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KRISPY KREME DOUGHNUTS, INC.

As the millennium began, the future for Krispy Kreme Doughnuts, Inc. (Krispy Kreme), smelled sweet. Not only could the company boast iconic status and a nearly cult-like following, it had quickly become a darling of Wall Street. Less than a year after its initial public offering, in April 2000, Krispy Kreme shares were selling for 62 times earnings and, by 2003, *Fortune* magazine had dubbed the company "the hottest brand in America." With ambitious plans to open 500 doughnut shops over the first half of the decade, the company's distinctive green-and-red vintage logo and unmistakable "Hot Doughnuts Now" neon sign had become ubiquitous.

At the end of 2004, however, the sweet story had begun to sour as the company made several accounting revelations, after which its stock price sank. From its peak in August 2003, Krispy Kreme's stock price plummeted more than 80% over the next 16 months. Investors and analysts began asking probing questions about the company's fundamentals, but even by the beginning of 2005, many of those questions remained unanswered. **Exhibits 1** and **2** provide Krispy Kreme's financial statements for fiscal years 2000 through 2004. Was this a healthy company? What had happened to the company that some had thought would become the next Starbucks? If almost everyone loved the doughnuts, why were so many investors fleeing the popular doughnut maker?

Company Background

Krispy Kreme began as a single doughnut shop in Winston-Salem, North Carolina, in 1937, when Vernon Rudolph, who had acquired the company's special doughnut recipe from a French chef in New Orleans, started making and selling doughnuts wholesale to supermarkets. Within a short time, Rudolph's products became so popular that he cut a hole in his factory's wall to sell directly to customers—thus was born the central Krispy Kreme retail concept: the factory store. By the late 1950s, Krispy Kreme had 29 shops in 12 states, many of which were operated by franchisees.

This case was prepared by Sean Carr (MBA '03), under the direction of Robert F. Bruner of the Darden Graduate School of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.

After Rudolph's death, in 1973, Beatrice Foods bought the company and quickly expanded it to more than 100 locations. Beatrice introduced other products, such as soups and sandwiches, and cut costs by changing the appearance of the stores and substituting cheaper ingredients in the doughnut mixture. The business languished, however, and by the early 1980s, Beatrice put the company up for sale.

A group of franchisees led by Joseph McAleer, who had been the first Krispy Kreme franchisee, completed a leveraged buyout of the company for $24 million in 1982. McAleer brought back the original doughnut formula and the company's traditional logo. It was also around this time that the company introduced the "Hot Doughnuts Now" neon sign, which told customers when fresh doughnuts were coming off the line. The company still struggled for a while, but by 1989, Krispy Kreme had become debt-free and had slowly begun to expand. The company focused on its signature doughnuts and added branded coffee in 1996. Scott Livengood, who became CEO in 1998 and chairman the following year, took the company public in April 2000 in what was one of the largest initial public offerings (IPO) in recent years; one day after the offering, Krispy Kreme's share price was $40.63, giving the firm a market capitalization of nearly $500 million.

Krispy Kreme's Business

After the company's IPO, Krispy Kreme announced an aggressive strategy to expand the number of stores from 144 to 500 over the next five years. In addition, the company planned to grow internationally, with 32 locations planned for Canada and more for the United Kingdom, Mexico, and Australia. **Exhibit 3** provides an overview of the company's store openings.

Krispy Kreme generated revenues through four primary sources: on-premises retail sales at company-owned stores (accounting for 27% of revenues); off-premises sales to grocery and convenience stores (40%); manufacturing and distribution of product mix and machinery (29%); and franchisee royalties and fees (4%). In addition to the traditional domestic retail locations, the company sought growth through smaller "satellite concepts," which relied on factory stores to provide doughnuts for reheating, as well as the development of the international market.

- *On-premises sales*: Each factory store allowed consumers to see the production of doughnuts; Krispy Kreme's custom machinery and doughnut-viewing areas created what the company called a "doughnut theater." In that way, Krispy Kreme attempted to differentiate itself from its competition by offering customers an experience rather than simply a product. Each factory store could produce between 4,000 dozen and 10,000 dozen doughnuts a day, which were sold both on- and off-premises.

- *Off-premises sales*: About 60% of off-premises sales were to grocery stores, both in stand-alone cases and on store shelves. The remainder were sold to convenience stores (a small percentage were also sold as private label). The company maintained a fleet of delivery trucks for off-premises sales.
- *Manufacturing and distribution*: Krispy Kreme's Manufacturing and Distribution (KKM&D) division provided the proprietary doughnut mixes and doughnut-making equipment to every company-owned and franchised factory store. This vertical integration allowed the company to maintain quality control and product consistency throughout the system. The company maintained its own manufacturing facilities for its mixes and machines, and it provided quarterly service for all system units. All franchisees were required to buy mix and equipment from Krispy Kreme. KKM&D also included the company's coffee-roasting operation, which supplied branded drip coffee to both company-owned and franchised stores.
- *Franchise royalties and fees*: In exchange for an initial franchise fee and annual royalties, franchisees received assistance from Krispy Kreme with operations, advertising and marketing, accounting, and other information-management systems. Franchisees that had relationships with the company before the IPO in 2000 were called associates, and they typically had locations in heritage markets in the southeastern United States. Associates were not responsible for opening new stores. New franchisees were called area developers, and they were responsible for developing new sites and building in markets with high potential. Area developers typically paid $20,000 to $50,000 in initial franchise fees and between 4.5% and 6% in royalties. Franchisees also contributed 1% of their annual total sales to the corporate advertising fund.

