Data (Million $)				
Cash	21.0	32.2	21.9	7.00
Curr. Assets	139	141	102	67.6
Total Assets	661	410	255	172
Curr. Liab.	53.5	59.7	52.5	38.2
LT Debt	135	72.3	3.91	Nil
Common Equity	452	273	188	126
Total Cap.	596	361	198	126
Cap. Exp.	79.6	83.2	37.3	25.7
Cash Flow	76.8	45.7	34.3	21.2
Curr. Ratio	2.6	2.4	1.9	1.8
% LT Debt of Cap.	22.7	20.0	2.0	Nil
% Net Inc. of Revs.	8.6	6.8	6.7	4.9
% Ret. on Assets	10.7	10.1	12.4	10.6
% Ret. on Equity	15.7	14.5	16.8	16.9

Source: www.krispykreme.com

Date: Augost, 2006

ANEXO M

Buyers	59	42.48	8.5	5,229,957
Sellers	58	-68.88	-13.8	-8,550,396
Net	--	-26.4	-5.4	-3,320,439

Top 10 Inst.	260.74	54.5	33,701,096
Top 20 Inst.	346.04	71.4	44,180,496
Top 50 Inst.	395.81	81.2	50,200,246
Total Inst.	405.05	83	51,332,398

Value	27	90.8	22.6	12
Core Value	21	46.02	11	6
Deep Value	6	44.78	11.6	6
Index	21	40.22	9.6	5
Other	44	155.79	37.3	20
Hedge Fund	10	73.02	17.5	9
Broker Dealer	15	40.98	9.8	5
GARP	17	37.41	9	5
Specialty	2	4.38	1.1	1
Growth	29	9.56	2.3	1
Core Growth	17	7.38	1.8	1
Aggressive Growth	2	1.37	0.3	0
Growth	10	0.81	0.2	0
Income	4	0.77	0.2	0
Income Value	4	0.77	0.2	0
Yield	0	0	0	0
Momentum	0	0	0	0

Jefferies Asset Management LLC	6,000,000	9.7	0	12/31/2005
Courage Capital Management L.L.C.	4,415,879	7.1	-2,478,418	06/30/2006
Mohamed Abdulmohsin Al Kharafi & Sons W.L.L.	4,133,000	6.7	0	04/04/2006
Schultze Asset Management L.L.C.	3,474,108	5.6	397,400	06/30/2006
Jubilee Investments L.P.	3,157,452	5.1	0	03/31/2006
Hunter Hall Investment Management Ltd.	2,935,800	4.8	-1,110,900	08/03/2005
Morgan Stanley Investment Management Inc. (US)	2,774,310	4.5	1,947,759	06/30/2006
Van Kampen Asset Management Inc.	2,539,328	4.1	27,310	06/30/2006
Jefferies & Company Inc.	2,417,500	3.9	842,500	06/30/2006
Barclays Global Investors N.A.	1,853,719	3	-62,872	06/30/2006

Ownership data based on most recent publicly available data according to Thomson Financial.

Source: www.s&p.com
Date: Augost, 2006

Krispy Kreme Doughnuts

Recommendation: **HOLD** ★ ★ ★ ★ ★ (SELL | SELL | HOLD | BUY | BUY)

12-Month Target Price: **$14.00**
(as of October 08, 2004)

KKD has an approximate 0.07% weighting in the **S&P MidCap 400**

Sector: Consumer Discretionary
Sub-Industry: Restaurants
Peer Group: Fast-food - Smaller

Summary: This company is a leading operator and franchiser of doughnut stores, with approximately 440 stores in 45 states, the U.K., Canada, Mexico and Australia.

Quantitative Evaluations

S&P Earnings & Dividend Rank: NR

D	C	B-	B	B+	A-	A	A+

S&P Fair Value Rank: 5

1	2	3	4	5

Lowest — Highest

Fair Value Calc.: $15.40 (Undervalued)

S&P Investability Quotient Percentile

44%

KKD scored lower than 56% of all companies for which an S&P Report is available.

Volatility: High

Low	Average	High

Technical Evaluation: Bearish

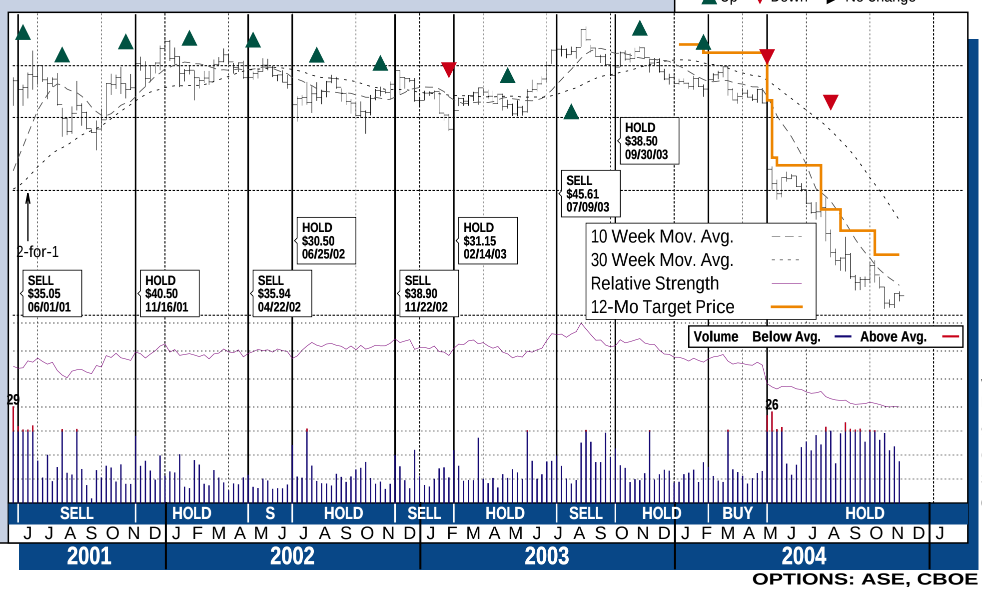
Since 3/04, the technical indicators for KKD have been Bearish.

Relative Strength Rank: Weak

8

1 Lowest — Highest 99

Price as of 11/12/04: $11.14 | **2005E S&P Core EPS: $0.60**



Analyst commentary prepared by Dennis Milton/DC/BK

Highlights August 27, 2004

- We believe KKD will increase its concept to about 750 factory stores in the U.S., from about 390 currently, within five years. We believe the company also has significant growth prospects internationally. In the past year, the company opened factory stores in the U.K., Canada, Mexico and Australia.
- We expect revenues to increase at a 12% compound annual growth rate over the next five years, driven by expansion and same-store sales growth. Profit margins should benefit from increasing economies of scale.
- We see total revenues climbing about 16% in FY 05 (Jan.), reflecting new store openings and systemwide same-store sales growth of about 2%. However, we expect margins to narrow as a result of costs associated with off-premises sales and significantly higher corporate spending. We estimate that FY 05 EPS will decline to $0.73, from $0.91 in FY 04, excluding one-time items. Our FY 05 Standard & Poor's Core Earnings projection of $0.60 includes $0.13 of estimated stock option expense. In July, KKD disclosed that it had received a formal inquiry from the SEC with respect to the accounting used in its acquisition of certain franchisee markets. Our FY 06 EPS estimate is $0.96.

Investment Rationale/Risk August 27, 2004

- The shares have fallen more than 70% from a record high reached in August 2003. We see this reflecting investor concerns regarding average unit volumes at recently opened stores, the negative impact of low-carbohydrate diets on sales trends, and concerns about the company's accounting practices. The shares recently traded at 14X our FY 06 EPS estimate of $0.96, a discount to the S&P MidCap 400. With what we view as a very strong brand name, and with only about 370 factory stores currently in the U.S., we view KKD's growth prospects as excellent. However, we have concerns regarding store-level profitability as KKD attempts to properly align its distribution system to adjust to lower sales growth assumptions. We would hold, but not add to, existing positions.
- Risks to our opinion and target price include the possibility of KKD diluting its brand name by overexpanding, and newly opened stores not reaching targeted profitability levels.
- Our 12-month target price of $16 is approximately 25% below our estimated intrinsic value of the company's shares, according to our discounted cash flow model. This reduction reflects the uncertainty surrounding the company's financial statements that has been triggered by the SEC inquiry and concerns regarding future store-level profitability.

Key Stock Statistics

S&P Oper. EPS 2005E	0.73	52-week Range	$41.73-10.36
P/E on S&P Oper. EPS 2005E	15.3	12 Month P/E	58.6
S&P Oper. EPS 2006E	0.95	Beta	NA
Yield (%)	Nil	Shareholders	186,600
Dividend Rate/Share	Nil	Market Cap (B)	$0.688
Shares Outstanding (M)	61.8		

Value of $10,000 invested five years ago: **NA**

Dividend Data

No cash dividends have been paid.

Revenues/Earnings Data Fiscal year ending January 31

Revenues (Million $)

	2005	2004	2003	2002	2001	2000
1Q	184.4	148.7	111.1	87.92	71.00	—
2Q	177.4	161.8	114.6	89.55	69.99	—
3Q	—	169.6	129.1	99.8	77.91	—
4Q	—	185.5	136.7	117.2	81.81	—
Yr.	—	665.6	491.6	394.4	300.7	220.2

Earnings Per Share ($)

	2005	2004	2003	2002	2001	2000
1Q	0.16	0.22	0.15	0.10	0.07	0.07
2Q	0.10	0.21	0.15	0.10	0.06	0.06
3Q	E0.17	0.23	0.17	0.11	0.07	0.07
4Q	E0.22	0.26	0.09	0.14	0.08	0.08
Yr.	E0.73	0.92	0.56	0.45	0.27	0.15

Next earnings report expected: late-November Source: S&P, Company Reports
EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Krispy Kreme Doughnuts, Inc.

Recommendation: HOLD ★★★★★ 12-Month Target Price: **$14.00** (as of October 08, 2004)

Business Summary September 01, 2004

Krispy Kreme Doughnuts is a vertically integrated operator and franchiser of retail stores throughout the U.S., featuring its namesake brand of doughnuts. In FY 04 (Jan.), systemwide sales climbed 27%, to about $1.0 billion, from $779 million in FY 03. The company's strategy is to establish itself as the market leader in every market that it serves, through a combination of leveraging its recognized brand name, high-volume production capacity, and penetrating its target markets through multiple sales channels. KKD believes it has strong growth potential through U.S. and international expansion, and through expanded beverage offerings, including in-house coffee brands.

At August 1, 2004, there were 387 Krispy Kreme factory stores operating in 45 states, Canada, Mexico, the U.K. and Australia. There were 154 company stores, and 233 that were owned either by area developers or by associates. Each factory store is a doughnut factory that can produce from 4,000 dozen to more than 10,000 dozen doughnuts daily. Most of the stores are able to support multiple sales channels to more fully utilize production capacity. KKD plans to open about 80 new factory stores in FY 05. The company also operates about 40 satellite stores that are supplied by factory stores.

The company has four reportable segments. Company Store Operations (66% of total revenue in FY 04) represents KKD's company stores and consolidated joint venture stores; these stores make and sell doughnuts and complementary products both through on-premise and off-premise sales channels. Franchise Operations (4% of revenues, 55% of systemwide sales in FY 04) consists of the associate program, in which franchisees pay royalties of 3.0% of on-premise sales and 1.0% of all other sales, with the exception of private label sales, for which they pay no royalties, and the area developer program, in which franchisees pay royalties of 4.5% of all sales, contribute 1.0% of all sales to KKD's national advertising fund, and pay franchise fees ranging from $20,000 to $40,000 per store. Off-premises sales account for approximately 60% of company-owned sales and 50% of systemwide sales. KKD's factory stores that engage in off-premises sales focus primarily on major grocery store chains, including Kroger, Food Lion and Albertsons.

KKM&D (29% of revenues in FY 04) represents the results of the business unit that buys and processes ingredients to produce doughnut mixes, and manufactures doughnut-making equipment that all of KKD's stores are required to purchase. In addition, this business unit purchases and sells essentially all supplies necessary to operate a Krispy Kreme store, including all food ingredients, juices, Krispy Kreme coffee, uniforms and other items.

In May 2004, KKD announced it would either sell or close the operations of Montana Mills Bread Co. (1% of revenues in FY 04), an owner and operator of ''village bread stores'' in the Northeast and Midwest, which it had acquired in April 2003 for about 1.2 million shares.

Company Financials Fiscal Year ending January 31

Per Share Data ($)										
(Year Ended January 31)	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**
Tangible Bk. Val.	3.99	3.99	3.15	2.43	NA	NA	NA	NA	NA	NA
Cash Flow	1.25	0.77	0.59	0.40	0.27	0.03	NA	NA	NA	NA
Earnings	0.92	0.56	0.45	0.27	0.15	-0.10	NA	NA	NA	NA
S&P Core Earnings	0.72	0.52	0.37	0.26	NA	NA	NA	NA	NA	NA
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	NA	NA	NA	NA
Payout Ratio	Nil	Nil	Nil	Nil	Nil	Nil	NA	NA	NA	NA
Cal. Yrs.	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Prices - High	49.74	44.36	46.90	27.12	NA	NA	NA	NA	NA	NA
- Low	26.42	27.40	15.12	5.25	NA	NA	NA	NA	NA	NA
P/E Ratio - High	54	79	NM	NM	NA	NA	NA	NA	NA	NA
- Low	29	49	NM	NM	NA	NA	NA	NA	NA	NA
Income Statement Analysis (Million $)										
Revs.	666	492	394	301	220	181	NA	NA	NA	NA
Oper. Inc.	121	81.2	49.8	30.0	15.4	12.3	NA	NA	NA	NA
Depr.	19.7	12.3	7.96	6.50	4.55	4.28	NA	NA	NA	NA
Int. Exp.	4.41	1.78	0.34	0.61	1.52	1.51	NA	NA	NA	NA
Pretax Inc.	96.7	57.1	43.7	23.8	9.61	-5.28	NA	NA	NA	NA
Eff. Tax Rate	38.9%	37.3%	37.0%	38.1%	38.0%	40.0%	NA	NA	NA	NA
Net Inc.	57.1	33.5	26.4	14.7	5.96	-3.17	NA	NA	NA	NA
S&P Core Earnings	45.3	30.5	21.8	13.7	NA	NA	NA	NA	NA	NA
Balance Sheet & Other Fin. Data (Million $)										
Cash	21.0	32.2	21.9	7.00	3.18	4.31	NA	NA	NA	NA
Curr. Assets	139	141	102	67.6	41.0	33.8	NA	NA	NA	NA
Total Assets	661	410	255	172	105	93.3	NA	NA	NA	NA
Curr. Liab.	53.5	59.7	52.5	38.2	29.6	25.4	NA	NA	NA	NA
LT Debt	135	72.3	3.91	Nil	20.5	18.6	NA	NA	NA	NA
Common Equity	452	273	188	126	47.8	42.2	NA	NA	NA	NA
Total Cap.	596	361	198	126	68.3	60.9	NA	NA	NA	NA
Cap. Exp.	79.6	83.2	37.3	25.7	11.3	12.4	NA	NA	NA	NA
Cash Flow	76.8	45.7	34.3	21.2	10.5	1.11	NA	NA	NA	NA
Curr. Ratio	2.6	2.4	1.9	1.8	1.4	1.3	NA	NA	NA	NA
% LT Debt of Cap.	22.7	20.0	2.0	Nil	30.0	30.6	NA	NA	NA	NA
% Net Inc.of Revs.	8.6	6.8	6.7	4.9	2.7	-1.8	NA	NA	NA	NA
% Ret. on Assets	10.7	10.1	12.4	10.6	6.0	-3.4	NA	NA	NA	NA
% Ret. on Equity	15.7	14.5	16.8	16.9	13.2	-7.5	NA	NA	NA	NA

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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Telephone: 800-457-4779.
Email: KKIR@krispykreme.com
Website: http://www.krispykreme.com
Chrmn, Pres, CEO & COO: S.A. Livengood.
Vice Chrmn: J.H. Morgan.
EVP, Secy & General Counsel: R.F. Murphy.
CFO: M. Phalen.
Investor Contact: R.E. Moore 336-726-8857.
Dirs: M. D. Holt, S. A. Livengood, W. T. Lynch, Jr., J. N. McAleer, R. S. McCoy, Jr., J. H. Morgan, S. H. Newton, R. L. Strickland, M. Sutton, L. Thomas, T. D. West, Jr.
Founded: in 1937.
Domicile: North Carolina.
Employees: 6,982.
S&P Analyst: Dennis Milton/DC/BK

Krispy Kreme Doughnuts

Recommendation: **HOLD** ★★★☆☆ 12-Month Target Price: **$14.00** (as of October 08, 2004)

Sub-Industry Outlook

Our investment outlook for restaurant stocks is neutral. Year to date through October 22, 2004, the S&P Restaurants Index was up 12.4% (versus a 0.9% decrease for the S&P 1500), after rising 41.1% in 2003 (27.4%). While a stronger economy helped to boost industry same-store sales growth in the first half of 2004, stock prices have fallen across the industry over the past several months due, in our view, to concerns related to slowing consumer spending rates and rising fuel and food costs. Many restaurant chains have hiked menu prices to offset increased prices for beef, poultry, and dairy products. We see same-store sales growth decelerating to lower levels in the last few months of 2004 into the first few months of 2005, due to more difficult comparisons and weaker consumer spending trends. Furthermore, increased employee turnover and higher wage rates may result from a tighter job market and could lead to rising labor costs in the first half of next year.

Shares in the quick service restaurant (QSR) industry have increased significantly from a slump in the first half of 2003, as industry leaders have shifted their long-term focus away from significant price discounting strategies, which has allowed industry margins to recover. Meanwhile, many stocks in the casual dining industry have surged, in our view, due to stable same-store sales growth and positive operating conditions.

