

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Krispy Kreme Doughnuts Third Quarter 2009 Earnings Conference Call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the conference over to Mr. Brian Little, Director of Corporate Communications. Please go ahead, sir.

Brian K. Little, Director, Corporate Communications

Good afternoon, everyone. Welcome to the Krispy Kreme 2009 Third Quarter Earnings Conference Call. As Dustin mentioned, I'm Brian Little, the Director of Corporate Communications for the company. On the call today are Jim Morgan, Krispy Kreme's President and Chief Executive Officer, and Doug Muir, Krispy Kreme's Chief Financial Officer.

During the call today Mr. Morgan will address the company's performance for the quarter, and Mr. Muir will give an overview of the third quarter results released earlier today. Following their comments the operator will open the lines to take your questions. Now a copy of our earnings announcement is available in the News Release section under the Investor Relations tab at our website, krispykreme.com. Also, this conference call is being webcast and will be archived on our website for one year. A transcript of this conference call will also be available there. Investors and analysts are directed to these online public resources for the most up-to-date company information. Krispy Kreme Investor Relations can be reached via email at ir@krispykreme.com.

Our comments today should be considered forward-looking in nature and 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. Key factors that may have a direct bearing on Krispy Kreme's operating results, performance or financial condition are discussed in Krispy Kreme's Form 10-K for fiscal 2008 and other periodic reports filed with the U.S. Securities and Exchange Commission.

I'll now turn the call over to Mr. Morgan. Jim?

James H. Morgan, President and Chief Executive Officer

Thank you, Brian. Good afternoon again to everyone. I would also like to welcome each of you to our third quarter conference call. I'm going to begin today's call by stating very clearly that I'm certainly not satisfied with our results for the third quarter. However, we are and have been taking the necessary steps to transform this company, and we're doing that despite the current economic conditions, which are affecting consumers, retail companies, quick service restaurants throughout the world. I remain confident in the potential for positive long-term results from the strategic plan we have in place. We've shared this strategic plan with you on previous occasions and we continue to execute against that plan.

We also remain committed to making the necessary investments and changes in order to lay a firm foundation for future growth. I've said many times that this transformation is going to take time, and it is. We will be prepared as best we can be for any external factors beyond our control, and we also recognize that the road over the next few quarters may not be a smooth one. Despite this, I still very firmly believe that if we stay focused on the successful implementation of our strategic plan, we will set the stage during fiscal year 2010 for a prolonged growth in fiscal 2011 and thereafter.

With that in mind, I'd like to update you on our progress with respect to a few specific elements of our plan. Element number one, which is building a new small retail concept shop. As part of our

strategic initiative to bring our signature products closer to consumers and to establish the economics of the domestic small retail concept model, we said we would start building new stores this year, and we are. Retail locations have been secured for new company-owned Krispy Kreme small retail concepts in Smyrna, Tennessee, and Winston-Salem, North Carolina. Both of these locations will be under construction next month.

Our real estate team is also evaluating a number of additional retail locations in a number of markets. It should be noted that franchisees are also testing this concept. Our franchisees both in Phoenix and New York recently opened new small retail shops, and other franchisees plan additional new stores over the next year.

The keys to the small store concept are following. One, the economics of these small retail shops are attractive as they are less expensive to open, run and staff. Secondly, supplying them from the Krispy Kreme factory store improves the utilization of the factory store and significantly enhances the return on those stores as well. Third, having more stores in one media market will free us up from what may be our greatest marketing handicap, and that is the inability to efficiently advertise by radio or television. And fourth, the additional convenience that these stores offer will allow us to provide the Krispy Kreme value and experience to more and more new guests who currently find it geographically impractical to visit one of our stores.

In summary, we believe our small retail concept model is a key to making our one-of-a-kind products more accessible to consumers in a cost-effective manner, and we will continue to make investments in order to validate the model.

Element number two: focusing on shop basics and improving the consumer experience. Since adding a senior level company store operations leader to our team a few months ago, our company shops have begun a rigorous review and improvement process that encompasses everything from store refurbishment to labor cost tools to guest service training. We need to consistently execute the basics and offer an outstanding consumer experience at all of our shops. And we plan to continue making the necessary physical and service improvements in order to be a best-in-class QSR operator. We already know that we have a unique highest quality product. We are now keenly focused on executing world-class guest service at the shop level that equals our great products.