Roughly 60% of sales at a Krispy Kreme store were derived from the company's signature product, the glazed doughnut. This differed from Dunkin' Donuts, the company's largest competitor, for which the majority of sales came from coffee.

Holes in the Krispy Kreme Story

On May 7, 2004, for the first time in its history as a public company, Krispy Kreme announced adverse results. The company told investors to expect earnings to be 10% lower than anticipated, claiming that the recent low-carbohydrate diet trend in the United States had hurt wholesale and retail sales. The company also said it planned to divest Montana Mills, a chain of 28 bakery-cafés acquired in January 2003 for $40 million in stock, and would take a charge of $35 million to $40 million in the first quarter. In addition, Krispy Kreme indicated that its new Hot Doughnut and Coffee Shops were falling short of expectations and that it had plans to close three of them (resulting in a charge of $7 million to $8 million). Krispy Kreme's shares closed down 30%, at $22.51 a share.

Then, on May 25, the *Wall Street Journal* published a story describing aggressive accounting treatment for franchise acquisitions made by Krispy Kreme.[1] According to the article, in 2003, Krispy Kreme had begun negotiating to purchase a struggling seven-store Michigan franchise. The franchisee owed the company several million dollars for equipment, ingredients, and franchise fees and, as part of the deal, Krispy Kreme asked the franchisee to close two underperforming stores and to pay Krispy Kreme the accrued interest on past-due loans. In return for those moves, Krispy Kreme promised to raise its purchase price on the franchise.

According to the *Journal*, Krispy Kreme recorded the interest paid by the franchisee as interest income and, thus, as immediate profit; however, the company booked the purchase cost of the franchise as an intangible asset, under reacquired franchise rights, which the company did not amortize. Krispy Kreme also allowed the Michigan franchise's top executive to remain employed at the company after the deal, but shortly after the deal was completed, that executive left. In accordance with a severance agreement, this forced Krispy Kreme to pay the executive an additional $5 million, an expense the company also rolled into the unamortized-asset category as reacquired franchise rights.

The company denied any wrongdoing with this practice, maintaining it had accounted for its franchise acquisitions in accordance with generally accepted accounting principles (GAAP). On July 29, however, the company disclosed that the U.S. Securities and Exchange Commission (SEC) had launched an informal investigation related to "franchise reacquisitions and the company's previously announced reduction in earnings guidance." Observers remained skeptical. "Krispy Kreme's accounting for franchise acquisitions is the most aggressive we have found," said one analyst at the time. "We surveyed 18 publicly traded companies with franchise operations, four of which had reacquired franchises, and they had amortized them. That clearly seems like the right thing to do."[2] Over the previous three years, Krispy Kreme had recorded $174.5 million as intangible assets (reacquired franchise rights), which the company was not required to amortize. On the date of the SEC announcement, Krispy Kreme's shares fell another 15%, closing at $15.71 a share.

Analysts' Reactions

Since the heady days of 2001, when 80% of the equity analysts following Krispy Kreme were making buy recommendations for the company's shares, the conventional wisdom about the company had changed. By the time the *Wall Street Journal* published the article about Krispy Kreme's franchise-reacquisition accounting practices in May 2004, only 25% of the analysts following Krispy Kreme were recommending the company as a buy; another 50% had downgraded the stock to a hold. **Exhibits 4** and **5** provide tables of aggregate analysts' recommendations and EPS (earnings per share) estimates. As Krispy Kreme's troubles mounted during the second half of 2004, analysts became increasingly pessimistic about the stock:

[1] Mark Maremont and Rick Brooks, "Krispy Kreme Franchise Buybacks May Spur New Concerns," *Wall Street Journal*, May 25, 2004.

[2] Gretchen Morgenson, "Did Someone Say Doughnuts? Yes, the SEC," *New York Times*, July 30, 2004.