The casual dining sector continues to gain share from fast food chains, as we think an older, wealthier population favors full-service restaurants. We see this trend continuing as the population ages. We expect many restaurant chains, especially those in the fast food sector, to increase their focus on healthy food initiatives to attract customers and reduce the impact of obesity-related lawsuits. Menu diversity may also help to reduce reliance on industry price discounting, allowing operating margins to expand.

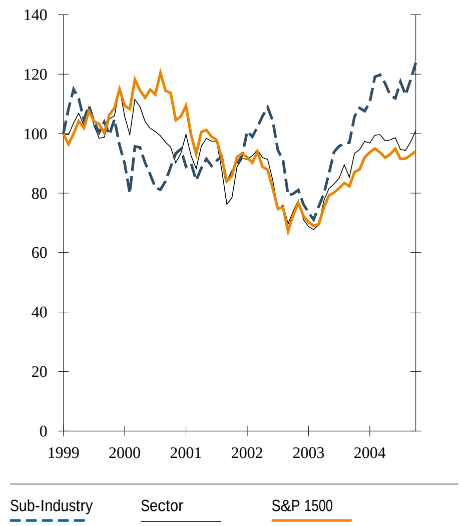
During the past two decades, an increasing portion of U.S. food dollars has gone to eating out. With a greater percentage of people working, particularly women, we believe there has been less time available for at-home food preparation. In fact, to service this customer, many casual dining restaurants are promoting their take-out menus.

--Dennis P. Milton

Stock Performance

GICS Sector: **Consumer Discretionary**
Sub-Industry: **Restaurants**

Based on S&P 1500 Indexes
Month-end Price Performance as of 10/29/04



Note: All Sector & Sub-Industry Information is based on the Global Industry Classification Standard (GICS)

Sub-Industry: Restaurants *Peer Group: Fast-food - Smaller

Peer Group	Stock Symbol	Recent Stock Price	P/E Ratio	12-Mo. Trailing EPS	30-day Price Chg(%)	1-year Price Chg.(%)	Beta	Yield (%)	Quality Ranking	Stk. Mkt. Cap. (Mil. $)	Ret. on Equity (%)	Pretax Margin (%)	LTD to Cap. (%)
Krispy Kreme Doughnuts	**KKD**	**11.14**	**59**	**0.19**	**-7%**	**-74%**	**NA**	**Nil**	**NR**	**688**	**15.7**	**14.5**	**22.7**
Briazz Inc	BRZZQ	0.02	NM	-1.89	5%	-92%	NA	Nil	D	NA	NM	NM	373.6
Checkers Drive-In Restr	CHKR	12.27	12	1.05	0%	36%	1.21	Nil	B-	139	21.8	8.2	24.2
Cosi, Inc.	COSI	6.26	NM	-0.76	17%	151%	NA	Nil	NR	192	NM	NM	0.9
Meritage Hospitality Grp	MHG	4.95	NM	-0.03	-1%	10%	0.23	Nil	NR	26	8.9	0.5	80.3
Morgan's Foods	MRFD	NA	NM	-0.82	213%	NA	-0.25	Nil	C	NA	NM	NM	106.6
New World Restaurant Grp	NWRG	NA	NM	14.57	24%	NA	NM	Nil	C	20	NM	NM	118.2
Panera Bread	PNRA	39.13	34	1.14	-1%	-4%	0.78	Nil	B-	1,124	17.5	13.7	Nil
Red Robin Gourmet Burgers	RRGB	48.03	34	1.41	7%	75%	NA	Nil	NR	772	12.8	7.2	20.5
Schlotzsky's Inc	BUNZQ	0.25	NM	-1.54	0%	-92%	0.20	Nil	D	2	NM	NM	40.5
Sonic Corp.	SONC	29.49	29	1.02	12%	45%	0.05	Nil	B+	1,757	21.1	21.9	37.9
Triarc Cos'A'	TRY	12.78	NM	0.11	14%	7%	NA	2.0	B-	296	NM	NM	59.0
Triarc Cos. Cl 'B'	TRY.B	12.54	NM	-0.50	15%	2%	0.35	2.4	B-	517	NM	NM	59.0

NA-Not Available NM-Not Meaningful NR-Not Rated *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

S&P Analyst Research Notes and other Company News

November 8, 2004
UP 0.07 to 11.34... CIBC World cuts estimates, $10 target to $8... Maintains sector underperform...

November 8, 2004
09:04 am EST... KRISPY KREME DOUGHNUTS (KKD 11.27) CIBC WORLD CUTS ESTIMATES, $10 TARGET TO $8, MAINTAINS SECTOR UNDERPERFORM... Analyst John Glass believes Q3, expected next week, not likely to mark inflection point... Notes grocery channel sales still decelerating according to industry data... Estimates Q3 systemwide comps -2%; maintains his below- consensus $0.12 Q3 EPS est... Cuts $0.81 FY 06 (Jan) EPS est. to $0.55 as he radically recasts margin assumptions; believes op. margins likely to decline 120 bps y/o/y in FY 06 to 8.4% on declining avg. unit volume growth, only modest (5%) total top-line growth... Feels shares still not cheap given margin, legal risks, unclear growth prospects. / BBrodie

October 8, 2004
DOWN 0.81 to 12.26... SEC notifies KKD it has entered a formal order of investigation concerning co.

October 8, 2004
10:53 am EDT... S&P REITERATES HOLD OPINION ON SHARES OF KRISPY KREME (KKD 12.52***): The SEC notifies the company that it has entered a formal order of investigation concerning KKD. The investigation, which is believed to focus on the accounting used in the acquisition of several franchisees, had previously been at an informal stage. At 13x our FY 06 (Jan.) EPS estimate of $0.95, KKD trades at a discount to the S&P MidCap 400, despite our view of its strong cash flow and considerable growth prospects. However, we would not add to positions while the company is under the cloud of a formal SEC inquiry. We are lowering our 12-month target price by $2, to $14. /D.Milton

September 13, 2004
Auditor, PricewaterhouseCoopers LLP, refused to complete review of co.'s finl statements for latest Q until outside law firm hired by KKD board is finished performing ''certain addl procedures'' requested by auditors: WSJ.

August 27, 2004
NEW YORK (Standard & Poor's)--Aug 26, 2004, Krispy Kreme Doughnuts Inc., announced 2Q EPS $0.10 vs. $0.22 and 6 mos. EPS $0.25 vs. $0.43. Results for 2004 exclude losses of $0.01 and $0.55 per share for the 3 & 6 mos. and losses of $0.01 and $0.01 for the 3 & 6 mos. of 2003 all from discontinued operations.

August 26, 2004
Posts $0.09 vs. $0.21 Q2 EPS as higher expenses, charge, costs offset flat same-store systemwide sales, 11% total revenue rise... Sees 15% FY 05 systemwide same-store sales growth.

August 26, 2004
02:46 pm EDT... KRISPY KREME DOUGHNUTS (KKD 13.8) DOWN 1.56, POSTS $0.09 VS. $0.21 Q2 EPS. CIBC WORLD DOWNGRADES TO SECTOR UNDERPERFORM... Analyst John Glass tells salesforce Q2 results showed alarming erosion in margins at all 3 biz segments while softness in sales showed few signs of NT reversal... Notes quarterly comps were essentially flat, implying margin freefall could continue if comps continue to erode... With few fundamental positives on horizon, unclear turnaround strategy, ongoing SEC investigation, mgmt departures, downgrades from sector perform... Notes co. no longer providing guidance... Cuts $0.90 FY 05 (Jan) EPS est. to $0.61, $1.00 FY 06 EPS to $0.81... Sets new lower target of $10. /BEgli

August 26, 2004
09:43 am EDT... S&P REITERATES HOLD OPINION ON SHARES OF KRISPY KREME DOUGHNUTS (KKD 13.4***): KKD posts Jul-Q EPS of $0.12, excluding discontinued operations, vs. $0.22, $0.12 below our est. Lower-than-expected sales growth, higher operating costs and increased corporate spending hurt results. We are lowering our FY 05 (Jan.) EPS estimate to $0.73 from $1.04, our FY 06 to $0.96, from $1.25, and our 12-month target price by $2 to $16, to account for recent sales and cost trends. At 16X our calendar '05 EPS estimate, shares trade in line with S&P MidCap 400. Despite our view of KKD's considerable growth prospects, we would not add shares absent improved operating trends. /D.Milton

August 18, 2004
Aug. 16, 2004--Krispy Kreme Doughnuts, Inc. (NYSE:KKD) announced that John Tate to depart as chief operating officer mid-September, to pursue another opportunity. Mr. Livengood assumes the chief operating officer's responsibilities.

July 29, 2004
DOWN 1.96 to 16.70... Announces SEC conduction informal, non-public inquiry regarding co... Says inquiry generally concerns its franchise reacquisition, previously announced reduction in earnings guidance.

July 29, 2004
03:25 pm EDT... S&P REITERATES HOLD OPINION ON SHARES OF KRISPY KREME DOUGHNUTS (KKD 15.98***): Shares of KKD have fallen nearly 14% today as the company disclosed that it had received a formal inquiry from the SEC, regarding the accounting used in the acquisition of certain franchisees. We are reducing our target price $5 to $18 in order to reflect our estimate of market uncertainty with respect to the company's financials, though we are maintaining our FY 04 (Jan.) EPS estimate of $1.04. In our opinion, the share price already reflects this uncertainty and we would maintain existing positions. /D.Milton

May 25, 2004
Posts $0.38 Q1 loss vs. $0.22 EPS as charge, loss from discontinued ops offset 4% comparable systemwide sales increase, 24% total revenue rise... Sees $1.04-$1.06 FY 05 EPS from continuing ops.

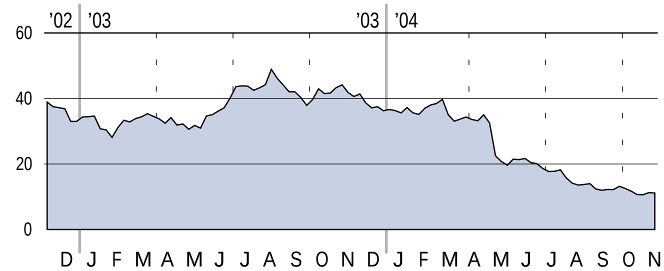
Krispy Kreme Doughnuts

Recommendation: **HOLD** ★★★★★ 12-Month Target Price: **$14.00** (as of October 08, 2004)

Wall Street Consensus

Analysts' Recommendations

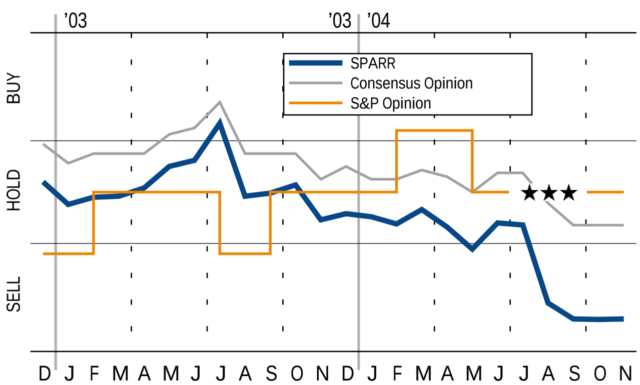
Stock Prices



Analysts' Opinion

	No. of Ratings	% of Total	1 Mo. Prior	3 Mo. Prior
Buy	0	0	0	1
Buy/Hold	1	14	1	1
Hold	3	43	3	2
Weak Hold	2	29	2	2
Sell	1	14	1	1
No Opinion	0	0	0	0
Total	7	100	7	7

Analysts' Opinions



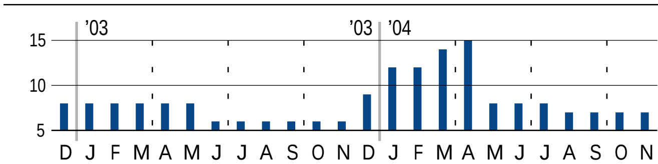
S&P-Adjusted Consensus Opinion: SELL

In order to reduce the bullish tendency of analysts, Standard & Poor's Quantitative Services Group created the S&P Average Relative Ranking, or SPARR. This system assigns a ranking based on a stock's consensus score relative to all issues for which consensus estimates are available.

Companies Offering Coverage

Argus Research Corp
BB&T Capital Markets
CIBC World Markets
JP Morgan Securities
Legg Mason Wood Walker Inc
McDonald & Company Securities
RBC Capital Markets (US)

Number of Analysts Following Stock



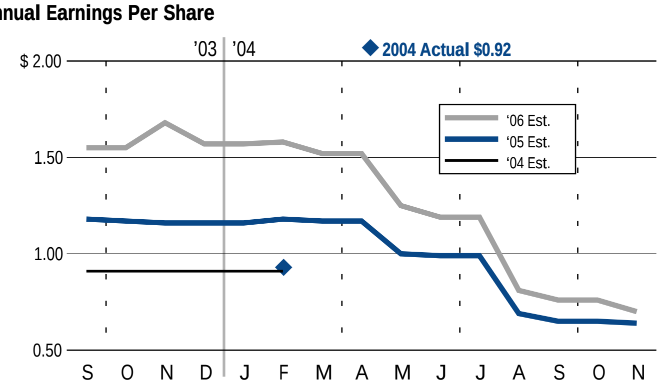
Standard & Poor's STARS (STock Appreciation Ranking System)

★★★★★ **Strong Buy**
★★★★★ **Buy**
★★★★★ **Hold**
★★★★★ **Sell**
★★★★★ **Strong Sell**

Under our proprietary STARS (STock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future capital appreciation potential versus the expected performance of the S&P 500 index, based on a 12-month time horizon.

Analysts' Earnings Estimate

Annual Earnings Per Share



Current Analysts' Consensus Estimates

Fiscal years	Avg.	High	Low	S&P Est.	No. of Est.	Est. P/E Ratio	Est. S&P 500 P/E Ratio
2005	0.64	0.73	0.58	0.73	8	17.4	16.2
2006	0.70	0.95	0.44	0.95	8	15.9	—
3Q'05	0.13	0.15	0.11		6		
3Q'04	0.23	Actual					

A company's earnings outlook plays a major part in any investment decision. S&P organizes the earnings estimates of over 2,300 Wall Street analysts, and provides you with their consensus of earnings over the next two years. The graph to the left shows you how these estimates have trended over the past 15 months.

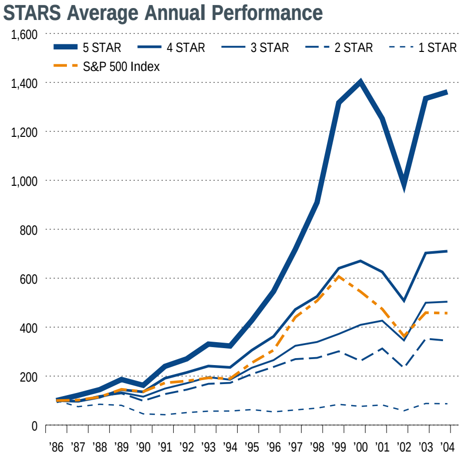
Krispy Kreme Doughnuts, Inc.

Recommendation: **HOLD** ★★★★★ 12-Month Target Price: **$14.00** (as of October 08, 2004)

Glossary

S&P Recommendation - Since January 1, 1987, Standard & Poor's has ranked a universe of common stocks based on a given stock's potential for future performance. Under our proprietary STARS (STock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future capital appreciation potential versus the expected performance of the S&P 500 index, based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

STARS Average Annual Performance



S&P 12-Month Target Price - The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Quantitative Evaluations - In contrast to our *qualitative* STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Earnings & Dividend (Quality) Rank - S&P's appraisals of the growth and stability of earnings and dividends over the past 10 years for individual companies are indicated by the following quality ranks. Quality Rankings are not intended to predict stock movements.

A+	Highest	B	Lower
A	High	B-	Below Average
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

S&P Fair Value Rank - Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process.

A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calc. - The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Earnings & Dividend Rankings). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Investability Quotient (IQ) - The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

Standard & Poor's IQ Rationale:
Krispy Kreme Doughnuts

	Raw Score	Max Value
Proprietary S&P Measures	26	115
Technical Indicators	17	40
Liquidity/Volatility Measures	19	20
Quantitative Measures	21	75
IQ Total	83	250

Volatility - Rates the volatility of the stock's price over the past year.

Technical Evaluation - In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank - Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)
An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 62 Industries, and 132 Sub-Industries.

S&P Core Earnings - Standard & Poor's Core Earnings is a uniform methodology for calculating operating earnings, and focuses on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, writedowns of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Required Disclosures

As of September 30, 2004, SPIAS and their research analysts have recommended 29.2% of stocks with Buy ratings, and 58.5% with Hold ratings, and 12.3% with Sell ratings.

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

For purposes of this report, 4 & 5 STARS are BUYS, 1 & 2 STARS are SELLS and 3 STARS are HOLDS. The BUY-HOLD-SELL ranking system used in this report is a consolidated version of our proprietary STARS ranking system defined below:

★★★★★ **5-STARS:** Total return is expected to outperform the total return of the S&P 500 Index by a wide margin, with shares rising in absolute price.

★★★★★ **4-STARS:** Total return is expected to outperform the total return of the S&P 500 Index, with shares rising in absolute price.

★★★★★ **3-STARS:** Total return is expected to closely approximate that of the total return of the S&P 500 Index, with shares generally rising in price.

★★★★★ **2-STARS:** Total return is expected to underperform the total return of the S&P 500 Index, and share price is not anticipated to show a gain.

★★★★★ **1-STAR:** Total return is expected to underperform the total return of the S&P 500 Index, with shares falling in absolute price.

One or more affiliates of SPIAS received non-investment banking compensation from this company during the past 12 months.

Other Disclosures

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This investment analysis was prepared from the following sources: S&P MarketScope, S&P Compustat, S&P Industry Reports, I/B/E/S International, Inc.; Standard & Poor's, 55 Water St., New York, NY 10041. (212) 438-2000.