Element number three: develop, test and deploy our new menu offerings. We feel that we must continue to give consumers more reasons to visit Krispy Kreme with new and exciting concepts and menu additions, such as Kool Kreme, a proprietary soft-serve ice cream that's paired with a toppings bar that is being tested at our store in Greensboro, North Carolina, and at several franchisee locations.

In addition to that, by the end of December our new smaller-size mini doughnuts will be launched in all company stores and at participating franchisees. Our minis are miniature versions of our most popular varieties of doughnuts, including Chocolate Iced Glazed, Chocolate Iced Glazed with Sprinkles, and of course our Original Glazed. This new product was well received in our test marketing, and we expect it to do very well in the full-scale launch.

Also, long-range on the product development front, we're in the process of developing a test program for a Krispy Kreme baked goods product line. Over the coming months, our Research and Development group will continue to explore and finalize an appropriate product mix, ensuring these baked goods complement our existing menu of offerings. You can expect to hear more about our efforts in the area of baked goods in the months to come.

We believe that investment in new product development is very important as we work to make consumers more aware of the many reasons to visit their local Krispy Kreme shop and to also return more often.

Element number four is working to improve how we do business in the off-premises channel. We remain committed to improving the off-premises segment of our business and working toward our long-term goal of increasing profitability in this off-premises distribution channel. We're currently working toward more efficient delivery system, innovative consumer-friendly packaging, and longer shelf life products. Together, we believe these initiatives should result in a more streamlined and profitable business.

Element number five: we are continuing to build on our successes in international markets. We continue to expand in international markets and bring the Krispy Kreme experience to millions of new customers around the world. Since June of this year, we have signed international franchise development agreements for the Republic of Turkey, Malaysia, and Shanghai, Beijing and Tianjin, China. The Krispy Kreme Hot Light can now be found in 15 countries, and we've opened over 90 new stores in international markets thus far this fiscal year. We are focused on digesting our recent expansion over this coming year as we continue to grow the brand internationally through a disciplined process driven by careful, well thought out planning that creates value for international franchisees and for us as a franchisor.

Finally, element number six: improved operational support for franchisees. We continue to increase our focus on providing outstanding day-to-day operational support to all our franchisees. We are keenly aware that we cannot ultimately be successful if our franchisees are not successful. And we are dedicated to supporting them in every way possible. We continue to work diligently to make sure they each have all the tools necessary to help make them outstanding operators and make Krispy Kreme a world-class franchise.

In concluding my remarks, I want to say that while it's true a lot of families throughout this country and the world are coping with shrinking discretionary incomes, I believe the excitement that always accompanies a box of Krispy Kreme doughnuts remains a great inexpensive way for families and groups of all kinds throughout the world to enjoy wonderful times together. Krispy Kreme products are an affordable indulgence and a heart-warming experience that always puts a smile on every face in the room. And that is one of our great assets.

All of us at Krispy Kreme remain committed to our plan, the plan we have in place, and the continued effort required over the coming months and years to provide the results we believe are achievable. We are focused, dedicated to the brand and prepared to make whatever commitment necessary to make sure Krispy Kreme is not simply around for another 71 years, but is thriving and succeeding as never before.

And once more, I thank you for joining us today, and I now will turn the call over to Doug Muir.

Douglas R. Muir, Executive Vice President and Chief Financial Officer

Great. Thank you, Jim, and good afternoon, everyone. During the third quarter, franchisees opened 37 new Krispy Kreme stores systemwide. Most of those were small retail concepts opened by international franchisees. Store openings internationally have exceeded our expectations in fiscal 2009 as franchisees continue to open stores ahead of schedule. Those openings bring the total number of stores systemwide at the end of the quarter to 509, comprised of 284 factories and 225 small retail locations. Of the total stores, over half are outside the U.S. and over a third are non-factory small retail concepts, including Hot Shops, Fresh Shops and Kiosks.

As Jim mentioned, we at the company are moving forward to build company-owned small retail concepts here in the U.S. and have acquired real estate in two markets in recent weeks. Both of those pieces of real estate are multi-tenant endcap locations with drive-throughs, which is our most desired shop configuration. We're scheduled to begin up-fitting these sites in January, and plan to

open the stores in March. In addition to these two locations, we're actively looking at a number of other sites in about half a dozen different markets.