Analyst	Comment	Date
John Ivankoe, J.P. Morgan Securities	In addition to the possibility of an earnings restatement, we believe many fundamental problems persist, exclusive of any "low-carb" impact. Declining new-store volumes are indicative of a worsening investment model, and we believe restructured store-development contracts, a smaller store format, and reduced fees charged for equipment and ingredients sold to franchises are necessary.	July 29, 2004
Jonathan M. Waite, KeyBanc Capital Markets	We believe that the challenges KKD faces, including margin compression, lower returns, an SEC investigation, and product saturation, currently outweigh the company's positive drivers. In addition, shares of KKD are trading at 16.6× CY05 earnings versus its 15% growth rate. As such, we rate KKD shares HOLD.	Oct. 12, 2004
John S. Glass, CIBC World Markets	Krispy Kreme's balance sheet became bloated over the past two years by acquisition goodwill that will likely need to be written down. As a result, KKD's return on invested capital has plunged to about 10% versus 18% two years ago prior to these acquisitions. We'd view a balance sheet write-down, including eliminating a significant portion of the $170+ million in "reacquired franchise rights," as a first step in the right direction.	Nov. 8, 2004
Glenn M. Guard, Legg Mason	In our opinion, management was not focused on operations the way it should have been. As a result, too many units were opened in poor locations as the company tripled its unit base since 2000. Additionally, we believe that franchisees were not trained properly as to how best to run their off-premises business. As a result, we believe many units are losing money off-premises, and franchisees are not motivated to grow that business. It also appears to us that basic blocking and tackling, execution, and cost discipline were seriously lacking in both the company and franchise systems, resulting in inefficiencies.	Nov. 23, 2004

As the headlines about the SEC investigation and Krispy Kreme's other management issues continued (e.g., Krispy Kreme's chief operating officer stepped down on August 16, 2004), observers looked more critically at the fundamentals of Krispy Kreme's business. In September, the *Wall Street Journal* published an article that focused attention on the company's growth:

> The biggest problem for Krispy Kreme may be that the company grew too quickly and diluted its cult status by selling its doughnuts in too many outlets, while trying to impress Wall Street. The number of Krispy Kreme shops has nearly tripled since early 2000, with 427 stores in 45 states and four foreign countries. Some 20,000 supermarkets, convenience stores, truck stops, and other outside locations also sell the company's doughnuts.

> Another issue is that Krispy Kreme has relied for a significant chunk of profits on high profit-margin equipment that it requires franchisees to buy for each new store. Its profits have also been tied to growth in the number of franchised stores, because of the upfront fee each must pay.[3]

In September 2004, Krispy Kreme announced that it would reduce its number of new stores for the year to about 60 from the previously announced 120.

Restatement Announced

On January 4, 2005, Krispy Kreme's board of directors announced that the company's previously issued financial statements for the fiscal year ended February 1, 2004 (FY2004), would be restated to "correct certain errors." The board determined that the adjustments, which principally related to the company's "accounting for the acquisitions of certain franchisees," would reduce pretax income for FY2004 by between \$6.2 million and \$8.1 million. The company also expected to restate its financial statements for the first and second quarters of FY2005.

Krispy Kreme also said it would delay the filing of its financial reports until the SEC's investigation had been resolved and the company's own internal inquiry was complete. However, the failure of the company to provide its lenders with financial statements by January 14, 2005, could constitute a default under the company's \$150-million credit facility. In the event of such a default, Krispy Kreme's banks had the right to terminate the facility and to demand immediate payment for any outstanding amounts. Krispy Kreme's failure to file timely reports also placed the company at risk of having its stock delisted from the New York Stock Exchange (NYSE). By the end of the next day, Krispy Kreme's shares were trading at less than \$10 a share.

Most analysts felt that Krispy Kreme's lenders would grant the company a waiver on its credit-facility default, and few felt the company was truly at risk of being delisted from the NYSE. The board's announcement, however, served only to raise more questions about the company. Since August 2003, the company had lost nearly \$2.5 billion in its market value of equity. **Exhibit 6** illustrates the stock-price patterns for Krispy Kreme relative to the S&P 500 Composite Index. Were the revelations about the company's franchise accounting practices sufficient to drive that much value out of the stock? Were there deeper issues at Krispy Kreme that deserved scrutiny? **Exhibits 7**, **8**, and **9** provide analytical financial ratios for Krispy Kreme and a group of comparable companies in the franchise food-service industry.

[3] Rick Brooks and Mark Maremont, "Ovens Are Cooling at Krispy Kreme as Woes Multiply," *Wall Street Journal*, September 3, 2004.

Exhibit 1

KRISPY KREME DOUGHNUTS, INC.

Income Statements (in thousands, except per-share amounts)