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KRISPY KREME ANNOUNCES THIRD QUARTER RESULTS

Winston-Salem, NC (November 22, 2004) – Krispy Kreme Doughnuts, Inc. (NYSE:KKD) today reported unaudited financial results for the third fiscal quarter ended October 31, 2004.

Total revenues for the quarter, which include sales from company stores, franchise operations and Krispy Kreme Manufacturing and Distribution (KKM&D), increased 1.4% to $170.1 million compared with $167.8 million in the third quarter of last year. Company store sales increased 9.6% to $121.2 million, revenues from franchise operations decreased 5.4% to $6.2 million and KKM&D revenues decreased 15.7% to $42.7 million. The Company store sales increase was attributable to sales from new stores as well as the inclusion of sales from New England Dough, LLC, the Company's consolidated joint venture partner in Connecticut, Maine, Massachusetts, Rhode Island, Vermont and New Hampshire, which was consolidated in May 2004 pursuant to FIN 46-R and the inclusion of sales from the Michigan market, which was acquired in October 2003, partially offset by decreased sales from existing stores.

Third quarter systemwide sales, including sales of company and franchise stores, increased 4.7%. Systemwide average sales per week decreased 16.7% from the prior year comparable period to approximately $52,200 per store, and company store average sales per week decreased 19.9% to approximately $58,400 per store. On a comparable store basis, systemwide sales and company store sales decreased 6.4% and 6.2%, respectively.

Net loss for the third quarter was $3.0 million, or $0.05 per diluted share, compared with net income of $14.5 million, or $0.23 per diluted share, in the comparable period last year. Loss from continuing operations for the third quarter of fiscal 2005 was $1.0 million compared with income from continuing operations of $15.0 million, or $0.24 per diluted share, in the third quarter last year. For the quarter, income from continuing operations before impairment and store closing costs was $2.4 million, or $0.04 per diluted share. The pre-tax impairment charge and store closing costs were approximately $5.5 million primarily related to the closure or pending closure of four factory stores, which are all commissaries. In the quarter, the Company reported a loss from discontinued operations, net of taxes, of approximately $2.0 million, or $0.03 per diluted share, related to the pending divestiture of the existing Montana Mills operation. Early in the fourth fiscal quarter, the Company sold the remaining assets of Montana Mills for a modest amount.

For the first nine months of fiscal 2005, total revenues increased 11.8% to $531.9 million compared with $475.6 million for the comparable period in fiscal 2004. Sales from company stores increased 16.5% to $369.6 million, revenues from franchise operations increased 14.3% to $20.1 million and KKM&D sales increased 1.0% to $142.3 million. During this period, systemwide sales increased 14.3%.

Net loss for the nine months ended October 31, 2004 was $21.7 million, or $0.34 per diluted share, compared with net income of $40.7 million, or $0.66 per diluted share, in the comparable prior year period. Income from continuing operations decreased to $15.1 million from $41.6 million in the comparable period last year. Diluted earnings per share from continuing operations was $0.24 in the first nine months of the year compared with $0.67 per diluted share in the comparable period a year ago. For the first nine months of fiscal 2005, income from continuing operations before impairment and store closing costss as $24.3 million, or $0.38 per diluted share. For the nine months ended October 31, 2004, the Company reported a loss from discontinued operations, net of taxes, of approximately $36.7 million, or $0.58 per diluted share, related to Montana Mills.

For the quarter ended October 31, 2004, the Company incurred professional fees, net of currently anticipated insurance recoveries, of approximately $3 million in connection with the previously announced Securities and Exchange Commission formal investigation, pending litigation, the previously disclosed Audit Committee investigation, the Special Committee's investigation discussed below and related work by the independent auditors. The Company expects that ongoing professional fees in connection with these matters will be material.

During the third quarter, the Company recorded a $2 million allowance for doubtful accounts with respect to accounts receivable from two franchisees as an estimate of potential exposure. The Company will continue to monitor franchise receivables and make appropriate adjustments to the allowance as circumstances warrant. Also during the quarter, certain members of management of Glazed Investments, LLC, the Company's consolidated joint venture partner in Colorado, Minnesota and Wisconsin, exercised a put of an 11% interest to the Company for $3.6 million. At quarter end, the Company consolidated KremeKo, Inc., the Company's area developer for Central and Eastern Canada, pursuant to FIN 46-R. The Company owns approximately 40% of this entity but has recently provided KremeKo, Inc. additional subordinated financial support, which triggered the consolidation.

Commenting on the Company's performance, Scott Livengood, Chairman, President and Chief Executive Officer of Krispy Kreme Doughnuts, Inc. said, "Clearly we are disappointed with our third quarter results. We are focused on addressing the challenges facing the Company and regaining our business momentum."

During the quarter, 15 new Krispy Kreme stores, comprised of 13 factory stores and two satellites, were opened, and nine stores, comprised on seven factory stores and two satellites, were closed. This brings the total number of stores systemwide at quarter-end to 429, consisting of 393 factory stores and 36 satellites.

The Company intends to open approximately ten new stores systemwide in the fourth quarter. The Company is not providing systemwide sales and earnings guidance for the fourth quarter or fiscal 2005. Further, the Company has withdrawn the previously disclosed guidance regarding systemwide sales growth.

As discussed in the Company's Current Report on Form 8-K dated October 4, 2004, the Company has formed a Special Committee of two recently appointed independent directors that is currently engaged in investigating matters raised in the formal investigation by the Securities and Exchange Commission, claims asserted in pending shareholder derivative actions, issues raised by the Company's independent auditors and other matters relevant to the Special Committee's work. The Company does not currently anticipate making further disclosure about the Special Committee's investigation until the investigation has been completed. The Special Committee's investigation will not be completed prior to the required date for filing the Company's Form 10-Q for the period ended October 31, 2004. The Company's independent auditors have informed the Company that, prior to completion of the Special Committee's investigation, they will not complete their review of the financial statements contained in the Company's

Quarterly Report on Form 10-Q for the period ended August 1, 2004 or the financial statements to be contained in the Company's Quarterly Report on Form 10-Q for the period ended October 31, 2004.

The Company will hold a conference call today at 9:00 a.m. Eastern Time, which will be hosted by Scott Livengood, Chairman, President and Chief Executive Officer, and Mike Phalen, Chief Financial Officer. The call will be broadcast live over the Internet and can be accessed at www.krispykreme.com/investorrelations.html. A replay of the call will be available until 6:00 p.m. Eastern Time, Thursday, December 9, 2004 by dialing 800.570.8791 (domestic) or 402.344.6824 (international), and entering passcode 1564. Following the conference call, we invite you to submit your questions by 10:00 a.m. ET. to investorrelations@krispykreme.com. We will post answers to selected questions on our website at www.krispykreme.com/investorrelations.html. This information will be posted under the Financials/SEC Filings section.

The Company has disclosed certain non-GAAP financial measures, consisting of systemwide sales growth, systemwide comparable store sales information and income from continuing operations before impairment and store closing costs. Systemwide sales data include sales at all company and franchise stores. The Company believes systemwide sales information is useful in assessing our market share and concept growth. The Company believes that income from continuing operations before impairment and store closing costs is useful in analyzing operating performance and trends.

Founded in 1937 in Winston-Salem, North Carolina, Krispy Kreme is a leading branded specialty retailer of premium quality doughnuts, including the Company's signature Hot Original Glazed. Krispy Kreme currently operates 432 stores (comprised of 396 factory stores and 36 satellites) in 45 U.S. states, Australia, Canada, Mexico and the United Kingdom. Krispy Kreme can be found on the World Wide Web at www.krispykreme.com.

# # #

Information contained in this press release, other than historical information, should be considered forward-looking. In particular, the Company has said that it will address current challenges and seek to regain business momentum. Forward-looking statements are subject to various risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected. Among the key factors that may have a direct bearing on Krispy Kreme's operating results, performance or financial condition are its dependence on franchisees to execute its store expansion strategy, supply issues, changes in consumer preferences and perceptions, the failure of new products or cost saving initiatives to contribute to financial results in the timeframe or amount currently estimated, the outcome of the pending formal investigation by the United States Securities and Exchange Commission, the pending shareholder class action, the pending shareholder derivative actions, the pending Special Committee investigation, our auditors' ongoing review of our financial statements, and numerous other factors discussed in Krispy Kreme's periodic reports and proxy statements filed with the Securities and Exchange Commission.

Krispy Kreme Doughnuts, Inc.
Summary Financial Results
For the Third Quarter Ended October 31, 2004
(All dollar amounts in thousands except per share data)
(Unaudited)

	Quarter Ended October 31, 2004 As Reported	Impairment Charge and Store Closing Costs Adjustment	Quarter Ended October 31, 2004 Pro Forma	Quarter Ended November 2, 2003 As Reported (1)	As Reported $ Change	As Reported % Change	Pro Forma $ Change	Pro Forma % Change
Total revenues	$ 170,137	$ -	$ 170,137	$ 167,762	$ 2,375	1.4%	$ 2,375	1.4%
Operating expenses	143,597	-	143,597	126,767	16,830	13.3%	16,830	13.3%
General and administrative expenses	12,419	-	12,419	9,400	3,019	32.1%	3,019	32.1%
Depreciation and amortization expenses	7,038	-	7,038	4,836	2,202	45.5%	2,202	45.5%
Impairment charge and store closing costs	5,520	5,520	-	-	5,520	100.0%	-	-
Income from operations	1,563	5,520	7,083	26,759	(25,196)	-94.2%	(19,676)	-73.5%
Interest income	181	-	181	219	(38)	-17.4%	(38)	-17.4%
Interest expense	1,350	-	1,350	1,312	38	2.9%	38	2.9%
Loss from joint ventures	2,185	-	2,185	33	2,152	NM	2,152	NM
Minority interest in consolidated joint ventures	(883)	-	(883)	455	(1,338)	-294.1%	(1,338)	-294.1%
Other (income) expense, net	(319)	-	(319)	302	(621)	-205.6%	(621)	-205.6%
Income (loss) from continuing operations before income taxes	(589)	5,520	4,931	24,876	(25,465)	-102.4%	(19,945)	-80.2%
Provision for income taxes	430	(2,087)	2,517	9,886	(9,456)	-95.7%	(7,369)	-74.5%
Income (loss) from continuing operations	(1,019)	3,433	2,414	14,990	(16,009)	-106.8%	(12,576)	-83.9%
Discontinued operations	(1,976)	-	(1,976)	(468)	(1,508)	-322.2%	(1,508)	-322.2%
Net income (loss)	$ (2,995)	$ 3,433	$ 438	$ 14,522	$ (17,517)	-120.6%	$ (14,084)	-97.0%
Diluted earnings (loss) per share:								
Income (loss) from continuing operations	$ (0.02)	$ 0.06	$ 0.04	$ 0.24	$ (0.25)	-107.2%	$ (0.20)	-83.5%
Discontinued operations	(0.03)	-	(0.03)	(0.01)	(0.02)	-342.9%	(0.02)	-342.9%
Net income (loss)	$ (0.05)	$ 0.06	$ 0.01	$ 0.23	$ (0.28)	-120.9%	$ (0.22)	-97.0%
Diluted shares outstanding (2)	61,753	61,753	61,753	63,136	(1,383)	-2.2%	(1,383)	-2.2%
Segment Information								
Revenues								
Company store operations	$ 121,238	$ -	$ 121,238	$ 110,573	$ 10,665	9.6%	$ 10,665	9.6%
Franchise operations (3)	6,184	-	6,184	6,536	(352)	-5.4%	(352)	-5.4%
KKM&D	42,715	-	42,715	50,653	(7,938)	-15.7%	(7,938)	-15.7%
Total revenues	$ 170,137	$ -	$ 170,137	$ 167,762	$ 2,375	1.4%	$ 2,375	1.4%
Operating Income								
Company store operations	$ 9,594	$ -	$ 9,594	$ 20,309	$ (10,715)	-52.8%	(10,715)	-52.8%
Franchise operations	4,385	-	4,385	5,324	(939)	-17.6%	(939)	-17.6%
KKM&D	5,981	-	5,981	10,941	(4,960)	-45.3%	(4,960)	-45.3%
Unallocated G&A expenses	(12,877)	-	(12,877)	(9,815)	(3,062)	31.2%	(3,062)	31.2%
Impairment charge and store closing costs	(5,520)	5,520	-	-	(5,520)	100.0%	-	-
Total operating income	$ 1,563	$ 5,520	$ 7,083	$ 26,759	$ (25,196)	-94.2%	$ (19,676)	-73.5%
Operating Margins								
Company store operations	7.9%	-	7.9%	18.4%	-10.5%		-10.5%	
Franchise operations	70.9%	-	70.9%	81.5%	-10.6%		-10.6%	
KKM&D	14.0%	-	14.0%	21.6%	-7.6%		-7.6%	
Unallocated G&A expenses	-7.6%	-	-7.6%	-5.9%	-1.7%		-1.7%	
Impairment charge and store closing costs	-3.2%	3.2%	-	-	-3.2%		-	
Total operating income	0.9%	3.2%	4.2%	16.0%	-15.1%		-11.8%	
Depreciation and Amortization Expenses								
Company store operations	$ 5,724	$ -	$ 5,724	$ 3,625	$ 2,099	57.9%	2,099	57.9%
Franchise operations	43	-	43	43	-	-	-	-
KKM&D	814	-	814	752	62	8.2%	62	8.2%
Corporate administration	457	-	457	416	41	9.9%	41	9.9%
Total depreciation and amortization expenses	$ 7,038	$ -	$ 7,038	$ 4,836	$ 2,202	45.5%	$ 2,202	45.5%
Increase in Systemwide Sales								
Total Krispy Kreme stores	4.7%							
Comparable Store Sales								
Company stores	-6.2%							
Systemwide	-6.4%							

Note: Operating results for the third quarter of fiscal 2005 include a pre-tax charge of $5,520, which primarily represents impairment charges and an estimate of the costs associated with exiting leases for Krispy Kreme stores closed during the quarter or planned to be closed in the fourth quarter. Operating results for the third quarter also includ of taxes, from discontinued operations of $1,976, representing the operating results of the Montana Mills business as well as charges associated with Montana Mills stores which closed during the third quarter and impairment in the existing fair value of the remaining stores. Operating results for the third quarter of fiscal 2004 have been adjusted to reflect the operating activity of Montana Mills as discontinued operations for the period. This schedule compares results for the thrid quarter of fiscal 2005, both before and after the impairment charge and store closing costs, with the results of the third quarter of fiscal 2004.

(1) Restated to reflect amounts associated with Montana Mills Bread Co., Inc. operations as discontinued operations.

(2) Due to the loss from continuing operations, the dilutive securities are antidilutive for the three months ended October 31, 2004.

(3) Revenues from franchise operations consist of franchise fees and royalties on sales of our franchised stores, as reported by our franchisees. Sales of franchised stores for the quarter ended October 31, 2004 and November 2, 2003 were $141,730 and $140,613, respectively.

Krispy Kreme Doughnuts, Inc.
Summary Financial Results
For the Nine Months Ended Octobert 31, 2004
(All dollar amounts in thousands except per share data)
(Unaudited)