And we're not the only ones that are excited about small retail concept. Our domestic franchisees also are continuing to move forward with their own plans for smaller shops. Domestic franchisees opened four Fresh Shops in the quarter, three in Phoenix and one in Penn Station in New York. Judging by the number of franchisees that showed up in Phoenix recently at a meeting to see and tour all three of the new stores in Phoenix, there is a lot of interest in the franchisee community about small stores, and we expect there will be some additional franchisee openings in the months ahead.

Turning now to results for the quarter, we filed our 10-Q with the SEC this morning and I'd encourage you to read through at your convenience. We reported a net loss for the quarter of 5.9 million or \$0.09 a share compared to a loss of \$798,000 or a penny a share in the third quarter last year; incurred an operating loss of 1.3 million compared to operating income of 2 million last year. For the third quarter, the story against last year is higher flour, shortening and fuel costs. The increases in agricultural commodity costs have continued to have a significant adverse effect on results of operations in the company store segment.

The cost of doughnut mix and shortening, our two most significant ingredients, were significantly higher in the third quarter of fiscal 2009 than in the third quarter last year. The supply chain has experienced major hikes in the cost of flour and shortening, and they have passed those higher costs on to the stores.

In addition, higher fuel costs compared to the third quarter of last year also adversely affected results for the quarter. Higher fuel costs affect us in two ways. First, we have higher costs to deliver mixes and ingredients to the stores, and more significantly, high gas prices drive our off-premises delivery costs up.

Lately there's been some good news on the cost front. Recent economic conditions have resulted in significant reductions in the prices of agricultural commodities. And we should see a benefit from those cost reductions in the fourth quarter and hopefully well into next year. Also, in roughly mid-October, the average price of gasoline fell below the average price for the third quarter of last year, and it's kept falling. So we expect to see a significant benefit from lower fuel costs in the fourth quarter. In addition, we're taking steps to better manage our distribution costs and to incentivize revenue growth.

In summary, we're looking forward to some significant cost relief in the fourth quarter and into next year. Based on current market conditions and on pricing we have already locked in, we expect further reductions in the cost of mix and shortening as we move into the first quarter of next year, which is certainly a pleasant change from the relentless cost pressures we have experienced over the past two years.

Dustin, at this time, we're ready to do Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions]. And we'll take a question from Jake Crandlemire with Ramsey Asset Management.

<Q>: Hey, guys, thanks for taking my question. I've got a couple questions here. Across many restaurant companies, things got materially worse in October compared to August and September, you know, same-store sales, top line. Did you guys see a similar trend there? And on top of that, any comments on how November and December are tracking?

<A – James Morgan>: Yes, in terms of through the quarter, we were up slightly in August in company store same-store. We hit the bottom in September. Interestingly our comps in October were significantly better than in the month of September. I don't yet have a read on the November numbers, so I'm sorry, I can't help you there.

<Q>: Got it, got it. And then on the franchise, I know you guys don't break this out, but maybe some color would help. On the same-store side of things, we estimated them to be down about 20%. Is that in the ballpark of what you guys saw?

<A – James Morgan>: We have never broken out the numbers for franchisees separately, I don't believe. Sorry.

<Q>: Okay. And then finally related to the covenants, when you guys were doing the calculations – I had some difficulty, I tried to do them as well. On the debt piece, is it net debt or gross debt? And then are you also including the other long-term obligations in there as well?

<A – James Morgan>: It's gross debt, Jake, and you also need to include \$15 million of outstanding LCs, those are un-drawn, and backup self insurance programs. That ought to help you get there.

<Q>: Got it. And then on the EBITDA, I know there is a number of add backs. Could you give us what you used for – or what the EBITDA was in your calculation for the quarter on a trailing 12-month basis?

<A – James Morgan>: I'm sorry, I just don't have that in front of me, but if you've got questions about the math, give me a shout, and I'll be glad to walk you through the credit agreement if that would be helpful.

<Q>: Yes, perfect. We'll take it offline. Thanks.

<A – James Morgan>: You bet. Thank you.

Operator: [Operator Instructions]. All right, gentlemen, there appear to be no further questions. I'd like to turn the call back to Mr. Brian Little for any additional or closing comments.

Brian K. Little, Director, Corporate Communications

Thank you, Dustin. I would like to remind everyone that this webcast conference call will be archived and available on our website. There will also be an archive telephone replay available shortly following the conclusion of our call. You will find dial-in numbers and access passcode in our earnings release. Thank you for joining us and have a good evening.

Operator: Again, that does conclude today's conference call. Again, we'd like to thank you for your participation and you may disconnect at this time.

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