	Jan. 30, 2000	Jan. 28, 2001	Feb. 3, 2002	Feb. 2, 2003	Feb. 1, 2004	Three Months Ended May 5, 2003	Three Months Ended May 2, 2004	Three Months Ended Aug 3, 2003	Three Months Ended Aug. 1, 2004
Total revenues	220,243	300,715	394,354	491,549	665,592	148,660	184,356	159,176	177,448
Operating expenses	190,003	250,690	316,946	381,489	507,396	112,480	141,383	120,573	145,633
General and administrative expenses	14,856	20,061	27,562	28,897	36,912	8,902	10,664	9,060	11,845
Depreciation and amortization expenses	4,546	6,457	7,959	12,271	19,723	4,101	6,130	4,536	6,328
Arbitration award				9,075	(525)	(525)			
Provision for restructuring									
Impairment charges and closing costs							7,543		1,802
Income from operations	10,838	23,507	41,887	59,817	102,086	23,702	18,636	25,007	11,840
Interest income	293	2,325	2,980	1,966	921	227	176	205	226
Interest expense	(1,525)	(607)	(337)	(1,781)	(4,409)	(866)	(1,433)	(997)	(1,366)
Equity loss in joint ventures		(706)	(602)	(2,008)	(1,836)	(694)	(575)	(802)	(399)
Minority interest		(716)	(1,147)	(2,287)	(2,072)	(616)	(126)	(616)	267
Other expense, net		(20)	(235)	(934)	(13)	(25)	(156)	(343)	114
Income before income taxes	9,606	23,783	42,546	54,773	94,677	21,728	16,522	22,454	10,682
Provision for income taxes	3,650	9,058	16,168	21,295	37,590	8,588	6,675	9,014	4,438
Discontinued operations[1]							34,285	439	480
Net income	5,956	14,725	26,378	33,478	57,087	13,140	(24,438)	13,001	5,764
Diluted earnings per share	0.15	0.27	0.45	0.56	0.92	0.22	(0.38)	0.21	0.10
Number of shares outstanding (millions)	39.7	54.5	58.6	59.8	62.1	60.7	63.6	62.1	63.4

[1] Resulting from divestiture of Montana Mills.

Data source: Company filings with the Securities and Exchange Commission (SEC).

Exhibit 2

KRISPY KREME DOUGHNUTS, INC.

Balance Sheets (in thousands)

	Fiscal Year Ended					Three Months Ended	
	Jan. 30, 2000	**Jan. 28, 2001**	**Feb. 3, 2002**	**Feb. 2, 2003**	**Feb. 1, 2004**	**May 2, 2004**	**Aug. 1, 2004**
ASSETS							
Current Assets:							
Cash and cash equivalents	3,183	7,026	21,904	32,203	20,300	13,715	19,309
Short-term investments	0	18,103	15,292	22,976			
Accounts receivable	17,965	19,855	26,894	34,373	45,283	47,434	44,329
Accounts receivable, affiliates	1,608	2,599	9,017	11,062	20,482	20,740	19,933
Other receivables	794	2,279	2,771	884	2,363	3,169	4,868
Notes receivable, affiliates	0	0	0	0	458	4,404	5,440
Inventories	9,979	12,031	16,159	24,365	28,573	32,974	33,076
Prepaid expenses	3,148	1,909	2,591	3,478	5,399	4,675	6,749
Income taxes refundable	861		2,534	1,963	7,946	7,449	8,139
Deferred income taxes	3,500	3,809	4,607	9,824	6,453	13,280	20,005
Assets held for sale					36,856	3,374	3,325
Total current assets	**41,038**	**67,611**	**101,769**	**141,128**	**174,113**	**151,214**	**165,173**
Property and equipment, net	60,584	78,340	112,577	202,558	281,103	301,160	297,154
Deferred income taxes	1,398	0	0	0	0		
Long-term investments	0	17,877	12,700	4,344	0		
Long-term notes receivable, affiliates	0	0	0	1,000	7,609	2,988	2,925
Investments in unconsolidated joint ventures		2,827	3,400	6,871	12,426	10,728	9,921
Reacquired franchise rights	0	0	16,621	49,354	175,957	176,078	176,045
Other assets	1,938	4,838	8,309	5,232	9,456	12,315	10,390
Total assets	**104,958**	**171,493**	**255,376**	**410,487**	**660,664**	**654,483**	**661,608**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current Liabilities:							
Accounts payable	13,106	8,211	12,095	14,055	18,784	18,866	18,817
Book overdraft	0	5,147	9,107	11,375	8,123	12,670	13,107
Accrued expenses	14,080	21,243	26,729	20,981	23,744	27,107	32,249
Arbitration award	0	0	0	9,075	0		
Revolving line of credit	0	3,526	3,871	0	0		
Current maturities of long-term debt	2,400	0	731	3,301	2,842	4,663	5,566
Short-term debt	0	0	0	900	0		
Income taxes payable	0	41	0	0	0		
Total current liabilities	**29,586**	**38,168**	**52,533**	**59,687**	**53,493**	**63,306**	**69,739**
Deferred income taxes	0	579	3,930	9,849	6,374	16,468	25,564
Compensation deferred (unpaid)	990	1,106	0	0	0		
Revolving lines of credit	0	0	0	7,288	87,000	72,000	62,000
Long-term debt, net of current portion	20,502	0	3,912	49,900	48,056	58,469	50,135
Accrued restructuring expenses	4,259	3,109	0	0	0		
Other long-term obligations	1,866	1,735	4,843	5,218	11,211	10,774	12,078
Total long-term liabilities	**27,617**	**6,529**	**12,685**	**72,255**	**152,641**	**157,711**	**149,777**
Minority interest		1,117	2,491	5,193	2,323	2,815	2,593
SHAREHOLDERS' EQUITY:							
Common stock, no par value, 300,000 shares authorized; issued and outstanding		85,060	121,052	173,112	294,477	296,812	299,865
Common stock, 10 par value, 1,000 shares authorized; issued and outstanding	4,670						
Paid-in capital	10,805						
Unearned compensation		(188)	(186)	(119)	(62)	(47)	(31)
Notes receivable, employees	(2,547)	(2,349)	(2,580)	(558)	(383)	(383)	(383)
Nonqualified employee benefit plan assets		(126)	(138)	(339)	(369)	(264)	(264)
Nonqualified employee benefit plan liability		126	138	339	369	264	264
Accumulated other comprehensive income (loss)		609	456	(1,486)	(1,315)	(783)	(768)
Retained earnings	34,827	42,547	68,925	102,403	159,490	135,052	140,816
Total shareholders' equity	**47,755**	**125,679**	**187,667**	**273,352**	**452,207**	**430,651**	**439,499**
Total liabilities and shareholders' equity	**104,958**	**171,493**	**255,376**	**410,487**	**660,664**	**654,483**	**661,608**