	Nine Months Ended October 31, 2004 As Reported	Impairment Charge and Store Closing Costs Adjustment	Nine Months Ended October 31, 2004 Pro Forma	Nine Months Ended November 2, 2003 As Reported (1)	Arbitration Award Adjustment	Nine Months Ended November 2, 2003 Pro Forma	As Reported $ Change	As Reported % Change	Pro Forma $ Change	Pro Forma % Change
Total revenues	$ 531,941	$ -	$ 531,941	$ 475,598	$ -	$ 475,598	$ 56,343	11.8%	$ 56,343	11.8%
Operating expenses	430,613	-	430,613	359,820	-	359,820	70,793	19.7%	70,793	19.7%
General and administrative expenses	34,928	-	34,928	27,362	-	27,362	7,566	27.7%	7,566	27.7%
Depreciation and amortization expenses	19,496	-	19,496	13,473	-	13,473	6,023	44.7%	6,023	44.7%
Impairment charge and store closing costs	14,865	14,865	-	-	-	-	14,865	100.0%	-	-
Arbitration award	-	-	-	(525)	(525)	-	525	-100.0%	-	-
Income from operations	32,039	14,865	46,904	75,468	(525)	74,943	(43,429)	-57.5%	(28,039)	-37.4%
Interest income	583	-	583	651	-	651	(68)	-10.4%	(68)	-10.4%
Interest expense	4,149	-	4,149	3,175	-	3,175	974	30.7%	974	30.7%
Loss from joint ventures	3,159	-	3,159	1,529	-	1,529	1,630	106.6%	1,630	106.6%
Minority interest in consolidated joint ventures	(1,024)	-	(1,024)	1,687	-	1,687	(2,711)	-160.7%	(2,711)	-160.7%
Other (income) expense, net	(277)	-	(277)	670	-	670	(947)	-141.3%	(947)	-141.3%
Income from continuing operations before income taxes	26,615	14,865	41,480	69,058	(525)	68,533	(42,443)	-61.5%	(27,053)	-39.5%
Provision for income taxes	11,543	(5,619)	17,162	27,488	209	27,279	(15,945)	-58.0%	(10,117)	-37.1%
Income from continuing operations	15,072	9,246	24,318	41,570	(316)	41,254	(26,498)	-63.7%	(16,936)	-41.1%
Discontinued operations	(36,741)	-	(36,741)	(907)	-	(907)	(35,834)	NM	(35,834)	NM
Net income (loss)	$ (21,669)	$ 9,246	$ (12,423)	$ 40,663	$ (316)	$ 40,347	$ (62,332)	-153.3%	$ (52,770)	-130.8%
Diluted earnings (loss) per share:										
Income from continuing operations	$ 0.24	$ 0.15	$ 0.38	$ 0.67	$ (0.01)	$ 0.67	$ (0.43)	-64.5%	$ (0.28)	-42.5%
Discontinued operations	(0.58)	-	(0.58)	(0.01)	-	(0.01)	(0.57)	NM	(0.57)	NM
Net income (loss)	$ (0.34)	$ 0.15	$ (0.20)	$ 0.66	$ (0.01)	$ 0.65	$ (1.00)	-152.1%	$ (0.85)	-130.1%
Diluted shares outstanding	63,441	63,441	63,441	61,975	61,975	61,975	1,466	2.4%	1,466	2.4%
Segment Information										
Revenues										
Company store operations	$ 369,593	$ -	$ 369,593	$ 317,158	$ -	$ 317,158	$ 52,435	16.5%	$ 52,435	16.5%
Franchise operations (2)	20,060	-	20,060	17,555	-	17,555	2,505	14.3%	2,505	14.3%
KKM&D	142,288	-	142,288	140,885	-	140,885	1,403	1.0%	1,403	1.0%
Total revenues	$ 531,941	$ -	$ 531,941	$ 475,598	$ -	$ 475,598	$ 56,343	11.8%	$ 56,343	11.8%
Operating Income										
Company store operations	$ 41,797	$ -	$ 41,797	$ 61,969	$ -	$ 61,969	$ (20,172)	-32.6%	$ (20,172)	-32.6%
Franchise operations	14,694	-	14,694	13,721	-	13,721	973	7.1%	973	7.1%
KKM&D	26,706	-	26,706	27,824	-	27,824	(1,118)	-4.0%	(1,118)	-4.0%
Unallocated G&A expenses	(36,293)	-	(36,293)	(28,571)	-	(28,571)	(7,722)	27.0%	(7,722)	27.0%
Impairment charge and store closing costs	(14,865)	14,865	-	-	-	-	(14,865)	100.0%	-	-
Arbitration award	-	-	-	525	(525)	-	(525)	-100.0%	-	-
Total operating income	$ 32,039	$ 14,865	$ 46,904	$ 75,468	$ (525)	$ 74,943	$ (43,429)	-57.5%	$ (28,039)	-37.4%
Operating Margins										
Company store operations	11.3%	-	11.3%	19.5%	-	19.5%	-8.2%		-8.2%	
Franchise operations	73.3%	-	73.3%	78.2%	-	78.2%	-4.9%		-4.9%	
KKM&D	18.8%	-	18.8%	19.7%	-	19.7%	-0.9%		-0.9%	
Unallocated G&A expenses	-6.8%	-	-6.8%	-6.0%	-	-6.0%	-0.8%		-0.8%	
Impairment charge and store closing costs	-2.8%	2.8%	-	-	-	-	-2.8%		-	
Arbitration award	-	-	-	0.1%	-0.1%	-	0.1%		-	
Total operating income	6.0%	2.8%	8.8%	15.9%	-0.1%	15.8%	-9.9%		-7.0%	
Depreciation and Amortization Expenses										
Company store operations	$ 15,606	$ -	$ 15,606	$ 9,900	$ -	$ 9,900	$ 5,706	57.6%	$ 5,706	57.6%
Franchise operations	130	-	130	129	-	129	1	0.8%	1	0.8%
KKM&D	2,395	-	2,395	2,233	-	2,233	162	7.3%	162	7.3%
Corporate administration	1,365	-	1,365	1,211	-	1,211	154	12.7%	154	12.7%
Total depreciation and amortization expenses	$ 19,496	$ -	$ 19,496	$ 13,473	$ -	$ 13,473	$ 6,023	44.7%	$ 6,023	44.7%
Increase in Systemwide Sales										
Total Krispy Kreme stores	14.3%									
Comparable Store Sales										
Company stores	-0.3%									
Systemwide	-0.8%									

Note: Operating results for the nine months ended October 31, 2004 include a pre-tax charge of $14,865, primarily related to impairment charges and related store closing costs for Krispy Kreme stores closed or scheduled to be closed as a result of the Company's decision to close certain underperforming stores. Operating results for the fiscal 2005 period also include a loss, net of taxes, from discontinued operations of $36,741, resulting from the Company's decision to divest the existing Montana Mills operation. Operating results for the nine months ended November 3, 2003 include the reversal of the $525 accrual remaining after settlement of an arbitration award against the Company, as discussed in the Company's Form 8-K filing dated February 10, 2003. Operating results for the fiscal 2004 period have been adjusted to reflect the operating activity of Montana Mills as discontinued operations for the period. This schedule compares results for the fiscal 2005 period, both before and after the impairment charge and store closing costs, with results for the fiscal 2004 period, both before and after adjusting for the reversal of the arbitration award.

(1) Restated to reflect amounts associated with Montana Mills Bread Co., Inc. operations as discontinued operations.

(2) Revenues from franchise operations consist of franchise fees and royalties on sales of our franchised stores, as reported by our franchisees. Sales of franchised stores for the nine months ended October 31, 2004 and November 2, 2003 were $450,306 and $400,362, respectively.

Krispy Kreme Doughnuts, Inc.
Condensed Consolidated Balance Sheets
As of October 31, 2004, August 1, 2004 and February 1, 2004
(All dollar amounts in thousands)

	October 31, 2004	August 1, 2004	$ Change	% Change	February 1, 2004 (1)	$ Change	% Change
Cash and cash equivalents	$ 17,213	$ 19,309	$ (2,096)	-10.9%	$ 20,300	$ (3,087)	-15.2%
Receivables	73,416	77,495	(4,079)	-5.3%	76,195	(2,779)	-3.6%
Inventories	32,287	33,076	(789)	-2.4%	28,573	3,714	13.0%
Property and equipment, net	324,885	297,154	27,731	9.3%	281,103	43,782	15.6%
Investments in unconsolidated joint ventures	5,578	9,921	(4,343)	-43.8%	12,426	(6,848)	-55.1%
Assets held for sale	3,263	3,325	(62)	-1.9%	36,856	(33,593)	-91.1%
Other assets	219,255	221,328	(2,073)	-0.9%	205,211	14,044	6.8%
Total assets	$ 675,897	$ 661,608	$ 14,289	2.2%	$ 660,664	$ 15,233	2.3%
Payables	$ 29,427	$ 31,924	$ (2,497)	-7.8%	$ 26,907	$ 2,520	9.4%
Accrued expenses	38,393	32,249	6,144	19.1%	23,744	14,649	61.7%
Debt	133,626	117,701	15,925	13.5%	137,898	(4,272)	-3.1%
Other long-term obligations	36,883	40,235	(3,352)	-8.3%	19,908	16,975	85.3%
Shareholders' equity	437,568	439,499	(1,931)	-0.4%	452,207	(14,639)	-3.2%
Total liabilities and shareholders' equity	$ 675,897	$ 661,608	$ 14,289	2.2%	$ 660,664	$ 15,233	2.3%

(1) Restated to reflect amounts associated with Montana Mills Bread Co., Inc. as assets and liabilities of discontinued operations.

Krispy Kreme Doughnuts, Inc.
Store Count Recap

	Factory Stores								
	Company	**Consolidated JVs**	**Total Company**	**Associate**	**AD**	**Joint Ventures**	**Total AD**	**Total Franchise**	**Total**
Total End Q2 FY05	**119**	**35**	**154**	**56**	**103**	**74**	**177**	**233**	**387**
Opened	4	5	9	-	1	3	4	4	13
Closed	(2)	(2)	(4)	(2)	-	(1)	(1)	(3)	(7)
Transferred	-	16	16	-	-	(16)	(16)	(16)	-
Reclassification	-	-	-	-	-	-	-	-	-
Q3 Net	2	19	21	(2)	1	(14)	(13)	(15)	6
Total End Q3 FY05	**121**	**54**	**175**	**54**	**104**	**60**	**164**	**218**	**393**

Krispy Kreme Doughnuts, Inc.
Average Sales per Week
Dollars in Thousands

	FY 2005		FY 2004
	Q3	Q2	Q3
Company Stores	$58.4	$63.1	$73.0
Area Developers	$49.9	$54.3	$60.3
Associates	$41.7	$43.9	$45.9
Total Franchise	$47.9	$51.6	$56.3
Systemwide	$52.2	$56.3	$62.7

Krispy Kreme Doughnuts, Inc.
Total Operating Weeks

	FY 2005		FY 2004
	Q3	Q2	Q3
Company Stores	2,088	1,988	1,536
Area Developers	2,234	2,131	1,802
Associates	727	735	694
Total Franchise	2,961	2,866	2,496
Systemwide	5,049	4,854	4,032

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Krispy Kreme Doughnuts, Inc.

We were engaged to perform an integrated audit of Krispy Kreme Doughnuts, Inc.'s 2005 consolidated financial statements and of its internal control over financial reporting as of January 30, 2005 in accordance with the standards of the Public Company Accounting Oversight Board (United States). We have audited the Company's 2005, 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinion on the consolidated financial statements, based on our audits of those consolidated financial statements, is presented below. However, as explained more fully below, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion either on management's assessment or on the effectiveness of the Company's internal control over financial reporting as of January 30, 2005.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Krispy Kreme Doughnuts, Inc. and its subsidiaries at January 30, 2005 and February 1, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 30, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its 2004 and 2003 consolidated financial statements.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for certain variable interest entities effective May 2, 2004.

Internal control over financial reporting

Also, we were engaged to audit management's assessment included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company did not maintain effective internal control over financial reporting as of January 30, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

We were unable to complete an audit of the Company's internal control over financial reporting as of January 30, 2005 because the Company was unable to complete its assessment of internal control over financial reporting as of January 30, 2005. As a result, management further restricted the scope of our work by directing that we not complete our (i) testing and evaluation of the effectiveness of the design of the Company's internal control over financial reporting, (ii) testing of operating effectiveness of the Company's internal control over financial reporting, and (iii) review and evaluation of the results of management's incomplete assessment, including the evaluation of the control deficiencies noted in management's assessment.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Although management has not completed its assessment of the effectiveness of the Company's internal control over financial reporting as of January 30, 2005, management has identified in its assessment the following material weaknesses as of January 30, 2005.

1. The Company did not maintain an effective control environment based on the criteria established in the COSO framework. The following material weaknesses were identified related to the Company's control environment:

- The Company's former chief executive officer, who retired from the Company in January 2005, and the Company's former chief operating officer, who resigned from the Company in August 2004 (together "former senior management"), did not establish and maintain a proper tone and control consciousness. Specifically, former senior management through its actions did not emphasize the importance of internal control over financial reporting and adherence to the Company's code of business conduct and ethics.
- The Company failed to implement adequate assignment of authority and responsibility and the necessary lines of communication between operations and finance personnel. Specifically, there was inadequate sharing of financial information within and across its corporate and divisional offices and other operating facilities to adequately raise issues to the appropriate level of accounting and financial reporting personnel. Further, the Company did not maintain effective controls over the communication and maintenance of information regarding significant transactions and events with certain of its franchisees, such as the signing of letters of intent and definitive agreements and the guaranteeing of certain obligations of certain of its franchisees.
- The Company did not maintain formalized and consistent finance and accounting policies and procedures nor did it maintain adequate controls with respect to the review, supervision and monitoring of the Company's accounting operations.
- The Company did not maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles ("GAAP") commensurate with its financial reporting requirements.

These control environment material weaknesses contributed to (i) restatement of the Company's consolidated financial statements for 2003 and 2004, all quarterly periods in 2004 and the first three quarters of 2005 (collectively referred to as the "Restatement"), (ii) certain adjustments, including audit adjustments, to the Company's consolidated financial statements for 2005 and for the fourth quarter of 2005 (collectively referred to as the "Adjustments") and (iii) additional matters described in paragraphs 2 through 10 below. Additionally, these material weaknesses could result in the failure to prevent or detect misstatements of any of the Company's financial statement accounts that would result in a material misstatement in the annual or interim consolidated financial statements.

2. The Company did not maintain effective controls, including monitoring, over its financial close and reporting processes. Specifically, the following material weaknesses were identified:

- The Company did not maintain effective controls over the preparation and review of recurring and nonrecurring journal entries. Specifically, effective controls were not designed and in place to ensure that journal entries were prepared with sufficient supporting documentation and that those entries were reviewed and approved to ensure the completeness, accuracy and appropriateness of the entries recorded.
- The Company did not maintain effective controls to ensure that its financial statement accounts were complete and accurate and that they were analyzed and agreed to detailed supporting documentation. Specifically, the Company did not maintain effective controls to ensure that account reconciliations over certain balance sheet accounts were properly performed, reviewed and approved.

- The Company did not maintain effective controls over the accounting for acquisitions and divestitures. Specifically, effective controls were not designed and in place to ensure that such transactions were accounted for in accordance with GAAP. This control deficiency and the control environment deficiencies described under paragraph 1 above resulted in the failure to prevent or detect errors in the accounting for certain of the Company's acquisitions, including the improper recording of income or failure to properly record expense with respect to certain transactions with the acquired companies, where that accounting was not consistent with the economic substance of the transactions.
- The Company did not maintain effective controls over its accounting for consolidated franchisees and equity method franchisees. Specifically, the Company did not maintain effective controls to ensure completeness and accuracy related to the consolidation of its franchisees accounted for on a consolidated basis. Also, the Company did not maintain effective controls to ensure completeness and accuracy of its financial statement accounts related to franchisees accounted for on the equity method in accordance with GAAP.
- The Company did not maintain effective controls over the completeness and accuracy of intercompany eliminations with respect to the profit to be eliminated for intercompany equipment sales and for franchise fees earned from franchisees accounted for under the equity method of accounting.
- The Company did not maintain effective controls to ensure that its financial statement accounts related to translation of financial statement accounts denominated in foreign currencies and translation of foreign currency transaction gains or losses were completely and accurately recorded in accordance with GAAP.

3. The Company did not maintain effective controls over the completeness and accuracy of equipment revenue recognition. Specifically, effective controls were not designed and in place to ensure that equipment revenue was recognized appropriately and in the proper period under GAAP for sales of equipment to franchisees in connection with new store openings and sales of other equipment to franchisees. This control deficiency and the control environment deficiencies described under paragraph 1 above resulted in the failure to prevent or detect improper recognition of revenue for the sale of certain equipment to franchisees where the franchisees did not execute certain financing agreements related to the purchase of such equipment or where general rights of return relating to the equipment were granted by former senior management.

4. The Company did not maintain effective controls over the completeness and accuracy of its accounting for lease related assets, liabilities and expenses. Specifically, the Company's controls over the selection, application and monitoring of accounting policies related to lease renewal options, rent escalations, amortization periods for leasehold improvements and lease classification principally affecting property and equipment, deferred rent, capital lease obligations, rent expense and depreciation were ineffective to ensure that such transactions were accounted for in conformity with GAAP.

5. The Company did not design and maintain effective controls to ensure that accounts related to accrued expenses, including employee–related expense accruals for vacation benefits and incentive compensation, were complete and accurate. This control deficiency and the control environment deficiencies described under paragraph 1 above resulted in the failure to prevent or detect improper accounting, during the quarterly periods in 2004, related to incentive compensation which resulted in understatement of earnings for the first quarter of 2004 and overstatement of earnings in the second and third quarters of 2004.

6. The Company did not design and maintain effective controls to ensure that capitalized trademark costs were complete and accurate. Specifically, effective controls were not in place to ensure that certain legal and professional fees incurred in defense of the Company's trademarks were appropriately expensed under GAAP.

7. The Company did not design and maintain effective controls to ensure that accounts related to derivative instruments embedded in exchange–traded futures contracts for certain raw materials were complete and accurate. Specifically, effective controls were not in place to ensure the identification of embedded derivatives affecting principally other current assets and liabilities and the evaluation of the proper accounting for such embedded derivatives under GAAP.

8. The Company did not maintain effective controls over the accuracy, valuation and disclosure of its tangible long–lived assets accounts, including the related depreciation, amortization and impairment expense accounts. Specifically, effective controls were not designed and in place to ensure that assets retired were written off in the appropriate period and that an adequate periodic impairment analysis was conducted, reviewed and approved in order to identify instances of impairment as required under GAAP.

9. The Company did not maintain effective controls over the accuracy, valuation and disclosure of its goodwill and intangible assets accounts, including the related impairment testing. Specifically, effective controls were not designed and in place to ensure that an adequate periodic impairment analysis was conducted, reviewed and approved in order to identify instances of impairment as required under GAAP.

10. The Company did not maintain effective controls over the accuracy and valuation of accounts receivable from franchisees. Specifically, effective controls were not designed and in place to ensure that an appropriate analysis of receivables from franchisees was conducted, reviewed and approved in order to identify and estimate, on a timely basis, required allowances for uncollectible accounts.

Each of the control deficiencies described in paragraphs 2 through 10 above resulted in the Restatement and Adjustments. Additionally, these control deficiencies could result in the failure to prevent or detect a misstatement of the aforementioned accounts or disclosures that would result in a material misstatement in the annual or interim consolidated financial statements.

Management has concluded that each of the control deficiencies in paragraphs 2 through 10 above constitutes a material weakness as of January 30, 2005.

The existence of one or more material weaknesses as of January 30, 2005 would preclude a conclusion that the Company's internal control over financial reporting was effective as of that date. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and our disclaimer of opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Since (a) the Company was unable to complete its assessment of the effectiveness of internal control over financial reporting as of January 30, 2005 and (b) management further restricted the scope of our work by directing that we not complete our (i) testing and evaluation of the effectiveness of the design of the Company's internal control over financial reporting, (ii) testing of operating effectiveness of the Company's internal control over financial reporting, and (iii) review and evaluation of the results of management's testing and of the control deficiencies noted in management's incomplete assessment, and because we were unable to complete our procedures to satisfy ourselves as to the effectiveness of the Company's internal control over financial reporting, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion either on management's assessment or on the effectiveness of the Company's internal control over financial reporting, including identifying all material weaknesses that might exist as of January 30, 2005.