Data source: Company filings with the Securities and Exchange Commission (SEC).

Exhibit 3

KRISPY KREME DOUGHNUTS, INC.

Store Growth

	Jan. 30, 2000	Jan. 28, 2001	Feb. 3, 2002	Feb. 2, 2003	Feb. 1, 2004
Total company factory stores					
Beginning of period	61	58	63	75	99
Store openings	2	8	7	14	28
Store closings	(5)	(3)	(2)	(3)	(2)
Stores acquired from franchisees	0	0	7	13	16
End of period	58	63	75	99	141
Net change	*(3)*	*5*	*12*	*24*	*42*
% year-over-year growth		*9%*	*19%*	*32%*	*42%*
Total franchised factory stores					
Beginning of period	70	86	111	143	177
Unit openings	19	28	41	49	58
Unit closings	(3)	(3)	(2)	(2)	(3)
Stores transferred to company	0	0	(7)	(13)	(16)
End of period	86	111	143	177	216
Net change	*16*	*25*	*32*	*34*	*39*
% year-over-year growth		*29%*	*29%*	*24%*	*22%*
Total factory stores					
Beginning of period	131	144	174	218	276
Store openings	21	36	48	63	86
Store closings	(8)	(6)	(4)	(5)	(5)
End of period	144	174	218	276	357
Net change	*13*	*30*	*44*	*58*	*81*
% year-over-year growth		*21%*	*25%*	*27%*	*29%*
% of total Stores					
Company-owned	40.3%	36.2%	34.4%	35.9%	39.5%
Franchised	59.7%	63.8%	65.6%	64.1%	60.5%

Data source: Company reports (case writer's analysis).

Exhibit 4

KRISPY KREME DOUGHNUTS, INC.

Analysts' Recommendations

	Percent Recommending:		
Period	Buy	Sell	Hold
14-Jun-01	80.0%	20.0%	0.0%
19-Jul-01	80.0%	20.0%	0.0%
16-Aug-01	80.0%	20.0%	0.0%
20-Sep-01	80.0%	20.0%	0.0%
18-Oct-01	80.0%	20.0%	0.0%
15-Nov-01	80.0%	20.0%	0.0%
20-Dec-01	80.0%	20.0%	0.0%
17-Jan-02	66.7%	33.3%	0.0%
14-Feb-02	57.1%	28.6%	14.3%
14-Mar-02	71.4%	28.6%	0.0%
18-Apr-02	66.7%	33.3%	0.0%
16-May-02	66.7%	33.3%	0.0%
20-Jun-02	71.4%	28.6%	0.0%
18-Jul-02	71.4%	28.6%	0.0%
15-Aug-02	71.4%	28.6%	0.0%
19-Sep-02	66.7%	33.3%	0.0%
17-Oct-02	57.1%	28.6%	14.3%
14-Nov-02	57.1%	28.6%	14.3%
19-Dec-02	50.0%	12.5%	37.5%
16-Jan-03	50.0%	12.5%	37.5%
20-Feb-03	62.5%	12.5%	25.0%
20-Mar-03	62.5%	12.5%	25.0%
17-Apr-03	62.5%	12.5%	25.0%
15-May-03	55.6%	11.1%	33.3%
19-Jun-03	66.7%	0.0%	33.3%
17-Jul-03	80.0%	0.0%	20.0%
14-Aug-03	83.3%	0.0%	16.7%
18-Sep-03	66.7%	16.7%	16.7%
16-Oct-03	66.7%	16.7%	16.7%
20-Nov-03	66.7%	16.7%	16.7%
18-Dec-03	42.9%	14.3%	42.9%
15-Jan-04	42.9%	14.3%	42.9%
19-Feb-04	28.6%	14.3%	57.1%
18-Mar-04	28.6%	14.3%	57.1%
15-Apr-04	37.5%	25.0%	37.5%
20-May-04	25.0%	25.0%	50.0%
17-Jun-04	25.0%	25.0%	50.0%
15-Jul-04	33.3%	11.1%	55.6%
19-Aug-04	28.6%	28.6%	42.9%
16-Sep-04	25.0%	37.5%	37.5%
14-Oct-04	14.3%	42.9%	42.9%
18-Nov-04	14.3%	42.9%	42.9%
16-Dec-04	14.3%	57.1%	28.6%
20-Jan-05	14.3%	57.1%	28.6%

Data source: I/B/E/S International Inc. (Thomson Financial/First Call).

Exhibit 5

KRISPY KREME DOUGHNUTS, INC.

Analyst EPS Estimates

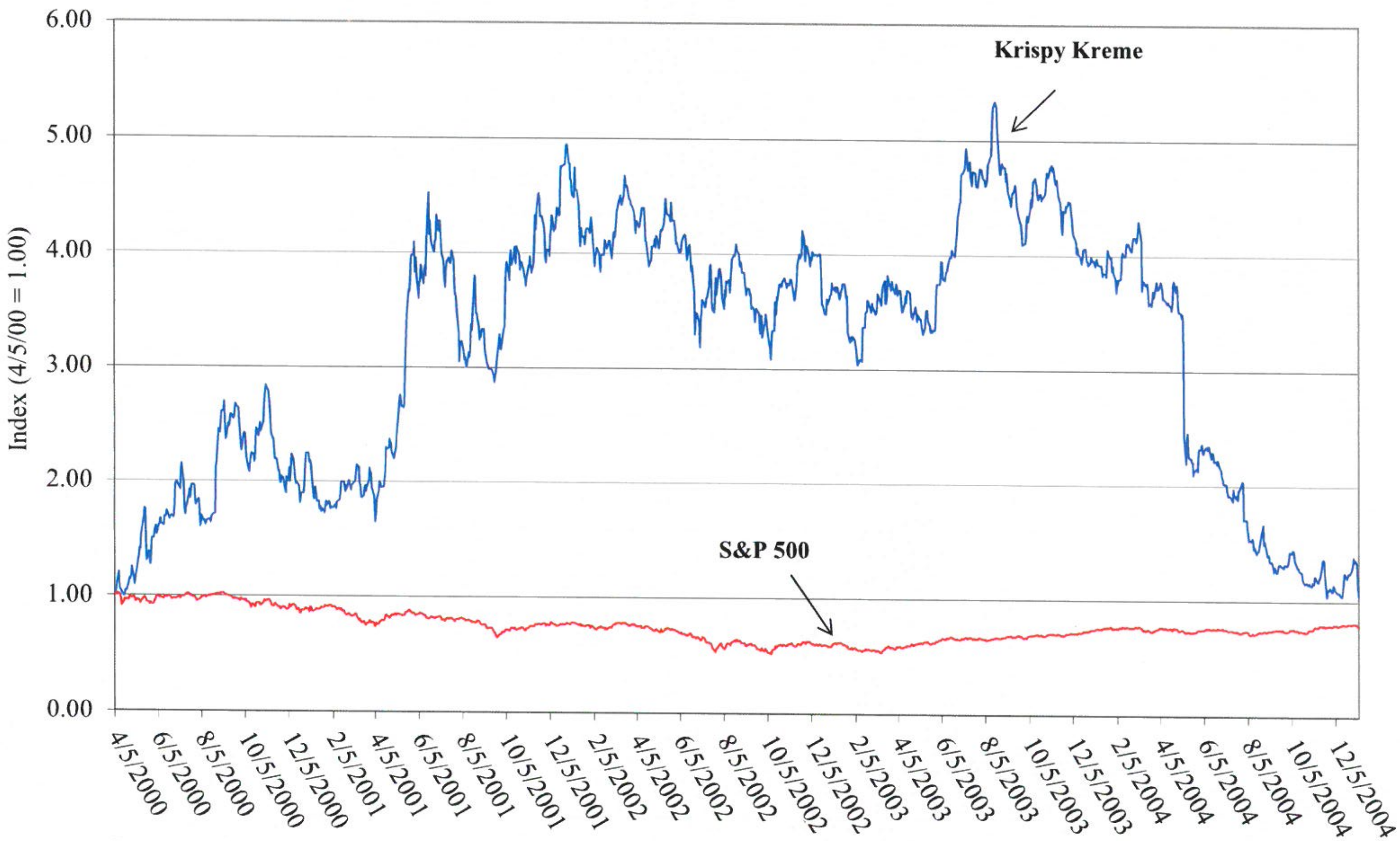
Estimate (Mean)		Estimate Date
$	0.38	2-Jul-01
$	0.43	24-Aug-01
$	0.41	25-Oct-01
$	0.44	16-Nov-01
$	0.43	21-Dec-01
$	0.62	8-Mar-02
$	0.63	24-May-02
$	0.63	3-Jun-02
$	0.63	1-Jul-02
$	0.64	29-Aug-02
$	0.64	3-Sep-02
$	0.63	8-Oct-02
$	0.66	22-Nov-02
$	0.65	1-Jan-03
$	0.66	14-Feb-03
$	0.87	20-Mar-03
$	0.89	29-May-03
$	0.90	30-Jul-03
$	0.90	21-Aug-03
$	0.91	15-Sep-03
$	0.91	17-Dec-03
$	0.92	27-Jan-04
$	1.17	10-Mar-24
$	1.00	7-May-04
$	0.99	26-May-04
$	0.98	24-Jun-04
$	0.92	16-Aug-04
$	0.59	27-Aug-04
$	0.69	10-Sep-04
$	0.65	13-Sep-04
$	0.58	3-Nov-04
$	0.45	23-Nov-04

Data source: I/B/E/S International Inc. (Thomson Financial/First Call).