PricewaterhouseCoopers LLP
Greensboro, North Carolina
April 28, 2006

KRISPY KREME DOUGHNUTS, INC.
CONSOLIDATED BALANCE SHEET

	Feb. 1, 2004 (restated)	Jan. 30, 2005
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,029	$ 27,686
Receivables	45,576	30,198
Accounts and notes receivable — related parties	18,270	15,510
Inventories	29,821	28,591
Income taxes refundable	7,973	—
Deferred income taxes	7,405	3,913
Other current assets	7,421	13,465
Total current assets	137,495	119,363
Property and equipment	287,492	309,214
Non–current portion of notes receivable — related parties	6,561	2,120
Investments in equity method franchisees	14,584	5,973
Goodwill and other intangible assets	197,162	34,380
Deferred income taxes	2,941	—
Other assets	10,368	9,228
Total assets	$ 656,603	$ 480,278
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long–term debt	$ 8,142	$ 48,097
Book overdraft	8,123	8,480
Accounts payable	19,107	17,436
Accrued expenses	23,302	43,622
Total current liabilities	58,674	117,635
Long–term debt, less current maturities	137,114	90,950
Deferred income taxes	—	3,913
Other long–term obligations	22,258	26,447
Minority interests in consolidated franchisees	2,148	390
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 10,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value; 300,000 shares authorized; issued and outstanding — 61,286 (2004) and 61,756 (2005)	294,477	295,611
Unearned compensation	(62)	(17)
Notes receivable secured by common stock	(383)	(197)
Accumulated other comprehensive income (loss)	(712)	796
Retained earnings (accumulated deficit)	143,089	(55,250)
Total shareholders' equity	436,409	240,943
Total liabilities and shareholders' equity	$ 656,603	$ 480,278

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended		
	Feb. 2, 2003 (restated)	Feb. 1, 2004 (restated)	Jan. 30, 2005
	(In thousands, except per share amounts)		
Revenues	$ 490,728	$ 649,345	$ 707,766
Operating expenses:			
Direct operating expenses	380,644	493,650	597,110
General and administrative expenses	30,073	45,230	56,472
Depreciation and amortization expense	14,675	22,309	31,934
Impairment charges and lease termination costs	—	—	161,847
Arbitration award	9,075	(525)	—
Operating income (loss)	56,261	88,681	(139,597)
Interest income	1,966	906	775
Interest expense	(1,891)	(4,509)	(6,875)
Equity in losses of equity method franchisees	(2,088)	(2,242)	(1,622)
Minority interests in results of consolidated franchisees	(2,187)	(1,898)	6,249
Other income and (expense), net	(1,284)	2,053	(6,310)
Income (loss) from continuing operations before income taxes	50,777	82,991	(147,380)
Provision for income taxes	19,719	33,146	9,674
Income (loss) from continuing operations	31,058	49,845	(157,054)
Discontinued operations, including income tax effects	—	(1,282)	(40,054)
Income (loss) before cumulative effect of change in accounting principle	31,058	48,563	(197,108)
Cumulative effect of change in accounting principle, net of income taxes	—	—	(1,231)
Net income (loss)	$ 31,058	$ 48,563	$ (198,339)
Earnings (loss) per common share — basic			
Income (loss) from continuing operations	$ .56	$ .84	$ (2.55)
Discontinued operations	—	(.02)	(.65)
Cumulative effect of change in accounting principle	—	—	(.02)
Net income (loss)	$ .56	$ .82	$ (3.22)
Earnings (loss) per common share — diluted			
Income (loss) from continuing operations	$ .52	$ .80	$ (2.55)
Discontinued operations	—	(.02)	(.65)
Cumulative effect of change in accounting principle	—	—	(.02)
Net income (loss)	$ .52	$ .78	$ (3.22)

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended		
	Feb. 2, 2003 (restated)	Feb. 1, 2004 (restated)	Jan. 30, 2005
		(In thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 31,058	$ 48,563	$ (198,339)
Items not requiring cash:			
Depreciation and amortization	14,675	22,806	31,982
Deferred income taxes	56	(3,491)	10,117
Impairment charges	—	—	194,100
Cumulative effect of change in accounting principle	—	-	1,231
Deferred rent expense	821	849	3,220
Loss on disposal of property and equipment	934	939	4,439
Provision for doubtful accounts, net of chargeoffs	271	(305)	11,219
Tax benefit from exercise of nonqualified stock options	13,795	35,771	—
Minority interest in results of consolidated franchisees	2,187	1,898	(6,249)
Equity in losses of equity method franchisees	2,088	2,242	1,622
Cash distributions from equity method franchisees	520	1,582	2,003
Other	417	(2,658)	1,610
Change in assets and liabilities:			
Receivables	(6,978)	(18,729)	10,982
Inventories	(8,516)	(4,068)	2,141
Other current assets	(331)	(965)	(4,056)
Income taxes	571	1,025	7,973
Accounts payable and accrued expenses	742	(7,117)	8,278
Other long-term obligations	(405)	4,323	2,648
Net cash provided by operating activities	51,905	82,665	84,921
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(81,696)	(78,316)	(74,308)
Proceeds from sales of assets leased back	—	—	20,217
Proceeds from other disposals of property and equipment	701	456	7,805
Proceeds from disposal of assets held for sale	1,435		638
Acquisition of franchisees and interests therein, net of cash acquired	(4,965)	(112,450)	(3,618)
Acquisition of Montana Mills, net of cash acquired	—	4,052	—
Investments in equity method franchisees	(8,399)	(7,958)	(3,471)
Purchases of investments	(32,739)	(6,000)	—
Proceeds from sales of investments	33,097	33,136	—
Issuance of notes receivable	—	(5,974)	(724)
Collection of notes receivable	1,590	5,302	4,139
(Increase) decrease in other assets	(664)	(2,197)	1,715
Net cash used for investing activities	(91,640)	(169,949)	(47,607)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	7,140	19,514	1,175
Proceeds from exercise of warrants	—	4	—
Issuance of short-term debt	—	55,000	—
Issuance of long-term debt	44,234	44,570	12,164
Repayment of short-term debt	—	(66,286)	—
Repayment of long-term debt	(4,383)	(50,296)	(49,332)
Net (repayments) borrowings from revolving lines of credit	(121)	79,712	1,606
Issuance of short-term debt — related party	—	2,350	—
Repayment of short-term debt related party	(500)	(3,250)	—
Debt issuance costs	(194)	(921)	(386)
Net change in book overdraft	2,268	(3,252)	357
Collection of notes receivable secured by common stock	2,022	175	186
Cash received from (paid to) minority interests	(432)	(1,210)	16
Net cash provided by (used for) financing activities	50,034	76,110	(34,214)
Effect of exchange rate changes on cash	—	—	340
Cash balances of subsidiaries at date of initial consolidation	—	—	3,217
Net increase (decrease) in cash and cash equivalents	10,299	(11,174)	6,657
Cash and cash equivalents at beginning of year	21,904	32,203	21,029
Cash and cash equivalents at end of year	$ 32,203	$ 21,029	$ 27,686
Supplemental schedule of non-cash investing and financing activities:			
Issuance of stock in conjunction with acquisitions	$ 30,975	$ 59,031	$ —
Assets acquired under capital leases	4,422	4,972	5,979
Receipt of promissory notes in connection with sale of assets	—	3,551	
Issuance of promissory note in connection with acquisition of franchisee	—	11,286	
Issuance of stock options in exchange for services	150	—	—
Issuance of restricted common shares	—	10	—

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares	Common Stock	Unearned Compensation	Notes Receivable	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated (Deficit)	Total
				(In thousands)			
BALANCE AT FEBRUARY 3, 2002 (restated)	54,271	$ 121,052	$ (186)	$ (2,580)	$ 456	$ 63,468	$ 182,210
Comprehensive income:							
Net income for the year ended February 2, 2003 (restated)						31,058	31,058
Unrealized holding loss, net of tax benefit of $241					(385)		(385)
Foreign currency translation adjustment, net of income taxes of $7					11		11
Unrealized loss from cash flow hedge, net of income tax benefit of $1,005 (restated)					(1,604)		(1,604)
Total comprehensive income (restated)							29,080
Exercise of stock options, including tax benefit of $13,795	1,187	20,935					20,935
Issuance of shares in conjunction with acquisition of franchise markets	837	30,975					30,975
Amortization of restricted common shares			67				67
Issuance of stock options in exchange for services		150					150
Collection of notes receivable				2,022			2,022
BALANCE AT FEBRUARY 2, 2003 (restated)	56,295	173,112	(119)	(558)	(1,522)	94,526	265,439
Comprehensive income:							
Net income for the year ended February 1, 2004 (restated)						48,563	48,563
Unrealized holding loss, net of tax benefit of $71					(113)		(113)
Foreign currency translation adjustment, net of income taxes of $15					682		682
Unrealized gain from cash flow hedge, net of income taxes of $115 (restated)					241		241
Total comprehensive income (restated)							49,373
Exercise of stock options, including tax benefit of $42,806	3,300	62,320					62,320
Exercise of warrants		4					4
Issuance of shares in conjunction with acquisition of business	1,247	40,491					40,491
Issuance of shares in conjunction with acquisition of franchise market	444	18,540					18,540
Issuance of restricted common shares		10	(10)				—
Amortization of restricted common shares			67				67
Collection of notes receivable				175			175
BALANCE AT FEBRUARY 1, 2004 (restated)	61,286	294,477	(62)	(383)	(712)	143,089	436,409
Comprehensive income (loss):							
Net loss for the year ended January 30, 2005						(198,339)	(198,339)
Foreign currency translation adjustment, net of income taxes of $620					876		876
Unrealized gain from cash flow hedge, net of income taxes of $412					632		632
Total comprehensive income (loss)							(196,831)
Exercise of stock options	472	1,175					1,175
Amortization of restricted common shares			45				45
Cancellation of restricted common shares	(2)	(41)					(41)
Collection of notes receivable				186			186
BALANCE AT JANUARY 30, 2005	61,756	$ 295,611	$ (17)	$ (197)	$ 796	$ (55,250)	$ 240,943

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 — Nature of Business and Significant Accounting Policies

NATURE OF BUSINESS. Krispy Kreme Doughnuts, Inc. ("KKDI") and its subsidiaries (collectively, the "Company") are engaged principally in the sale of doughnuts and related items through Company–owned stores. The Company also derives revenue from franchise and development fees and the collection of royalties from franchisees. Additionally, the Company sells doughnut–making equipment, doughnut mix, coffee and other ingredients and supplies to franchisees.

The significant accounting policies followed by the Company in preparing the accompanying financial statements are as follows:

BASIS OF CONSOLIDATION AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. The financial statements include the accounts of KKDI and its wholly–owned subsidiaries, the most significant of which is KKDI's principal operating subsidiary, Krispy Kreme Doughnut Corporation ("KKDC").

As required by Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("ARB 51") and Statement of Financial Accounting Standards No 94, "Consolidation of All Majority–Owned Subsidiaries," the Company consolidates the financial statements of all entities in which the Company has a controlling financial interest, as defined by ARB 51. These entities include Glazed Investments, LLC ("Glazed Investments") and Freedom Rings, LLC ("Freedom Rings"), franchisees of the Company, because the Company's ownership interests in these entities enable the Company to exercise voting control over them.

Effective May 2, 2004, the Company adopted the provisions of Financial Accounting Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities" ("FIN 46(R)"), which clarifies the application of ARB 51 to entities that are variable interest entities ("VIEs"). VIEs typically are entities that are controlled through means other than ownership of common stock. FIN 46(R) requires the Company to assess its investments in franchisees and determine if the franchisees are VIEs. For franchisees that are VIEs, the Company must determine whether variable interests owned by the Company absorb a majority of the VIE's expected losses and expected residual returns, and then consolidate the financial statements of those VIEs with respect to which the Company's variable interests absorb a majority of those expected losses or returns.

Adoption of FIN 46(R) caused the Company to begin consolidating the financial statements of New England Dough, LLC ("New England Dough") and KremeKo, Inc. ("KremeKo"), as more fully described in Note 25. Prior to May 2, 2004, the Company accounted for its investments in these entities using the equity method. New England Dough and KremeKo, together with Glazed Investments and Freedom Rings, are hereinafter sometimes referred to as "Consolidated Franchisees."

Investments in entities over which the Company has the ability to exercise significant influence, and whose financial statements are not required to be consolidated under ARB 51 or FIN 46(R), are accounted for using the equity method. These entities typically are 20% to 50% owned and are hereinafter sometimes referred to as "Equity Method Franchisees."

Intercompany profits associated with sales of equipment to Equity Method Franchisees are eliminated to the extent of the Company's ownership in those entities. The Company eliminates 100% of the intercompany profit on sales of inventory to Equity Method Franchisees.

FIN 46(R) requires the elimination in consolidation of 100% of the revenues and profits associated with transactions between the Company and its consolidated VIEs. Accordingly, upon adoption of FIN 46(R), the Company eliminated the profits related to sales of equipment previously recognized on transactions with New England Dough and KremeKo attributable to other investors' interests in those entities. Such elimination totaled approximately $1,231,000, net of income taxes of $803,000, and appears under the caption "Cumulative effect of change in accounting principle" in the consolidated statement of operations.

All significant intercompany accounts and transactions are eliminated in consolidation. Interests of other investors in consolidated subsidiaries are reflected in the consolidated balance sheet and consolidated statement of operations as minority interests.

Except for Freedom Rings, the results of operations of Consolidated Franchisees and the Company's share of income or loss from Equity Method Franchisees are reflected in the Company's results of operations on a one–month lag.

REVENUE RECOGNITION. A summary of the revenue recognition policies for each of the Company's business segments is as follows:

- Company Store Operations revenue is derived from the sale of doughnuts and related items to on–premises and off–premises customers. Revenue is recognized at the time of sale for on–premises sales. For off–premises sales, revenue is recognized at the time of delivery, net of provisions for estimated product returns.
- Franchise Operations revenue is derived from development and initial franchise fees relating to new store openings and ongoing royalties charged to franchisees based on their sales. Development and franchise fees for new stores are deferred until the store is opened, which is the time at which the Company has performed substantially all of the initial services it is required to provide. Royalties are recognized in income as underlying franchisee sales occur.
- KKM&D revenue is derived from the sale of doughnut–making equipment, doughnut mix, coffee and supplies needed to operate a doughnut store. Revenue for equipment sales and installation associated with new store openings is recognized at the store opening date. Revenue for equipment sales not associated with new store openings is recognized when the equipment is installed if the Company is responsible for the installation, and otherwise upon shipment of the equipment. Revenues for the sale of doughnut mix, coffee and supplies are recognized upon delivery to the customer.

FISCAL YEAR. The Company's fiscal year ends on the Sunday closest to January 31, which periodically results in a 53–week year. Each of fiscal 2003, 2004 and 2005 contained 52 weeks.

CASH AND CASH EQUIVALENTS. The Company considers cash on hand, demand deposits in banks and all highly liquid debt instruments with an original maturity of three months or less to be cash and cash equivalents.

INVENTORIES. Inventories are recorded at the lower of cost or market, with cost determined using the first–in, first–out method.

PROPERTY AND EQUIPMENT. Property and equipment are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. The Company capitalizes interest on major capital expenditures during the period of construction.

Depreciation of property and equipment is provided using the straight–line method over the assets' estimated useful lives, which are as follows: buildings — 15 to 35 years; machinery and equipment — 3 to 15 years; and leasehold improvements — lesser of the useful life of the improvements or the lease term.

GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill represents the excess of the purchase price over the value of identifiable net assets acquired in business combinations. Goodwill has an indefinite life and is not amortized, but is tested for impairment annually or more frequently if events or

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

circumstances indicate the carrying amount of the asset may be impaired. Such impairment testing is performed for each reporting unit (as that term is defined in FAS 142, "Goodwill and Other Intangible Assets") to which goodwill has been assigned.

Other intangible assets consist primarily of trademarks and trade names, recipes and reacquired franchise rights acquired in acquisitions of franchisees. The Company has evaluated and determined that trademarks and trade names and reacquired franchise rights have indefinite lives and are not subject to amortization. Recipes have a definite life and are amortized on a straight–line basis over 10 years. Intangible assets with indefinite lives are reviewed for impairment annually or more frequently if events or circumstances indicate the carrying amount of the assets may be impaired. Intangible assets that are not indefinite–lived are reviewed for impairment whenever events or circumstances indicate the carrying amount of the assets may be impaired.

The Company's impairment testing of goodwill and reacquired franchise rights resulted in a charge of approximately $131.6 million in fiscal 2005 to reduce the carrying value of goodwill associated with certain reporting units within the Company Stores business segment to estimated fair value, and charges of approximately $600,000 to reduce the carrying value of reacquired franchise rights associated with certain reporting units within the Company Stores segment to their estimated fair value. The impairment charges reflect the substantial decline in operating income in 2005 within the Company Stores business segment. In addition, the Company wrote off approximately $35.1 million of goodwill and other intangibles in fiscal 2005 in connection with its decision to exit the Montana Mills business, as described in Note 24.

FAIR VALUE OF FINANCIAL INSTRUMENTS. Financial instruments are reflected in the financial statements at carrying amounts which approximate fair value.

ADVERTISING COSTS. All costs associated with advertising and promoting products are expensed as incurred.

STORE OPENING COSTS. Store opening costs are expensed as incurred. Direct store opening costs were $2,062,000, $4,634,000 and $2,752,000 in fiscal 2003, 2004 and 2005, respectively.

ASSET IMPAIRMENT. When an asset group (typically a store) is identified as underperforming or a decision is made to abandon an asset group or to close a store, the Company makes an assessment of the potential impairment of the related assets. The assessment is based upon a comparison of the carrying amount of the asset group, primarily property and equipment, to the estimated undiscounted cash flows expected to be generated from the asset group. To estimate cash flows, management projects the net cash flows anticipated from continuing operation of the asset group or store until its closing or abandonment as well as cash flows, if any, anticipated from disposal of the related assets. If the carrying amount of the assets exceeds the sum of the undiscounted cash flows, the Company records an impairment charge in an amount equal to the excess of the carrying value of the assets over their estimated fair value.

EARNINGS PER SHARE. The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflects the potential dilution that would occur if stock options were exercised and the dilution from the issuance of restricted shares, computed using the treasury stock method.

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following table sets forth amounts used in the computation of basic and diluted earnings per share:

	Year Ended		
	Feb. 2, 2003 (restated)	Feb. 1, 2004 (restated) (In thousands)	Jan. 30, 2005
Numerator: net income (loss)	$ 31,058	$ 48,563	$ (198,339)
Denominator:			
Basic earnings per share–weighted average shares outstanding	55,093	59,188	61,626
Effect of dilutive securities:			
Stock options	4,395	3,197	—
Restricted stock	4	3	—
Diluted earnings per share–weighted average shares outstanding	59,492	62,388	61,626

Stock options with respect to 350,000 shares in fiscal 2003 and stock options and warrants with respect to 1,363,000 shares in fiscal 2004 have been excluded from the diluted shares calculation because their inclusion would be antidilutive. All potentially dilutive securities have been excluded from the number of shares used in the computation of diluted earnings per share in fiscal 2005 because their inclusion would be antidilutive.

STOCK–BASED COMPENSATION. The Financial Accounting Standards Board has adopted FAS 123, which permits, but does not require, the Company to utilize a fair–value based method of accounting for stock–based compensation. The Company has elected to continue use of the APB 25 intrinsic value method of accounting for its stock option plans and accordingly has recorded no compensation cost for grants of stock options. Had compensation cost for the Company's stock option plans been determined based on the estimated fair value at the grant dates for awards in 2003, 2004 and 2005 in accordance with the provisions of FAS 123, the Company's earnings would have been affected as set forth in the table below:

	Year Ended		
	Feb. 2, 2003 (restated)	Feb. 1, 2004 (restated)	Jan. 30, 2005
	(In thousands, except per share amounts)		
Net income (loss), as reported	$ 31,058	$ 48,563	$ (198,339)
Add: Stock–based expense charged to earnings, net of related tax effects	31	62	—
Deduct: Stock–based compensation expense determined under fair value method for all awards, net of related tax effects	(8,653)	(11,481)	(13,549)
Pro forma net income (loss)	$ 22,436	$ 37,144	$ (211,888)
Earnings (loss) per share:			
Reported earnings (loss) per share — Basic	$ .56	$ .82	$ (3.22)
Pro forma earnings (loss) per share — Basic	$ .41	$ .63	$ (3.44)
Reported earnings (loss) per share — Diluted	$ .52	$ .78	$ (3.22)
Pro forma earnings (loss) per share — Diluted	$ .38	$ .60	$ (3.44)

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The fair value of options granted, which is charged to earnings over the option vesting period in determining the pro forma effects of application of FAS No. 123, is estimated using the Black–Scholes option pricing model with the following weighted average assumptions:

	Year Ended		
	Feb. 2, 2003	Feb. 1, 2004	Jan. 30, 2005
Expected life of option	7 years	7 years	7 years
Risk–free interest rate	4.4%	3.7%	3.9%
Expected volatility of stock	45.9%	41.6%	45.0%
Expected dividend yield	—	—	—

The weighted average fair value of options granted during fiscal 2003, 2004 and 2005 was as follows:

	Year Ended		
	Feb. 2, 2003	Feb. 1, 2004	Jan. 30, 2005
Fair value of each option granted	$ 18.91	$ 19.84	$ 7.71
Total number of options granted	1,186,200	1,829,200	1,113,500
Total fair value of all options granted	$ 22,431,000	$ 36,291,300	$ 8,585,100

CONCENTRATION OF CREDIT RISK. Financial instruments that subject the Company to credit risk consist principally of receivables from wholesale customers and franchisees and guarantees of leases and indebtedness of franchisees. Wholesale receivables are primarily from grocery and convenience stores. The Company performs ongoing credit evaluations of its customers' financial condition and maintains allowances for doubtful accounts which management believes are sufficient to provide for losses which may be sustained on realization of these receivables. The Company had one wholesale customer that accounted for approximately 13.3% and 10.6% of total company–owned store revenues in fiscal 2003 and 2004, respectively. In fiscal 2005, no customer accounted for more than 10% of total company–owned store revenues. The Company's two largest customers collectively accounted for approximately 19.2%, 14.9% and 11.4% of total company–owned stores revenues in fiscal 2003, 2004 and 2005, respectively. Accounts receivable for the two largest wholesale customers collectively accounted for approximately 22.4% and 21.0% of wholesale doughnut customer trade accounts receivable at February 1, 2004 and January 30, 2005, respectively. All of the foregoing percentages are computed based upon Company Stores segment revenues and receivables exclusive of sales and receivables of Consolidated Franchisees; revenues of Consolidated Franchisees accounted for 18.0%, 24.8% and 21.8% of total Company Stores revenues in fiscal 2003, 2004 and 2005, respectively, and receivables of Consolidated Franchisees accounted for 28.2% and 27.6% of wholesale doughnut customer trade receivables at February 1, 2004 and January 30, 2005, respectively.

The Company also evaluates the recoverability of receivables from its franchisees and maintains allowances for doubtful accounts which management believes are sufficient to provide for losses which may be sustained on realization of these receivables. In addition, the Company evaluates the likelihood of potential payments by the Company under loan and lease guarantees and records liabilities for the present value of any payments the Company considers probable. Receivables from franchisees and loan and lease guarantees are summarized in Note 19.

SELF–INSURANCE RISKS. The Company is subject to workers' compensation, vehicle and general liability claims. The Company is self–insured for the cost of all workers' compensation, vehicle and general liability claims up to the amount of stop–loss insurance coverage purchased by the Company from commercial insurance carriers. The Company maintains accruals for these self–insurance costs, the amounts of which are determined using actuarial methods which evaluate open claims and take into consideration estimated ongoing loss development exposure. The Company records receivables from the

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NOTES TO FINANCIAL STATEMENTS — (Continued)

insurance carriers for amounts estimated to be recovered under the stop–loss insurance policies. The Company provides health and medical benefits to eligible employees, and purchases stop–loss insurance from commercial insurance carriers which pays covered medical costs in excess of a specified annual amount incurred by each claimant.

DERIVATIVE FINANCIAL INSTRUMENTS AND DERIVATIVE COMMODITY INSTRUMENTS. The Company reflects derivative financial instruments, which consist primarily of interest rate derivatives and commodity futures contracts, in the consolidated balance sheet at their fair value. The difference between the cost, if any, and the fair value of the interest rate derivatives is reflected in income unless the derivative instrument qualifies as a cash flow hedge and is effective in offsetting future cash flows of the underlying hedged item, in which case such amount is reflected in other comprehensive income. The difference between the cost, if any, and the fair value of commodity derivatives is reflected in earnings because the Company historically has not designated these instruments as cash flow hedges.

FOREIGN CURRENCY TRANSLATION. The Company has an ownership interest in its franchisees in Australia, the United Kingdom, Mexico and Canada. The functional currency of each of these entities is the local currency. Assets and liabilities of those operations are translated into U.S. dollars using exchange rates as of the balance sheet date, and revenue and expenses are translated using the average exchange rates for the reporting period. The resulting cumulative translation adjustments are reported, net of income taxes, as a component of accumulated other comprehensive income. Transaction gains and losses resulting from remeasuring transactions denominated in currencies other than an entity's functional currency are included in other expense, net.

COMPREHENSIVE INCOME. Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("FAS 130"), requires that certain items, including foreign currency translation adjustments and mark–to–market adjustments on derivative contracts accounted for as cash flow hedges, which are not reflected in net income, be presented as components of comprehensive income. The cumulative amounts recognized by the Company are reflected in the consolidated balance sheet as accumulated other comprehensive income (loss), a component of shareholders' equity, and are summarized in the following table:

	Feb. 1, 2004 (restated)	Jan. 30, 2005
	(In thousands)	
Accumulated other comprehensive income (loss):		
Unrealized (loss) on cash flow hedges	$ (2,252)	$ (1,209)
Cumulative foreign currency translation adjustments	1,076	2,573
	(1,176)	1,364
Less: deferred income taxes	464	(568)
	$ (712)	$ 796

USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (Revised), "Share–Based Payment" ("FAS 123(R)"), a revision of Statement No. 123, "Accounting for Stock–Based Compensation" ("FAS 123"). FAS 123(R) requires the measurement of all stock–based payments to employees, including grants of employee stock options and stock purchase rights granted pursuant to certain employee stock purchase plans, using a fair–value based method and the recording of such expense in the Company's financial statements. Both the FASB and the Commission staff have issued interpretive guidance on the application of FAS123(R). The Company currently accounts for stock options using the intrinsic value method permitted by Accounting Principles Board Opinion No. 25, which results in the Company recording no compensation expense for stock options. The Company is required to adopt FAS 123(R) in the first quarter of fiscal 2007, but has not yet completed its evaluation of the effects of such adoption on the financial statements. Pro forma net income and earnings per share amounts for fiscal 2003 through 2005, computed as if the Company had used a fair–value based method similar to the methods required under FAS 123(R) to measure compensation expense for employee stock–based compensation awards, are set forth under "Stock–based compensation" above.

In November 2004, the FASB issued Statement No. 151, "Inventory Costs" ("FAS 151"), which amends the guidance in Accounting Research Bulletin No. 43, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). FAS 151 requires that those items be recognized as current period charges and that the allocation of fixed production overheads to the cost of converting work in process to finished goods be based on the normal capacity of the production facilities. The Company will adopt this statement in fiscal 2007, but adoption of this statement is not expected to have a material effect on the consolidated financial statements.

In February 2005, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 03–13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations" ("EITF 03–13"). EITF 03–13 provides guidance on how to evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from ongoing operations and the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. These evaluations affect the determination of whether the results of operations of a disposed component are reported as discontinued operations. EITF 03–13 is effective for fiscal years beginning after December 15, 2004. The Company will adopt this statement in fiscal 2006, but has not yet evaluated the extent to which adoption might affect the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("FAS 154") to replace Accounting Principles Board Opinion No. 20, "Accounting Changes" ("APB 20") and FAS 3, "Reporting Accounting Changes in Interim Periods." FAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections, and establishes retrospective application as the required method for reporting a change in accounting principle. FAS 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable, and for reporting a change when retrospective application is determined to be impracticable. FAS 154 also addresses the reporting of a correction of an error by restating previously issued financial statements. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt this pronouncement beginning in fiscal 2007.

Note 2 — Restatement of Financial Statements

In May 2004, a number of purported class action lawsuits alleging violations of the federal securities laws were commenced against the Company and certain of its officers and directors in federal court in

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

North Carolina. Subsequently, the Securities and Exchange Commission (the "Commission") began an informal inquiry concerning the Company, and the Company received requests for information from the Commission's Division of Corporation Finance, primarily directed at its franchise reacquisitions. In August 2004, the Company's Audit Committee engaged independent counsel to investigate a matter relating to a 2004 franchise reacquisition and to perform certain additional procedures requested by the Company's independent auditors. In September 2004, a shareholder derivative lawsuit was filed in federal court in North Carolina against certain current and former officers and directors of the Company and certain former franchisees who had sold their franchise to the Company; additional derivative lawsuits were filed in North Carolina state court in November 2004 and January 2005, and these cases have been consolidated with the federal derivative case. In October 2004, the Commission notified the Company that the Commission had entered a formal order of investigation of the Company. Also in October, the Company's Board of Directors elected two new independent directors and appointed them the members of a Special Committee to investigate the matters raised by the Commission, the allegations in the purported derivative lawsuits, issues raised by the Company's independent auditors and other matters relevant to the foregoing.

In the summer of 2004, at the request of its independent auditors, the Company began conducting a review of certain accounting matters including, but not limited to, matters relating to reacquisitions of franchises. In the fall of 2004, the Special Committee engaged its own counsel and accounting professionals to assist the Special Committee in conducting its investigation. On December 28, 2004, the Company's Board of Directors, in consultation with the Special Committee, concluded that the Company should restate certain previously issued financial statements to correct errors contained therein. The Company announced this decision on January 4, 2005, noting that the Company was continuing to review certain accounting matters including, but not limited to, the matters giving rise to the December 28, 2004 decision, and that the Special Committee's work was ongoing. On April 18, 2005, the Company announced additional restatement adjustments, and reported that it would not file its Annual Report on Form 10–K for fiscal 2005 until both its review of accounting matters and the investigation of the Special Committee were complete, and until the Company concluded discussions with the staff of the Commission's Division of Corporation Finance regarding certain accounting matters.

In August 2005, the Company's Board of Directors received the report of the Special Committee, a summary of which was filed as an exhibit to a Current Report on Form 8–K dated August 9, 2005. Following receipt of the report, the Company completed its review of accounting matters and concluded its discussions with the Commission staff. Based on the results of that accounting review, and on the Company's review and consideration of the report of the Special Committee, the Company concluded that additional adjustments should be made to previously issued financial statements. Such adjustments reflect the findings of the Special Committee arising from its investigation and the additional review performed by the Company, and correct errors made in the application of generally accepted accounting principles ("GAAP"). The accounting errors had the effect of overstating the Company's net income for fiscal 2003 and 2004 by approximately $2,420,000 and $8,524,000, respectively, and of overstating retained earnings as of the beginning of fiscal 2003 by approximately $5,457,000. All of the officers or employees of the Company who the Special Committee believed had any substantial involvement in or responsibility for the accounting errors are no longer employed by the Company.

As a result of the foregoing, the Company has restated its financial statements for fiscal 2003 and 2004. The restatement adjustments also affect periods prior to fiscal 2003; the effect of the restatement adjustments on such prior years has been reflected as an adjustment to the balance of retained earnings as of February 4, 2002, the first day of fiscal 2003. In addition, the restatement adjustments affect the first three quarters of fiscal 2005; the restated amounts for these quarters and for each quarter of fiscal 2004 are presented in Note 25.

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Except for items indicated as being presented "as originally reported," all amounts reflected in the accompanying financial statements and footnotes have been adjusted as necessary to give effect to the restatement adjustments.

Comparison of restated financial statements to financial statements as originally reported

The following table compares the Company's results of operations for fiscal 2003 and 2004 as originally reported with its results of operations for those years as restated. In addition, the restated amounts for fiscal 2004 also are presented as reclassified to reflect the results of operations of Montana Mills, which was acquired in April 2003, as a discontinued operation in accordance with FAS 144, "Accounting of the Impairment or Disposal of Long–Lived Assets." The reclassification of the results of operations of Montana Mills reflects the Company's decision in the first quarter of fiscal 2005 to sell Montana Mills. The Company closed twelve Montana Mills locations, and in November 2004 completed the sale of its remaining assets.

	Year Ended Feb. 2, 2003		Year Ended Feb. 1, 2004		
	As Originally Reported	As Restated	As Originally Reported	As Restated	As Reclassified
			(In thousands)		
Revenues	$ 491,549	$490,728	$ 665,592	$656,092	$ 649,345
Operating expenses:					
Direct operating expenses	381,489	380,644	507,396	501,885	493,650
General and administrative expenses	28,897	30,073	36,912	45,230	45,230
Depreciation and amortization expense	12,271	14,675	19,723	22,808	22,309
Arbitration award	9,075	9,075	(525)	(525)	(525)
Operating income	59,817	56,261	102,086	86,694	88,681
Interest income	1,966	1,966	921	921	906
Interest expense	(1,781)	(1,891)	(4,409)	(4,509)	(4,509)
Equity in losses of equity method franchisees	(2,008)	(2,088)	(1,836)	(2,242)	(2,242)
Minority interests in results of consolidated subsidiaries	(2,287)	(2,187)	(2,072)	(1,898)	(1,898)
Other income and (expense), net	(934)	(1,284)	(13)	2,053	2,053
Income from continuing operations before income taxes	54,773	50,777	94,677	81,019	82,991
Provision for income taxes	21,295	19,719	37,590	32,456	33,146
Income from continuing operations	33,478	31,058	57,087	48,563	49,845
Discontinued operations	—	—	—	—	(1,282)
Net income	$ 33,478	$ 31,058	$ 57,087	$ 48,563	$ 48,563
Earnings per common share — basic:					
Income from continuing operations	$ 0.61	$ 0.56	$ 0.96	$ 0.82	$ 0.84
Discontinued operations	—	—	—	—	(.02)
Net income	$ 0.61	$ 0.56	$ 0.96	$ 0.82	$ 0.82
Earnings per common share — diluted:					
Income from continuing operations	$ 0.56	$ 0.52	$ 0.92	$ 0.78	$ 0.80
Discontinued operations	—	—	—	—	(.02)
Net income	$ 0.56	$ 0.52	$ 0.92	$ 0.78	$ 0.78

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following table compares the Company's financial position as of February 1, 2004 as originally reported with its financial position as restated.

	Feb. 1, 2004	
	As Originally Reported	As Restated
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,029	$ 21,029
Receivables	46,213	45,576
Accounts and notes receivable — related parties	20,940	18,270
Inventories	28,864	29,821
Income taxes refundable	7,973	7,973
Deferred income taxes	6,453	7,405
Other current assets	7,172	7,421
Total current assets	138,644	137,495
Property and equipment	284,716	287,492
Non–current portion of notes receivable — related parties	7,609	6,561
Investments in equity method franchisees	12,426	14,584
Goodwill and other intangible assets	207,724	197,162
Deferred income taxes	—	2,941
Other assets	9,545	10,368
Total assets	$ 660,664	$ 656,603
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long–term debt	$ 2,861	$ 8,142
Book overdraft	8,123	8,123
Accounts payable	19,107	19,107
Accrued expenses	23,402	23,302
Total current liabilities	53,493	58,674
Long–term debt, less current maturities	135,056	137,114
Deferred income taxes	6,417	—
Other long–term obligations	11,168	22,258
Minority interest in consolidated franchisees	2,323	2,148
SHAREHOLDERS' EQUITY:		
Preferred stock	—	—
Common stock	294,477	294,477
Unearned compensation	(62)	(62)
Notes receivable secured by common stock	(383)	(383)
Accumulated other comprehensive loss	(1,315)	(712)
Retained earnings	159,490	143,089
Total shareholders' equity	452,207	436,409
Total liabilities and shareholders' equity	$ 660,664	$ 656,603

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following table compares the Company's cash flows for fiscal 2003 and 2004 as originally reported with its cash flows for those years as restated.