Exhibit 6

KRISPY KREME DOUGHNUTS, INC.

Stock-Price Patterns Relative to the S&P 500 Composite Index



Data source: Datastream.

Exhibit 7

KRISPY KREME DOUGHNUTS, INC.

Analytical Financial Ratios for Krispy Kreme

	Fiscal Year Ended					
	Jan 30, 2000	Jan 28, 2001	Feb 3, 2002	Feb 2, 2003	Feb 1, 2004	Ratio definitions
Liquidity ratios						
Quick (acid-test) ratio	1.05	1.46	1.63	1.96	2.72	(current assets – inventories)/current liabilities
Current ratio	1.39	1.77	1.94	2.36	3.25	current assets/current liabilities
Leverage ratios						
Debt-to-equity (book)	47.96%	0.00%	2.47%	19.46%	11.26%	LT debt/shareholders' equity
Debt-to-capital	32.41%	0.00%	2.41%	16.29%	10.12%	LT debt/(shareholders' equity + debt)
Times interest earned	7.11	38.73	124.29	33.59	23.15	EBIT/interest expense
Assets to Equity	2.20	1.36	1.36	1.50	1.46	total assets/shareholders' equity
Activity ratios						
Receivables turnover	10.81	12.16	10.19	10.61	9.70	sales/accounts receivables
Inventory turnover	19.04	20.84	19.61	15.66	17.76	cost of goods sold/inventory
Asset turnover	2.10	1.75	1.54	1.20	1.01	sales/total assets
Cash turnover	69.19	42.80	18.00	15.26	32.79	sales/cash and cash equivalents
Profitability ratios						
Return on assets	5.67%	8.59%	10.33%	8.16%	8.64%	net income/assets
Return on equity	12.47%	11.72%	14.06%	12.25%	12.62%	net income/shareholders' equity
Operating profit margin	4.92%	7.82%	10.62%	12.17%	15.34%	operating income/net sales
Net profit margin	2.70%	4.90%	6.69%	6.81%	8.58%	net income/sales

Data source: Company reports.

Exhibit 8

KRISPY KREME DOUGHNUTS, INC.

Analytical Financial Ratios: Quick-Service Restaurants at End of FY2003

Company name	CHECKERS	CKE	DOMINO'S	JACK IN THE BOX	KRISPY KREME	MCDONALD'S	PANERA BREAD	PAPA JOHN'S	SONIC	STARBUCKS	WENDY'S	YUM! BRANDS
Sales-net (millions)	$190	$1,413	$1,333	$2,058	$666	$17,141	$356	$917	$447	$4,076	$3,149	$8,380
Liquidity ratios												
Quick ratio	0.96	0.47	0.60	0.23	2.72	0.49	1.34	0.33	0.77	0.76	0.61	0.26
Current ratio	1.41	0.76	0.99	0.63	3.25	0.76	1.58	0.77	0.92	1.52	0.88	0.55
Leverage ratios												
Long-term debt/shareholders' equity (%)	33.96	262.97	(131.07)	61.82	11.26	77.97	0.00	38.30	62.53	0.21	39.39	183.57
Long-term debt/total capital (%)	25.36	72.45	421.90	38.20	10.12	43.81	0.00	26.98	38.11	0.21	28.26	64.74
Interest coverage before tax	6.98	(0.09)	2.05	5.44	23.15	6.93	1,014.10	8.93	14.09	nmf	9.25	5.79
Total assets/total equity	1.76	5.29	(0.62)	2.50	1.46	2.13	1.26	2.18	1.83	1.31	1.80	5.02
Activity ratios												
Receivables turnover	65.07	35.15	20.63	71.22	9.70	21.56	32.42	50.29	27.49	38.44	28.42	49.73
Inventory turnover	133.39	59.30	46.88	52.83	17.76	89.84	38.75	44.87	111.24	10.58	79.58	91.32
Total asset turnover	1.50	1.75	3.16	1.84	1.01	0.69	1.64	2.57	1.00	1.62	1.08	1.52
Cash turnover	12.00	38.83	40.90	147.12	32.79	41.64	8.74	110.73	40.31	10.84	17.12	46.04
Profitability ratios												
Return on assets (%)	12.23	(5.92)	8.66	6.26	8.64	5.91	12.46	9.79	10.75	9.83	7.46	11.00
Return on equity (%)	21.55	(31.30)	nmf	15.65	12.62	12.59	15.64	21.33	19.69	12.89	13.42	55.18
EBIT margin (%)	8.24	3.49	13.20	6.94	15.34	19.62	14.02	6.38	23.42	9.48	13.35	12.77
Net profit margin (%)	8.32	(3.24)	2.91	3.58	8.58	8.80	8.61	3.70	11.70	6.58	7.49	7.37

Data source: Standard & Poor's *Research Insight*.