	Year Ended Feb. 2, 2003		Year Ended Feb. 1, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated
	(In thousands)			
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	$ 33,478	$ 31,058	$ 57,087	$ 48,563
Items not requiring cash:				
Depreciation and amortization	12,271	14,675	19,723	22,806
Deferred income taxes	1,632	56	1,643	(3,491)
Deferred rent expense	—	821	—	849
Loss on disposal of property and equipment	934	934	939	939
Provision for doubtful accounts, net of chargeoffs	271	271	(188)	(305)
Tax benefit from exercise of nonqualified stock options	13,795	13,795	42,806	35,771
Minority interest in results of consolidated franchisees	2,287	2,187	2,072	1,898
Equity in losses of equity method franchisees	2,008	2,088	1,836	2,242
Cash distributions from equity method franchisees	—	520	—	1,582
Other	67	417	67	(2,658)
Change in assets and liabilities:				
Receivables	(7,661)	(6,978)	(17,441)	(18,729)
Inventories	(7,866)	(8,516)	(3,804)	(4,068)
Other current assets	(331)	(331)	(1,047)	(965)
Income taxes	571	571	(6,010)	1,025
Accounts payable and accrued expenses	(254)	742	(5,773)	(7,117)
Other long-term obligations	(166)	(405)	3,643	4,323
Net cash provided by operating activities	51,036	51,905	95,553	82,665
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(83,196)	(81,696)	(79,649)	(78,316)
Proceeds from disposal of property and equipment	701	701	—	456
Proceeds from disposal of assets held for sale	1,435	1,435	—	—
Acquisition of franchisees and interests therein, net of cash acquired	(4,965)	(4,965)	(122,352)	(112,450)
Acquisition of Montana Mills, net of cash acquired	—	—	4,052	4,052
Investments in equity method franchisees	(7,869)	(8,399)	(7,377)	(7,958)
Purchases of investments	(32,739)	(32,739)	(6,000)	(6,000)
Proceeds from sales of investments	33,097	33,097	33,136	33,136
Issuance of notes receivable	—	—	(6,613)	(5,974)
Collection of notes receivable	1,590	1,590	1,147	5,302
Increase in other assets	(1,038)	(664)	(2,585)	(2,197)
Net cash used for investing activities	(92,984)	(91,640)	(186,241)	(169,949)
CASH FLOW FROM FINANCING ACTIVITIES:				
Proceeds from exercise of stock options	7,140	7,140	19,514	19,514
Proceeds from exercise of warrants	—	—	4	4
Issuance of short-term debt	—	—	55,000	55,000
Issuance of long-term debt	44,234	44,234	44,570	44,570
Repayment of short-term debt	—	—	(66,286)	(66,286)
Repayment of long-term debt	(2,170)	(4,383)	(46,892)	(50,296)
Net (repayments) borrowings from revolving lines of credit	(121)	(121)	79,712	79,712
Issuance of short-term debt — related party	—	—	2,350	2,350
Repayment of short-term debt — related party	(500)	(500)	(3,250)	(3,250)
Debt issuance costs	(194)	(194)	(921)	(921)
Net change in book overdraft	2,268	2,268	(3,252)	(3,252)
Collection of notes receivable secured by common stock	2,022	2,022	175	175
Cash paid to minority interests	(432)	(432)	(1,210)	(1,210)
Net cash provided by financing activities	52,247	50,034	79,514	76,110
Net increase (decrease) in cash and cash equivalents	10,299	10,299	(11,174)	(11,174)
Cash and cash equivalents at beginning of year	21,904	21,904	32,203	32,203
Cash and cash equivalents at end of year	$ 32,203	$ 32,203	$ 21,029	$ 21,029

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Effects of restatement adjustments

The restatement adjustments taken as a whole had the effect of reducing net income for fiscal 2003 and 2004 by $2,420,000 and $8,524,000, respectively ($.04 and $.14 per share diluted, respectively), and of reducing net income for years prior to fiscal 2003 by $5,457,000 in the aggregate. The restatement adjustments also affected earnings for the first nine months of fiscal 2005 as described in Note 25.

The following table summarizes the effects of the restatement adjustments on revenues, operating income and net income for fiscal 2003 and 2004, and on retained earnings as of February 4, 2002 (the first day of fiscal 2003). The effect of each adjustment on diluted earnings per share for fiscal 2003 and fiscal 2004 appears parenthetically for adjustments which affected diluted earnings per share in either year by at least $.01.

	Retained Earnings as of	Net Income Year Ended		Operating Income Year Ended		Revenues Year Ended	
	Feb. 4, 2002	Feb. 2, 2003	Feb. 1, 2004	Feb. 2, 2003	Feb. 1, 2004	Feb. 2, 2003	Feb. 1, 2004
				(In thousands)			
As originally reported	$68,925	$33,478	$57,087	$59,817	$102,086	$491,549	$665,592
Restatement adjustments:							
Revenue recognition on pre–acquisition sales to acquired franchisee ($.02 per share)	—	—	(1,113)	—	(1,840)	—	(6,134)
Revenue recognition on equipment sales ($.01 per share in fiscal 2004)	(52)	(192)	(703)	(317)	(1,163)	(967)	(2,119)
Equipment sales associated with franchise acquisition ($.01 per share)	—	—	(365)	—	(604)	—	(744)
Compensation expense associated with acquired franchises ($.04 per share)	—	—	(2,663)	—	(4,401)	—	—
Acquisition premium paid to owner of acquired franchise ($.02 per share)	—	—	(1,130)	—	(1,867)	—	—
Management fee associated with acquired franchise ($.01 per share)	—	—	(361)	—	(597)	—	—
Other payments associated with acquired franchise ($.01 per share)	—	—	(694)	—	(1,147)	—	—
Lease and depreciation accounting ($.01 per share in fiscal 2003 and $.01 per share in fiscal 2004)	(1,970)	(785)	(924)	(1,296)	(1,526)	—	—
Commodity futures contracts ($.01 per share in fiscal 2004)	(25)	(78)	726	(129)	1,200	—	—
Intercompany profit on sales of equipment ($.01 per share in fiscal 2003 and $.01 per share in fiscal 2004)	(523)	(499)	(448)	(825)	(741)	—	—
Vacation pay	(1,749)	(173)	(175)	(285)	(290)	—	—
Elimination of initial franchise fees charged to equity method franchisees	(59)	(89)	(207)	(147)	(342)	—	—
Capitalized trademark costs	(167)	(226)	(235)	(374)	(388)	—	—
Charitable contributions ($.01 per share in 2003)	(343)	(324)	(16)	(535)	(27)	—	—
Equipment loss provision ($.01 per share)	—	—	(628)	—	(1,039)	—	—
Sale of stores to franchisee ($.03 per share)	—	—	1,649	—	—	—	—
Foreign currency translation and transactions ($.01 per share)	—	—	(659)	—	—	—	—
Contingent proceeds related to sale of franchise	(394)	(212)	—	—	—	—	—
Other adjustments	(175)	158	(578)	352	(620)	146	(503)
Total adjustments	(5,457)	(2,420)	(8,524)	(3,556)	(15,392)	(821)	(9,500)
As restated	63,468	31,058	48,563	56,261	86,694	490,728	656,092
Reclassification of Montana Mills to discontinued operations	—	—	—	—	1,987	—	(6,747)
As reclassified	$63,468	$31,058	$48,563	$56,261	$ 88,681	$490,728	$649,345

Description of restatement adjustments

Set forth below is a description of the restatement adjustments reflected in the restatement of previously issued financial statements, each of which corrects an "error" within the meaning of APB 20. The nature and effect of restatement adjustments, some of which affected only interim periods of fiscal 2004 or 2005, on the results of operations for interim periods of such years, are disclosed in Note 25.

Revenue Recognition on Pre–Acquisition Sales to Acquired Franchisee

In mid–January 2003, the Company signed an initial letter of intent to acquire the franchise operations in Michigan from the area developer for that region. Subsequently, the Company terminated acquisition negotiations because of pending litigation between the franchisee and a third party. In August 2003, following agreement between the franchisee and the third party to settle the litigation, the Company signed a new letter of intent to acquire the franchise and proceeded with negotiation of a definitive agreement, which culminated in the Company's acquisition of the Michigan franchise in late October 2003. During the period from January 2003 through the acquisition date, the Company's receivables from the franchisee arising from royalties and from sales of equipment, doughnut mix and other products rose steadily. The increase in receivables from the franchisee occurred principally because payments on such receivables were received sporadically (and ceased altogether approximately seven weeks prior to the consummation of the acquisition). In certain instances, the Company expressly permitted the franchisee to defer payment of receivables beyond the Company's normal sales terms. Ultimately, the outstanding receivables, a substantial majority of which were past due, were paid simultaneously with the consummation of the acquisition, in substantial part using a portion of the cash component of the purchase price paid by the Company.

The Company has concluded that the facts and circumstances that existed from mid–January 2003 through the date of the Michigan acquisition, including information discovered during the Special Committee's investigation, indicate that the substance of the Company's relationship with the franchisee was not one between a seller and a purchaser of goods and services, but rather a relationship in which the Company effectively made investments in the franchisee by financing the franchisee's working capital needs. As a consequence, the Company has reversed the revenue from shipments to the franchisee during the first three quarters of fiscal 2004, and has recorded the cost of those shipments as advances to the franchisee.

Accordingly, the Company has recorded restatement adjustments to reverse $6,134,000 of revenues and related costs totaling $4,294,000 associated with shipments to the Michigan franchisee in fiscal 2004, and to reduce the goodwill recorded in connection with the acquisition by the $1,840,000 of gross profit which has been derecognized.

Revenue Recognition on Equipment Sales

The Company sells doughnut making equipment to its franchisees, including the production equipment installed in each factory store, certain optional equipment, and replacement parts. When the Company sells a package of equipment to equip a new franchisee store, the Company also contracts with the franchisee to install and test the equipment. The Company also often sells equipment not related to a store opening on an installed basis. The Company historically recognized equipment sale revenue when the equipment was delivered to the franchisee's location, and recognized installation revenues upon completion of the installation.

The Company has concluded that the fair value of the equipment and the installation services could not objectively be determined separately from the other initial services provided to franchisees in connection with store openings. As a result, FAS 45, "Accounting for Franchise Fee Revenue," requires that all initial fees related to a new franchisee store, including fees related to the sale of equipment and installation, be recognized when all services have been substantially performed, which is generally upon store opening. Accordingly, the Company has recorded restatement adjustments to defer the recognition of revenue related to equipment sales and installation associated with new store openings until the date on which the store opened.

In addition, the Company has concluded that in instances where equipment was sold along with installation services but not in connection with a new store opening, under the provisions of Emerging Issues Task Force ("EITF") Issue 00–21, the sale of the equipment and the related installation services should be considered a single unit of accounting because the equipment does not have standalone value (as defined in EITF Issue 00–21) separate from its installation and because there is not objective and reliable evidence of the fair value of the installation services. In addition, SEC Staff Accounting Bulletin 104, "Revenue Recognition" ("SAB 104") provides that revenue should be recognized for that single unit of accounting when delivery has occurred or services have been rendered, and provides that revenue may be recognized when the seller has unfulfilled obligations only if such obligations are inconsequential or perfunctory. The Company has concluded that the installation services are not inconsequential or perfunctory because customers were not required to pay for either the equipment or the installation services until the installation was completed. Accordingly, revenue for the equipment and installation services should have been deferred until the installation was completed, and the Company has recorded restatement adjustments to defer the recognition of those equipment sales and installation services until the date on which the equipment was installed.

Finally, facts and circumstances discovered during the Special Committee investigation indicated that there were instances in which the Company shipped equipment to certain franchisees when there was not persuasive evidence of an arrangement, including transactions for which the franchisees did not execute certain financing agreements related to the purchase of such equipment, and in which franchisees were granted general rights of return relating to the purchased equipment. SAB 104 requires that for revenue to be recognized there must be persuasive evidence of an arrangement between the parties and the customer must have accepted the product. In certain instances, the customer did not accept the product, and the failure of customers to execute agreements relating to the sale indicate there was not persuasive evidence of an arrangement. Accordingly, the Company has recorded restatement adjustments to reverse the revenues recorded on these transactions.

Equipment Sales Associated With Franchise Acquisitions

As part of the negotiations associated with its acquisition of the Dallas franchise in fiscal 2004, the Company agreed to include in the purchase price for such acquisition an additional amount approximately the same as the amount invoiced to the franchisee for certain equipment purchased from the Company shortly before the acquisition. Such additional amount, which included the profit on the sale, was accounted for as part of the cost of the acquired franchise. Based on a review of the facts and circumstances surrounding these transactions, including information discovered during the Special Committee's investigation, the Company now has concluded that there was not an economic sale of the equipment because the Company effectively agreed to provide the funds to pay for the equipment and reacquired the equipment as part of the franchise acquisition. Accordingly, the Company has recorded restatement adjustments in fiscal 2004 to reverse $744,000 of KKM&D revenues and $140,000 of related costs associated with these transactions, and to reduce property and equipment by $604,000.

Compensation Expense Associated With Acquired Franchises

During fiscal 2004, the Company acquired the Michigan franchise operation and the minority interest in the Northern California franchise operation. Pursuant to the acquisition agreements, certain owners of the Michigan and Northern California operations who were employed by the Company either before or after the acquisitions received consideration for their ownership interests that was disproportionately greater than the consideration received by other owners who were not employees of the Company. In one instance, the amount of such consideration varied based upon the future financial performance of the acquired entity. Initially, the entire amount of disproportionate consideration was accounted for as part of the purchase price of the acquired business, which resulted in the disproportionate consideration being recorded as goodwill. Based on a review of the facts and circumstances surrounding the disproportionate consideration, including information discovered during the Special Committee's investigation, the Company now has determined that all, or a substantial portion, of the disproportionate consideration paid was dependent upon the selling owners rendering services to the Company following the date of the acquisition or was otherwise related to their employment by the Company. In such circumstances, EITF Issue 95–8, "Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination," requires such disproportionate consideration to be accounted for as compensation expense.

Accordingly, the Company has recorded restatement adjustments to reduce goodwill and charge to general and administrative expense $4.4 million of compensation expense in fiscal 2004.

Acquisition Premium Paid to Owner of Acquired Franchise

In fiscal 2004, the Company acquired the 33% minority interest in the Northern California franchise. Pursuant to an agreement executed in fiscal 2001 with the owner of 5% of the Northern California franchise, the Company had the option to acquire that owner's 5% interest in the franchise for an amount which was less than the proportionate consideration which would have been paid to that owner based upon the consideration paid to the other minority owners of the franchise. Notwithstanding the agreement, the Company paid this owner proportionately the same amount as the Company paid to other selling owners, which was $1,867,000 in excess of the price under the 2001 option agreement. The Company accounted for the entire amount paid to the owner as consideration for his interest in the franchise. Based on an analogy to FASB Technical Bulletin 85–6, "Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares" ("FTB 85–6"), GAAP requires this excess to be accounted for as an expense because, based upon a review of the relevant facts, including information discovered by the Special Committee's investigation, the excess payment related to stated and unstated rights, privileges or agreements unrelated to the acquisition. Accordingly, the Company has recorded a restatement adjustment in the fourth quarter of fiscal 2004 to reduce goodwill by $1,867,000 and charge this amount to general and administrative expense.

Management Fee Associated With Acquired Franchise

In connection with its acquisition of the 33% minority interest in the Northern California franchise in January 2004, the Company negotiated a management fee payable to the Company from the most significant minority owner, who was the principal operating executive of the franchise and who left the employ of the franchise prior to the acquisition. Such fee was intended to compensate the Company for its costs of assuming operating responsibility for the franchise before the consummation of the acquisition and while the minority owner continued to share in the franchise's profits. While the minority owner paid the $597,000 fee to the Company, the cash for such payment was obtained from a capital withdrawal from the franchise by the minority owner without a corresponding reduction in the purchase price paid to the minority owner for his interest.

Based on a review of the facts and circumstances surrounding this transaction, including information discovered during the Special Committee's investigation, the Company has concluded that the payment of the management fee should not have been recorded as income and should have been recorded as a

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

reduction of the franchise purchase price because there was no economic substance to the fee arrangement. Accordingly, the Company has recorded a restatement adjustment in fiscal 2004 to reduce Company Stores direct operating expenses and reduce goodwill recorded in the acquisition by $597,000.

Other Payments Associated With Acquired Franchise

In connection with the acquisition of the Michigan franchise in 2004, the franchisee paid the Company $535,000, consisting of interest on past due amounts owed to the Company and reimbursement for certain legal costs incurred by the Company. The franchisee paid this amount simultaneously with the Company's acquisition of the franchise. The Company recorded the amount received as interest income and as a reduction in professional fees expense.

In connection with the Company's review of accounting matters, a reexamination of certain documents revealed that the Company increased the purchase price it paid for the Michigan franchise by approximately $535,000, which resulted in an additional allocation of purchase price to goodwill. The Company now has concluded that GAAP does not permit recording the receipt of the $535,000 as interest income and the reduction in legal expense because the payment of these amounts by the franchisee lacked economic substance; effectively, these amounts were paid to the Company with its own funds, and the franchisee would not have agreed to pay the amount had the Company not agreed to reimburse the franchisee by increasing the purchase price.

Accordingly, the Company has recorded a restatement adjustment in fiscal 2004 of $512,000 (which amount reflects a post–acquisition adjustment to the $535,000 originally credited to earnings) to reduce the amount of goodwill recorded in the acquisition, with a corresponding charge to general and administrative expenses.

In addition, pursuant to the acquisition agreement, the Company reimbursed the franchisee for costs it incurred in terminating a lease agreement for a store closed prior to the acquisition. The lease termination costs would have been incurred by the Company had the store been closed post–acquisition, and would have been included in the cost of the acquired business, which was the accounting treatment appropriately applied to the reimbursement by the Company. However, in connection with the Special Committee investigation, the Company examined documents which showed that the Company paid $950,000 in lease termination costs for the store, even though the actual cost to the franchisee of terminating the lease was $390,000. In addition, the Company paid the franchisee an additional $75,000 for unknown reasons in connection with the settlement of the lease reimbursement obligation. Based on analogy to FASB Technical Bulletin 85–6, the Company has concluded that the total excess payments of $635,000 should have been charged to expense rather than been treated as a cost of acquiring the franchise, because the excess payment related to unstated rights, privileges or agreements unrelated to the acquisition. Accordingly, the Company has recorded restatement adjustments to reduce the goodwill recorded in the acquisition by $635,000 and to reflect the same amount in general and administrative expenses.

Lease and Depreciation Accounting

The Company leases a substantial number of properties on which significant improvements have been made. In late calendar 2004, in response to announced restatements of financial statements by a number of restaurant companies, the Company began reviewing its accounting practices for leases and depreciation of related assets to determine whether or not those practices fully complied with GAAP. Upon completion of the review, the Company concluded that its accounting practices were not in accordance with GAAP in three respects. First, in certain instances the Company erroneously depreciated leasehold improvements, including buildings on leased land, over periods in excess of the term of the related lease, which is not permitted by Statement of Financial Accounting Standards No. 13, "Accounting for Leases" ("FAS 13").

Second, in certain instances the Company failed to record rent expense on a straight line basis over the lease term, which is required by FAS 13 and by FASB Technical Bulletin 85–3, "Accounting for Operating Leases with Scheduled Rent Increases." And third, the Company identified a lease agreement related to delivery trucks that had been accounted for as an operating lease but which should have been accounted for as a capital lease.

Accordingly, the Company has recorded restatement adjustments to increase rent expense and record deferred rent liabilities and to increase depreciation expense and reduce the net carrying amount of property and equipment. In addition, the Company has recorded restatement adjustments to record the leased vehicles as assets and the related capital lease obligation as a component of indebtedness, to record the related depreciation and interest expense on those assets and obligations, and to reverse the previously recorded rent expense.

Commodity Futures Contracts

The Company periodically enters into exchange–traded commodities futures contracts which require the Company to pay a fixed price for a specified quantity of a specific raw material. Rather than cash settling these futures contracts at their maturity, the Company typically assigns the futures contracts to a raw material supplier in connection with the execution of a forward purchase agreement with the supplier. At the date of assignment, the supplier assumes all the rights and obligations under the futures contract, and the supplier and the Company enter into a purchase agreement for raw materials under which the price to be paid by the Company for the raw materials is fixed at the then current market price, plus or minus the unrealized loss or gain on the futures contract on the date of assignment (combined, the "Contract Price"). Historically, the Company did not account for the exchange–traded futures contracts as derivatives under FAS 133, "Accounting for Derivative Instruments and Hedging Activities." Instead, the Company gave no accounting treatment to the futures contracts and recorded the raw materials purchased from the supplier at the Contract Price paid to the supplier upon the purchase of the raw materials.

This accounting practice does not conform to FAS 133, which requires that all derivatives that are not properly designated and documented as hedges be carried on the Company's consolidated balance sheet at fair value, with changes in fair value reflected in earnings. Accordingly, the Company has recorded restatement adjustments to record all exchange–traded future contracts at their fair value when purchased (such fair value being zero at that date) and to record subsequent changes in fair value as a charge or credit to earnings until the contracts are assigned to the supplier. Until the Company acquires the raw materials from the supplier, the fair value of each futures contract at the date of assignment remains on the Company's consolidated balance sheet as an asset or liability.

Intercompany Profit on Sales of Equipment

The Company manufactures doughnut–making equipment which it sells at a profit to Company–owned stores, including stores owned by Consolidated Franchisees, to Equity Method Franchisees and to franchisees in which the Company has no ownership interest. The Company eliminates in consolidation 100% of the profit on sales of equipment to Company–owned stores and to Consolidated Franchisees, and eliminates the profit on equipment sales to Equity Method franchisees to the extent of the Company's ownership interest in the franchisee.

During its review of accounting matters, the Company discovered errors in its computations of intercompany profit which had the effect of understating the amount of intercompany profit eliminated on sales of equipment. Accordingly, the Company has recorded restatement adjustments to increase the amount of intercompany profit eliminated on these transactions.

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Vacation pay

The Company provides vacation benefits to all full–time employees, subject to length of service requirements, and vacation time earned in a fiscal year is taken in the subsequent year. FAS 43, "Accounting for Compensated Absences," requires that accruals be recorded for vacation pay earned and not yet taken, but the Company in most instances did not do so. Accordingly, the Company has recorded restatement adjustments to record vacation pay accruals in the period in which the benefit is earned by employees.

Elimination of Initial Franchise Fees Charged to Equity Method Franchisees

The Company charges an initial franchise fee to Consolidated Franchisees, to Equity Method Franchisees and to franchisees in which the Company has no ownership interest. The Company eliminates 100% of the revenues related to Consolidated Franchisees; under the provisions of ARB 51, the Company also should have eliminated these revenues charged to Equity Method Franchisees to the extent of the Company's ownership interest in the franchisee, but the Company failed to do so.

Accordingly, the Company has recorded restatement adjustments to eliminate initial franchise fees charged to Equity Method Franchisees to the extent of the Company's ownership interest in such franchisees.

Capitalized Trademark Costs

The Company historically capitalized and amortized over five years certain professional fees paid for the maintenance and protection of the Company's trademarks. Following a review of the nature of the costs incurred, the Company concluded that these costs did not represent assets and should have been expensed as incurred.

Accordingly, the Company has recorded restatement adjustments to charge these costs to expense when they were incurred, and to eliminate the related deferred charges and reverse the amortization of such charges.

Charitable Contributions

The Company made multi–year pledges of financial support to charitable and educational organizations and accounted for the related contributions expense in the years in which the pledges were paid. The Company has recorded restatement adjustments to record contributions expense and the related liabilities when the pledges were made rather than when they were paid, as required by FAS 116, "Accounting for Contributions Received and Contributions Made."

Equipment Loss Provision

In the first quarter of fiscal 2005, the Company recorded a loss provision related to the abandonment of certain defective beverage equipment previously used by the Company and the issuance of credit to certain franchisees that purchased the equipment from the Company for use in franchised stores. Based upon the discovery of additional information regarding the timing of the decision to abandon the equipment, the Company has determined that the loss provision should have been recorded in the second and fourth quarters of fiscal 2004 rather than in fiscal 2005.

Accordingly, the Company has recorded restatement adjustments to record loss provisions of $174,000 and $865,000 in the second and fourth quarters of fiscal 2004, and to reverse the charge of $1,039,000 recorded in the first quarter of fiscal 2005.

KRISPY KREME DOUGHNUTS, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Sale of Stores to Franchisee

Effective February 3, 2003, the Company sold three stores to a franchisee in which the Company has a 35.3% ownership interest. The consideration received for the stores consisted of notes bearing interest at 8.5% and having a principal balance equal to the carrying value of the assets sold, plus the right to receive a fixed annual cash distribution from the franchisee in perpetuity, payable weekly; such annual distribution equaled a substantial majority of the profits historically earned by the divested stores, and was payable without regard to the profitability of either the franchisee or any individual divested store. The Company did not include as part of the sales proceeds the fair value of the right to receive the annual distribution, which resulted in no gain or loss being recognized on the transaction, and recorded amounts received under the fixed annual distribution as income when such amounts were received.

GAAP requires that the fair value of the right to receive the fixed annual cash distribution from the franchisee be recognized as a part of the consideration received on the sale of the stores, and that the resulting gain be recognized in earnings to the extent of other investors' ownership interest in the purchaser. Accordingly, the Company has recorded restatement adjustments to reflect a gain on the sale of approximately $2,725,000 as a component of "Other income and expense, net" in the consolidated statement of operations for fiscal 2004, and to reflect the same amount as an investment in the franchisee in the consolidated balance sheet. These adjustments resulted in a reduction in income recognized related to the fixed annual distribution in periods after the sale. In addition, as a result of a change in the financial condition of the franchisee, the Company recorded a restatement adjustment of approximately $1,545,000 in the third quarter of fiscal 2005 to reduce the carrying value of the investment in the franchisee to its then estimated fair value; such charge is included in "Other income and expense, net" in the consolidated statement of operations for fiscal 2005.

Foreign Currency Translation and Transactions

In connection with its review of accounting matters, the Company discovered certain accounting errors associated with the translation of financial statements of foreign subsidiaries and with accounting for transactions not denominated in United States dollars, and accordingly has recorded restatement adjustments to correct those errors. Such restatement adjustments had the effect of recording in earnings certain transactions which erroneously had been recorded as a component of the cumulative translation adjustment, which is an element of accumulated other comprehensive income included in shareholders' equity.

Contingent Proceeds Related to Sale of Franchise

In fiscal 2001, the Company sold a 66.67% interest in the greater New York City franchise, which the Company had acquired in its entirety earlier in the same year, and reported no gain or loss on the sale. Included in the sales proceeds at its face amount was a $1 million note, payment of which was contingent upon the franchise achieving minimum earnings levels in the years following the sale. GAAP requires that the note be recorded at its fair value when it was issued, and such fair value was less than its face amount because the payment of principal and interest on the note was contingent upon the occurrence of future events.

By not later than the end of fiscal 2003, events had occurred which reduced the likelihood that the franchise would achieve the level of earnings necessary to require the purchaser to pay the note, but no provisions were recorded to reduce the carrying amount of the note to reflect the decreased probability of its collection until the second quarter of fiscal 2005, when the Company established a $500,000 reserve against the note.

Accordingly, the Company has recorded a restatement adjustment in fiscal 2001 to reduce the carrying value of the note to its estimated fair value at issuance of $700,000; the resulting $300,000 loss on the sale of the franchise has been included in other non–operating expenses in the consolidated statement of operations for fiscal 2001. In addition, the Company has recorded a provision in other non–operating expenses of $350,000 in each of fiscal 2002 and 2003 to reduce the note to its estimated net realizable value, and reversed the provision of $500,000 initially recorded in the second quarter of fiscal 2005. (The statements of operations for fiscal 2001 and 2002 are not presented herein. The adjustments to fiscal 2001 and 2002 described above have been reflected, net of income taxes, as a component of the reduction in opening retained earnings for fiscal 2003 in the accompanying financial statements.)

Other Restatement Adjustments

In connection with its review of accounting practices, the Company determined that certain expense accruals recorded in interim periods were not appropriate, and that other annual costs and expenses were incorrectly allocated among interim periods. Accordingly, the Company has recorded restatement adjustments to reverse certain accruals in interim periods for which there was not sufficient documentation and to allocate correctly other costs and expenses among interim periods.

In addition, the Company has recorded additional restatement adjustments to correct various other errors, including not only errors identified in connection with the Company's review of accounting practices, but also known errors which had not previously been corrected because the effect of the errors was not material to the financial statements.

Note 3 — Business Conditions, Uncertainties and Liquidity

The Company incurred a net loss of $198.3 million in fiscal 2005. During the year, the Company experienced first a slowing in the rate of growth in sales in its Company Stores segment and, later in the year, declines in sales compared to the comparable periods of fiscal 2004. The Company's Franchise and KKM&D segments experienced sales trends similar to those experienced in the Company Stores segment. These trends adversely affected operating margins in all three segments. Also during the year, litigation was commenced against the Company and certain current and former officers and directors, and investigations of the Company were initiated by the Commission and the United States Attorney for the Southern District of New York, as described in Notes 2 and 13. In October 2004, the Company's Board of Directors appointed a Special Committee to conduct an independent investigation of certain matters, including accounting matters, which also is more fully described in Note 2.

The loss incurred in fiscal 2005 reflects impairment charges of approximately $159.0 million related to goodwill, other intangible assets and property and equipment associated with the Company Stores business segment, and approximately $35.1 million related to the Company's discontinued Montana Mills segment (see Notes 14 and 24). In addition, the Company incurred substantial expenses to defend the Company and its officers and directors in connection with pending litigation, to cooperate with the investigations of the Special Committee, the Commission and the United States Attorney, to undertake the Company's internal investigation of accounting matters, and to indemnify certain current and former officers and directors for certain legal and other expenses incurred by them. These expenses will, in the aggregate, be significantly greater in fiscal 2006 than in fiscal 2005, and could be substantial in later years.

In January 2005, the Company's Chairman, President and Chief Executive Officer retired, and the Board of Directors engaged Kroll Zolfo Cooper LLC ("KZC"), a corporate recovery and advisory firm, to provide interim executive management services to the Company. Since the appointment of KZC, the Company has undertaken a number of initiatives designed to improve the Company's operating results and financial position. Such initiatives include closing a substantial number of underperforming stores, reducing corporate overhead and other costs to bring them more in line with the Company's current level of operations, recruiting new management personnel for certain positions, obtaining the Secured Credit Facilities as described in Note 11, restructuring certain financial arrangements associated with franchisees in which the Company has an ownership interest and with respect to which the Company has financial guarantee obligations as described in Note 19 and selling certain non–strategic assets. The fees paid to KZC for its work subsequent to January 30, 2005 have been substantial. In addition, the Company issued to KZC a warrant to acquire 1.2 million shares of the Company's common stock as described in Note 17.

In addition to the foregoing, a committee of the Company's board of directors conducted a search for a new chief executive officer to lead the Company on a permanent basis. On March 7, 2006, the Company announced the appointment, effective immediately, of a new chief executive officer having over 20 years experience in the food industry and with particular experience in consumer packaged goods.

While the Company believes that these actions taken since January 2005 have enhanced the likelihood that the Company will be able to improve its business, the Company remains subject to a number of risks, many of which are not within the control of the Company. Among the more significant of those risks are pending litigation and governmental investigations, the outcome of which cannot be predicted, the costs of defending such litigation and cooperating with such investigations, and the magnitude of indemnification expenses which the Company will incur under indemnification provisions of North Carolina law, the Company's bylaws and certain indemnification agreements. Any of these risks could cause the Company's operations to fail to improve or to continue to erode.

For the year ended January 29, 2006 (fiscal 2006), the Company's revenues declined significantly from fiscal 2005 revenues reflecting, among other things, lower revenues at KKM&D, store closures (including closures by Consolidated Franchisees) and lower revenues at remaining stores. The Company incurred a loss in fiscal 2006 and expects that cash flows from operating activities will decline in fiscal 2006 from the approximately $85 million reported for fiscal 2005.

In order to fund its business and potential indemnification obligations, including the payment of legal expenses, the Company is dependent upon its ability to generate cash from operations, continued access to external financing and the availability of proceeds from its directors' and officers' insurance. The insurance carriers that provide the Company's directors' and officers' liability policies may seek to rescind or deny coverage with respect to pending investigations and actions, or the Company may not have sufficient coverage under such policies. If the insurance companies are successful in rescinding or denying coverage to the Company and/or some of its current and former directors, officers and employees, or if the Company does not have sufficient coverage under its policies, the Company's business, results of operations and financial condition may be adversely affected.

The Company's principal source of external financing is its Secured Credit Facilities. These facilities contain significant financial and other covenants, as described in Note 11. Failure to generate sufficient earnings to comply with these financial covenants, or the occurrence or failure to occur of certain events, would cause the Company to default under the Secured Credit Facilities. In the absence of a waiver of, or forbearance with respect to, any such default from the Company's lenders, the Company could be obligated to repay outstanding indebtedness under the facilities, and the Company's ability to access additional borrowings under the facilities would be restricted.

The Company borrowed $120 million under these facilities in April 2005, and borrowings outstanding under the facilities were $119.4 million as of January 29, 2006. The facilities contain covenants which limit the total indebtedness of the Company and limit the Company's ability to obtain borrowings under the facilities, as described in Note 11.

The Company believes that it will have sufficient access to credit under the Secured Credit Facilities to continue the restructuring of the Company's business, and that it will be able to comply with the covenants contained in such facilities. The financial covenants contained in such facilities are based upon

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the Company's fiscal 2007 operating plan which includes, among other things, anticipated sales of certain assets and reductions in the amount of indebtedness and other obligations of franchisees guaranteed by the Company. There can be no assurance that the Company will be able to comply with the financial and other covenants in these facilities. In the event the Company were to fail to comply with one or more such covenants, the Company would attempt to negotiate waivers of any such noncompliance. There can be no assurance that the Company will be able to negotiate any such waivers, and the costs or conditions associated with any such waivers could be significant.

In the event that credit under the Secured Credit Facilities were not available to the Company, there can be no assurance that alternative sources of credit will be available to the Company or, if they are available, under what terms or at what cost. Until such time as the Company is current in filing with the Commission all periodic reports required to be filed by the Company under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company will not be able to obtain capital by issuing any security whose registration would be required under the Securities Act of 1933. The Company has not filed its Quarterly Reports on Form 10–Q for the third quarter of fiscal 2005 or for the first three quarters of fiscal 2006 or its annual report on Form 10–K for fiscal 2006. While the Company is working diligently to complete these filings, there can be no assurance as to when the Company will be current in its Exchange Act reporting obligations.