Exhibit 8 (continued)

Descriptions of Comparable Firms

Checkers Drive-in Restaurants, Inc.: Checkers is the #1 operator of drive-through fast-food restaurants, with more than 780 owned and franchised locations. Nearly 30% of its locations are company-owned.

CKE Restaurants, Inc.: CKE is a leading operator of quick-service food chains, with about 3,100 locations. CKE owns and operates more than a third of its restaurants; the rest are operated by franchisees.

Domino's Pizza, Inc.: Domino's is the world's #2 pizza chain, with more than 7,750 locations in more than 50 countries. Domino's stores are principally delivery locations and generally do not have any dine-in seating.

Jack in the Box Inc.: Jack in the Box operates and franchises more than 2,000 of its flagship hamburger outlets in 17 states. Approximately 1,550 locations are company-owned, while the rest are franchised.

McDonald's Corp.: McDonald's is the world's #1 fast-food company by sales, with more than 31,000 flagship restaurants serving burgers and fries in more than 100 countries. Almost 30% of its locations are company-owned; the others are run by franchisees.

Panera Bread Company: Panera Bread is a leader in the quick-casual restaurant business, with more than 740 bakery-cafés in about 35 states. Approximately 70% of its locations are operated by franchisees.

Papa John's International, Inc.: Papa John's is the #3 pizza chain, with 3,000 pizzerias across the United States and in 17 international markets. Papa John's owns and operates about 20% of its locations.

Sonic Corp.: The largest chain of quick-service drive-ins in the United States, Sonic operates about 535 restaurants and franchises more than 2,325 locations in 30 states.

Starbucks Corp.: The world's #1 specialty-coffee retailer, Starbucks operates and licenses more than 8,500 coffee shops in more than 30 countries. In addition, Starbucks markets its coffee through grocery stores and licenses its brand for other food and beverage products.

Wendy's International, Inc.: Wendy's is the #3 hamburger chain by sales. There are almost 6,700 Wendy's restaurants worldwide; about 78% of them are franchised.

YUM! Brands, Inc.: YUM! Brands is one of the largest fast-food franchisers in the world, trailing only McDonald's in overall sales. It outnumbers the burger giant, however, in store locations, with more than 33,000 units in about 100 countries. (The company owns and operates almost a quarter of its stores and franchises most of the others.) The company's flagship brands include KFC, Pizza Hut, and Taco Bell. Yum! also owns A&W All-American Food Restaurants and Long John Silver's. Its long-term multibranding strategy (offering more than one of its brands at one site) has proven successful.

Data source: Hoover's, Inc. (accessed Nov. 14, 2005).

Exhibit 9

KRISPY KREME DOUGHNUTS, INC.

Common-Size Financial Statements: Limited-Service Restaurant Averages and Krispy Kreme (KKD)

Balance Sheet: Assets (%)	**2001**	**2002**	**2003**	**KKD 2003**
Cash and equivalents	12.8	12.4	13.7	3.1%
Trade receivables (net)	1.6	0.9	1.4	10.4%
Inventory	4.0	3.3	3.8	4.3%
All other current	2.6	2.6	3.5	8.6%
Total current	21.0	19.2	22.4	26.4%
Fixed assets (net)	54.7	57.0	55.0	42.5%
Intangibles (net)	13.3	14.2	12.6	26.6%
All other noncurrent	11.0	9.6	10.0	4.5%
Total assets	100.0	100.0	100.0	100.0%

Balance Sheet: Liabilities and Equity (%)	**2001**	**2002**	**2003**	**KKD 2003**
Notes payable, short-term	4.7	5.6	5.8	0.0%
Current maturity, long-term debt	6.1	6.0	6.8	0.4%
Trade payables	9.2	7.4	9.3	2.8%
Income taxes payable	0.2	0.2	0.3	0.0%
All other current	13.9	16.9	14.0	4.8%
Total current	34.1	36.1	36.4	8.1%
Long term debt	40.2	45.6	41.9	7.3%
Deferred taxes	0.1	0.2	0.1	1.0%
All other noncurrent	4.7	8.3	8.7	14.9%
Shareholders' equity	20.9	9.9	12.9	68.4%
Total liabilities and equity	100.0	100.0	100.0	100.0%

Income Statement (%)	**2001**	**2002**	**2003**	**KKD 2003**
Net sales	100.0	100.0	100.0	100.0%
Operating expenses	56.3	55.6	58.1	76.2%
Operating profit	4.0	4.7	4.0	15.3%
All other expenses (net)	1.3	1.6	1.5	1.1%
Profit before taxes	2.7	3.0	2.5	14.2%

Data sources: Annual Statement Studies, 2004–2005; Risk Management Association.